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Appropriate financial instruments for public-private partnership in European Union

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Abstract

European Union aims to increase the use of public-private partnership to achieve sustainable economic growth and to respond to the needs of European level, particularly to accelerate the development of trans-national infrastructure. Due to the economic and financial crisis caused a decrease in appetite for investment, but also due to risk-averse of the private sector, high value projects and the prolonged period of revenue return, the European Union seeks to give an impulse to public-private partnership projects by financial instruments. Thus, this paper aims to present the most appropriate financial instruments developed by the European Union that can be used in public-private partnership projects and analyze their influence on the use of these projects.

Keywords: public-private partnership; inovative financial instruments; European Union; infrastructure loan;

1.Introduction

The issue of innovative financing instruments is not recent, as innovative financing instruments falls in the 2007-2013 financial programming. Despite this fact, the impact and role that they can play in the increase of the public-private partnership usage degree is not taken into account in the literature. This analysis is necessary because it is important to take into consideration all the factors that can have as effect the increase of the public-private partnership usage degree. The mobilization of financial resources and experimenting new combination methods of the public and private finances and creating new innovative financial investment

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instruments, including through partnerships between the private and public sectors is important because it contributes to the sustainable economic growth and the sustainability of public finances, European Committee, 2010. On the other hand, Member States are experiencing the emergence of new problems, such as sovereign debt crisis, which affects even more the ability to invest of the public sector and to meet the challenges it faces, Freshfields Bruckhaus Deringer, 2011. Thus, the analysis of the innovative financing instruments issue is important to determine the role they had in carrying out the investments at the European Union level and how they will be adapted in the future multi-annual financial programming to meet the challenges that both the European Union and its Member States face. This paper will be based on a practical approach and will involve a thorough analysis of the community legislation, various documents of the European Committee, European Investment Bank and case studies made at the community level.

2.The legal frame regarding the public-private partnership in the European Union

The public-private partnership is a financial instrument that draws advantages both for the public and private sector, European Committee, 2009. To establish the position of the European Union and to promote the use of the public-private partnership, at the community level numerous reports have been issued, that belonged both to the European Committee and some general directions. The most important of them all is the Green Card regarding the public-private partnership that has as purpose to establish a clear frame regarding the application of the community law rules on public contracts and concessions in the public-private partnership projects, European Investment Bank, 2004. Still, the Green Card has received criticism due to the fact that it would induce the idea that the public-private partnership represents the optimal solution for all type of project and that it would represent a solution of reduced complexity Hall, 2012. Another normative act issued by the Eurostat with direct effect on the public-private partnership is referring to its accounting and statistic treatment Eurostat, 2004. This has been issued due to the concerns according to which the European Union’s states might use the public-private partnership to hide some expenses or accumulated debts to the public budget. We can affirm that the European Union seeks through different adopted rules that the public-private partnership is compatible with internal market rules on functionality, with the Stability and Growth Pact, the European legislation on public procurement and concessions, and competition rules.

To induce a growth of the use of the public-private partnership, the European Union offers the possibility to finance these projects through structural funds or through innovative financial instruments. Their usage is benefic because private investments can be attracted in domains where the financial risk would be to big to make attractive an investment, but these domains are included in the European Union’s priorities. The innovative financing instruments are mentioned in several documents of the European Union, such as Europe 2020 Strategy where it is said that the increase of deploying innovative financing instruments is being aimed Europe 2020 Strategy, 2010. Also, in the budget for Europe 2020, there is a special section dedicated to the financial instruments that will exist in the next multi-annual programming 2014-2020.

3.The innovative financing instruments and their role in the public-private partnership development

The innovative financing instruments represent a financing method of the budgetary expenses within the European Union applicable to other types of intervention than funding through grants. Through the innovative financing instruments the direct financing is not ensured, but the contribution consist in risk or indebtedness reduction tools, loans or guarantees. The aim of the European Union is not to replace funding through grants, but rather to supplement funds provided through grants. Until now, the European Union’s expenses through the innovative financing instruments are approximately 1% of the whole European Union’s budget, a relatively small value, but in the 2014-2020 financial programming it is aimed for this value to grow. The innovative financing instruments will play a more important role as time goes by, both for obtaining the results of the Europe 2020 Strategy, European Commission, 2011, and for answering the financial needs and problems that