



MORE THAN JUST PROFIT

PUBLIC PRIVATE **SUSTAINABLE** PARTNERSHIP



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ABSTRACT

MORE THAN JUST PROFIT

PUBLIC-PRIVATE partnerships are a suitable response to **COMPLEX CHALLENGES**

SUSTAINABILITY is becoming a key driving force in the PPP model

From a contractual obligation to a **COMMITMENT GOING BEYOND INDIVIDUAL INTERESTS**

NO WEAKNESS OR STRENGTH IS ABSOLUTE, not for private players, nor for public partners

The capacity to gauge the **IMPACT OF PPSPs ON THE SDGS** still needs to be fully developed

Public-private partnerships (PPPs) were originally used in Belgium primarily as a means of keeping large public investments out of the budget. This is clearly not the right reason to forge such partnerships and ultimately leads to less successful projects. This governance model is now regaining popularity, in part as a result of the major challenges that Belgium - and by extension the entire world - will face in the coming decades. In light of climate change, digitalisation, mobility and energy issues, the scarcity of raw materials, growing pressure on well-being and health, among other things, a PPP in which parties from various domains and sectors work together increasingly seems to be the model best able to answer multidisciplinary questions such as: 'How can we organise our cities, towns and villages and prepare them for the future?' or 'How can we protect and boost the well-being and prosperity of our people?' The profound social impact and the complexity of these challenges are pushing private and public partners into each other's arms.

In addition to the economic (value for money) and budgetary (off-balance sheet financing) factors, given the current social

context at both local and global level, sustainability now plays an unmistakably important role when establishing a PPP as a cooperation model. This brings us to the topic of this white paper: how do you determine which parameters need to be taken into account with a goal as 'fluid' as sustainability, with a view to forging a viable, targeted public-private **sustainable** partnership (PPSP)? Emphasis on the 'S' for 'sustainability'.

SECTION ONE delves into the concept of **PPPs**, their various forms and the growing popularity of this cooperation and governance model. Research shows that current PPPs typically include barely any sustainability indicators, in part because it is extremely difficult to define measurable and enforceable sustainability criteria within the existing contractual PPP model. Rectifying this requires a paradigm shift.

SECTION TWO focuses on the importance of a commitment going beyond each party's individual interests. The success of a PPSP is less contingent on contractual obligations than it is on a difficult-to-achieve **commitment**: each party must be as committed to achieving the others' goals as they are to their own, even if these interests are not always set out in black and white in the contract. Partners must take the time to truly intertwine their ideas and interests and foster mutual trust, without losing sight of the specific role and abilities of each party, both private and public.

A PPSP transcends the public-private divide. This is one of the basics detailed in **SECTION THREE**. What are the **success factors, obstacles and pitfalls** facing the parties involved? According to our experts, an academic third party without any interests in the partnership at hand should be involved from the outset, with this third party able to conduct a holistic analysis of the project based on an objective, neutral view of sustainability. Thanks to this sustainable, systemic vision of the future, the various actors can, throughout the process, take into account their tangible impact as stakeholders and the systemic effect on society as a whole.

The key question remains: how to embody values connected to the Sustainable Development Goals (SDGs), such as respect for the climate and environment, natural development, social well-being, diversity, circular resource management, social entrepreneurship, and so on, in a PPSP contract without this being perceived as a straitjacket? The SDGs and their underlying sub-goals and indicators (see also PPSPs and SDG 17 on page 18) already provide guidance on defining very tangible **sustainability criteria**. Other, more commonly used tools (e.g. a sustainability meter) can also be adopted to this end.

SECTION FOUR describes the **domains** in which **PPSPs** can play a (more) valuable role. By definition, PPSPs are not restricted to any specific domain or topic, provided that a clear and feasible revenue model is devised for the private partner and that the public partner carries out responsible quality monitoring. Nevertheless, experts' views vary, with some believing that PPSPs are less or not at all suited to certain domains, more specifically those that are so vital to the democratic foundations and stability of society that it would be difficult to leave them in the hands of the private sector.

Despite the positive advances made, taking a closer look the strengths and weaknesses of current PP(S)Ps is still a worthwhile exercise, as these can be the same or vary for public and private partners, as explained in **SECTION FIVE**. No statement is absolute. The key lies in striking the right, feasible balance according to the nature and specific characteristics of the PPSP at hand and the abilities and interests of the partners involved. In practice, gauging the **impact of a PPSP** on the SDGs is a particularly complex analysis that is still far from being fully developed.

In the **CONCLUSION**, we hear from **Pieter Timmermans** (CEO of VBO FEB) and **Hans De Cuyper** (CEO of Ageas), who both give their answers to five questions outlining their vision of the future PPSP governance model. Companies and public authorities have the tools to make a real difference in the shift towards a sustainable model of cooperation, the PPSP, provided that such partnerships transcend purely economic and political interests, make sustainable use of the available resources and guarantee society's prosperity in the long term.





JOINING FORCES

Thanks to global warming, forest fires, hurricanes, floods and droughts do not just occur more frequently; they are more severe than they were decades ago. Climate change also exacerbates other problems, such as rising inequality, increasing conflicts and insecurity, the depletion of natural resources and threats to fragile ecosystems. Moreover, global warming impacts food security and water supplies. Natural disasters, in turn, lead to migration, conflicts and greater inequality. There is no excuse for the damage we humans have caused. There is only one solution: change our lifestyles and consumption habits and do business sustainably, with respect for everyone's well-being and what our planet can handle.

The economic model of the last century has clearly reached its limits and is no longer economically or ecologically viable. In contrast, a sustainable economic model would pave the way to a prosperous and resilient economy with long-term prospects. The transition to a new, more sustainable development model poses a structural challenge that we, as responsible stakeholders, are rising to for ourselves, for our members and customers, and for society.

This is a challenge that we cannot possibly overcome alone. It is beyond the resources, let alone the power, of any single company or organisation, public authority or country.

Yet there are even more challenges ahead: the growing impact of cybercrime and digitalisation, the need to ensure social inclusion and diversity in an increasingly polarised society, caring for the oldest among us, and so on. Moreover, the world will change, in unpredictable ways and at incredible speed.

We need to work together, now more than ever before. Companies and public authorities have the tools to make a real difference. PPPs are one such tool, provided that they transcend purely economic and political interests, make sustainable use of the available resources and guarantee society's prosperity in the long term.

JOINING FORCES

WHAT EXACTLY IS A PPP?

CONNECTION IS KEY

THE BASICS OF SUSTAINABLE PPPS

PPSPs DOMAINS

SWOT AND KPIS

FIVE QUESTIONS FOR...



What exactly is a PPP?

The real **AIM OF A PPP?**
To create added value

From public procurement contracts to concessions, PPPs have **MANY FORMS**

TIME and **ATTITUDES** are **READY** for **PPSPs**

The need for **MEASURABLE, ENFORCEABLE** sustainability criteria is growing

In a traditional public-private partnership (PPP), the commissioning authority entrusts a project as part of a single contract to a private party or a consortium of private parties (known as a Special Purpose Company or SPC).

Every contract between an authority (public) and a company (private) implies cooperation. However, cooperation in a PPP project goes further than in a typical public procurement contract. After all, the primary aim of a PPP is to have public authorities and businesses work together in a way that creates added value (whether financial, social or operational). To this end, cooperation within a PPP has a number of specific characteristics, according to the handbook compiled by the Vlaams Kenniscentrum PPS:

- Public authorities serve as guides more than managers, defining the results a project must achieve but giving private contractors the freedom to choose how this will happen.
- Instead of awarding several separate public procurement contracts for the various aspects of a project (e.g. design, construction, maintenance), the project is entrusted to a private contractor under one integrated contract.
- A PPP project entails more risks for the private contractor, giving them more motivation and incentive to manage the risks efficiently.

The cooperation model's name depends on the tasks outsourced by a public authority (see the inset 'PPP vs DBFM(O) vs ...' on page 7). In conventional public procurement, all aspects of a project are tendered and executed separately. In the most integrated form (DBFMOs and concessions), the private contractor takes care of everything from design, construction and financing to maintenance and operation. The construction and operation of a swimming pool is a typical example of a DBFMO project. The private contractor designs and builds the pool using their own funds and is then responsible for running it with their own employees. The public authority sets the operating conditions and pays the contractor a periodic fee based on the results achieved. While contractors with a DBFMO contract are paid by the public authority, those with a concession contract must earn their income from users. Many toll roads are a good example of concessions. Such a structure means that in addition to the construction and operational risks, the private contractor also bears the demand risk. They can partly control that risk by providing a good service, but also, for example, by offering commercial services or adjusting prices (to the extent permitted by the concession contract).

FROM A PPP TO A PPSP

The description opposite shows that most PPPs encompass three major operations:

1. The construction, production or design of the project.
2. The financing of the project.
3. The maintenance and operation of the project.

Each operation can be fleshed out in some tangible way by means of concrete and measurable parameters, agreements and key performance indicators (KPIs). In layperson's terms: you can describe the objectives and the actions to be taken on paper and entrench those KPIs in a contract. This begs the question: how do you determine which parameters need to be taken into account with a goal as 'fluid' as sustainability, with a view to forging a viable, targeted public-private **sustainable** partnership (PPSP)? Emphasis on the 'S' for 'sustainability'. Indeed, the time is more than ripe, and stakeholders are more than willing, to add a fourth operation to the typical PPP model: sustainability. In the broadest sense of the word, that is.

In addition to the economic (value for money) and budgetary (off-balance sheet financing) factors, given the current social context at both local and global level, sustainability now plays an unmistakably important role when establishing a PPP as a cooperation model.

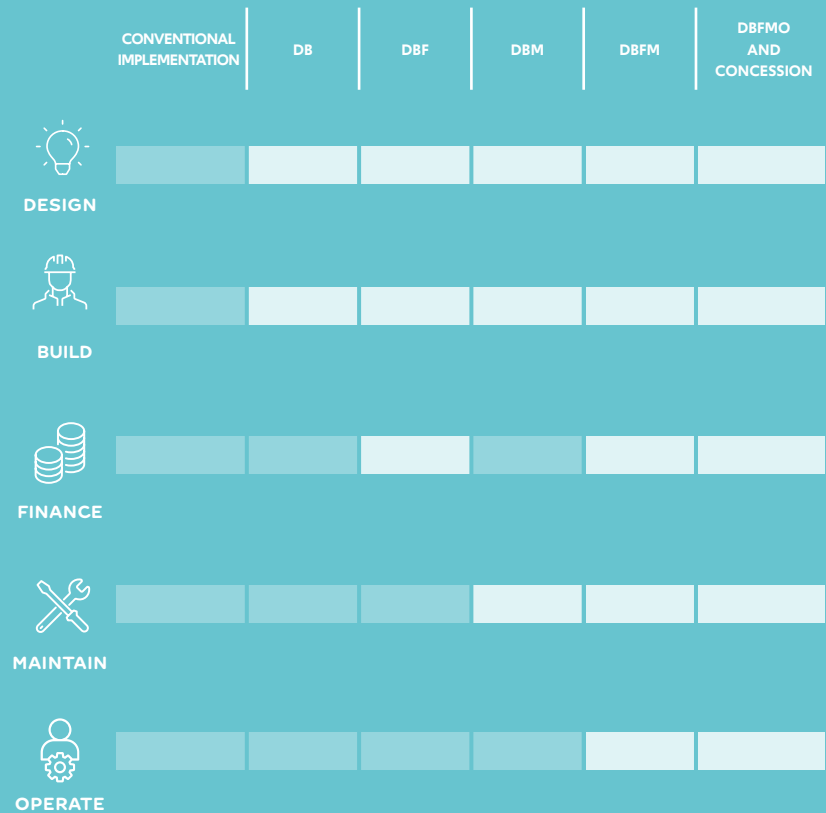
After all, no single public authority or business alone is currently able to offer a solution or response to the complexity and interdependence of the world at present and its wide-ranging societal challenges regarding the climate, environment, mobility, energy, well-being and more. In short, to increasingly complex trends in living, housing and working, both now and in the future. Moreover, companies can no longer afford to stick to a goal that is solely focused

PPP vs DBFM(O) vs ...

Public-private partnership, or PPP, is the collective term for a range of forms of cooperation between the public and private sectors. The name of a contract or implementation model depends on

how the cooperation is realised and how tasks are divided.

The various forms of implementation



D: Design B: Build F: Finance M: Maintain O: Operate

Source: Vlaams Kenniscentrum publieke-private samenwerking, Handboek DBFM

The left side of the figure shows the typical implementation model in which all parts of a project are tendered and executed separately. First, the commissioning authority appoints a firm to create a design and translate that into detailed technical specifications. One or more contractors are then chosen to roll out the project according to the specifications. Once completed, the

commissioning authority is responsible for maintenance and operation, either dealing with these aspects itself or outsourcing them under short-term service contracts. The further to the right in the figure, the more the various parts of a project are integrated into the cooperation model.

JOINING FORCES

WHAT EXACTLY IS A PPP?

CONNECTION IS KEY

THE BASICS OF SUSTAINABLE PPPs

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on creating economic value for shareholders. The challenge lies in moving beyond the purely financial and taking into account the social, environmental and governance impact of their activities.

To quote **Pieter Timmermans**, CEO of the Federation of Enterprises in Belgium (VBO FEB): *"Profit is no longer the sole driver of economic growth and prosperity. Of course, it is still vital, including when it comes to filling state and social security coffers, but it is no longer the only driving force. Companies are accepting that they are responsible for creating value for society as a whole, together with and for all stakeholders, and while facing global challenges."*

Companies need to redefine their aims by creating economic, environmental and social value and incorporating multi-stakeholder management. As such, we are seeing sustainability goals increasingly taking on a strategic role in companies' missions and visions. Companies themselves are convinced of the strategic importance of sustainability. At the same time, society is holding companies more accountable for their responses to social, environmental and climate issues. In short, businesses are leading the way in the energy transition needed to combat climate change, in

the fight against the depletion of natural resources or in caring for the mental health and well-being of employees, for instance.

FIVE STEPS

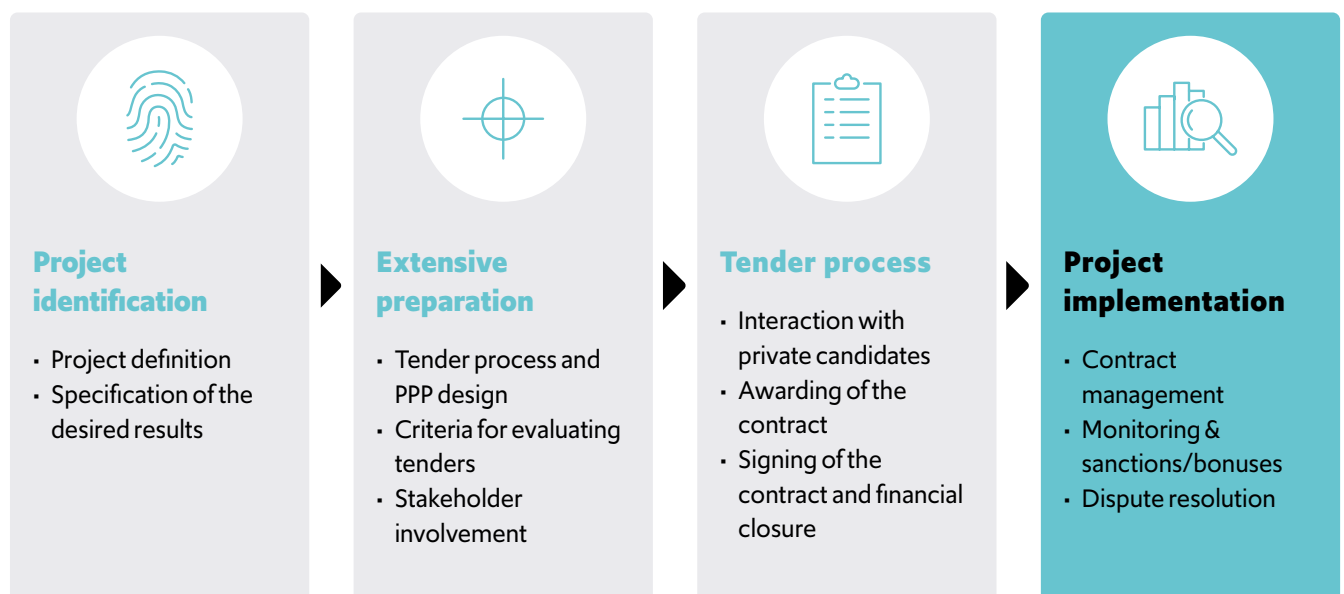
However, research conducted by UAntwerp¹ indicates that current PPPs include barely any sustainability indicators, in part because it is extremely difficult to define measurable and enforceable sustainability criteria within the existing contractual PPP model. Rectifying this requires a paradigm shift.

The researchers propose five steps to initiate such a shift.

1. During preparations, consider whether it is necessary to build new infrastructure (see the inset 'Decoupling growth from resource use' on page 9) and think about which stakeholders you should involve.
2. Include sustainability targets in the project definition.
3. Under certain circumstances, it is possible to incorporate sustainability in the selection criteria. However, care should be taken here, as excessively tough selection criteria may undermine competition and pose a threat to SMEs.

4. Integrate sustainability aspects in the award criteria and give these a score based on a well-defined weighting. Setting a minimum score for individual award criteria can discourage strategic tendering.
5. Focus on quality. However, you should consider whether the practices adopted to get tenderers to compete on quality aspects alone (e.g. fixed prices) are worthwhile. The effectiveness of specific incentives, such as bonuses for sustainability, also needs to be investigated further.

The PPP life-cycle



Source: Based on "The Guide to Guidance: How to Prepare, Procure and Deliver PPP Projects". (EPEC, 2011).

¹ Hueskes, Marlies, and al., *Governing public-private partnerships for sustainability*, International Journal of Project Management <http://dx.doi.org/10.1016/j.ijproman.2017.02.020>, p. 1

² https://www.feb.be/publications/reflect-vbo-feb--votre-entreprise-tourne-t-elle-circulaire-_2021-12-17/



DECOUPLING GROWTH FROM RESOURCE USE

In VBO FEB's magazine REFLECT², Slovenian economist **Dr Janez Potočnik**, considered the 'architect of the circular economy', takes a closer look at the fundamental question of whether certain products or infrastructure are necessary at all. "Since the first industrial revolution, economic growth and prosperity have been based on the principle of increasing production. The drivers need to change. Growth has got to be decoupled from resource use and pollution. You can try and persuade people to consume less, but a wholesale transformation requires more than that, and has to encompass all links in the value chain, from extraction and production through to consumption. For that, you have to change the starting points and develop other economic drivers.

Take steel production, for example. Climate defenders are primarily focused on greening steel production – in other words, preventing harmful emissions and other impacts. That's important, of course. But for me the main question is: how much steel do we actually need? Couldn't some applications manage just as well with less steel or none at all? If we drove less and lived in smaller houses, we would need less steel. Also, how much steel is currently being underutilised in our cars? In other words, the move towards 'green' steel is about more than production. It's also related to the way we use steel in everything we do and consume."

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CONTRACTUAL PPPs AND PARTICIPATORY PPPs

For the sake of completeness, there is also a distinction between contractual and **participatory PPPs**. In a participatory PPP, the public authority is involved in the private partner's project company, or the public authority and the private partner together set up a new project company to realise the project together and according to certain agreements.

In the case of a **contractual PPP**, the partnership is based on a contractual agreement between the public and private partners. Public authorities in

Flanders, for example, often acquire a stake in the capital of the private project company, though this is always a minority stake so as not to jeopardise the proposed neutrality of the European System of Accounts (ESA) (see the inset 'The origins, revival and growing popularity of PPPs in Belgium' on page 10).

THE ORIGINS, REVIVAL AND GROWING POPULARITY OF PPPS IN BELGIUM



The PPP is not a new concept. The Dutch East India Company was already using the cooperation model between private and public players in the 17th century. But we will not be going back that far in time in this white paper.

Since the early 1990s, and even more so since the early 2000s, the number of PPPs in OECD countries has risen significantly. Countries like the UK, South Korea, France, Australia, Portugal and Germany are increasingly using PPPs to provide services that they used to provide through traditional public procurement.

Not to be left behind, since the turn of the century various Belgian authorities have set up organisations to manage infrastructure work under PPPs, such as De Werkvennootschap in Flanders (www.dewerkvennootschap.vlaanderen), Sofico in Wallonia (www.sofico.org) and Regie der Gebouwen/Régie des Bâtiments (www.regiedesbatiments.be/fr). These organisations have acquired know-how and experience in numerous PPP projects, ranging from transport infrastructure and road lighting to social infrastructure such as prisons, hospitals and sports facilities to high-tech projects like smart toll collection. Despite the fact that each of these organisations adopt their own specific approach, Belgium is now a mature PPP market.

PPPs were originally used in Belgium primarily as a means of keeping large public investments out of the budget (off-budget sheet financing). PPPs were seen as credit cards, allowing partners to 'buy today, pay tomorrow'. This enabled public authorities to make sure that investments were ESA-neutral, i.e. that they did not impact the budget outturn or public debt of the authority in question. Such neutrality came increasingly under fire.

Bodies such as Eurostat and the Belgian Court of Audit, among others, argue that PPP structures are designed too flexibly as 'investment' instruments and therefore 'produce sub-optimal results'. This is obviously not the right reason to forge PPPs. Canadian professor Matti Siemiatycki is also critical³: *"wanting to keep money out of the budget is not a good reason to engage in a PPP because it ultimately leads to poor projects"*.



In September 2016, Eurostat published its 'Guide to the Statistical Treatment of PPPs', which contained very practical and extensive guidance on how each of the clauses of a PPP contract should be assessed in the light of ESA 2010. Greater legal certainty was at the root of a new wave of PPPs in Belgium. This was not due to the ESA alone, with other reasons including value for money, efficiency gains, transparency, mutual risk limitation, trust between public and private actors, speed of implementation and the broader social scope playing an increasingly significant role. After ten years of being dominated by ESA-neutrality, the PPP in Belgium is turning into a model with a much wider scope than off-balance sheet financing.



³ Voets, Joris and Coppens, Tom, *Do's & don'ts van PPS. Een interview met prof. dr. Matti Siemiatycki*, Ruimte 25, 2015, p. 64

CASE

SCHOLEN VAN MORGEN

Scholen van Morgen (Schools of Tomorrow, or SvM) is a complex and hybrid form of a contractual and participatory PPP between AG Real Estate, BNP Paribas Fortis and the Flemish government. Launched in 2010, it aims to bridge the major shortfall for resources for school infrastructure in Flanders and covers the design, construction, financing and 30-year maintenance of 182 school building projects via 'DBFM Scholen van Morgen sa/nv'. Every 'School of Tomorrow' is a unique project, based on local needs and vision, and complies with all modern requirements in terms of sustainability, comfort and flexibility. During the 30-year period, the school board pays an annual availability fee. At the end of this period, the building is transferred to the school board at no additional cost.

SDG 4 (quality education) is the central goal of SvM. "However, both the construction and the use of infrastructure are linked to a much broader spectrum of sustainable development goals," explains **Kristien Doumen**. The UAntwerp PhD student analysed the impact of the project as part of a master thesis commissioned by Ageas.⁴ The project had both an economic and innovation-related impact. "To give just a few examples, think of the economic boost in the form of extra jobs for school staff and in the construction sector. Or the positive impact on teacher well-being, safe working environments and company innovation." The figure below illustrates the project's impact on many domains within the SDG spectrum.



For more information, visit: www.scholenvanmorgen.be

SDG-impact Scholen van Morgen



Source: Doumen, Kristien, *Impact and impact measurement. An application to three initiatives of Ageas, 2021*

⁴ Doumen, Kristien, *Impact and impact measurement. An application to three initiatives of Ageas*, Master thesis recommended for obtaining the degree of Master Business Engineering: Financial Engineering, Faculty of Business and Economics, UAntwerp, 2020-2021





CONNECTION IS KEY

A PPSP does **NOT SOLELY STRIVE FOR FINANCIAL** gain

PPP PARTNERS share a goal that transcends each other's individual **INTERESTS**

A PPP is not a **MAGIC CURE**

PUBLIC AUTHORITIES must first know what they want to achieve

A PPP offers a **STABLE REVENUE STREAM**

In an ideal PPP,¹ the public authority calls on the market's brain power and innovation and signs up for cooperation spanning decades. However, such cooperation also entails risks. The private partner, often the one in the most secure position, economically speaking, is given a large say in the future of our cities and towns, infrastructure, schools, housing, health care, and so on. A PPSP transcends those kinds of risks and consequently both offers added value in terms of financial management and risk control and constitutes a comprehensive project that is profitable on all fronts.

All partners must respect the others' role. *"There will always be an ideological source of tension between the private and public spheres,"* explains **Luc Van Liedekerke**, a professor of business ethics at UAntwerp and KU Leuven who specialises in the SDGs. *"Both have specific financing models and legitimacy processes. The legitimacy of public authorities is determined by politics, while that of private players is determined by the owners and shareholders, yet this has not prevented them from working well together since time immemorial. They rely on each other's expertise, experience and innovation to achieve greater efficiency. This is becoming increasingly common, in fact; much like universities now outsource their daily maintenance to specialist*

cleaning firms. The cornerstone of these partnerships is: everyone has their role."

Professor **Matti Siemiatycki** uses the concept of 'collaborative advantage' to approach PPPs from a social innovation (rather than a financial) standpoint. The close interconnection and interplay between the private and public sectors spurs on innovation, so the social, environmental and societal benefits gained can far exceed the expectations of what would have been achieved without a PPP. *"It's about benefiting from each other's expertise, experience and ideas."* In other words, both parties must share a goal that transcends their individual interests and must show respect and understanding for each other's individuality. According to Luc Van Liedekerke, this implies that both also own the project, because ownership creates rights. *"Public authorities, for example, have the right to keep an eye on the social end goals, while private players have the right to make a profit. If there were no public authority in a PPP consortium, there would be too great a risk of upsetting the balance."*

¹ Extract from "100 Stemmen Publiek-Private Samenwerking", pp. XI-XII

FROM COOPERATION TO PARTNERSHIP

Former Flemish Government Architect **Peter Swinnen** emphasises the necessary depth of cooperation and advocates replacing the Flemish term PPS (Publiek-Private Samenwerking) with PPP: *"The original English term 'public-private partnership' and the Flemish 'publiek-private samenwerking' potentially evoke two different levels of ambition in practice. After all, a partnership implies a special - higher - form of cooperation, in which each partner contributes their own resources and is prepared to share risks and benefits on the basis of a strong social project, always with clearly identifiable social gains in mind. This should allow for deeper cooperation, evolving into a culture of strong 'partnerships'. So, PPP instead of PPS."*

A ROLE FOR EACH PARTY?

The key task of public authorities is and remains providing public goods and services in the most efficient and sustainable way possible and involving the lowest possible risk. A PPP is not a miracle cure that should or could be applied sensibly everywhere. At the same time, it is abundantly clear that in the 21st century, sustainability is gaining more and more weight within the PPP model.

Many experts are convinced that, as a PPP actor, public authorities have a responsibility to foster sustainable synergies and put sufficient pressure on private players to think and grow in that direction. *"Above all, public authorities must know what they want to achieve and translate that vision into tangible objectives to then bring all*

parties into line and learn to speak the same language," emphasises Luc Van Liedekerke. *"They need to guide more than manage, divide roles in a way that makes maximum use of everyone's strengths, and make sure that the project generates extensive added value."*

It is up to the private actor or actors to realise that such a partnership offers economic benefits that go beyond pure profit. They must take into account the fact that cooperation with public authorities poses a lower business risk. After all, a PPP's profitability is closely linked to the public partner's risk profile. How likely is it that a public authority with whom you have a 30-year school maintenance contract will not pay you? Furthermore, a PPP offers the advantage of a stable revenue stream, which can be an element of diversification.

IN THE SAME BOAT

Elyse Maltin, a consultant at Canada's JMW Consultants, researched the success factors of PPPs and wrote in Harvard Business Review² that project success had little to do with trying to force all parties to adhere to strict contractual obligations. At the crux of successful PPP infrastructure projects is a simple but difficult-to-achieve commitment: each party must be as committed to achieving the others' goals as they are to their own, even if these interests are not always set out in black and white in the contract. *"The word 'partner' must really mean 'we are both in the same boat', a feeling that no contract can ever replicate."* Partners must take the time to truly intertwine their ideas and interests and foster mutual trust.³

Furthermore, the power of partnership, even after the completion of a specific project or programme, can live on and provide extra-contractual benefits to certain partners, organisations, citizens and service users.



CROSS-FERTILISATION OF IDEAS WITH NON-PROFITS

When we hear 'PPP', we almost immediately think of private partners as commercial, profit-oriented players. Non-profit organisations or those with a social purpose can also prove suitable partners, depending on the type of project. *"More and more private actors are taking on a social role,"* says Luc Van Liedekerke. *"Socially, it makes sense to break down the barriers between different profiles."* It is important to gather the right expertise, no matter the source. An academic partner, for example, can act as a neutral supervisor without necessarily taking on an operational role. Moreover, this way you combine not only knowledge, but also different visions and ways of thinking. This can result in a very fruitful cross-fertilisation.

² 'What Successful Public-Private Partnerships Do', Harvard Business Review, 8 January 2019

³ Vlaams Kenniscentrum PPS, PMV and the Flemish Government Architects Team, *100 Stemmen Publiek-Private Samenwerking*, 2014

CASE

LIÈGE TRAM

The city of Liège is investing in green mobility with the construction of a brand-new tram line. The PPP project (a 30-year DBFM programme) was shut down in 2015 following Eurostat's criticism of the way the project was budgeted, but was relaunched in early 2019 based on an adjusted risk balance. At that time, the Walloon transport operator OTW (formerly TEC) and the Tram'Ardennt consortium signed the official contract to build the new Liège tram line. AG Insurance, alongside other financial partners, is stepping in as institutional investor to provide

external financing for the project. The tram line will comprise 21 stops, 12 kilometres of track (90% of which will be in its own separate lanes) and encompass 240,000 m² of urban development with a focus on soft mobility such as pedestrian zones and bicycle highways. The line will cross the entire city, from Sclessin to Coronmeuse.



Source: www.letram.be

Investments like these reflect AG Insurance's policy, as the largest institutional investor, to invest more funds in Belgium and to provide direct financing to the real and local economy, creating a cycle that provides solutions to short- and long-term

social problems (employment, more and better infrastructure, pension accrual, etc.). At the same time, the insurer is contributing to a more sustainable society. The tram is an environmentally friendly, fast and efficient mode of transport that offers structural,

modern and ecological solutions to rectify the issue of saturated mobility in the city.

For more information, visit: www.letram.be

JOINING FORCES

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THE BASICS OF SUSTAINABLE PPPS

A 'SUSTAINABLE VISION of the future' is needed

Reconciling added value and SUSTAINABILITY WITH PROFIT

Involvement leads to IMPROVEMENT

COSTS and RETURNS are not the only things with meaning

OPERATIONAL EFFICIENCY, with a measure of pragmatism and passion

PSYCHOLOGICAL SECURITY is a key success factor

Improving means LEARNING FROM THE PAST

A PPSP transcends the public-private divide and is closer to the so-called Rhineland model, which, in contrast to the Anglo-Saxon model (see also the inset below), does take into account values such as the environment, well-being at work and sustainability. It pays more attention to the softer, 'human' side of projects and leaves room for a better understanding of the challenges facing society. *"In the more sustainable Rhineland model, the actors transcend their own historical legitimacy and comfort zones,"* says Luc Van Liedekerke.

It is important that a PPSP's sustainability goals are laid down as concretely and transparently as possible in the project definition right from the design phase,

taking into account all sustainable added value for all stakeholders. It is vital to involve all relevant stakeholders, such as end users, social groups, market players and society as such, in the partnership in order to achieve added value that goes beyond the financial benefits. For example, a private actor cannot run a school and yet stipulate in the contract that the building must not be accessible after school hours because this increases wear and tear and therefore costs money. By imposing such requirements, the school loses its value as a social hub built for the community.

THE ANGLO-SAXON MODEL vs THE RHINELAND MODEL

The **Anglo-Saxon model** is characterised by privatisation, deregulation and the need to involve the private sector in the provision of public services in order to cut costs. It therefore focuses primarily on monetary value, to the detriment of social value.

The **Rhineland model** stands for a culture of dialogue, solidarity, appreciation of expertise and criteria other than monetary value. The private sector's contribution is not only measured in terms of profit, but also in less tangible ways, such as the quality of the products delivered, the professional satisfaction of employees and the company's contribution to society as a whole. Moreover, this model is much more geared towards the long term.

According to Luc Van Liedekerke, an academic third party without any interests in the partnership at hand should be involved from the outset and during preparations, with this third party able to conduct a holistic analysis of the project based on an objective, neutral view of sustainability. *“It is more likely that he or she will be able to identify opportunities for fruitful exchange with other domains that the parties involved (unconsciously) overlook. For example: what is the long-term impact of a new school building on the stability of local employment or on the performance of pupils? Mind you, these can be both positive and negative influences.”* He calls the input of this third party ‘the sustainable, systemic vision of the future’. Thanks to this vision, the various actors can, throughout the process, take into account their tangible impact as stakeholders and the systemic effect on society as a whole.

The key question remains: how to embody values connected to the SDGs, such as respect for the climate and environment, natural development, social well-being, diversity, circular resource management, social entrepreneurship, and so on, in a PPSP contract without this being perceived as a straitjacket? The SDGs and their underlying sub-goals and indicators already provide guidance on defining very tangible criteria.

Kristien Doumen from UA Antwerp has studied the impact of PPP projects and refers to the ‘sustainability meter’ that serves a basis for the PPP project ‘Scholen van Morgen’¹ (see also the case study on page 11). *“During the design process, the designers had to identify and test the sustainability aspects on the basis of ten themes. Each theme had to score at least 50% and the total score could not be lower than 70%.”* In this way, Leefschool ‘t Zandhofje primary

school in Zandhoven, for example, opted for an energy-efficient new building. Top-quality insulation, strategic compactness and maximum solar gain within the building achieved an overall score of 88% on the sustainability meter.

Determining objectifiable sustainability criteria is a specialist task but as yet too little effort is being made here. Moreover, it is still extremely difficult to use these criteria to anticipate new or future social and technological developments. Technology is rapidly evolving, which means that a project can always be more sustainable than originally assumed. *“So it is inevitable that as a project progresses, flexible adjustments must be made,”* explains Kristien Doumen. *“In other words, embodying sustainability is a living, long-term process.”* Not trying is not an option, but everyone is still searching for solutions and it will take a lot of time before sustainability criteria will be embedded in the DNA of PPSPs as standard.

PITFALLS AND OBSTACLES

According to Luc Van Liedekerke, embarking on a PPSP with the sole purpose of cutting costs for the public authorities and generating a return for the private parties is the biggest pitfall. Nobody can predict returns 30 years in advance. *“As a private actor, you get involved in a project because someone else is unwilling, unable or does not dare to do so. Because it adds value to your business model and your innovative ability.”* It is up to the public actor to formulate aims instead of asking for solutions. That creates room for innovation. Return on investment is still important, of course, but in the broad sense of the word. A PPSP that

PPSPs AND SDG 17

The seventeenth and final of the United Nations Sustainable Development Goals is: strengthen means of implementation and revitalise the global partnership for sustainable development. In other words, without partnerships, you can never achieve the other sustainability goals. According to Kristien Doumen: *“PPPs are a textbook example of this. It is a structure for breaking through traditional barriers and thus revolves around the goal or the problem at hand, not the actors involved.”*

SDG 17 has 19 sub-goals, of which 17.16 and 17.17 apply specifically to multi-stakeholder partnerships.

17.16

aims to enhance the global partnership for sustainable development complemented by multi-stakeholder partnerships that mobilise and share knowledge, expertise, technologies and financial resources to support the achievement of sustainable development goals in all countries, particularly developing countries.

17.17

aims to encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

¹ AGION (2019), *Een evaluatie van het DBFM-programma Scholen van Morgen*, Agency for School infrastructure

² Voets Joris and Coppens Tom, *Do's & don'ts van PPS. Een interview met prof. dr. Matti Siemiatycki*, Ruimte 25, 2015, pp. 60-67

³ Maltin Elyse, *What Successful Public-Private Partnerships do*, Harvard Business Review, 8 January 2019



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contributes to profit while encouraging diversification drives growth. *“Even if the economic return remains below the level achieved by purely commercial projects.”*

In turn, an international study conducted by Professor Matti Siemiatycki² shows that design quality is not necessarily the strongest asset of conventional PPP projects *“because the PPP process primarily lends itself to a good cost focus and adds value in terms of cost-effectiveness.”* To cut a long story short: progressive, often award-winning companies rarely get involved in PPP projects, meaning that only purely commercial players make this commitment. As a result, PPPs are unlikely to foster real innovation. Avoiding this pitfall again requires a broad view of a PPP’s social and sustainability objectives.

A PPP or PPSP project is a particularly harsh working environment for project leaders and managers. After all, the health or safety of the public, the attractiveness of the country when it comes to investment and the careers of a region’s politicians may be at stake when deadlines are missed, budgets are exceeded and quality issues arise. In such a work environment, it is human nature for project leaders to overlook minor problems, push back schedules, point fingers or blame others and cover their tracks. Research conducted by **Elyse Maltin** from JMW Consultants³

shows that team members on successful PPP projects avoid this pitfall by admitting their mistakes when they occur and then moving quickly to correct them. In that way, they use these failures as opportunities to strengthen their commitment to the partnership.

Lastly, Luc Van Liedekerke highlights the often-underestimated importance of having a broad spectrum of relevant stakeholders endorse the ‘project definition’, i.e. not only the ‘usual suspects’ but also citizens, social (interest) organisations, NGOs, etc. *“Investing in a positive and broad narrative that appeals to people and giving all stakeholders a meaningful role in the process benefits all parties.”* With the emphasis on ‘meaningful’ *“because if a party is too involved, there is the risk that, for example, a school board - well-intentioned, but not an expert - will impose its opinions on technical aspects of a construction project. That inhibits efficiency. Leave that to a partner who can expertly determine criteria that are valuable and feasible for the entire school landscape. Of course, this does not mean that consultation is not always useful.”*

SUCCESS FACTORS

This brings us to the central question of this white paper: what factors enhance

a PPSP’s chances of success? Although specialist literature provides a laundry list of do’s and don’ts, this paper does not delve so deeply. **Hans De Cuyper**, CEO of insurance group Ageas, one of the largest institutional investors in Belgium, summarises his vision as follows: *“A PPSP in an environment where very diverse key stakeholders constantly pay attention to quality, price, time and risk management is only successful by adopting an approach based on the project or programme. This approach combines expertise, commitment, drive, standardisation, process control, monitoring, reporting, technology and enthusiastic communication, plus a good measure of pragmatism and passion!”* It is vital to strike the right balance between the risks and investments that the private side has to take on and the maximum financial compensation set by the public authority. *“After all, in 2022, customer requirements and demands are constantly increasing, while subsidies and financial limits are lagging behind.”*

In addition, as Elyse Maltin pointed out above, the closeness between private and public actors and mutual extra-contractual commitment are critical success factors. Based on trust and respect. A contract is useful in cases of doubt, but the partners must above all engage in constant dialogue according to the spirit of the contract. The best contract is one that stays in the

filing cabinet for 20 years. “This initial phase is really crucial,” clarifies Luc Van Liedekerke. “A shared project definition and choices are imperative. Conflicting aims must be intelligently reconciled, not left to compete.”

Should (unavoidable) disputes arise, it is important to build in mechanisms in advance to resolve them authentically before anyone reaches for the contract. That kind of agreement provides psychological security. The greatest risk of tension lies in the interests (e.g. reputation building, political agendas, profit generation, intellectual secrets) left unmentioned by the different partners. Yet the open and honest declaration of those interests, without revealing them in detail, can make the difference between success and failure. Transparency and dialogue neutralise speculation and rumours that can cause a minor dispute to snowball into a breach of trust. “Such a psychologically secure environment is only possible when the actors agree from the outset how they will deal with the inevitable problems, long before anyone reaches for the contract.”

Lastly, complete and ongoing PPP projects are a mine of information and know-how. ‘Maximise the centralised development and exchange of knowledge and create analysis tools’ is therefore one of the 23 recommendations made based on a survey of a broad group of experienced experts, from policymakers and financial players to developers, designers and legal practitioners.⁴ Optimal analyses and evaluations are a must if lessons are to be learned for the future (see also the inset ‘Ten obstacles to establishing a PPSP’ opposite). Moreover, the tools must be capable of accurately estimating added value for society and the country involved.

⁴ Vlaams Kenniscentrum PPS, PMV and the Flemish Government Architects Team, *Vuistregels voor meerwaarde. Publiek-Private Samenwerking*, 2014

TEN OBSTACLES TO ESTABLISHING A PPSP

Based on a survey of 100 prominent PPP actors, Vlaams Kenniscentrum PPS, Participatiemaatschappij Vlaanderen and the Flemish Government Architects Team identified ten obstacles on the road to the PPP model of the future.⁵ That was in 2014, but these obstacles are still very much a reality today, throughout Belgium.

1. Common starting points must be established. Project diversity can be enriching and inspiring, but without clear definitions it is impossible to set specific criteria.
2. The public authority must know what it wants to achieve. Only when the public stakeholders are on the same page will the private partners have a clear working framework.
3. A constant, lasting focus on quality requires a change in mindset. PPP projects only create sustainable added value if design, construction and financing are coordinated based on a comprehensive focus on quality. A project should never be approached in isolation; rather, attention must always be paid to the surroundings and social context.
4. The public authorities should guide rather than take action. As the customer, not the executor, they should focus on choosing the best public and private partners and ensure that the division of roles makes maximum use of everyone’s strengths.
5. Individual interests must be reconciled through open dialogue. A genuine, true partnership means sharing the benefits and burdens, not just transferring risks. Public and private partners must show that they understand each other’s position if they want to then reap mutual benefits.
6. Better communication is key to fostering public support. Citizens, users and interest groups must be more strongly and effectively involved in project development. Clear communication means providing reasons for choices made, talking about the added value created and ensuring transparent evaluation, among other things.
7. The budget alone is a poor advisor. PPPs are active, not passive, investments. The purpose of the financing must not get in the way of the added value created for the area and society in general.
8. Simplification must lead to smart standardisation. The main challenge lies in standardising contracts, financing formulas and technical specifications to such an extent that they yield tangible efficiency gains without doing away with innovation, flexibility and customisation.
9. Working towards a better future means learning from the past. Learning from experience requires consistent evaluation based on clear criteria. This learning process not only leads to better quality, but also allows for a more thoughtful consideration of whether PPPs are the most suitable implementation method.
10. A PPP is a long-term choice. The shaping of a fruitful PPP culture is impossible without the public and private actors making a mutual commitment to persevere. If there are not enough projects, it would not be possible to amass expertise and experience and keep a sufficient number of private players on board.

⁵ Vlaams Kenniscentrum PPS, PMV and the Flemish Government Architects Team, *100 Stemmen Publiek-Private Samenwerking*, 2014

CASE

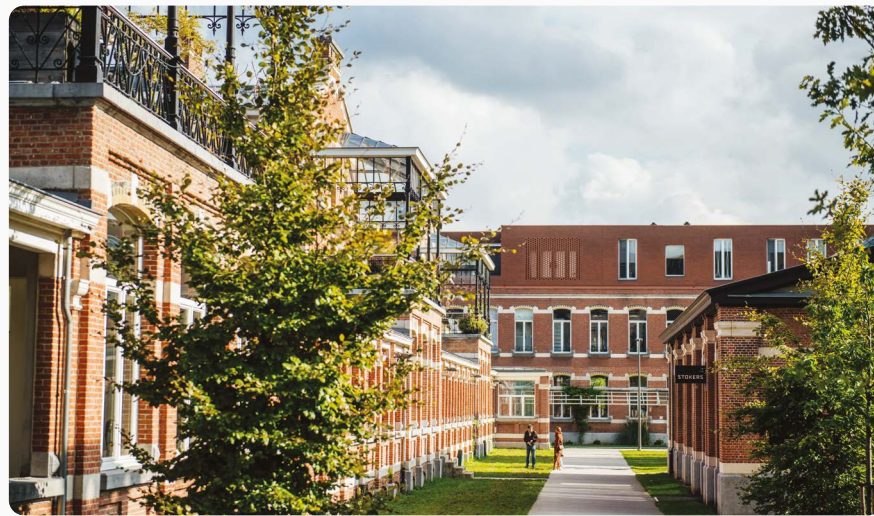
MATEXI: FROM PROJECT DEVELOPER TO NEIGHBOURHOOD

Sustainable construction is becoming an increasingly vital component of PPPs. Indeed, **Gaëtan Hannecart**, Managing Director at Matexi, believes that every real estate project is ultimately a PPP because every such project involves, to a greater or lesser degree, cooperation between one or more private actors and multiple public authorities. *“As a project developer, we have a major impact on the environment and always work with several public services to roll out our*

projects.” Hannecart sees the contractual framework of such cooperation as a legal matter. Cooperation is the cornerstone of a project, which he likes to compare to the alphabet. *“We need to go from A to Z and to do that we need a number of letters, or actors, if you will. Each letter assumes a certain part of the risk and makes a certain contribution, and it is only natural that each actor should receive fair compensation for this. The developer, as the person ultimately*

responsible for the success of the project, must recognise the role, the tasks, the responsibilities, the risks, the fair return, and so on of each actor involved and make everyone work together, regardless of their role, much like the conductor of a symphony orchestra.”

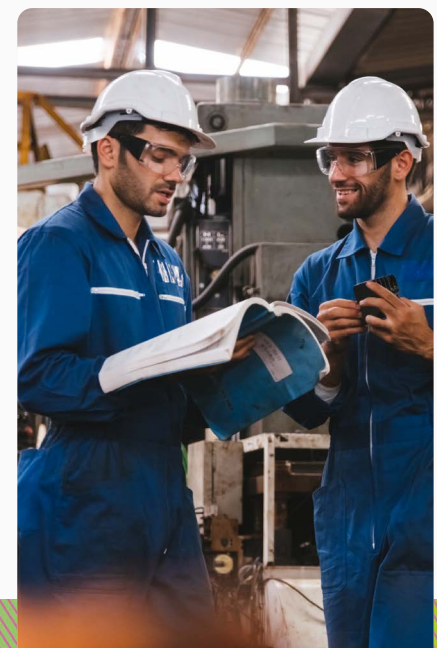
This is only possible through open interaction, in an atmosphere of trust, and certainly not from an ivory tower.



Matexi also consults affected citizens and parties indirectly affected in the vicinity of its projects. *“For each project, we try to identify the natural perimeter of the neighbourhood concerned and organise a neighbourhood scan or ‘black point’ analysis to identify the neighbourhood’s strengths and weaknesses. We strive to proactively take the results into account in the concept and design phases of*

every real estate project. In this way, we actually help to create better, greener, more liveable neighbourhoods. That is the environmental and social added value that we generate. Thanks to this approach, Matexi has evolved from project developer to neighbourhood enhancer.”

For more information, visit:
www.matexi.be/en/about-matexi



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DOMAINS WHERE PPSPs CAN PLAY A (MORE) VALUABLE ROLE

PPSPs: WIN-WINS

Conflict between
PRIVATE AND PUBLIC
is outdated

**BLURRING
BOUNDARIES**
between domains

Responsible **QUALITY
CONTROL** is a must

Certain domains are
UNSUITABLE for PPSPs

By definition, PPSPs are not restricted to any specific domain or topic. It is true, however, that such a partnership is often applied to projects that create social added value in the long term and that weigh heavily on a public authority's financial capacity. Such projects include typical major infrastructure work, such as the laying of roads or construction of schools, tunnels, hospitals, prisons, and so on.

Just like Gaëtan Hannecart, Managing Director of developer Matexi (see the inset on page 21), Hans De Cuyper, CEO of Ageas, does not rule out any possibilities in advance. Provided that a clear and feasible revenue model is devised for the private partner "which was, for example,

a breaking point in the solution proposed for the renovation of the Brussels tunnels." For an insurer like Ageas, every PPSP must be a win-win for all involved. "A project has to cover our returns on supplementary pensions. That is the beauty of a PPSP. We use our pension reserves to build infrastructure for future generations. This benefits the current generation, generating returns that allow them to enjoy a comfortable retirement. This also shrinks the pension gap for public authorities. The circle is complete, every party wins: the insurer, the citizens and the public authorities."

INTERDOMAIN GOVERNANCE MODEL

Of course, a PPSP is not a universal governance model. However, it is now gaining popularity, in part as a result of the major challenges that Belgium - and by extension the entire world - will face in the coming decades. In light of climate change, mobility and energy issues, the scarcity of raw materials, growing pressure on well-being and health, among other things, a PPSP in which parties from various domains

and sectors work together increasingly seems to be the model best able to answer multidisciplinary questions such as: 'How can we organise our cities, towns and villages and prepare them for the future?' or 'How can we protect and boost the well-being and prosperity of our people?' The profound social impact and the complexity of these challenges are pushing private and public partners into each other's arms.

Everyone is both a responsible party and the 'end user'. "Moreover, as yet there is no single public or private partner that can come up solutions on its own," confirms Luc Van Liedekerke. "Indeed, the binary conflict between the public and private spheres is outdated. The private sector, as a key part of society, is becoming increasingly responsible for ensuring the common good and prosperity, together with public authorities. As such, just like the public authorities, it plays a relevant role in every domain of society. By the way, the private sector is calling for more and stronger PPSPs." (see also 'Five questions for Pieter Timmermans' on page 34).

At the same time, the boundaries between domains are blurring. A metro tunnel, in addition to promoting mobility, also needs to help respond to the climate challenge and contribute to the city's liveability, economic strength and competitiveness, for instance. The location of a new school has an impact on the structure of mobility, the inclusion and densification of the neighbourhood, the well-being of the pupils, and so on. In other words, a central SDG of a PPSP directly or indirectly impacts a series of other SDGs. Kristien Doumen clearly illustrates this in her infographic detailing the impact of 'Scholen van Morgen' on the SDGs (page 11).

SPEED AND CONTROL

In addition to greater clout across domains, cooperation also has a positive impact on the speed at which PPSPs can be realised. Even without a PPP, the 182 'Scholen van Morgen' would still have been built, though this would have taken years longer to achieve. The quicker a long-term project can be rolled out, the quicker the return on investment and the quicker society can benefit from the added value created.

As private actors become more involved in PPSPs, control becomes even more important. Luc Van Liedekerke gives the recent example of some residential care homes where profitability prevailed over quality but which flew under the radar for years due to a lack of control. The idea that projects that are fully in the hands of public authorities require less control is also outdated. In many earlier PPP projects, the public authorities invested too little in keeping an eye on quality, both during the work and after completion. "The governance model of the future is one that breaks down the fundamental boundaries between different domains and actors, provided that responsible quality monitoring is in place."

PRIVATE vs PUBLIC

Canadian professor Matti Siemiatycki argues that the public sector is better off taking care of certain domains, especially when actual services are being provided "like in hospitals and prisons. If you outsource that for 35 years or so, problems arise." In other words, do not be so sure that everything can be transferred to the private sector because it can do everything more efficiently and quickly.

That is one view. Another is that certain domains are so critical to the democratic foundations and stability of society that it would be difficult to leave them to the private sector. Defence is one such example. Do you put your country's security in the hands of private militias? Is the independence of the judiciary or the media sufficiently safeguarded without public institutions? "Finding a balance between private and public roles within such key domains is and remains a very delicate exercise," stresses Luc Van Liedekerke.

CASE

AG INSURANCE

AG Insurance/Ageas believes that the insurance sector can play a key role in the European Green Deal and the digital strategy 'Shaping Europe's digital future', including in Belgium. **Hans De Cuyper**, CEO of Ageas, gives the example of projects involving wind and solar energy, electricity storage and the strengthening of digital connections via faster fibre-optic networks. Mobility is also key for AG Insurance, with investments in

train connections in Spain and France, Liège tram (see also the case study on page 15), bus and tram depots in Flanders and the Ghent ring road, incorporating a major sustainability dimension thanks to investments in bicycle paths and traffic safety.

For more information, visit:
www.agrealestate.eu/en/our-activities/



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CONDUCTING SWOT ANALYSES AND SETTING KPIS

SUSTAINABLE driving forces take root

STRENGTHS ARE SOMETIMES WEAKNESSES and vice versa

Standardisation **PROVIDES FOR OBJECTIVE** impact measurement

Devising measurable and enforceable **KPIS**

Every project is **UNIQUE**, as is sustainability

In 2010, former Flemish Government Architect Peter Swinnen released a vision paper¹ highlighting the missed opportunities of using PPPs as a policy instrument. More specifically, he called for a U-turn with regard to the social benefits of PPPs for future generations of citizens: *“The Flemish coalition agreement clearly states that PPPs can only be used where they demonstrably provide added value. In practice, it is clear that PPPs are too often put forward as a panacea, without anyone really understanding how they actually work. (...) When the main objective of a PPP - finding an advantageous balance between price and quality - almost always disappears in practice, it does not seem unwise to us to stop, take a step back and look at what real added value could be achieved, in order to then go for real forms of cooperation based on clear and straightforward agreements.”*

In 2022, Luc Van Liedekerke is also calling for more in-depth cooperation. The public partner needs to empathise more with the logic of the private partner, and vice versa. This will teach them to recognise each party's concerns and to overcome their reluctance to share their experience, knowledge and expertise with each other. After all, a PPP is an exceptionally complex model of cooperation and governance in which everyone is entering unknown territory to a greater or lesser degree. *“We are still not daring enough to stick our necks above the parapet to explore innovative lines of thoughts or ideas, or make too little use of existing centres of expertise, such as the Vlaams Kenniscentrum PPS in Flanders,² Wallonia's Cellule d'Informations Financières³ or, internationally, the World Bank's PPP platform.⁴”*

¹ Swinnen Peter, *zeven memo's voor een verlichte bouwcultuur*, Team Vlaams Bouwmeester, 2010, p. 41

² <https://overheid.vlaanderen.be/pps> Log in to view protected content

³ <https://cif-walcom.be/fr/>

⁴ <https://www.worldbank.org/en/topic/publicprivatepartnerships>

STRENGTHS AND WEAKNESSES

By 2022, several public authorities will no longer be using the PPP model as an alternative form of financing (off-balance sheet financing) for infrastructure works. In addition to cutting costs for the public actor,

faster implementation and completion, the stimulation of innovation and creativity, the generation of extensive added value, etc., are drivers reflected in the definition of PPPs. Thanks to the growing balance between social and commercial opportunities, we are slowly but surely evolving from a PPP to a PPSP model.

Despite these encouraging signs, it is still worth taking a close look at the

strengths and weaknesses of current PP(S)Ps. These can be the same or vary for public and private partners. Attentive readers will notice that advantages also bring disadvantages, and vice versa. No statement is absolute. The key lies in striking the right, feasible balance according to the nature and specific characteristics of the PPSP at hand and the abilities and interests of the partners involved.

STRENGTHS

- A PPSP makes it possible to create added value in various domains at financial, social and operational level.
- The bulk of the financing is in the hands of private actors and banks. This gives the public authorities more financial clout, without immediately resulting in a higher level of debt. Again, this is provided that the purpose of the financing does not get in the way of the added value created for the area and society in general.
- The public authority can call on the expertise and innovative strength of private partners, two assets which the authority does not necessarily have or need to have at its disposal. This also applies to the long-term maintenance or operation of a project.
- The public authority no longer bears full responsibility for the project. Both the benefits and the risks are shared, though the public authority does have to watch over the overall quality of the delivered result and the services provided.
- The public authority is not required to manage the construction and maintenance processes and can fully concentrate on its core tasks. It has only one point of contact for the entire project: the private partner.
- PPSPs can also contribute to the quality of a project, especially if the private partner is also responsible for long-term maintenance. After all, inferior quality means higher maintenance costs. Large-scale projects can also have a positive impact on the functioning of the entire sector involved. In the case of 'Scholen van Morgen' (see the case study on page 11), for example, the construction sector acquired new expertise in the standardisation of certain processes, for instance, which it can use in the future.
- In certain circumstances, a PPSP makes it possible to use infrastructure in multiple ways, such as a sports hall that is used by schools during the day (public) and sports clubs in the evening (private).
- PPSPs are also likely to cut the costs of failure and defects, as private actors bear full responsibility for construction and will probably be more proactive when taking into account potential risks and solutions.
- Fewer construction errors and lower failure/defect costs can have a positive impact on the total cost. A PPSP gives the private partner considerable freedom and a strong incentive to work in a more cost-effective manner by producing creative solutions and making maximum use of synergies between the phases of the project life cycle.
- PPSPs give public partners certainty when it comes to price and quality throughout the contract.
- Partnerships with the private sector allow projects to be brought forward in time, meaning that social added value is generated more quickly in numerous domains of the SDG spectrum. This ultimately leads to a faster social return on investment. The real added value of a project transcends the purely financial, and is instead the sum of all added value created in all (associated) domains.
- PPSPs allow public authorities to spread the budgetary impact of a project over a longer period, in accordance with European regulations. However, this should not lead to short-sighted project decisions, whereby long-term costs are disregarded.



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- The public actor may be tempted to use the financing goal as the main reason for establishing a PPP. Privatisation of loss-making public services is an extreme example of this, with all the risks this entails in the long run. The privatisation of the British railways is a textbook example of how badly things can go wrong: providing citizens with crumbling, often substandard and expensive services while causing a financial hangover for the government.
- All too often, the public actor chooses the market party with the cheapest offer. This can lead to lower quality, a higher risk of construction defects, dangerous working conditions and - as has often been the case - the bankruptcy of the private partner(s). In addition, it discourages innovation-driven private actors from competing. After all, profit-driven actors mainly seek 'certainty' (application of existing, mature technologies and solutions) rather than unpredictable innovations.
- A public authority that places the emphasis on price and less on the social added value of a project shirks its social responsibility or transfers too much of that responsibility to the private partner(s).
- There is a risk that certain maintenance tasks may fall outside the scope of the maintenance contract. As a result, the private actor is 'free' to determine the cost. This can lead to excesses, as has been seen in American defence contracts, where up to \$400 was invoiced for a hammer.
- Moreover, the 'cheaper' a service is in a maintenance contract, the less flexible the supplier will or can be.
- An excessively long contract period (up to 30 years) cannot possibly take account of future, unpredictable changes. After all, how can you conclude a contract for 20 years at a predetermined price when the world could look completely different in just five years' time? Some experts consider this to be a non-issue, provided that the contract provides for sufficient flexibility. Furthermore, much depends on the legal certainty and political tenacity and consistency of the public authority.
- The complexity of the governance structure of a PPSP scares off some valuable partners. The main challenge lies in standardising contracts, financing and arbitration formulas, processes, and so on to the extent that they encourage more transparency and therefore greater confidence and so simplify the operating model.

MEASURING SUSTAINABILITY

According to recommendation 9 in a memo⁵ issued by the Vlaams Kenniscentrum PPS, a critical evaluation of the major PPP projects under way and of the experience gained is a prerequisite for a stronger development and exchange of core knowledge about PPPs. In order to justify the overall added value, which is a vital component when selecting PPP projects, the appropriate attention must be paid to both ex-ante and ex-post analysis instruments. After all, an optimal evaluation of completed PPP projects is an absolute must if we want to learn lessons for the future. It is advisable to develop analysis tools that compare the various forms of implementation, whereby a PPP is only one of the possible (tendering) options. These tools should also be optimised to be able to accurately estimate the added value for society and the area involved. Integrating a sustainability test can be a useful way of doing this.

Implicitly, the recommendation indicates that measuring the impact of a PPSP on the SDGs is far from easy. It is an extremely complex analysis that is far from being fully developed. The feasibility and reach of such an impact measurement largely depend on the intelligent standardisation of the governance model. After all, standardisation can make it possible to convert project-specific experiences and knowledge into objective parameters. Why not integrate such an analysis into non-financial reporting as per the EU Corporate Sustainability Reporting

Directive (CSRD)? In this way, we would satisfy future (2023) European requirements within the framework of the Sustainable Finance Action Plan regarding transparency and reporting on environment, social and governance (ESG) matters.

"We must change our perception of value and how we measure it if we are to take on the challenges facing society," writes Kristien Doumen in the abstract of her master thesis.⁶ While focusing on financial value has created much prosperity, it is also the source of some of the biggest challenges in the world. *"Impact is about identifying, measuring and managing how you change society: the economy, the environment and social well-being. On the one hand, it enables the public sector to improve decision-making and maximise shared value. On the other, it gives stakeholders, such as customers or society, the chance to hold public authorities accountable for their actions."*

Either way, there is considerable need for tools to embed sustainability in a structural way. Kristien Doumen's research shows that *"a sustainability meter helps partners measure and check the extent to which a project meets the minimum sustainability requirements and its sustainability score."* The sustainability meter developed by GO! and AGION for the 'Scholen van Morgen' project, for example, encompasses ten themes: (1) an integrated design process, (2) location, (3) mobility, (4) environment,

(5) water, (6) raw materials and waste, (7) energy, (8) health, liveability and accessibility, (9) society and economy, and (10) innovation. These themes allow the partners to take a broad approach to sustainability.

Sustainability measurements comprise two elements. Firstly, the desired results (i.e. the KPIs) must be formulated in a way that can be evaluated and enforced. More specifically, they must contain a commitment to achieving certain results with a clear indicator and standard and preferably be more ambitious than current laws and regulations, i.e. instead of 'the sustainability of the materials used must be taken into account', use 'the artificial grass pitch is accessible for those with physical disabilities and as a minimum complies with the following legal provisions, among others'. Furthermore, the KPIs must give the private partner(s) sufficient freedom to interpret sustainability criteria as they see fit, so it makes sense not to describe them in detail, but rather to formulate them at result level or higher. In the Tondelier urban renovation project in Ghent, for example, the sustainability meter was already central to the award procedure and the sustainability score of the winning tenderer was entrenched in the contract as a decisive parameter. By only setting the final score, sufficient flexibility was retained with regard to implementation, but the City of Ghent could still monitor whether the agreements were being met.⁷

⁵ Vlaams Kenniscentrum PPS, PMV and the Flemish Government Architects Team, *Vuistregels voor meerwaarde. Publiek-Private Samenwerking*, 2014, page 55

⁶ Doumen Kristien, *Impact and impact measurement. An application to three initiatives of Ageas*, UAntwerp, 2020-2021

⁷ More information about the sustainability indicators of the city of Ghent via

<https://stad.gent/nl/wonen-bouwen/stadsvernieuwing/toekomstvisie-voor-stadsvernieuwing/duurzaamheidsmeters>



Towards an inspiring learning environment INSTRUMENT FOR SUSTAINABLE SCHOOL BUILDINGS

EVALUATION OF CURRENT SITUATION	SITE EVALUATION	PRELIMINARY DESIGN	FINAL DESIGN	PLANNING PERMITS	IMPLEMENTATION FILE	PROVISIONAL ACCEPTANCE	Sections	Weighting
phase 0	phase 1	phase 2	phase 3	phase 4	phase 5	phase 6		
	1. Integrated design process							
0 80 0%	0 54 0%	0 80 0%	0 80 0%	0 80 0%	0 80 0%	0 80 0%	2. Location	20%
0 52 0%		0 52 0%	0 52 0%	0 52 0%	0 52 0%	0 52 0%	3. Mobility	13%
0 52 0%		0 52 0%	0 52 0%	0 52 0%	0 52 0%	0 52 0%	4. Environment	13%
0 28 0%		0 28 0%	0 28 0%	0 28 0%	0 28 0%	0 28 0%	5. Water	7%
0 28 0%		0 28 0%	0 28 0%	0 28 0%	0 28 0%	0 28 0%	6. Raw materials and waste	7%
0 80 0%		0 80 0%	0 80 0%	0 80 0%	0 80 0%	0 80 0%	7. Energy	20%
0 52 0%		0 52 0%	0 52 0%	0 52 0%	0 52 0%	0 52 0%	8. Health, liveability and accessibility	13%
0 28 0%		0 28 0%	0 28 0%	0 28 0%	0 28 0%	0 28 0%	9. Society and economy	7%
0 40 0%		0 40 0%	0 40 0%	0 40 0%	0 40 0%	0 40 0%	10. Innovation	
0 400 0%	0 54 0%	0 400 0%	0 400 0%	0 400 0%	0 400 0%	0 400 0%	TOTAL SCORE	100%
0 13 0%	0 1 0%	0 27 0%	0 27 0%	0 27 0%	0 27 0%	0 27 0%	MANDATORY CRITERIA	
0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	FINAL SCORE	

Source: AGION (2019), Een evaluatie van het DBFM-programma Scholen van Morgen

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Finally, academics advise against the overly strict use of sustainability instruments as not all sustainability aspects can be quantified. Moreover, instruments are often generic, while what is deemed 'sustainable' in a particular project heavily depends on the specific context.⁸ In other words, each project is unique. This means that what is sustainable for project A is not necessarily sustainable for project B. Sustainability instruments must therefore be applied on a case-by-case basis. *"This is impossible without extensive prior consultation between the public and private partners. Consensus must be continuously sought, even if adjustments have to be made during project rollout,"* concludes Luc Van Liedekerke.



TOCQUEVILLE AND PPSPs

In 'La démocratie en Amérique' (1835),⁹ young French political thinker Alexis de Tocqueville describes how, during his study tour through pre-revolutionary America, he was struck by the prevalent culture of consultation there. By how people came together to achieve things together, which was so different from the prevailing practice in France at the time. He saw that culture as the foundations of the future United States.

Consultation is also the cornerstone of the ideal PPSP, before, during and after implementation. Here, the governance model reflects 'the sustainable, systemic view of the future' (see page 18). *"This sustainable model teaches the public and private partners to realise that the best possible implementation of a project is in both their interests,"* highlights Luc Van Liedekerke. And because it is based on consensus, the model also has political value, because it breaks away from the outdated model in which both parties stay in their own comfort zones, thinking and acting solely on the basis of their own sense of legitimacy. *"Transcending the need to always be 'right' is, in essence, the greatest benefit of a PPSP."*

⁸ Hueskes, Marlies; Verhoest, Koen; and Block, Thomas, *Streven naar duurzaamheid bij publiek-private samenwerking. Bestuurskundige studie van innovatieve contract- en samenwerkingsvormen als kansen voor meer duurzaamheid*. University of Antwerp, 2014, page 16

⁹ https://en.wikipedia.org/wiki/Democracy_in_America

CASE

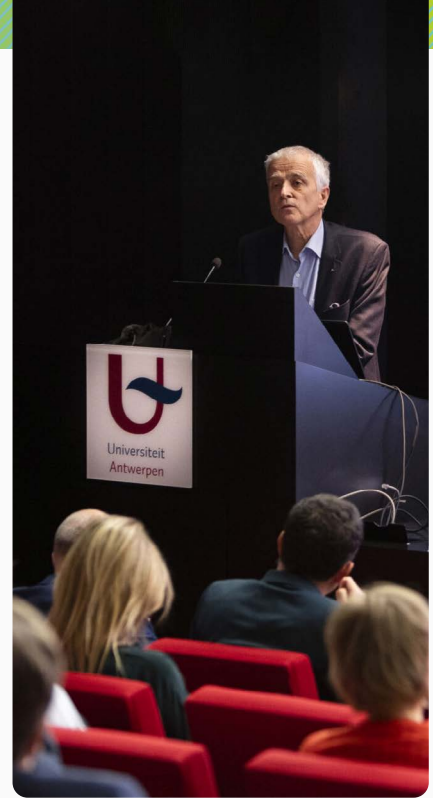
SUSTAINABLE INSURANCE CHAIR

In late 2021, the University of Antwerp and Ageas established the Sustainable Insurance Chair tasked with reflecting on the major social issues in order to realise the transition to sustainable insurance.

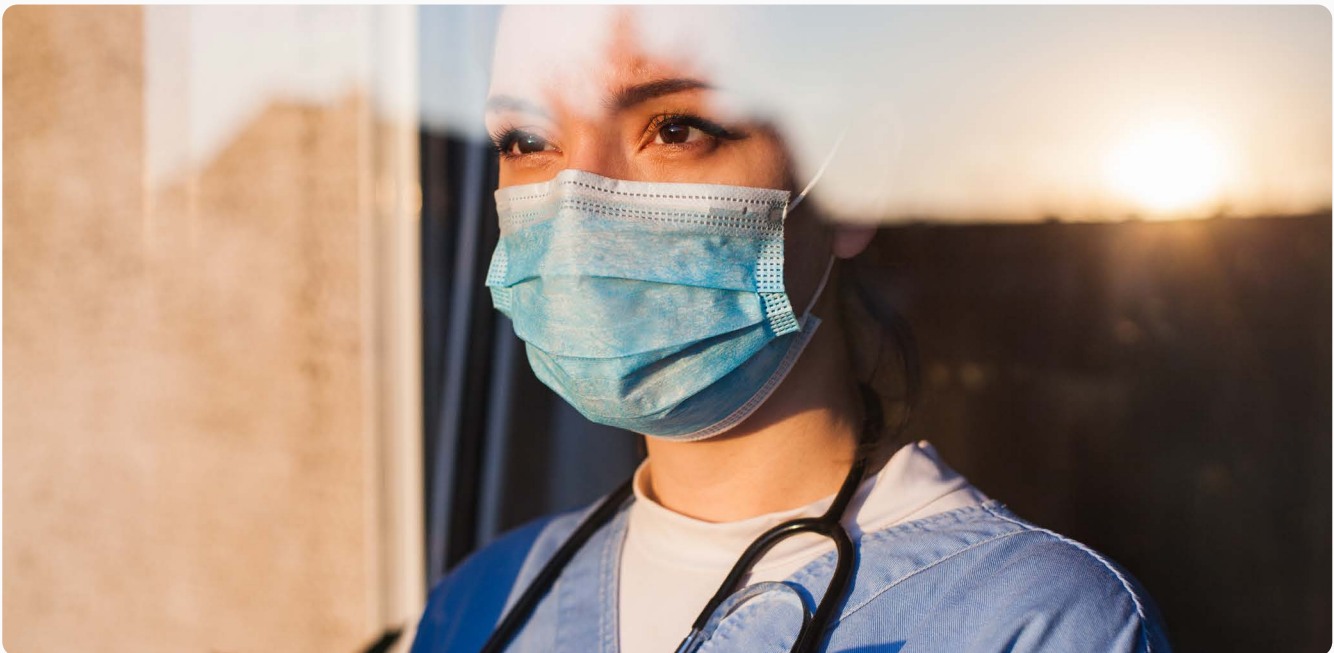
Recent events, such as the floods in Belgium and elsewhere Europe and the coronavirus pandemic, highlight the crucial role insurers play in our society. Helping people in need. Coming to the rescue when things go wrong and thus guaranteeing that our day-to-day lives can go on as usual. And there are even more challenges ahead, such as those posed by climate change, cybercrime, the need to ensure social inclusion and diversity in an increasingly polarised society, caring for the oldest among us, and so on. Moreover, the world will change, in unpredictable ways and at incredible speed.

Insurers can make an impact in different ways: by pursuing investment policies through their insurance products and related services. Insurers have the tools to make a difference in terms of fostering greater financial inclusion and solidarity and encouraging sustainable behaviour.

*"Incorporating social responsibility is in Ageas's DNA and is part of everything we do as an insurer," emphasises **Hans De Cuyper**, CEO of Ageas. "I am confident that this partnership between academia and business will allow us as an insurer to play a significant role in making our society more sustainable, both now and in the future."*



For more information, visit: youtu.be/P7aOBQell7o



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PIETER TIMMERMANS CEO OF VBO FEB

Belgian public investment, particularly in infrastructure, has been structurally low for decades. This chronically low level of public investment is barely sufficient to compensate for the depreciation of capital, causing the continuous erosion of the net public capital stock. Public investment currently accounts for only 2.6% of Belgium's gross domestic product (GDP), while the average for all European Union Member States is 3.4%. Yet public investment, whether in infrastructure, digitalisation or, for example, research, is an important tool for shoring up our economy's potential for long-term growth and for supporting the energy and environmental transition.

1. THE TIDE IS CHANGING WILL ADDITIONAL FUNDS FOR PUBLIC INVESTMENT BE MADE AVAILABLE?

"The Belgian public authorities are aware of the low level of investment and are determined to raise it. Several initiatives have been launched and the European Union (EU), the federal government, as well as authorities at municipal and regional level have released funds to this end. There is the investment plan for Europe, for instance, with, among others, the Recovery and Resilience Facility (RRF) fund, from which Belgium will probably receive 4.5 billion euro in subsidies between 2021 and 2026. That accounts for a significant share of the investment plan of the State Secretary for Economic Recovery and Strategic Investments. In addition, there is also the transformation fund, an initiative of the Minister of Finance and, at regional level, the Welvaartsfonds in Flanders and the Fonds de solidarité et de relance in Wallonia. In all, these initiatives will mobilise around 1.4 billion euro. In short, there is improvement in sight, but this is insufficient and too slow."



2. WILL THE PUBLIC INVESTMENT FUNDS BE SUFFICIENT TO OVERCOME THE MAJOR CHALLENGES FACING OUR SOCIETY, SUCH AS THE GREEN AND DIGITAL TRANSITION?

"No, the challenges are too immense, too complex and too far-reaching in all areas of society. Considerable means of investment will also have to be mobilised through the private sector, where players truly want to get involved. When the government launched a call last year as part of Belgium's National Recovery and Resilience Plan to obtain RRF subsidies, VBO FEB received over 140 investment projects from the private sector. Unfortunately, many of those PPP projects are currently hampered by market failings that prevent the alignment of financing demand and supply. The investments requested are often too large, too risky or too unprofitable for the private sector, prudential regulations complicate the search for funding, or the scale of a project may require cooperation with several or even too many companies, and so on. To encourage PPP projects, a push from the public authorities would therefore be welcome. However, that kind of public support for private investment projects is still too often prevented by strict European rules on state aid."

3. DOES THE PERCENTAGE OF PUBLIC INVESTMENT NEED TO RISE SUBSTANTIALLY BY 2030?

"The Belgian public authorities promised to increase public investment to 3.5% of GDP by 2024 and to 4% by 2030. This commitment is a step in the right direction, because it will allow us to bring public investment in Belgium in line with the recommendations of the International Monetary Fund, so between 3.6% and 4.8% of GDP. As Belgium's largest employers' organisation, VBO FEB sets the bar even higher. We should aim for investments worth around 5% of GDP by 2030 to compensate for the many years of underinvestment by the public sector. We want to stress that such an ambitious level of public investment is not a pipe dream. Indeed, 5% corresponds to the investment level in Belgium in the 60s and 70s."

4. A NUMBER OF THINGS NEED TO CHANGE IF WE WANT TO ACHIEVE THIS GOAL. WHAT SPECIFICALLY DOES VBO FEB WANT?

"First, an increase in public investment by cutting current budgetary expenditure and adapting the European budgetary framework. Second, greater use and active promotion of PPPs to ensure the financing of larger investment projects. Third, the creation of infrastructure investment funds to make it easier to channel investors' liquidity to this type of investment project. Lastly, the stimulation of private investments, especially green and digital investments, by substantially strengthening the investment deduction on corporation tax (VenB/ISoc) and personal income tax. With regard to corporation tax, it should be possible to convert this deduction into a refundable tax credit, as is already the case for R&D."

5. IN ITS 'HORIZON BELGIUM 2030' PLAN FOR THE FUTURE, DOES VBO FEB EXPLICITLY CONSIDER PPPS AS A LEVER FOR WEALTH CREATION?

"Over the past 15 years, Belgium has had to deal with numerous crises, from the financial crisis and the eurozone crisis to the migrant crisis, from terrorist attacks to Brexit and the coronavirus pandemic, and now the war between Russia and Ukraine. This, together with the country's complex political background, certainly does not make it easy for policymakers to think and act in the long term. Belgium's private sector will not succeed with a recovery policy alone, but needs an integrated transformation plan more than ever. Emphasis on 'integrated'. Systemic issues, such as energy, strategic autonomy, digitalisation, taxation, mobility, pensions and the labour market, to name just a few, require global, coherent solutions that are supported by all political and socio-economic actors and transcend political structures. Moreover, this transformation is impossible without growth-enhancing incentives. PPPs are still an important tool in realising new public investments that contribute to our prosperity in the short and long term and thus create real value for an inclusive society where no one is left behind."

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HANS DE CUYPER CEO OF AGEAS

Since 2012, AG Insurance, a subsidiary of the insurance company Ageas, has financed 61 infrastructure projects worth €2.8 billion in total (40% of which were implemented in Belgium, with the remainder rolled out in various European countries). More than 80% of the projects relate to renewable energy, transport or digital connections, i.e. key sectors in the national investment plan. The remaining projects focus on social sectors, such as schools, sports facilities and prisons. Most of them are PPPs.

1. BANKS HAVE LONG BEEN THE 'NATURAL' FINANCIERS OF PPP PROJECTS. DO PUBLIC AUTHORITIES TEND TO OVERLOOK THE ROLE INSURERS COULD PLAY HERE?

"Long-term infrastructure investments require stable long-term financing, which is a natural fit for the insurance industry. Moreover, it makes sense for insurance companies to invest in infrastructure projects because (1) they are cautious investors (and infrastructure projects entail relatively low risks); (2) they are looking for long-term investments to support the long-term guarantees they offer their customers (and infrastructure projects typically span long periods); (3) they are seeking predictable investments (and infrastructure projects have predictable business plans and cash flows); and (4) they want investments that offer higher returns than low-yield government bonds as well as opportunities to diversify."



2. DO GLOBAL WARMING AND CLIMATE CHANGE AND THEIR VARIOUS CONSEQUENCES, LIKE THE CATASTROPHIC FLOODS IN SUMMER 2021, POSE AN EXISTENTIAL PROBLEM FOR THE INSURANCE INDUSTRY?

"The risk of natural catastrophes does not constitute an existential problem, but it is an important component of an insurer's risk management. With a solid legal framework, the private sector can absorb a large part of that risk, on its own and through the international reinsurance market. Belgium's 2004 law on natural disasters is in itself also a PPP, with the sector taking on the first major part of the damage and the public authorities stepping in in extreme cases. The fact is that PPP projects can offer considerable added value by generating much-needed investments in a more sustainable and low-emission world, and also by insuring against a growing number of systemic risks like natural disasters."

3. THE FINANCE MINISTER OF THE BRUSSELS-CAPITAL REGION RECENTLY SUGGESTED THAT THE PUBLIC AUTHORITIES CANNOT KEEP SO-CALLED 'STRATEGIC INVESTMENTS' OUT OF THE BUDGET FOREVER. WHAT WOULD HAPPEN IF THE EUROPEAN UNION WERE TO REQUIRE MEMBER STATES TO INCLUDE ALL PPP PROJECTS IN THEIR BUDGETS?

"The line between projects inside and outside the budget is already very thin. This is mainly due to the responsibilities and financial guarantees assumed by the public authorities. These guarantees are often necessary to avoid laying all implementation or operational risks on the private partner. In the case of 'Scholen van Morgen' (see the case study on page 9), for example, we had to adapt the structure of the PPP to ensure that the project remained feasible for the Flemish authorities. Fortunately, Eurostat clarified the budget rules in 2016 specifically to prevent certain projects being considered too easily as PPPs and thus kept out of budgets. Insurers like AG and Ageas finance PPP projects with their customers' pension reserves, so the credit risk of this investment must be limited, and government support is crucial in this respect."

4. ACCORDING TO SPECIALISTS, THE CORONAVIRUS CRISIS SHOWED THAT THE PUBLIC AUTHORITIES HAVE A SIGNIFICANT ROLE TO PLAY IN THE ECONOMY. TO WHAT EXTENT DO YOU THINK THIS IS THE CASE?

"In times of crisis, the public authorities play a dual role. On the one hand, they protect the citizens who are most affected by the crisis, like the elderly during the COVID pandemic or households dealing with rising energy costs due to the war in Ukraine. On the other, they protect the economic fabric of society so that the economy can recover quickly after a crisis. In such cases, restrictive measures are justified. Outside crisis periods, the public authorities' intervention must be limited to ensuring the proper functioning of the free market and to providing the necessary guidance through standards and legislation without restricting new initiatives or innovative ideas."

5. THE ENTRY OF THE FEDERAL HOLDING AND INVESTMENT COMPANY (SFPI-FPIM) AS AN AGEAS SHAREHOLDER CONFIRMS THE SECTOR'S IMPORTANCE IN THE BELGIAN ECONOMY AND PROVIDES THE CONFIDENCE NEEDED TO INCREASE INVESTMENTS IN PPP PROJECTS. WHAT IS HOLDING YOU BACK?

"It is true that despite our willingness, our investments in infrastructure are still limited compared to the total balance of insurance portfolios and compared to other investments in areas such as real estate or government bonds. This is due to a variety of obstacles, such as the limited supply of projects, the small scale of some infrastructure projects, the very long lead time of projects (obtaining construction and operating permits is a lengthy process in Belgium) and the high capital requirements for infrastructure financing under insurance regulations. Ageas and AG Insurance intend to further contribute to Belgian society by investing their reserves in infrastructure and real estate projects that add value for society as a whole. Lastly, it is worth noting that we always welcome shareholders who have a long-term vision and believe in our project."



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WHITE PAPER

Private-public partnerships (PPPs) used to be considered credit cards, where you buy today, pay tomorrow. Those times are over - or they should be. Purely business and budgetary motives are giving way to a sustainable cooperation model that answers multidisciplinary questions such as: 'How can we secure our country's energy supply?', 'How are we going to organise our cities, towns and villages and prepare them for the future?', 'Where and how can we get and keep mobility flowing again?', or 'How can we protect and strengthen the well-being and prosperity of our people?'

The wide-ranging social impact and the complexity of these challenges are pushing private and public partners into each other's arms. The main success factor lies in making a mutual commitment to establish a sustainable society, a commitment that goes beyond all individual interests. The PPP is becoming the PPSP.



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