

## Partners wanted (for investment)

### Where, how and how much does the public-private partnership in Italy work?

May 2018

*Italy's public spending accounted for a good 49.6% of GDP in 2016, but it allocated **a very modest share of its resources to investments, just 2.1%**: not enough to support all the projects – especially infrastructure projects – which the country so much needs.*

***For all public administrations, especially municipalities, the public-private partnership (PPP) has therefore been, over the past 15 years, a very important resource** for financing new infrastructure projects (**underground rail, hospitals, motorways, TLC networks**) and for providing services (from waste disposal services to street cleaning).*

*Calls for bids in the **PPP** sphere have soared from just over 300 in 2002 to over 3,000 in 2016, meaning that the **PPP turnover has exceeded 88 billion Euros so far**. But lengthy bureaucracy, technical/planning shortfalls and management issues are jeopardising the results: of the 33,164 projects activated in Italy from 2002 to 2016, **4,429 (almost 13%)** have been **interrupted**.*

***And the percentage is even greater for major works worth more than 50 million Euros set up as PPP by public administrations: 42% between 2002 and 2014.***

### The starting point

The current PPP contracts were born with the so-called Merloni law (no. 109 of 1994). The new Public Contracts Law of 2016, introduced with legislative decree no. 50, has updated the regulation.

**Table 1- PPP calls for bids and percentage of public works. 2002-2016**

Years	PPP calls for bids		PPP bids in public works (%)	
	Number	Amount (Mn €)	Number	Amount
2002	331	1,424	0.9%	6.0%
2003	513	3,767	1.5%	11.5%
2004	800	2,136	2.6%	6.6%
2005	966	5,412	3.2%	16.9%
2006	782	8,394	2.9%	28.1%
2007	948	4,828	3.7%	17.2%
2008	1,292	5,697	5.4%	18.5%
2009	1,852	4,777	10.0%	18.6%
2010	2,991	7,338	16.2%	26.6%
2011	2,787	9,646	16.7%	35.8%
2012	3,014	7,148	19.0%	32.4%
2013	2,852	4,065	20.3%	23.3%
2014	3,086	3,676	17.6%	13.2%
2015	3,334	7,203	17.9%	24.3%
2016	3,187	13,318	18.8%	53.0%
<b>2002-2016</b>	<b>28,735*</b>	<b>88,830*</b>	<b>10.4%**</b>	<b>22.1%**</b>

\*Sum. \*\*Average.

Source: infopp.it data processed by IFEL-Dipartimento Studi Economia Territoriale, for several years

## Analysis

Over the past 15 years, the Italian PPP market has experienced a real boom, leaping from slightly more than 300 calls for bids in 2002 to over 3,000 in 2016, generating an overall turnover **north of 88 billion Euros, that's 22.1% of the value of all public works bids** over the same period.

Of the 88 billion Euros allocated between 2002 and 2016 by the several public administration offices in Italy, **two thirds focused on just three sectors: transport (27.5%), energy and telecommunications (22.4%) and environment (18.2%).**

## A closer look: declining resources (public and not)

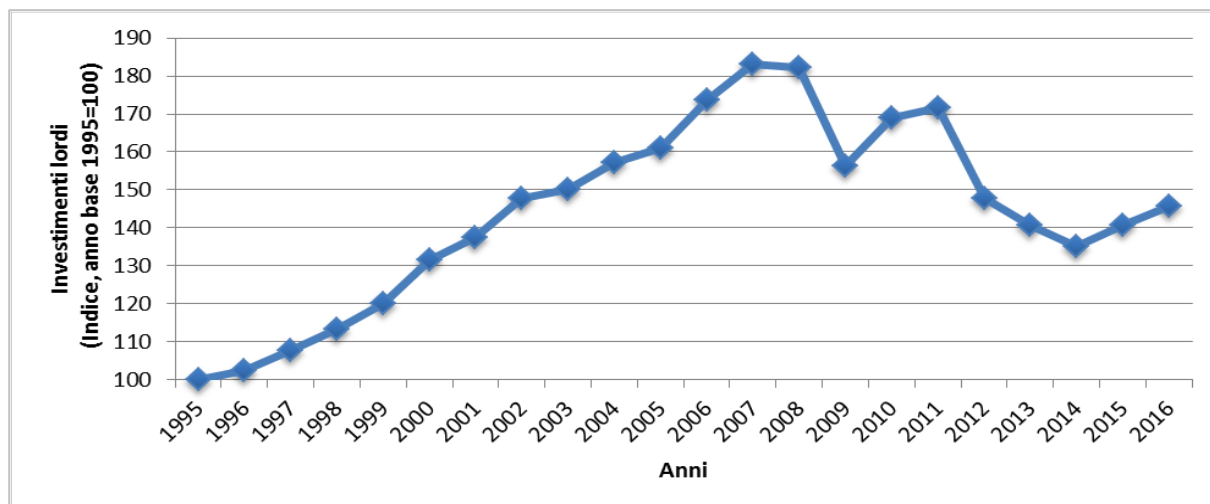
Italy's public spending in 2016 accounted for a large share of GDP (49.6%), yet the country allocated a very modest portion of its resources (2.1%) to investments. It was 2.9% in 1999. Gross investments in Italy from 1995 to 2016 (Figure 1) show a positive trend up to 2007; **the decline began in 2008**; in 2009 we had a collapse, **followed by a brief recovery in 2010-2011**, another drop in 2012-2014 and **finally a recovery in 2015-2016, which brought us back to the level of 2002.**

**Between 2008 and 2016 investments in Italy shrank by a good 71 billion Euros**, 58 billions of which can be associated with private investors. **Public investments have dropped more than 13 billion Euros, that's -27%.**

However, most PPP calls for bids between 2002 and 2016 were about **social housing and sports facilities**, which together accounted for more than 40% of all calls for bids, despite absorbing **less than a tenth of the overall funds.**

Only 1% of calls for bids exceeded 50 million Euros but concentrated 67% of the sums recorded for the 2002-2016 period.

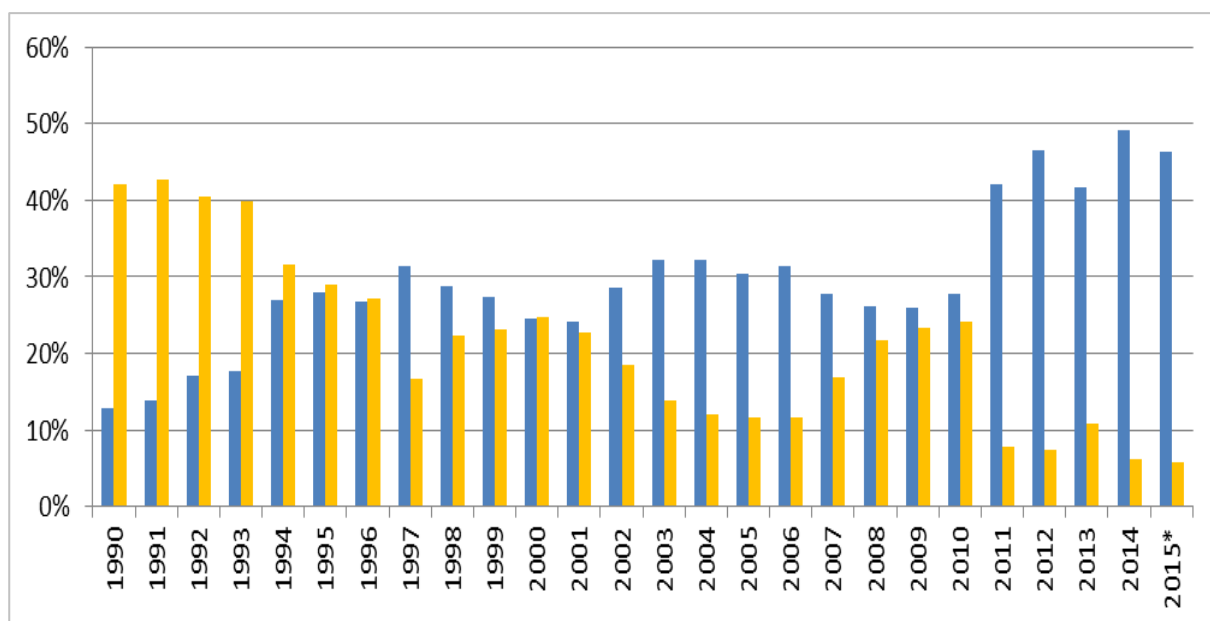
**Most PPP calls for bids between 2002 and 2016 were ordered by a municipality: 23,000 out of roughly 28,000 (that's 80% of projects), for an overall value equivalent to 37% of the entire public-private partnership market in Italy.**

**Figure 1 – Gross investments in Italy 1995-2016**

**Benchmark year 1995=100.**

Source: ISTAT data processed by IFEL- Dipartimento Studi Economia Territoriale, for several years

The financial situation of municipalities is particularly difficult: **20 years of state fund cuts** on the one hand (Figure 2) and a rising financial autonomy on the other induced them to search for investment resources by resorting to the credit market or other forms of innovative finance. **Investment loans are falling sharply** (dropping below 1 billion Euros as of 2013, compared with more than 6 billion Euros ten years earlier), but **through public-private partnership, between 2002 and 2016, mayors have been able to fund 14.3% of their public works** (Table 2).

**Figure 2 – Municipal balance sheets 1990-2015: tax revenues and State funds (cash data)**

**Blue line: tax revenues. Yellow lines: State funds.**

Source: ISTAT data processed by IFEL-Dipartimento Studi Economia Territoriale, several years. \*Provisional data.

## A closer look. The market of municipal PPPs: how many, where, why

The municipalities' resorting to private capital and PPP, facilitated by the possibility of bypassing accounting constraints, has fuelled the relevant market, **which has grown from 575 million Euros in 2002 to more than 4 billion Euros in 2016, that's an increase exceeding 600%.**

Between 2002 and 2016, **all municipalities with more than 20,000 inhabitants have ordered, at least once, a PPP call for bids.**

The average calls for bids per year have increased **from 264 in 2002 to over 2,000** as of 2010.

**16 tenders out of 100 were worth more than 1 million Euros.**

**68 calls for bids exceeded a value of 50 million Euros**, totalling more than 12.5 billion (on average, 185 million per tender)

There were only six **big deals**, namely the tenders worth **more than 500 million Euros**, half of which were in Milan.

- **Milan (2006)**: construction and running of Underground line 4 (1,700,000,000 Euros)
- **Milan (2015)**: distribution of natural gas in Milano 1 (1,369,189,961 Euros)
- **Roma Capitale (2011)**: grant for the distribution of methane gas (1,245,400,000 Euros)
- **Verona (2011)**: completion of the northern ringroad in *project financing* (802,080,337 Euros)
- **Verona (2016)**: integrated management of waste disposal and public green areas, street cleaning and snow removal on suburban roads, ordinary maintenance and cleaning of fountains, rat extermination (665,037,000 Euros)
- **Milan (2005)**: designing, construction and management of Underground line 5 *project financing* (503,140,000 Euros)

**Table 2 - PPP market of municipalities: calls for bids and percentage of public works**

Years	PPP calls for bids		PPP bids in public works (percentage)	
	Number	Amount (Mn €)	Number	Amount
2002	264	575	1.3%	8.4%
2003	407	1,219	2.1%	14.5%
2004	664	908	3.8%	11.0%
2005	832	1,780	5.0%	19.6%
2006	624	3,553	3.9%	34.8%
2007	761	1,441	5.3%	18.4%
2008	1,024	1,602	7.4%	21.4%
2009	1,558	1,542	14.9%	26.3%
2010	2,478	2,262	23.1%	33.6%
2011	2,307	4,960	24.1%	58.7%
2012	2,562	1,469	26.5%	34.6%
2013	2,338	1,589	28.1%	36.7%
2014	2,293	2,223	22.4%	34.4%
2015	2,621	4,096	22.7%	50.5%
2016	2,483	4,070	24.2%	66.7%
<b>2002-2016</b>	<b>23,216*</b>	<b>33,286*</b>	<b>14.3%**</b>	<b>31.3%**</b>

\*Sum. \*\*Average.

Source: infopp.it data processed by IFEL-Dipartimento Studi Economia Territoriale, for several years

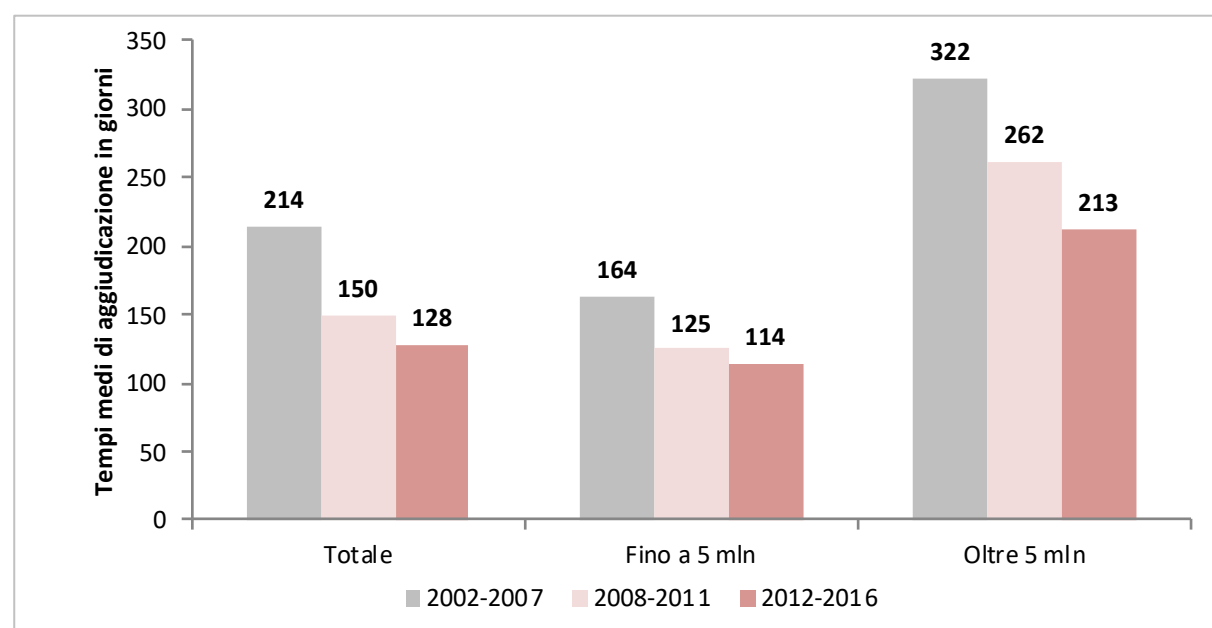
**Table 3 – Municipal PPP: calls for bids 2002-2016, number and amount, per sector (%)**

Sector	Number of bids (%)	Bids amount (%)
Social and public housing	18.0%	8.8%
Reorganisation of urban lots	1.7%	4.5%
Healthcare facilities	2.5%	4.8%
Schools	3.2%	2.9%
Cemeteries	4.8%	6.7%
Sports facilities	24.8%	7.5%
Accommodation facilities	3.8%	0.8%
Parking lots	5.5%	6.6%
Street furniture and public green areas	18.5%	3.2%
Energy and telecommunications	14.2%	34.4%
Environment	0.7%	5.5%
Transport	0.8%	11.1%
Harbours and logistics	0.8%	2.5%
Other	0.7%	0.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Source: infopp.it data processed by IFEL-Dipartimento Studi Economia Territoriale, for several years

About one quarter of municipal PPPs is about **sports facilities (24.8%)**. Next on the list are **street furniture and public green areas (18.5%)** and **social and public housing (18%)**.

Resources, however, are mainly concentrated in **energy and telecommunications** and **transport** (which account respectively for **34%** and **11%** of the amounts of municipal PPP tenders).

**Figure 3 – Municipal PPP market: average time for winning a contract**

**Average number of days, per amount, 2002-2016**

Source: infopp.it data processed by IFEL-Dipartimento Studi Economia Territoriale, for several years

## The Death Rate of major PPP Works

Of the 33,164 projects studied by the National Monitoring Centre of PPPs (*Osservatorio nazionale del PPP*) and ordered by all Italian public administration offices from 2002 to 2016, **4,429 are “interrupted projects”**, namely calls for bids that have been cancelled and tenders abandoned or not awarded due to irregularities: that’s 13% of the total. But the percentage tops 30% for tenders worth more than 15 million Euros (Table 5).

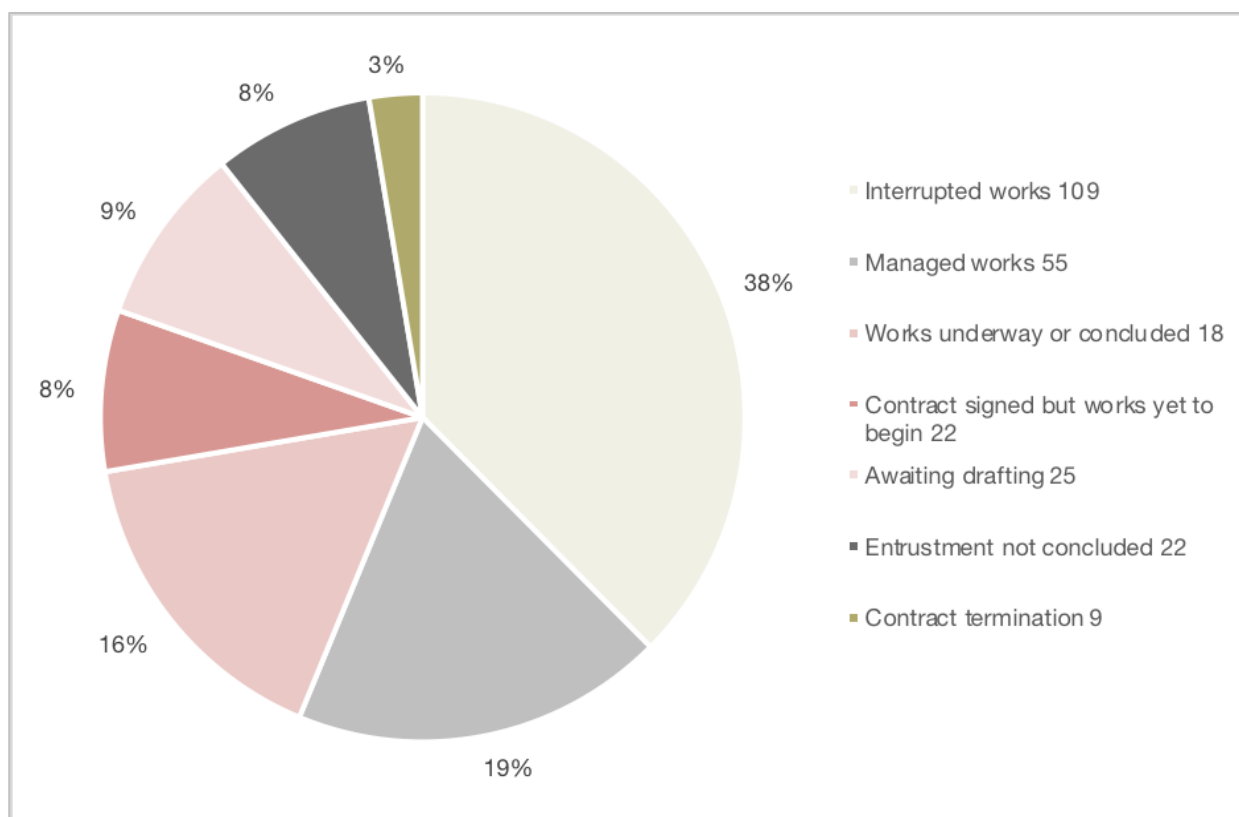
**Interrupted projects are worth 48 billion Euros, that’s one third of the overall value of the activated ones.** The percentage varies depending on the geographical territory (Table 4): **in southern Italy it reaches almost 54%**, compared with an average of 23% in northern Italy and 28% in central Italy.

Of the 28,735 “projects underway”, less than 8,000 have been awarded (that’s 27%, just over a quarter).

**If we consider the 260 major PPP contracts worth over 50 million Euros** ordered between January 2002 and June 2014 (overall sum: roughly 80 billion), **only 151 were still “underway”** on 31 December 2014. **The other 109 operations (42%) had been “interrupted”** (Figure 4).

**Of the 151 projects “underway”** (worth a total of about 50 billion Euros), only 55 had reached the **management phase**.

**Figure 4 – Major PPP works worth more than 50 million (2002-2014, all customers): situation on 31 December 2014**



Source: *infopp.it* data processed by IFEL-Dipartimento Studi Economia Territoriale, for several years

**Table 4 – PPP market: interrupted projects, broken down into geographical areas, 2002-2016**

Geographical area	Number			Amount (Mn €)		
	Interrupted projects(a)	Activated projects (b)	(a/b)	Interrupted projects(a)	Activated projects (b)	(a/b)
North	2,046	15,226	13.4%	14,338	63,022	22.8%
Centre	891	6,286	14.2%	6,608	23,295	28.4%
South	1,492	11,566	12.9%	27,366	50,824	53.8%
Subdivision not possible	-	86	-	-	-	-
<b>Total</b>	<b>4,429</b>	<b>33,164</b>	<b>13.4%</b>	<b>48,312</b>	<b>137,142</b>	<b>35.2%</b>

Source: infopp.it data processed by IFEL-Dipartimento Studi Economia Territoriale, for several years

**Table 5 – PPP market: interrupted projects, in terms of value, 2002-2016**

PPP tender value	Number			Amount (Mn €)		
	Interrupted projects (a)	Activated projects (b)	(a/b)	Interrupted projects (a)	Activated projects (b)	(a/b)
Amount not indicated	1,183	12,690	9.3%	-	-	-
Up to 150,000 Euros	666	8,133	8.2%	41	413	10.0%
From 150,001 to 500,000	579	3,757	15.4%	176	1,099	16.0%
From 500,001 to 1,000,000	362	1,981	18.3%	270	1,463	18.5%
From 1,000,001 to 5,000,000	904	4,244	21.3%	2,257	10,320	21.9%
From 5,000,001 to 15,000,000	411	1,433	28.7%	3,517	12,142	29.0%
From 15,000,001 to 50,000,000	208	611	34.0%	5,444	15,718	34.6%
Over 50,000,000	116	315	36.8%	36,607	95,987	38.1%
<b>Total</b>	<b>4,429</b>	<b>33,164</b>	<b>13.4%</b>	<b>48,312</b>	<b>137,142</b>	<b>35.2%</b>

Source: infopp.it data processed by IFEL-Dipartimento Studi Economia Territoriale, for several years

## Conclusions

Public-private partnership is by now a consolidated and recurrent public procurement model for Italy's public administration, especially for municipalities.

Yet the potential of PPP is hindered by some **critical** aspects in terms of decision-making, authorisations, financing, implementation and management:

- the **lengthy process that runs from the publication of the tender notice and the awarding of the tender entails major project risks** (borne by the private investor) and **greater costs for society**, make **PPP projects less convenient and more likely to fail**;
- owing to this lengthiness, private investors often find themselves facing **political changes in the public administration of offices**, which put their work at risk and make it uncertain;
- **shortfalls in quality technical and planning** by the contracting authorities – technical criticalities in formulating proposals and calls for bids and in project devising – can lead to a failure of the initiative;
- **problems managing the complex relations between public and private investors** often emerge after the contract is awarded, when other operational phases – which make the situation even more delicate – come into play, such as resorting to litigation, drafting and conclusion of the contract, the financial closing, the actual execution of works, management of the project.

## Observations

The **interruption rate** of projects shows that it is necessary to support PPP projects with initiatives aimed at providing **information, training, support to the ordering administration offices**: actions taken in other countries that have been missing in Italy.

## The dossier

It provides an overview of public and private investments in Italy from 2002 to 2016.

It analyses the PPP market boom on national and local levels.

It particularly focuses (in terms of regional trend, demographics, intervention sector and financial effort) on municipalities, the main users of this type of cooperation between public authorities and private economic operators.

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