

PPP and Small & Medium-Sized Companies

A survey of 30 selected PPP building construction projects in Germany

Commissioned by the PPP Task Force at the Federal Ministry of Transport, Building and Housing (BMVBS) and the PPP Task Force at the Ministry of Finance of the State of North-Rhine Westphalia

November 2007

Imprint

This study, commissioned by the PPP Task Force at the Federal Ministry of Transport, Building and Housing (BMVBS) and the PPP Task Force at the Ministry of Finance of the State of North-Rhine Westphalia (NRW), was conducted by the German Institute of Urban Affairs (DiFu) in co-operation with the Institut für Site und Facility Management GmbH, Ahlen (ISFM).

Publisher

German Institute of Urban Affairs (DiFu)
 Straße des 17. Juni 112
 D-10623 Berlin
 Tel.: +49-(0)30/39001-0, Fax: -100
 E-Mail: difu@difu.de, Internet: <http://www.difu.de>

Authors

DiFu

Dr. Busso Grabow (project leader)
 Dr. Beate Hollbach-Grömig
 Dipl.-Kfm. (FH) Stefan Schneider
 Dipl.-Soz. Antje Seidel-Schulze
in collaboration with
 Dipl.-Vw. Michael Reidenbach
 Lukasz Czernicki
 Oliver Latt

ISFM

Dipl.-Ing. M. Eng. Florian Nitzsche
 Prof. Dr. Frank Riemenschneider
 M.Sc. Anke Strunk
 Prof. Dr.-Ing. Klaus Gellenbeck

 Dipl.-Kfm. (FH) Torben Bernhold
 Dipl.-Ing. (FH) Christian Alteköster
 Randy Mona Sattler

Text processing and layout

Marlen Petukat
 Klaus-Dieter Beißwenger (editor)
 Elke Postler (layout)

Support

PPP Task Force at BMVBS
 PPP Task Force NRW
 PPP Competence Centres of the federal states
 Private and public partners of the surveyed PPP projects
 Chambers and professional associations

Contact

DiFu	ISFM
Dr. Busso Grabow Tel. +49-(0)30/39001-248/-202 E-Mail: grabow@difu.de	Dipl.-Ing. M. Eng. Florian Nitzsche Tel. +49-(0)2382/964-639 E-Mail: nitzsche@isfm.de
PPP Task Force at BMVBS	PPP Task Force NRW
Dr. jur. Jörg Christen Tel. +49-(0)30/18 300 - 7190 E-Mail: Joerg.Christen@bmvbs.bund.de	Dr. Frank Littwin Tel. +49-(0)211/4972 – 2409 E-Mail: frank.littwin@fm.nrw.de
Dipl.-Ing. Axel Scheel-Siebenborn Tel. +49-(0)30/2008-7193 E-Mail: Axel.Scheel@bmvbs.bund.de	Dipl. Wi.-Ing Simon Singer Tel. +49-(0)211/4972-2690 E-Mail: Simon.Singer@fm.nrw.de

Management Summary

“Second generation” PPP projects, also known as “real PPP”, i.e. those spanning a minimum of four life-cycle phases and which thus encompass a significant portion of the business operations, are now being implemented in large numbers in Germany. A further increase in the number of such projects is expected, not only because the federal government and various federal states have made the expansion of PPP an explicit goal, but also because the experience of PPP project partners thus far has generally been positive.

As the number of PPP projects grows, an additional and key policy objective has received attention: the promotion of equal opportunities for small and medium-sized enterprises (SMEs) as an important component of economic policy at all three government levels – federal, state and municipal. There has been criticism that PPP projects, as a result of their size (particularly with regard to the financing required for the high investment volumes) and the often long-term contracts involved, are biased against SMEs.

At the same time it can be observed that, in particular at the municipal level, there is a demand for smaller investment projects with a volume of under EUR 10 million, and that the number of correspondingly-sized PPP projects is also growing. As such “small” projects are seen to present fair opportunities for SMEs, this represents a wide range of possibilities for SMEs in the future.

In this study, which was commissioned by the federal government’s PPP Task Force at the BMVBS and the PPP Task Force at the Ministry of Finance of NRW, PPP building construction projects were evaluated in terms of two key questions:

- Are PPP projects designed in such a manner as to allow SMEs fair opportunities (“SME-accessible project design”)?
- To what extent are SMEs involved in PPP projects?

SME-accessible project design by procuring authorities

The results of the study indicate that there is further optimization potential. According to the criteria generally employed to evaluate the opportunities available to SMEs, and as a result of the responses collected from the projects examined in the study, the following aspects in particular should be considered when designing PPP projects to offer fair opportunities to SMEs and to encourage SMEs to bid on public tenders:

- Involvement of local or regional stakeholders in advance of the public tender (e.g., Chambers of Commerce & Industry [IHK], Chambers of Crafts or Trades [HWK], Local Business Development initiatives)
- Provision of information in advance of public tenders (e.g. workshops, information events, detailed information online) and memoranda to potential bidders in addition to the tender announcement itself
- Detailed description of the current situation (incl. the condition of properties involved in refurbishment projects)

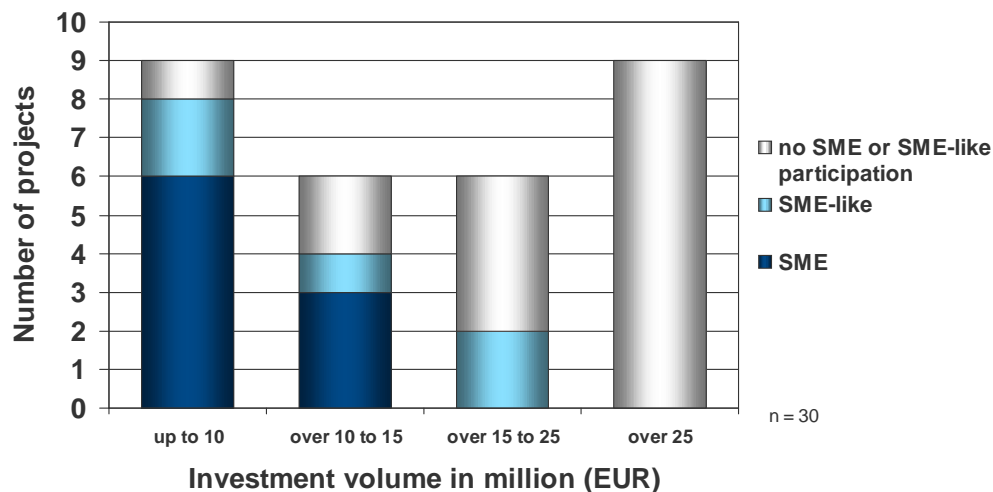
- Time between calls for tenders and submission deadlines that is more generous than required by law, particularly in remodelling and refurbishment projects
- contractual stipulation of an appropriate proportion of SME participation as subcontractors, as well as better monitoring of subcontractor participation following awarding of contracts.

However, the study also clearly showed that, for those projects examined, SME-accessible design by itself had no demonstrable influence on the actual level of participation of SMEs. It is assumed, though, that despite this finding the opportunities for SMEs in future PPP projects will improve with an explicitly SME-accessible design.

There is statistical evidence of a link between project volume and SME participation (cf. figure 1). In large projects there are practically no SMEs as main contractors, nor as partners in consortia. In smaller projects with investment volumes under EUR 15 million it is just the opposite. There, SMEs are very often the main PPP contractors, alone or in consortia with large companies. The (soft) threshold value for SME accessibility is, according to this study, not the often cited EUR 10 million, but approx. EUR 15 million.

Figure 1

First-level participation of SMEs Number of projects in terms of investment volume

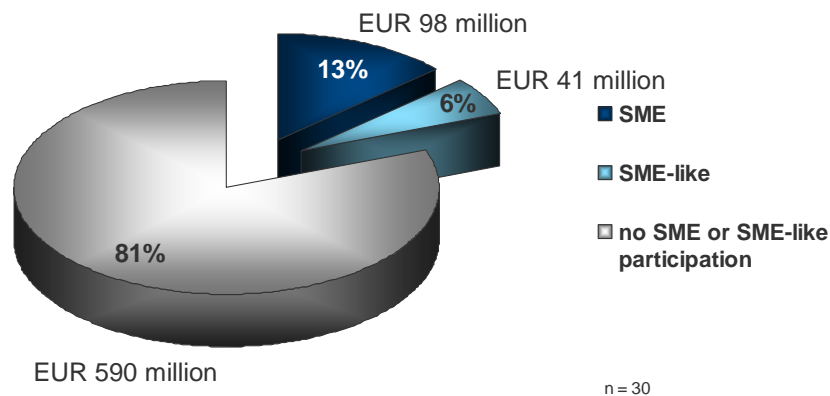


Participation of SMEs in the projects studied

At the first level (that of main contractors) the participation level of SMEs in relation to *the number of PPP projects* is so high that it makes no sense to speak of a bias against SMEs. In 47 % of the projects studied SMEs (including SME-like companies)¹ were successful in their bids as main contractors, either as members of a bidding consortium or (in six cases) as sole or general contractor. Among the projects studied there were none in which a consortium consisting exclusively of SME companies won the contract. In all successful bidding consortia large companies – in some cases via subsidiaries – were involved.

Figure 2

First-level participation of SMEs in terms of total investment volume of the projects studies (729 million)



However when viewed in terms of total investment volume, there is significantly less participation by SMEs: 81 % of PPP investment volume was in projects in which there were no SMEs involved at the first level (cf. figure 2).

SMEs as subcontractors

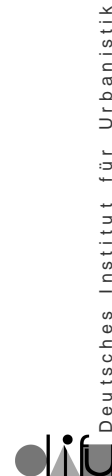
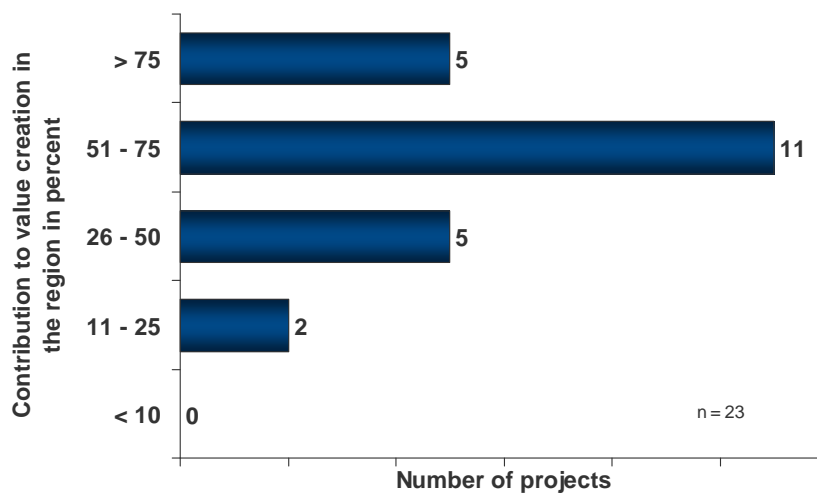
At the second and subsequent levels, i.e., as subcontractors, respondents indicated that participation of SMEs averages between 70 % and 80 % (individual responses varied between 25 % and 100 %). Well over half of the value creation arising out of PPP

¹ SME-like companies are similar to SMEs in terms of size, but have strong organizational and financial affiliations with large companies.

projects remains in the region (cf. figure 3). There is a tendency (though this study cannot reliably support it statistically) for the number of SMEs at the subcontractor level to be higher, the higher the project volume is.

Figure 3

Contribution by SMEs from the region to value creation in PPP projects



The concern expressed in individual cases by respondents representing public authorities that SMEs at the subcontractor level are often subject to problematic conditions (abnormally low wages, intense pressure on prices) is not confirmed by the other results of the study. Often the main private partner, according to their own responses, places importance on involving reliable subcontractors early on and at fair conditions, in order to avoid placing the successful completion of the project at risk. In some cases the procuring authorities include provisions in the contract which address these issues and/or supply the private partner with lists of reliable subcontractors.

Improving opportunities for SME participation and SME competence

Responses to the survey make it clear that general measures can be just as helpful as individual project design elements in improving the opportunities for SME participation. Thus, standardization and the availability of contract templates, as well as improved access to pre-financing and guidance, are seen as key activities leading to fairer distribution of risk.

In none of the projects studied was the successful tender submitted by a consortium consisting solely of SMEs. Here there appears to be significant potential for improving SME access, by supplying informational material for SME bidding consortia interested in PPP projects (e.g., from IHK, HWK, PPP Task Forces). The success of such activities depends to an important extent on the establishment of relevant networks in advance of calls to tender.

Realistically, it must be acknowledged that only a portion of SMEs are qualified for consideration as first-level contractors, namely those which are or have the potential to act cross-regionally, and which have demonstrated business know-how and competence in process and project management, the technical expertise to implement life-cycle oriented planning and calculation, and a stable equity capital base. The cultivation of SME's PPP-specific knowledge and expertise must also be promoted and supported in this respect.

Overall, a further increase in the number of smaller PPP projects represents opportunities for SMEs to participate as first-level contractors. This study showed that large companies are often not focused on PPP with lower investment volumes.

It would be counter-productive, however, to include previous references for PPP projects as an important evaluation criterion in calls to tender. Comparable competencies that are relevant to the life cycle should also be permitted. Otherwise, in the dynamically developing PPP market, the market might become divided to such an extent that SMEs are permanently handicapped.

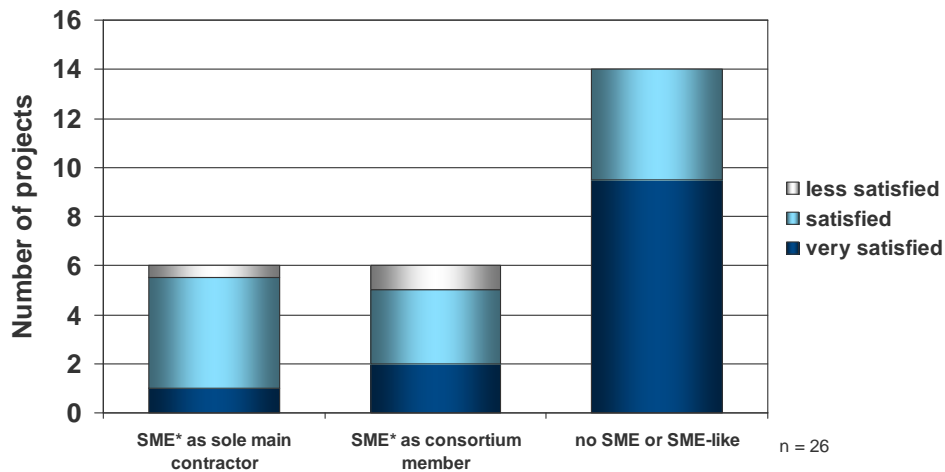
Satisfaction and cooperation in the spirit of partnership

Respondents from both the public and the private partners of PPP generally assess the cooperation as positive and in the spirit of partnership. For those PPP projects studied, the majority of respondents on the public side are working for the first time with the private partner. Nevertheless, satisfaction is generally high on both sides; the average score for the "quality of cooperation in the spirit of partnership" given by private partners is 1.8 (based on a scale of 1 to 6, with 1 being excellent). This score, however, in many cases applies only to the construction phase, as experience in the operational phase was lacking. When difficulties arise, both sides as a rule attempt to settle amicably.

Although satisfaction levels are relatively high overall, public respondents tended to give higher performance scores to large companies (cf. figure 4). This indicates that there is some need for SME contractors in PPP to achieve higher levels of professionalism.

Figure 4

Satisfaction with the PPP process / Procuring authorities' point of view



* SME and SME-like



By contrast, from the point of view of the private partner, there is no such clear tendency (cf. figure 5). However, here too, large companies (or mid-sized subsidiaries of large companies) tend to be more satisfied with the cooperation in a PPP context. Furthermore, the two “satisfactory cooperation” responses (to the question “How would you score the general level of satisfaction with regard to the implementation of contract provisions during the construction phase?”) were from private partners in projects with SME participation and complete SME responsibility – a result that corresponds to a certain extent with the evaluation of the public partners.

Figure 5

Satisfaction with the PPP process / Private partners' point of view (scale of 1 to 6)

