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PUBLIC-PRIVATE PARTNERSHIP AS A METHOD OF IMPLEMENTING TECHNICAL INFRASTRUCTURE INVESTMENTS

Summary

There is a widespread and increasing interest in public-private partnership (PPP) in Poland as a mean of implementing public investment projects, resulting from the fact that the funds that are available to local governments, or EU funding, are not sufficient to meet all the investment needs. In the paper a comparative analysis of the size and structure of the public-private partnerships in the EU countries, with a particular focus on the Polish market is presented. Possibilities of investments based on public-private partnerships on rural areas are specified. The paper examines the recent trends in the PPP's market and describes how these changes and development may affect the infrastructural improvement on rural areas.

Key words: public-private partnership, rural areas, infrastructure, investments

INTRODUCTION

Continuously increasing tasks of local governments, the growing investment needs, are forcing local authorities to seek additional sources of financing investment activities.

Especially in rural areas, it requires significant funds to meet the requirements of environmental legislation in the field of solid waste management, water quality and wastewater management. These investments involve usually construction or enlargement of infrastructure, not only its modernization. This involves considerable costs, and economic and social results can be seen after-time.

Still the infrastructural equipment of rural areas in Poland is unsatisfactory. The sewage index is 20% and the water system index is 70% [MRIRW, 2010].

So, infrastructure investments are an obvious necessity to determine the economic development of the country or a region. Therefore, the external aid to local authorities is required, because neither rural community nor local governments are able to devote sufficient financial means to these tasks. The optimal use of EU funds and available public and private funding sources are particularly important. Public-private partnership (PPP) is such an additional source, in relation to the budget, which enables the infrastructure development.

In Polish legislation, public-private partnership is defined as a particular form of cooperation between public administration and private sector, related to public tasks, usually controlled by the government and local government (public utilities, social services) [Dziennik Ustaw No. 19, poz. 100, 2009]. The cooperation concerns the implementation of planned, long-term and capital-intensive infrastructure investments.

In the Green Paper on Public-Private Partnerships [Commission of the European Communities, 2004] the term *public-private partnerships* refers to the forms of cooperation between public authorities and the world of business aiming to ensure the funding, construction, renovation, management or maintenance of infrastructure or the provision of service.

In the PPP, only the economic activity is privatized, i.e., building, financing, operation and management of the investment project, while the public authority is responsible for the availability and quality of services at these facilities.

In the Green Paper on PPPs, the European Commission recognized that the following elements normally characterize a PPP [Commission of the European Communities, 2004]:

- the relatively long duration of the relationship,
- the method of funding the project, in part from the private sector, sometimes by means of complex arrangements between the various players,
- the important role of the economic operator, who participates at different stages in the project (design, completion, implementation, funding),
- the distribution of risks between the public partner and the private partner.

Generally, public-private partnership can be defined as a contract between the government and a private company, under which the private company is required to finance and build an infrastructure asset (road, water supply system, school, software), and subsequently maintain the asset and, usually, operate some element of a public service, using the asset in return for which the company is paid over a number of years for the cost of construction and the opera-

tion of the service, either through charges paid by users, or by payments from the public authority, or a combination of both [Hall, 2008].

Such contracts are also sometimes described as "Design, Build, Finance, Operate" (DBFO) or 'Build, Operate, Transfer' (BOT).

There are two forms of public-private partnerships:

– concession contracts, where the company gets paid by user charges (in water services, or toll roads),

– contracts typical of the private finance initiative (PFI) in the UK, where the company gets payments from a public authority.

Concessions can only be used where end-users are charged, whereas the second (PFI) type of PPP can be applied to almost any element of public service.

The European Commission has implemented term "institutional PPP". It concerns a joint venture company, providing a public service, which is partly owned by a public authority and partly owned by a private company or investors. They may also have a contract with the municipality to provide a service. Some water operators are partly owned by the municipality, and partly by private companies, under contracts with the municipality to run the water services.

The European Commission emphasizes an increasing role of PPP in the economies of the EU countries, and recognizes this type of cooperation as a key element of anti-crisis strategy and efficient tool for implementation of long-term structural reforms.

AIM AND SCOPE OF WORK

The aim of this study is to identify opportunities to implement infrastructure projects on rural areas, particularly in Poland. The detailed analysis of the public-private partnerships market in UE countries will be helpful. The purpose of the paper is also to recognize types and values of investments realized in the frame of public and private cooperation and to evaluate their importance in infrastructure investment on rural areas. A comparative analysis of size and structure of public-private partnerships in the EU countries and Poland and allow to determine opportunities and solutions for the growing Polish PPPs market.

PUBLIC-PRIVATE PARTNERSHIPS IN EUROPE

The term *public-private partnership* has been used since the 1990s. It was adopted by governments and institutions as an alternative to privatization. A specific form of privatization was developed to deal with limitations on public borrowing.

There is no single European model of the PPP. The European PPP Report 2009 [DLA Piper, 2009] states that “the range of structures used for PPPs varies widely: in some countries, the concept of a PPP equates only to a concession where the services provided under the concession are paid for by the public. In others, PPPs can include every type of outsourcing and joint venture between the public and private sectors”.

Institutional PPPs have developed as a result of governments and regional or local authorities buying or selling shares in companies. France developed the concept of the “société d'économie mixte” (SEM), which allowed municipalities to set up trading companies, as long as a private company was also involved. In Germany, Italy and elsewhere municipalities established their own companies to operate utility services. Many governments also developed partial (or total) shareholdings in manufacturing or service companies, with a fluid interchange between public and private ownership of companies in a number of sectors. The most significant recent trend has been occurred due to municipal companies in Germany, Italy and elsewhere being partly or wholly sold to the private sector [Hall, 2008].

The UK has developed the use of PPPs under the heading of the private finance initiative (PFI) since the 1990s. This covers road and rail, hospitals, schools and other buildings. PPPs were also introduced in sectors which have not been privatized, such as water in Scotland and Northern Ireland.

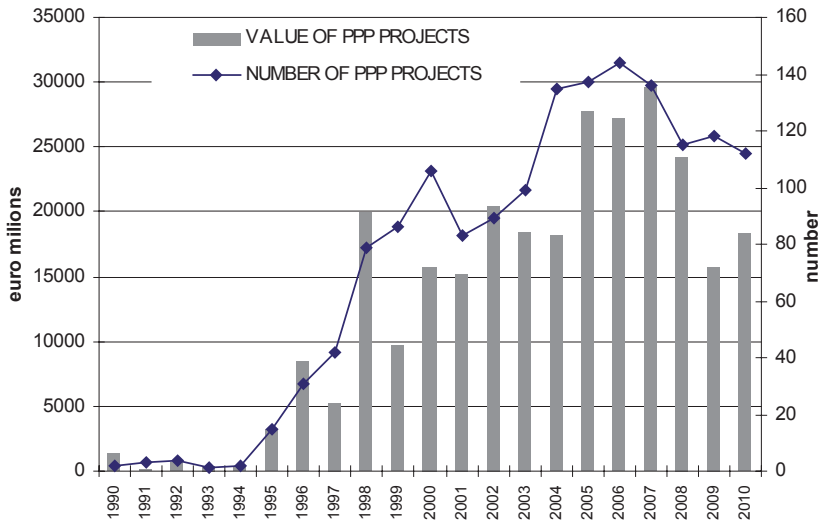
Other EU countries have also begun using PPPs, following the Maastricht treaty which limited public borrowing. The EU itself has encouraged the development of PPP units in all countries to facilitate the creation of PPPs. Most EU countries were using or planning to use of PPPs by 2006.

Over the past twenty years, more than one and a half thousand PPP contracts have been signed in the EU, representing a capital value of almost EUR 280 billion [Blanc-Brude et al. 2007, Kappeler and Nemoz, 2010]. The value of all PPPs in Europe has risen sharply since 1995 and then in 2004, while a declining trend is observed since 2007.

In Fig. 1 development of PPP market in Europe is presented.

The largest PPP market in Europe is Great Britain. The UK PPP projects accounts for over 76 % of all European PPPs by number, and some 58% by value.

The PPP market is starting to spread from the UK to the other European countries. Standard & Poor's [2006] and DLA Piper [2007] have noted the growth of PPP deals in France, Germany, Greece and Czech Republic. This growth is further reinforced by political pronouncements. In Germany and France it was stated that PPP procurement should attain 10 to 15 percent of overall public sector capital expenditure, similar to levels seen in the UK [Blanc-Brude et al., 2007].



Source: based on Blanc-Brude et al. [2007], Kappeler and Nemoz [2010].

Figure1. Growth of European PPP Projects

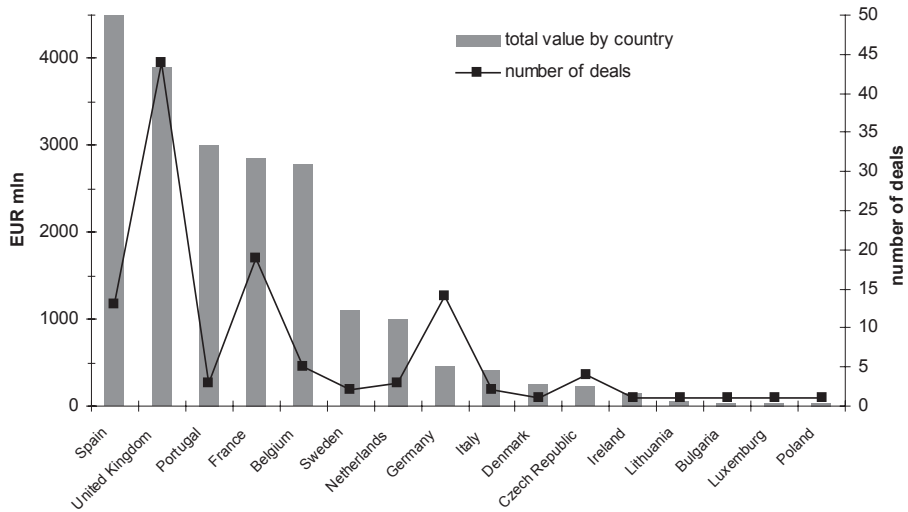
Also Spain has become the important PPP market, with a steady increase in the number of projects annually. In 2010, Spain was the largest PPP country in value terms.

Currently, six countries (UK, Spain, France, Germany, Italy and Portugal) account for some 95% of all European PPPs by number.

Importance of Eastern European countries is rising, but it is still relatively low, compared to the whole European PPP market. There are several public-private partnerships in Czech Republic, Lithuania, Bulgaria and Poland. Fig.2. shows main characteristics of public-private partnerships in European countries.

In all other European countries, the importance of investment through PPPs remains small in comparison to the traditional public procurement of investment projects.

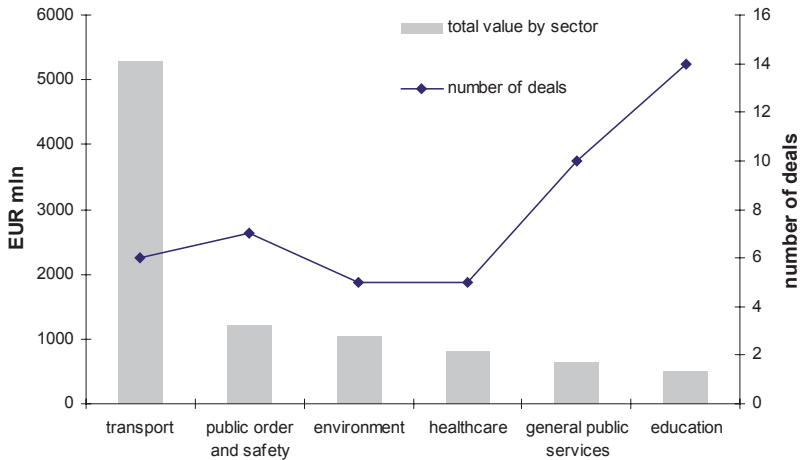
The most numerous investments with public-private partnerships concern transport, especially roads. Fig. 3 shows that this sector accounted for over 55% of the European PPP market value.



Source: based on EPEC [2011].

Figure 2. European PPP market by country

It is noticeable, that partnerships remains concentrated in only few countries.



Source: based on EPEC [2011].

Figure 3. PPPs structure in European countries

Concluding, in European countries as a whole, the public-private partnerships are concentrated mainly on transport, defense, environment (waste and water), and healthcare.

PUBLIC-PRIVATE PARTNERSHIP MARKET IN POLAND

Cooperation between public and private sector in Poland, has been regulated by the Civil Code since 2005.

Since 2009 a new Act on public-private partnership and the Law on Concessions have been obligatory. These normative acts give more freedom to the stakeholders interested in PPP.

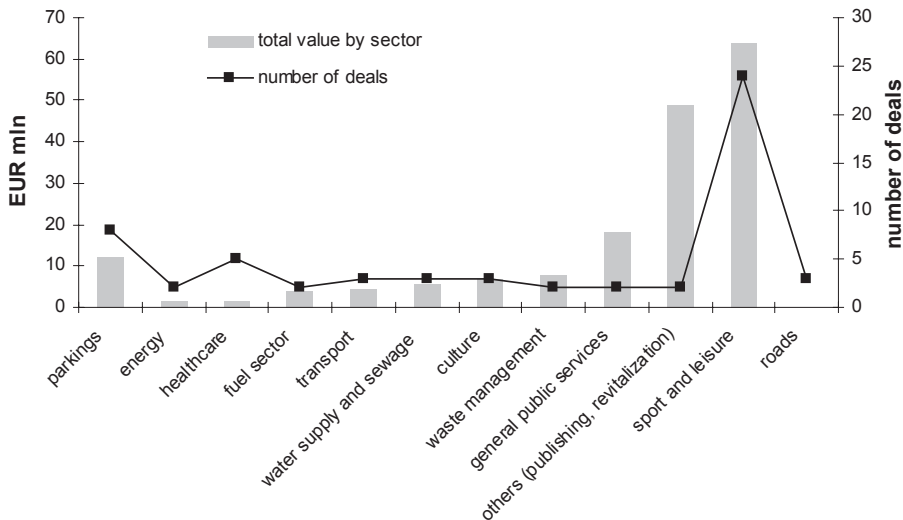
The significance of public-private partnerships for infrastructure development is marked in a numerous strategic documents.

In the strategy „Poland 2030. Development Challenges” [KPRM, 2009], PPP is indicated as an instrument to bridge infrastructural barriers to economic exchange and social relationships and as a tool for innovation in Polish companies.

As mentioned above, the PPP market in Poland is relatively young and developing.

The value of PPP market in Poland in 2010 has amounted over 1 881 million PLN (ca. EUR 425 million). There was increase of 50 % compared to year 2009 [Investment Support, 2011].

Projects were realized in 14 different sectors [Fig. 5].



Source: own study based on Investment Support, 2011.

Figure 4. Sectors of investments implemented by public-private partnerships

Rapidly developing sectors in the past year were: transport, publishing, municipal economy, roads, public infrastructure, and because of projects number sports -leisure and parking.

There is also growing interest in culture, revitalization and energy sectors investments observed.

The projects values are significantly different depending on economy sector. The highest values characterize sport-leisure investments, public facilities and revitalization.

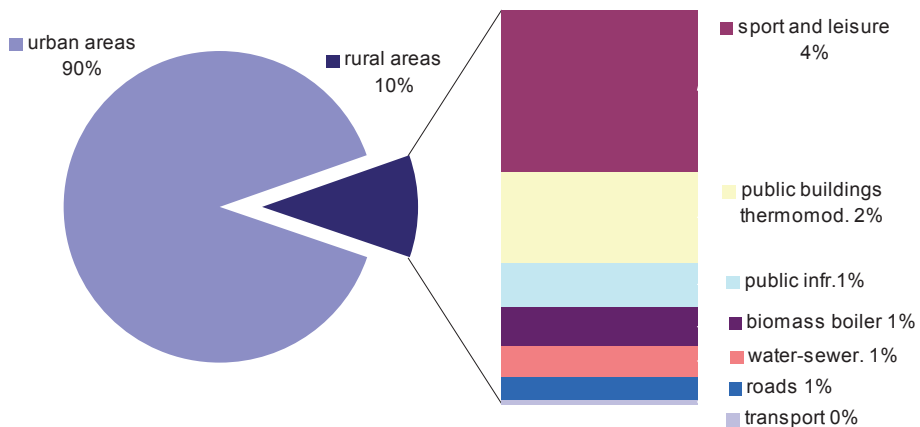
In Poland, small projects up to 5 million PLN (EUR 1.13 million) are dominating, and cooperation between public and private sectors is carried out mostly as concession (67% of all agreements).

The public-private partnership market in Poland may be significant in a few years. It will be developing intensively, with its value estimated at EUR 40-50 billion [Investment support, 2009].

The majority of Polish projects is announced by administrative local governments. The Malopolska Voivodeship was the classification leader in 2010 (21% of announced projects) [Investment Support, 2011].

The analyzed PPP deals in 2009-2010, there was stated that 58% were contracted by rural communes. These deals concerned different economic sectors. Unfortunately, the agreements value contracted by the rural municipality represents only 10% of the total contracts value during this period. Big disparity results from one investment for 285 million PLN (EUR 64 million) (Therms in Gostyń).

Detailed information is presented on Fig. 5.



Source: own study based on data base in Forum PPP nr 2(15)/2011.

Figure 5. Values of public-private partnerships on urban and rural areas

DISCUSSION

For public entities the public-private partnership is mainly a method of acquiring new funds for investment.

Important is that the PPP projects can be implemented not only nation- or European- wide, (motorways, rail networks), but also can serve the needs of smaller communities, rural municipalities. Often there is no fund to implement public purpose investments.

Comparing PPP markets in Poland and EU countries, clearly differences can be seen in projects value. The average project value in EU was EUR 163 million, while in Poland it was EUR 3 million. This average transaction size in EU results from a large number of deals exceeding EUR 500 million in value (9% of deals signed in 2010 were large PPP).

Also types of investments are different. EU's PPP projects concern mainly transport investments, education, healthcare and general public services. In Poland the most of announced projects has involved sport, leisure and parking.

Considering the infrastructural lacks in Poland, the PPP projects should more concern technical facilities i.e. water and sewage systems, wastes, roads.

Especially that PPP allows achieving 15-17% savings compared to the traditional investment model.

CONCLUSIONS

Public-private partnerships are clearly growing in significance across Europe, but they have macroeconomic and systemic significance only in the UK, Portugal, and Spain. In all other European countries, the importance of investment through PPPs remains small in comparison to traditional public procurement of investment projects. However, PPP is used extensively for major projects and this is spreading out into many different economic sectors.

Poland is a country with a good development perspective of investments and services in the PPP model. Due to its geographical location, as well as large investment needs, and positive evaluations of Polish economy development (as opposed to many European countries).

There is a need to increase interest in public investments on rural areas, which increase the competitiveness of these lands and improve the life quality their inhabitants.

It should be mentioned that PPP is not the only method of project financing and implementation. It shall be used only where the advantages and benefits are clearly to identify.

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