

Recreating the PPP magic formula

PPPs

THE MANY ADVANTAGES OF PUBLIC-PRIVATE PARTNERSHIPS HAVE SEEN THE MODEL UTILISED ACROSS THE DEVELOPED WORLD. NOW, COUNTRIES IN CENTRAL AND EASTERN EUROPE ARE LOOKING TO BENEFIT FROM THE MODEL BUT GOVERNMENTAL AND LEGISLATIVE SUPPORT CAN OFTEN BE FOUND LACKING, WRITE KRZYSZTOF WIERZBOWSKI AND TOMASZ KORCZYNSKI

In recent years, public-private partnerships (PPPs) have become recognised as one of the most beneficial means of implementing investments and infrastructure projects in many countries across the world. But what is behind their growing success?

A PPP is a method of procurement that brings together the public and private sectors in a mutually beneficial, long-term partnership. One of the key features of PPPs is that they are designed to achieve both social and commercial objectives. Moreover, successful implementation of the PPP model generates measurable benefits not only for the public entity and the private partner but also for the ultimate users of the services or infrastructure.

For the public entity, these benefits include transferring the performance of specific public tasks to an entity that specialises in the given field and applies management standards that are typically higher than those provided in the public sector. For the private partner, the benefits include co-operation with a public entity whose economic sta-



Illustration by John Holcroft

bility is often higher than that of other market participants, as well as access to infrastructure in an attractive location.

The benefits for users include better access to public services, which are usually of a higher quality. Another reason that this form of partnership is considered advantageous is that it significantly reduces the cost of implementing a project for the public entity, with savings of up to 20% compared to conventional project implementation methods.

Quick fix?

Put simply, PPPs should be viewed as a form of partnership between the public sector and the private sector undertaken to carry out projects that would ordinarily be carried out solely by the public sector according to the traditional method. However, PPPs differ significantly from the traditional procurement method.

Of course, PPPs are not a panacea for all infrastructure problems.

Before undertaking each project, consideration needs to be given to whether this formula is the most suitable for the particular project when compared with the traditional method of funding and other means of implementing infrastructure projects. If ultimately, however, the results of the assessment show that the project is suitable for a PPP, it is very likely that this is the best possible method.

PPP ventures have been implemented in countries around the world. In Europe, PPP ventures were pioneered in the UK, Spain and Portugal. Outside of Europe, this type of venture is on the rise in Canada, the US, Australia and New Zealand. In Poland and other central and eastern European (CEE) countries, PPPs are relatively underdeveloped as a method of providing public infrastructure and services, and national government policies have not yet been established. But this is slowly changing.

Polish market

Poland is one example of a country where PPPs have gained traction in recent years. To date, Poland's attempts to provide a legislative framework for PPPs, however, demonstrate that regulation is not always beneficial for the growth of the area being regulated. The Public-Private Partnership Act of December 19, 2008 (the 2008 PPP Act), was the direct successor of the former PPP Act of 2005, in whose term no PPP venture was implemented.

The 2008 PPP Act entered into force in February 2009, together with the new Act on Concessions for Works or Services (the Concessions Act). After the failure of the 2005 PPP Act, the drafters of the 2008 PPP Act intended, by de-formalising partnerships in a broad sense, to stimulate the use of PPP ventures in the Polish market. It is now possible to slowly begin to draw tentative conclusions about whether the drafters' plan has been accomplished.

Since the enactment of the 2008 PPP Act and the Concessions Act, Poland has witnessed consistent growth in the number of infrastructure projects being implemented within the PPP framework. This appears to be a natural tendency: with shrinking local government budgets, the search for alternative sources of funding has become a necessity. These opportunities are afforded by both acts, although they are not the only pieces of legislation that permit a partnership between the public and private sectors.

In the Polish legal system, PPPs are also provided for under the Public Procurement Law, the Municipal Services Act, the Real Property Management Act, the Public Benefit Activity Act, the Toll Roads Act and the Voluntary Service Act. The sectors that are the most popular in Poland for PPPs and concessions are primarily sports and recreation, transport infrastructure, and healthcare and revitalisation.

Across CEE

The uptake of PPPs elsewhere in CEE is occurring at a similar pace as in Poland, although each country is choosing to integrate these partnerships in a different way. Some countries, including Bulgaria, Slovenia, Moldova, Lithuania, Latvia, Ukraine, Serbia and Macedonia, are implementing new laws for the facilitation

ADVANTAGES AND DISADVANTAGES OF PPP MODEL

ADVANTAGES	DISADVANTAGES
Risk is spread between the private partner and governmental counterpart	High costs of analyses
Better management of state-owned property	High costs of advisory services (legal, financial, etc...)
Depoliticisation	Complicated and lengthy procedures
Higher business transparency	Potential risk of service price increase
Potentially lower investment outlays	Limited number of jobs for the public sector
Possible project implementation without the need for the public sector entity to operation of the venture	Potentially smaller influence of the public entity on the implementation and incur a debt
Introduction of modern technologies	No economic justification for the implementation of small PPP ventures
Introduction of tools that ensure long-term services as part of the venture	
Budget savings with project implementation	
Greater value for money compared to the traditional method: higher service quality with comparable or lower project costs	
Greater competition among private partners and increased business activity	

tion of PPPs, while others, including Estonia and Hungary, are utilising PPPs without separate legislation.

Notwithstanding the above, in all countries of the CEE region, including Poland, there is considerable need for the development of PPP due to:

- A considerable lack of public services, often resulting from long periods under communist rule;
- The increasing public deficits and public budget limitations;
- The increasing expectations of society regarding infrastructure and public services;
- Insufficient qualifications of public officials with regard to the management and operation of infrastructure projects;
- The politicisation of the privatisation process producing negative connotations;
- Decreasing EU funds for public authorities.

Gathering support

All countries in the region, regardless of whether they introduce separate laws on PPP or not, need strong central support that promotes best practice codes and creates a positive environment for PPP-based ventures. Still, not all CEE countries have established a governmental body responsible for supporting the implementation of PPP ventures. Moreover, mental barriers are also playing a significant role in deterring both governmental

entities and private partners. It is therefore crucial to create a positive atmosphere around PPPs by promoting them as viable alternatives to the traditional model of public-private co-operation.

It appears that the complete success of PPP in Poland and other CEE countries will require much greater governmental support, the breaking down of mental barriers and, above all, further development of transparent rules and legal mechanisms for implementing projects using the PPP formula. Nevertheless, further growth in the number of projects carried out using the PPP model is expected in this region in the coming years.

The reason is the continued need for the development of infrastructure combined with the fact that even the combined forces of EU funding and the budgetary resources of state and local government are insufficient to meet this demand. The scale of the required infrastructure projects offers a great opportunity for investors in Poland and across the CEE region to employ their experience and know-how from implementing projects in other countries under the PPP model. ■

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