

THE PUBLIC-PRIVATE PARTNERSHIP MARKET IN POLAND IN 2009-2017 COMPARED WITH OTHER EUROPEAN PUBLIC-PRIVATE PARTNERSHIP MARKETS

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ABSTRACT

Public-private partnership (PPP) is an important and attractive way of implementing public services as part of a collaboration between the public and private sectors. The attractiveness results from the option of financial engineering of public resources and private capital, with each party fulfilling its own objectives simultaneously and separately. With budget constraints today, co-operation between both sectors increases the effectiveness of public services by risk-sharing and using the private sector's experience in dealing with particular types of tasks, especially in investment. Besides, the private sector provides financing, which allows public sector units to utilize budgetary resources in other areas.

This study aims to analyse the state of affairs and to evaluate the current market of PPP projects in Poland in comparison to other European countries. Also, it shows actions undertaken to accelerate growth in this market. The analysis covers the years 2009 to 2017.

The appraisal of PPP in Poland was based on the relevant literature, European PPP Expertise Centre reports, Ministry of Investment and Development reports, Centrum PPP reports and the author's own research. The methods used were descriptive statistics and inferencing. The findings show that the Polish PPP market diverges from other EU markets in the number of projects, their value, structure and character. The prevailing type in Poland is low-value self-government infrastructure projects. In recent years, Polish governments have often taken legislative and promotional action to more engage the private sector in public services. This has resulted in the adoption of a road map for co-operation between the two sectors, in appointing advisory and consulting teams at the government level, and in numerous training and promotion practices

.Keywords: public-private partnerships, public sector, investments, infrastructure

INTRODUCTION

Public-private partnership (PPP) is an important and attractive way of implementing public services as part of co-operation between the public and private sectors. The attractiveness results from the option of financial engineering of public resources and private capital, with each party fulfilling its own objectives simultaneously and separately. With tight budget constraints today, co-operation between both sectors increases the efficiency of public services by risk-sharing and using the private sector's experience in dealing with particular types of tasks,

especially in investing. Besides, the private sector provides financing, which allows public sector units to utilize budgetary resources in other areas.

There are many various definitions of PPP in the literature. It is generally understood as a long-term agreement between the public sector and the private sector with the intention of running a project or offering a service traditionally provided by the public sector. The main aim of the co-operation is to secure funds for designing, constructing, modernizing, operating and maintaining the infrastructure or for long-term services. In such relations, the private party takes on most of the risks of implementing the project [1], [2].

Being a complex structure, PPP requires a legal and institutional framework which will be clear and simple to implement. In addition, it needs efficient preparation by public authorities, high-quality projects, allocation of appropriate funds and a friendly climate for the formula [3], [4].

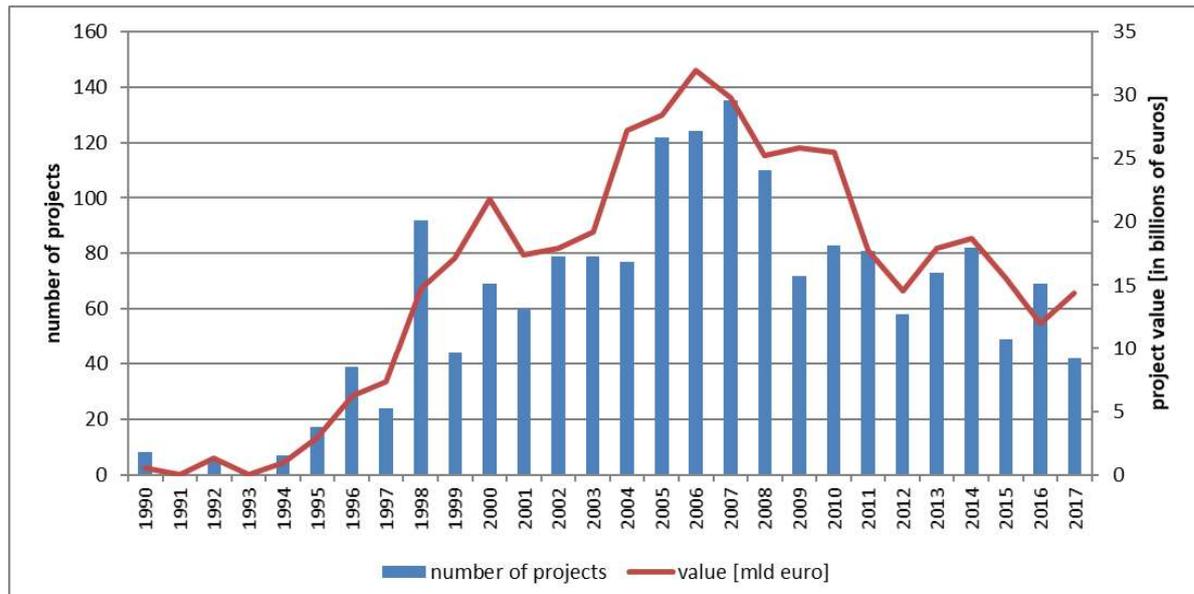
This study aims to analyse the status quo and evaluate the current market of PPP projects in Poland compared with other European countries. Also, it shows measures taken to accelerate growth in this market. The analysis covers the years 2009 to 2017.

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THE STRUCTURE AND DYNAMICS OF THE EUROPEAN PUBLIC-PRIVATE PARTNERSHIP MARKET

The involvement of the private sector in financing and carrying out public services dates back in Europe to the time of the industrial revolution, urbanization and growing transport. The infrastructure in Europe (and later in America, China and Japan) was built with private funds while public funds covered expenses of manor houses and war effort [5].

In Western Europe, PPP developed in the second half of the 20th century and its dynamics increased rapidly in the late 1990s (diag.1). The growing expectations regarding the scale and quality of public services and the considerable infrastructure gap in Europe prompted public authorities to intensify efforts to use intersectoral cooperation to supply technical and social infrastructure [6].

Fig. 1. The number and value of PPP projects in Europe in 1990-2017

Source: own elaboration based on data from European PPP Expertise Centre reports for 1990-2017

As shown in Diag.1, the real boom in PPP projects took place in the first decade of the 21st century to peak in 2006 for the number of financial closes (144) and in 2007 for project value at over 30 billion euros. In the years 1990-2017 more than 1,930 PPP contracts were signed with a total value of over 379.74 billion euros.

Those positive trends were broken by the global financial crisis, evidenced by the slump in numbers and total venture value for 2009-2012. 2012 witnessed merely 68 signed contracts to a total value of 12.8 billion euros, which was the lowest for this market since 1999. In 2014-2017 the interest in PPP projects in Europe declined and their number fell from 82 in 2014 to 42 in 2017.

The PPP leader in Europe is the United Kingdom. Its share in 1990-2009 was 67% in the number and over 50% in the value of all PPP projects. Spain ranked second (10.1% and 11.4%, respectively), followed by France (5.4% and 5.3%), Germany (4.9% and 4.1%), Portugal (3.1% and 7.0%), Italy (2.4% and 3.3%), Ireland (1.3% and 1.6%), and the Netherlands (1.2% and 1.8%). In 2010-2017 Britain's influence on the European PPP market decreased to about 30% of total value, giving way to France (23% of closed projects), Italy (8.8%), Belgium (5.8%) and the Netherlands (5.1%). Also Spain and Germany have a high share here. Altogether, those 7 countries have generated contracts worth of 89% of the total European PPP market. The subsequent countries, including Scandinavia and Central Eastern Europe, also follow the PPP mode in their infrastructure investments.

Notably, Turkey's share in the European market is consistently growing. In 2014-2017 it launched 13 projects to the total value of 17.7 billion euros, which amounts to 45% of the European PPP market [7].

Compared to Western Europe, the number and value of PPP projects operated in Central Eastern Europe look modest. In 1990-2009 their share was 2% of the total number of contracts and 5.2% of the value. Poland ranked second, after Hungary, with its share of 1.7% for value and 0.4% for the number of financial closes [8]. This reflects the immaturity of the markets, delays in initiating relevant legislation and shortage of specialized institutions to promote PPP. Other reasons of the slow development might be the passivity of authorities, psychological barriers (e.g. mistrust or fears of being suspected of corruption) and, lastly, the global financial crisis.

THE STRUCTURE OF THE PUBLIC-PRIVATE PARTNERSHIP MARKET IN POLAND IN 2009-2017

Infrastructure development and quality services in line with public expectations are major elements in Poland’s economic development. According to the government’s estimates, maintaining the infrastructure growth rate at the current level until 2030 requires investing capital of 1.5 billion PLN [9]. Public entities’ budgets (including the national budget) do not guarantee sufficient finances to operate projects in economic infrastructure (e.g. transport, natural environment, energy) and social infrastructure (e.g. health care, education, culture, sport and recreation). It is indispensable to engage more private resources in realizing investments and providing public services.

The Polish PPP market, despite the existing legal order in the collaboration of the two sectors, still remains in the initial stage of development, compared to the overall European market. 8 years after new regulations were brought into effect [10], the outcome is 117 PPP contracts signed and 506 private partners selected and announced in the Public Procurement Bulletin. Part of the announcements were about the same projects and they were placed again because the proceedings had been annulled or no bids had been submitted. The index of efficiency (ratio of contracts signed to announcements placed) is low for the Polish PPP market and stands at 23.12%, with peaks of 50% worldwide [11].

Table 1. Number of tenders initiated and PPP contracts signed in Poland in 2009-2017

period	tenders initiated	contracts signed
2009	43	2
2010	60	9
2011	43	11
2012	81	16
2013	70	19
2014	52	16
2015	61	24
2016	60	11
2017	36	9
total	506	117

Source: own elaboration based on: Szymański K., Korbus B., Zalewski D., Analiza rynku PPP, Instytut PPP, Warsaw, Poland, 2017.

This low efficiency in Poland seems to result from misunderstanding the very idea of PPP by both the public and the private party, poor contract processing skills, abandoning professional advice and insufficient social capital.

The total value of the Polish PPP market in 2009-2017 calculated on the basis of published announcements is estimated at 16.12 billion PLN. The real value calculated on the basis of contracts signed is over 5.5 billion PLN.

117 PPP contracts were signed in Poland in 2009-2017. In the first year after the introduction of the new Act of 2008, only two contracts were signed. In subsequent years the number grew steadily. The record of 24 contracts was set in 2015. During the last two years of the period under study the trend was reversed – the number of new contracts fell to 11 in 2016 and 9 in 2017.

As regards the private partner selection procedure used in 117 contracts in 2009-2017, 75 (64.1%) were signed under the Concession Act and 42 (35.9%) under the Public Procurement Law.

Polish PPP investments are mostly made by local governments, which have concluded 76 out of all 117 contracts. Most contracts at an advanced stage of development were signed by urban (37), rural (23) and urban-rural communes (16).

Local governments at a higher level have concluded 12 contracts (province marshal's offices – 9; district governor's offices – 3). Only 5 contracts were signed by the central government administration. The rest of the contracts were concluded by entities linked with local governments, by state budget entities or by executive agencies.

The degree of interest in PPP in a particular public service sector depends on the degree of infrastructure underinvestment in that sector and on the relative accessibility of public funds (local, central and EU). Also, what is very important in successful matching public and private interests is the economics of the very enterprise, especially its ability to generate income and thus guarantee self-financing of the project throughout its implementation. During the period studied, most interest focused on the following sectors: energy efficiency (19 contracts), sport and tourism (16), transport infrastructure (16), sewage and water treatment (13), telecommunications (11). In all, in the above-mentioned 5 sectors 75 contracts have been concluded, which amounted to 64,1% of the whole Polish PPP market. The domination of the energy sector results from the economic profits generated by those projects. Their financing is facilitated thanks to significant savings in electricity consumption costs by using state-of-the-art technological solutions.

Due to the self-governmental character of the PPP market, local governments – proportionally to their needs – plan and implement microenterprises worth up to 5 million PLN. In the period under study, a total of 50 investments were made of a total value of less than 5 million PLN (42.73% of all contracts). The remaining contracts concern investments of various values from 5 to 500 million

PLN. There is only one large investment in Poland exceeding 500 million PLN – *Waste disposal system for the city of Poznań*.

Implementation of public services in the PPP mode requires guaranteed funding sources. For 34 contracts (75.55%) the financing was exclusively or almost exclusively the responsibility of the private partner, who took the whole risk of raising the funds and had to rely on both own resources and debt financing (mainly bank credit). In general, private partners in PPP projects obtain finances in practically the same way and on the same terms as with other investments which they routinely undertake.

For 10 PPP contracts, the hybrid approach has been employed in which both private and EU funds are used. The EU subsidy came from the operational programme for the public partner's home province.

For the picture of the Polish PPP market to be complete, it needs to comprise plans for the future. Public entities declare interest in the PPP formula and they are undertaking more and more analytical studies in preparation for the tender procedure. Until the end of 2017, a total of 113 new PPP investment projects have been recorded. They are each at different stages of completion and so some of them can enter the tender process in 2018 while others have to wait [12].

THE GOVERNMENT'S POLICY ON PROMOTION AND DEVELOPMENT OF PUBLIC-PRIVATE PARTNERSHIP IN POLAND

Implementation of PPP investment projects requires extensive action linking legal, economic and organizational fields. Past experience shows that the dynamics of PPP market growth largely depend on a positive atmosphere around sectoral co-operation and involvement of central government administration in promotional activities.

Since 2009, PPP collaboration of the public and private sectors in Poland has been regulated by two legal acts: the Act of 19 December 2008 on PPP and the Act of 2016 on concession for construction works or services [13].

In July 2017 the Polish government adopted the document *The Government's policy on the development of public-private partnership* whose aim was to indicate concrete actions to enhance the scale and effectiveness of PPP investments. The government has undertaken to: introduce necessary PPP-friendly changes, monitor the list of PPP investment projects and concluded contracts, raise awareness of PPP through educational and information campaigns, prepare guidelines, model contracts and models of good practice for PPP, organize extensive free consultancy for selected PPP projects, voluntarily evaluate PPP projects planned for implementation in order to confirm their validity, implement an obligatory opinion on the formula of the implementation of state-financed projects worth over 300 million PLN (a so-called PPP test), identify the market's needs and possibly implement a system of warranties for

both sectors or other financial instruments with which to lower the costs of preparation and implementation of PPP projects.

The government envisages that thanks to the above-mentioned measures the number of PPP contracts signed will grow till 2020 even by 100 and the value of PPP investments will increase to at least 5% of all public sector investments. 10 private partner selection procedures are to be initiated by the central government and 40% of all procedures (governmental and self-governmental) are planned to close successfully i.e. with signing the contract.

It is too early to assess the impact of the actions adopted because particular ministries are still working on detailed guidelines. Yet, the Ministry of Investment and Economic Development has certainly been successful in implementing an extensive system for information, promotion and consultancy. The webpage www.bazapp.gov.pl provides important information on legal issues, publications, training and advice regarding PPP, which expands the knowledge of sectoral co-operation. Besides, public entities are showing more and more interest in new investment projects in the PPP model. Having said that, the first concrete measurable results of the government's action should be visible around 2020 and so the final assessment will have to wait until then.

CONCLUSION

The experience of Europe shows that for the public-private partnership to be an efficient solution for investment projects there must be political will of those in power, clear legal regulations and social acceptance. Poland has met the condition of implementing relevant legislation conducive to sectoral cooperation. Before 2017 the action of authorities was limited to declarations which were not followed by practical measures to make efficient implementation of PPP possible.

The Polish market is different from other PPP markets. This is due to the domination of local government projects - with practically none at the central government level - and to the low project value [14]. Also, the PPP sectoral structure is different in Poland. Elsewhere in Europe the prevalent sectors are education, transport and health care, whereas in Poland projects predominantly concern energy, sports, recreation, and transport infrastructure (car parks).

The low efficiency of PPP projects in Poland is determined by various factors. The key ones are[15]:

- the high time consumption of the process,
- the over complexity and high cost-intensity of project preparation,
- distrust of or little knowledge about advisory services and methods and principles of selection and collaboration,
- too few successfully concluded projects and flaws in the standard tender documentation and model contracts,
- poor knowledge and little experience of PPP,
- common stereotypes about collaboration between the two sectors,

- belief that for a PPP project to be in the public interest it should generate income and not charge the public entity's budget.

One should appreciate, however, the efforts of the central government authorities to remove or reduce barriers to the growth of the market in Poland. These actions focus, on the one hand, on advisory and information services by the Department of Public-Private Partnership at the Ministry of Investment and Economic Development and, on the other, on changes in legislation thanks to which small and medium-sized enterprises can access PPP projects. *The government's policy on public-private partnership* of July 2017 is a roadmap for the PPP formula. If the principles adopted there prove applicable and if the atmosphere around the partnership changes, one should expect the volume and value of the market to grow in the coming years and its structure to change. The Polish PPP market will become more similar to other European and global markets.

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