

PPPs gather momentum

Private public partnerships are gaining popularity as a way of raising money for crucial infrastructure projects and reducing corruption.

Kevin Smith reports

Since the fall of the Berlin Wall and the demise of the command economy across central and eastern Europe, almost all aspects of the financial services sector have changed beyond recognition. Different countries have progressed at different rates and have tried different variations on a theme to overcome their own particular difficulties, depending on their own political views. However, there are still many similarities in the overall results.

Much of the most important reform has already been implemented and it can be difficult keeping up with legislative changes in some of these countries. Other aspects of reform such as corporate governance issues or the financing techniques used for infrastructure projects, have often taken rather longer to build momentum. Progress made in these areas still displays considerable differences from one country to the next.

The issue gathering momentum most quickly at present is the use of public private partnerships (PPPs) at both central government and municipal level. This topic is being hotly debated both publicly and behind closed doors as governments and policy makers become ever more aware of the potential benefits and more accepting of the political realities – as well as the need to access more funds than are available from tax revenues and donor funding.

PPPs (or public finance initiatives, as they are sometimes called) have been used successfully in the UK for some years and around 510 projects have been undertaken, attracting more than \$37bn of private sector funding. The fact that the general public is unaware that PPPs have been used in about 95% of cases is testament to their success, and an ever-growing list of countries



Central and eastern European countries lining up to join the EU must upgrade their infrastructure

around the world are now using PPPs or seriously investigating their use.

While the arguments in favour of PPP structures are by no means purely financial, the arguments for their use in central and eastern Europe are even more powerful than in richer countries with better developed infrastructures. One benefit, cited by several countries, is that they promote transparency and reduce corruption.

The EU dimension

The Czech Republic, Poland, Hungary, Slovenia, Slovakia, Estonia, Latvia, Lithuania, Romania and Bulgaria are all lining up to join the European Union in the near future. To do so, they must comply with a huge number of criteria, either by the date of joining or within a specified time thereafter. Many of these criteria mean that a lot of the existing infrastructure – especially in areas such as water, transport and the environment – needs to be updated or replaced.

The EU is providing billions of euros in assistance, and contributions are also coming from multilateral agencies, such as the World Bank and the European Bank for Reconstruction and Development (EBRD), but it still only scratches the surface of what is needed. Unless

these countries mobilise the financial and other resources of the private sector, there is little chance of them achieving what is required.

Political will is the most important factor in the development of PPPs and it is this that differentiates the level of progress made so far by the countries in the region, as well as their prospects for the future. While the region's governments may say the right things, the real question is whether they understand the issues and mean what they say. Even if they do, there is a steep learning curve and to progress along this curve, governments will need to allocate both human and financial resources.

Poland started to develop PPP projects relatively early and seemed to make good initial progress but has since run into legal difficulties that have caused constant delays, most notably to some major transport projects. Laws are being amended and the situation is improving but the problems have highlighted the importance of a PPP-friendly legal infrastructure. Progress has rather paused since the recent elections and it remains to be seen what will happen.

Warsaw is arguably one of the most advanced cities in the region in its thinking, its actions and its understand-

ing of PPPs. It also provides a good example of the financial challenges of developing infrastructure in the region.

In round terms, a few years ago the city had identified some \$5bn-worth of infrastructure projects that it needed to implement, including a ring road, a new metro line, an extension to an existing metro line, a water plant and a bridge. Its constitution restricted it to borrowing so there was a large gap between the cost of the projects and the number that could be funded by conventional means. PPPs can play their part in bridging this gap, a fact that the city has embraced.

Hungary also started early but had a bruising experience with a toll motorway project (part-funded by the EBRD) that was enough to sour the idea for many years. The country is now putting this experience behind it and hopefully the concerned parties will draw on the lessons learned and future projects will benefit. The recently elected government, a supporter of PPPs, is hoping to develop a number of projects.

Empty words

The Czech Republic is a more difficult case. For years, the government said the right words without meaning them (despite its protests to the contrary). Even when a recent road contract was trumpeted as being a PPP, it was awarded to a friendly contractor rather than being put out to competitive tender, thus missing out on many of the potential benefits of a PPP structure.

Slovakia has had a slow start on PPPs as a result of the 'lost' years under one-time prime minister Vladimir Meciar, which ended in 1998. Government support for PPPs is now gathering momentum as the structures become better understood and the benefits are seen in neighbouring countries.

Slovenia is quite open to PPPs and has made good progress, awarding contracts in some pioneering areas such as roads maintenance. Perhaps this attitude is linked to the fact that Slovenians have been accustomed to paying tolls on certain motorways for some years.

The level of progress in each of the Baltic states mirrors the level of progress that they have made in the wider economic reforms. Estonia has made most overall progress, followed by Latvia and then Lithuania – although this is not reflected in the

contracts awarded to date. Again, this is a reflection of how open-minded the government and other key decision-makers are in their approach. Latvia is beginning to make rapid progress, however, and there is now strong cross-party support so this progress should continue to gather pace.

Romania and Bulgaria have signed PPP contracts (the first ones being in the water sector) but in both countries progress has been rather hesitant. This is probably due to different factions in

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the governments disagreeing on whether PPP structures are beneficial, or whether they interfere with services that should be solely state-provided. Romania, however, is beginning to move forward with a new project (the Dambovita Trade Centre) signed at the end of October and others are under consideration.

As the governments of central Europe begin to appreciate the benefits of PPPs, there is a growing tendency for them to establish centres of expertise in their respective ministries of finance. These are rather like the UK's Treasury Taskforce that was established in 1997, which later evolved into Partnerships UK. Hungary and Latvia are

just two recent examples. By concentrating the knowledge and experience in one area, the learning process is much quicker, and there is generally greater political leverage that can be used to tackle any changes to legislation and other such issues quickly.

If PPP is one of the tools that governments can use to solve the enormous task of developing their infrastructures, more projects will be started sooner rather than later. This can only be good for business and trade as well as for the residents of (ie voters) and visitors to the country.

The value of experience

While it is not possible to transplant a concept intact from one country or sector to another, it is possible to draw on experience gained from similar projects and to adapt that knowledge to local circumstances. As such, the banks, accountants and other financial advisers, as well as the contractors with experience in PPPs in the UK and other countries, are well placed to assist in projects in central and eastern Europe.

The rise and rise of PPPs in central and eastern Europe looks set to continue. Although some countries have made good progress, they are only just beginning to scratch the surface. The move towards tackling projects at a municipal, rather than a central government, level is likely to increase the speed of progress and the number of PPPs undertaken. **TB**

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MAJOR PPP CONTRACTS AWARDED OR OUT TO TENDER

Poland	A2 toll motorway; A4 motorway (certain sections); A1 motorway, Wroclaw hospital; LNG terminal; Krakow tunnel – BOT; Chorzow CHP power plant
Hungary	M1; M5 – BOT; Budapest Arena – 12-year BOT
Czech Republic	D47 motorway (shadow toll)
Slovakia	Concept being considered
Slovenia	Maribor Waste Water – 22-year concession; Kranska Gora Waste Water; roads maintenance
Estonia	Hospitals and others under consideration
Latvia	Various infrastructure under consideration
Lithuania	Vilnius District Heating
Romania	Bucharest Water – 25-year concession; Ploiesti Water; Timisoara Water
Bulgaria	Dambovita Trade Centre
	Sofia Water System – 25-year concession

Note: BOT = build, operate, transfer