
Public-Private Partnership - Development and Dilemmas for the Future from the Point of View of the Public Partner

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Abstract:

Purpose: The aim of this article was to evaluate the development of public-private partnership in Poland. The author also tried to determine the reasons for the still small number of such projects in Poland, also analyzing the results of his own research.

Approach/Methodology/Design: A literature review in the field of PPP was used, including available statistics and surveys.

Findings: The results of the research show the perspectives and dilemmas of PPP development in Poland, but also barriers and necessary changes in the future.

Practical Implications: Public-private partnership in contemporary conditions, including the problems of financing public tasks by central and local authorities, may become the engine of economic development (including local), the basis for modernization, a factor in increasing competitiveness, including improving the quality of life of citizens. It is legitimate to learn about the principles of public-private partnership functioning in broad social circles in order to promote its development, both at the central, regional and local (e.g. municipal) level.

Originality/Value: Public-private partnership is still an unpopular form of cooperation, hence the analysis of its development, including the inhibitory factors, is crucial for its future and universality. Own research is an additional advantage emphasizing the originality.

Keywords: Public-private partnership, public sector, private sector, public goods.

JEL classification: H410, H700, R110.

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1. Introduction

Due to the wide range of public goods offered, even in a market economy, both at the central and local levels, institutions and entities representing the public sector look for effective methods of implementing public tasks. Staff shortages, especially current financial problems and a multitude of tasks make the idea of public-private partnership a remedy.

According to Wetenhall history indicates that there has always been some degree of public sector and private sector co-operation, but an equally important determinant is the definition of the tasks of such cooperation (Wettenhall, 2003; 2005).

PPP seems to be a good solution for both public and private partners, and the partnership enables the achievement of goals, including the implementation of public tasks expected by the community, with a clear division of risks.

According to the data of the European Investment Bank (EIB), almost 1,800 PPP projects have been recorded in Europe since 1990 for a total amount of EUR 368.3 billion, of which almost 61% were projects in the transport sector (European Investment Bank, 2022).

Despite the clear benefits, the current PPP market is developed in few European countries and in the world, and it seems that its development is relatively slow. The UK, Spain, Portugal, Greece, and Ireland remain the leaders, while other countries either have PPP policies in place, but relatively few projects (e.g., France, Germany) or turned out to be skeptical about both PPP policy and its implementation (e.g. Scandinavian countries). This means that even in the EU Member States, significant differences in the popularity of PPP ventures can be found (Cepparulo, Eusepi, and Giuriato, 2020).

In Poland, PPP is still an unpopular form of cooperation and the total value of broadly understood PPP projects accounts for only 0.4% of total investments in private sector fixed assets (Myszczyszyn, 2022).

The main goal set by the author was to define the current factors of PPP development in Poland and prospects, including development dilemmas for the future. In addition to the literature review and available statistics on PPP projects, a survey was also conducted and the author's previous research results were referred to (Myszczyszyn, 2022). Polish experience in implementing PPP projects is certainly interesting as case studies both on a European and global scale.

2. Literature Review – Definitions, Development and Key Features of PPP

You can find different definitions of PPP in the literature available. Other terms of public-private partnership are also used, such as: P3, 3P, PFI (*Private Finance*

Initiative), PF-PPP (Private-Finance PPP), PSP (Private Sector Participation), PfPPP (People first PPP), hybrid models etc. (Lissowski, 2019).

In Poland, in accordance with the Act of December 19, 2008 on public-private partnership, Art. 1.2. public-private partnership consists in joint implementation of a project based on the division of tasks and risks between the public entity and the private partner (Journal of Laws of 2009, No. 19, item 100, as amended). The Ministry of Funds and Regional Policy defines PPP as a method of implementation public tasks, based on a long-term contract specifying the division of tasks and risks between the public entity and the private partner (Ministry of Funds and Regional Policy).

In Public-Private Partnership Handbook we can find that: public – private partnership describes a range of possible relationships among public and private entities in the context of infrastructure and other services (Public-Private Partnership Handbook).

As defined by the Organization for Economic Co-operation and Development (OECD), an agreement between the government and one or more private partners (which may include operators and financiers) according to which the private partners deliver a service so the service delivery objectives of the government are aligned with the profit objective of the private partners and the effectiveness of the alignment depends on a sufficient transfer of risk to the private partners.

International Monetary Fund okrśla PPP jako an arrangement where the private sector supplies assets and services that traditionally have been provided by the government. In addition to private execution and financing of public investment, PPPs have two other important characteristics: there is an emphasis on service provision, as well as investment, by the private sector; and significant risk is transferred from the government to the private sector (Reference Guide Public-Private Partnerships)

Aigner-Walder adds that the term PPP is used as a collective term for the various forms of cooperation between public authorities and private entities. The basic idea of the PPP concept is based on the cooperation of the public and private sectors aimed at combining the ways of thinking and acting and using the resources available in such a way as to lead the project in the most efficient and effective way for the mutual benefit of cooperating partners (Aigner-Walder, 2018).

Kivlenc emphasizes that a public-private partnership needs to combine profit-based incentives (but not too much!) with regulatory controls and the possibility of extra state funding (but again not too much on either count). Public-private collaborations differ from those between private firms in a number of ways (Kivleniec *et al.*, 2017).

In their search for standardization of partnership terminology, Hodge and Greve list several types of concepts related to different types of PPPs: 1) inter-institutional cooperation to jointly implement projects and share risks 2) long-term infrastructure contracts 3) networks of public policies based on loose relationships between stakeholders 4) partnership in the field of civil society development 5) partnership in the area of renovation and revitalization of urbanized areas ((Holdge and Greve, 2009).

Regardless of the definition, the basic goals and tasks of public-private partnership are to relieve the budgets of local government units, provide public services at lower costs and of high quality, increase the efficiency of using public partners' resources, use innovative solutions thanks to the knowledge, experience and capital of the private party.

An additional element is the possibility of implementing the tasks of the public sector despite the growing level of indebtedness, and the above-mentioned possibilities of dividing project risks.

In Poland, public-private partnership functions, in addition to the above-mentioned Act of December 19, 2008, based on the Act of October 21, 2016 on concession contracts for construction works or services (Journal of Laws of 2016, item 1920, as amended).) and the Act of September 11, 2019 - Public Procurement Law (Journal of Laws 2019, item 2019, as amended).

The public-private partnership may cover various investments in the field of construction or renovation of a building, provision of services, performance of work, the result of which is equipping an asset with devices increasing its value or usefulness, or other services related to the maintenance or management of an asset.

To summarize, in most countries with a legal definition of PPP it is used for social partnerships ultimately paid for by the government. The PPP contract must be long-term due to the effective transfer to the private partner of risk and management responsibility throughout the entire life cycle (Lisowski 2009).

3. Development of PPP in Poland – Statistics and Research Results

The value of the Polish PPP market, calculated by the cumulative value of completed and ongoing projects (from 2009 to the end of June 2022), amounted to approximately PLN 8.6 billion (less than EUR 2 billion), with a total of 167 contracts signed. The average value of contracts concluded in 2009-2022 was PLN 53 million, while the average value of contracts in the first half of 2022 was only PLN 2.4 million.

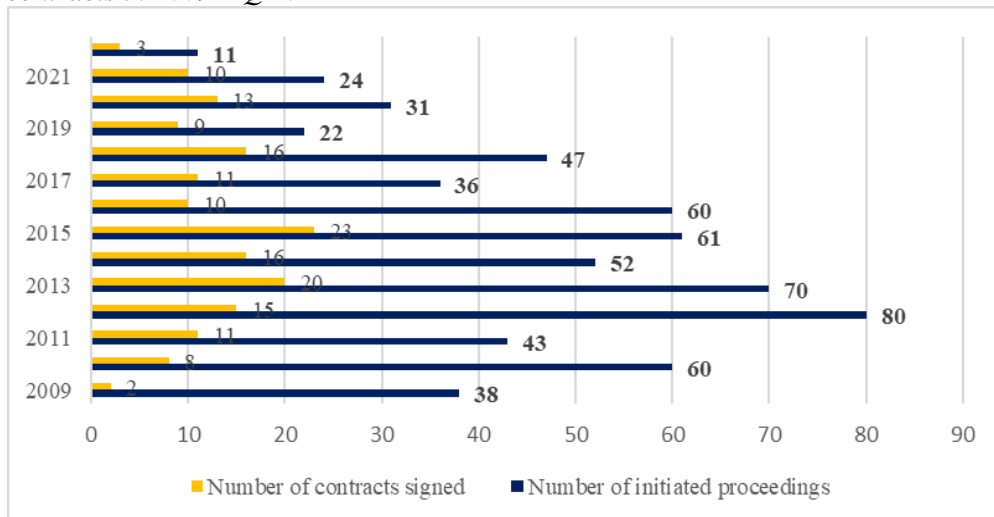
It should be noted that the ratio of initiated proceedings to proceedings with a signed contract remains at a relatively low level. From the beginning of 2009 to the end of

the second quarter of 2022, a total of 635 PPP proceedings were initiated in Poland, at the same time the number of signed PPP contracts was 167, which gives an efficiency of 26.2%. The quoted data on the number of decisions initiated and concluded contracts, broken down by year, are presented in Figure 1.

In regional terms, there are significant discrepancies in the number of investments - on the eastern wall, as well as in the Kujawsko-Pomorskie, Lubuskie, Opolskie and Świętokrzyskie voivodeships, these are individual projects, while where there are large urban centers, developed industry, fast economic development, PPP becomes more practiced.

The undisputed leader is the Mazowieckie Voivodeship, which has so far undertaken the implementation of 34 projects. A relatively small number of projects concerns the following voivodeships: Lubelskie, Lubuskie, Kujawsko-Pomorskie, Świętokrzyskie, Podkarpackie.

Figure 1. *The number of initiated proceedings and the number of signed PPP contracts in 2009-IIQ 2022*



Source: *Author's calculations based on: Raport rynku PPP 2009-2020, Ministerstwo Funduszy i Polityki Regionalnej, Warszawa 2022, s. 4, Raport rynku PPP 2009-2022, Ministerstwo Funduszy i Polityki Regionalnej, Warszawa 2022, p. 3.*

Figure 2 shows the distribution of completed and ongoing public-private projects as at the end of the second quarter of 2022, broken down by individual voivodeships.

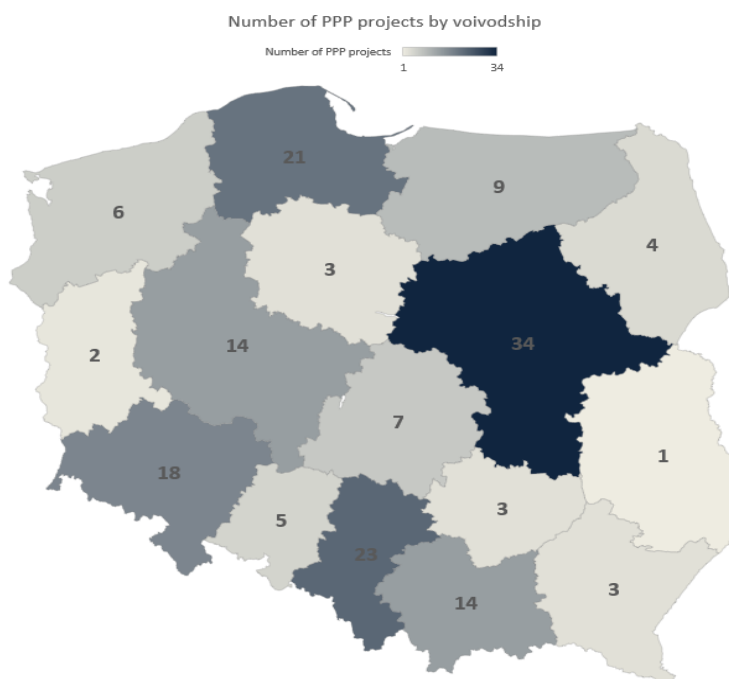
The market of Polish PPP projects is still dominated by contracts whose value does not exceed PLN 40 million, such contracts account for 79% of all PPP contracts. The largest projects with PPP contracts signed in terms of value were: Construction of a heat and power plant in Olsztyn (PLN 850 million) (2019), Waste Management System for the City of Poznań (PLN 783 million) (2013), financing, design,

construction and maintenance of the Krakowskie Szybka tram line Tram, stage IV - (PLN 660 million) (2020), waste management system for the Tri-City metropolis (PLN 625 million) (2018), development of the northern tip of Wyspa Spichrzów in Gdańsk (PLN 491 million) (2015).

In the period 2009-Q2 2022, PPP procedures were initiated in 15 sectors, with the three leading sectors being sport and tourism (158 procedures), transport infrastructure (91) and energy efficiency (67). In total, they accounted for approximately 50% of all proceedings.

In terms of value, the following sectors dominated: transport infrastructure, sports and tourism, telecommunications, waste management, water and sewage management, and revitalization. Proceedings for the selection of a private partner were most often initiated by urban communes (31%), rural communes (18%) and rural-urban communes (16%), the government administration constituted only 1.7%.

Figure 2. Number of signed PPP contracts in Poland by individual voivodships (2022).



Source: Author's calculations based on: Bazy zawartych umów PPP, <https://www.ppp.gov.pl/baza-zawartych-umow-ppp/> (access: 20.09.2022).

Public-private partnership, despite its measurable benefits, is still a not very popular form of cooperation in Poland, which is confirmed by the statistics for the years 2009-2022 (Figure 1).

The author's own research conducted in 2020 and in 2022 showed many advantages of the partnership, but also revealed the disadvantages and factors inhibiting its development in the future.

In order to achieve the planned goal, the author conducted his own research among public partners implementing the formula of public-private partnership. The electronic version of the questionnaire was made available to public partners. The wording of the questionnaire related to the general experience of PPP evaluation, including the advantages, disadvantages and expectations for the future.

The study was carried out in the period, January 15 - March 15, 2022. 24 public sector entities (out of 137) took part in the survey, which means 17.5% of the total. Most often, the questionnaire was filled in by employees of municipal offices or communes working in public procurement and investment departments. The respondents performed functions at various levels - some of them were operational members of PPP teams, others were specialists and inspectors in individual departments of public units, while the rest performed managerial functions as coordinators, department heads, directors, etc.

In regional terms, the questionnaires came from: Wielkopolskie voivodship (5 questionnaires), 3 questionnaires each from the following voivodeships: Dolnośląskie, Śląskie, Małopolskie. From the voivodships: Podlaskie and Pomorskie, 2 questionnaires and one questionnaire each from the voivodships: Podkarpackie, Zachodniopomorskie, Łódzkie, Opolskie, Świętokrzyskie and Lubelskie.

Out of 24 respondents, as many as 8 represented a municipal commune, 6 entities a rural commune, the remaining entities were the marshal's office, a budgetary unit and an urban-rural commune, a university and a municipal company.

Among the respondents, projects in the field of transport infrastructure dominated (25%), as well as sports, tourism and energy efficiency (20% each). There were also projects in the field of culture, energy, waste management and water and sewage management.

As many as 83% of the surveyed units confirmed that they did not use EU funding for the implementation of the PPP project. Only three respondents gave an affirmative answer.

The respondents generally positively assessed the cooperation with a private partner during the implementation of the project. Until the elections, there were five responses on a scale from definitely positive to definitely negative. None of the respondents expressed a negative position on this matter. 87% of respondents assessed the cooperation positively, three respondents had no opinion.

The respondents assessed, *inter alia*, what factors hinder the development of PPP in Poland. They could choose three out of eight answers, they also had the opportunity to add their own answers. The selected responses were dominated by: 1) lack of experience (54% of respondents), 2) complicated legal regulations (42% of those questioned), 3) fear of ensuring the sustainability of investments and excessive debt of the public partner (38% of respondents), 4) lack of interest on the part of private partner (38% of respondents), 5) lack of relevant knowledge in the field of PPP (29% of respondents), 6) other, e.g., lack of mutual trust, lack of effective state support (25% each), inefficiency of public administration (8%), lack of trust on the part of the public and lack of social knowledge, the need to undertake long-term commitments (4% each).

As many as 86% of people said that they did not receive EU funding. Only three respondents gave an affirmative answer. This shows that Poland still does not use this possibility in the implementation of public tasks.

In the opinion of the respondents, the following difficulties were encountered during the implementation of PPP projects, legal problems (complicated legislation), communication problems, exceeding the schedule of works and the assumed costs. The main advantages of the PPP formula include, improving the quality of public services, the possibility of financing investments without burdening current budgets, the possibility of obtaining additional capital, better risk allocation, faster investment implementation.

The main disadvantages include: uncertainty as to the choice of a private partner, high complexity of procedures, turbulence, loss of public control over the process of providing services, improper allocation of risk.

The respondents also indicated various possibilities of stabilizing the functioning of the partnership in the future, indicating, *inter alia*, for: better preparation and universality of social campaigns, creating a central database of information and good practices, educating specialists in this field, preparing a catalog of patterns, formal and legal answers, more flexible requirements for the preparation of documents at the stage of preparing applications.

In their opinion, in order to popularize PPP in Poland, it is possible to propose the introduction of co-financing of PPP consultancy for each commune with the first PPP project. Currently, the government's support focuses on consulting for the largest projects and training. For small municipalities, the barriers were the concerns related to the lack of experience and the risk of high costs of consultancy without a guarantee of the success of the procedure.

Summing up, the vast majority of respondents were willing to recommend the use of the PPP formula - because 64%, almost 36% of the respondents were not clear (I don't know the answer).

Mainly surveyed entities suggested enterprises concentrated in the infrastructure sector. Respondents also indicated that due to modest budgets, especially in small municipalities, often rural, PPP projects are suggested, the purpose of which is to reduce future expenses for the maintenance of e.g., schools, savings institutions through projects related to energy efficiency, waste management, road infrastructure and street lighting.

The PPP formula is advisable in communes with smaller possibilities of covering investments from current income, but at the same time small towns and communes collide with the lack of potential investors from the private partner.

4. Conclusion

It has been shown that public-private partnership is most often chosen as a method of performing public tasks due to, among others:

- limited resources of public institutions for investments,
- the distribution of costs over time and their distribution among project participants,
- no impact on the current level of debt of the public entity,
- the lack of skills and experience (staff) on the part of the public partner to build and manage projects, bringing innovative know-how by the private partner,
- risk sharing, high quality of products provided by the private sector,
- durability of the project.

The respondents drew attention to:

- the need for promotion and education on the benefits of PPP,
- increasing the catalog of forms of state support,
- the need to introduce financial instruments, to develop good practices and model projects, and what is important - to change the legal provisions into more accessible, unambiguous and transparent,
- the need to introduce a system of universal advisory services for public institutions.

It is also necessary to disseminate this idea - especially locally, in small municipalities, with smaller projects and in various sectors,

- developing incentives, especially in small rural communes, for private partners, because often despite repeated public announcements there are no people willing to cooperate.

There are also disincentives to the use of the PPP formula by the public sector:

- uncertainty as to the choice of a private partner
- high degree of complicated procedures
- political turmoil.

The respondents emphasized that undertaking public-private partnership is a difficult multi-faceted task for which a specialized team is required.

In the context of the conducted research, the main barriers to the development of PPPs were:

- lack of sufficient knowledge and experience of public authorities to carry out this type of investment, hence the concerns at the stage of initiating the procedure and preparing the project,
- lack of incentives and stimulation from the state,
- complicated provisions in the legislation (Myszczyszyn, 2022).

The obtained research results are in line with the opinions expressed in the public debate on the effectiveness of the PPP model, these opinions are highly polarized, positive or negative, although cautious assessments dominate. After several years of operation, it can certainly be concluded that public partners (government, local governments) understood that PPP is not always a panacea for effective implementation of public tasks, it has its limitations, weaknesses and disadvantages.

On the other hand, despite the passage of years, further development requires the involvement of the state, the education and science sector and all forms of promoting the idea of PPP.

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