Public Private Partnership Projects in the Conditions of the Czech Republic

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Abstract: The paper deals with the problems of public private partnership (PPP) projects from the point of view of the barriers of their implementation in the Czech Republic. Firstly, two basic groups of PPP projects that can be identified in this respect, i.e. so-called pilot PPP projects (strategically important model projects) and the other projects (particularly local government projects), are characterized. Secondly, the authors assess the problems and risks connected with application of PPP projects in the context of the theoretical basis and two surveys carried out in the Czech Republic in the past. Subsequently, there is a summary of the outcomes of the survey called “The Problems Related to PPP Projects in the Czech Republic”, which was carried out in 2011 among the national members of the PPP Association and the ordering parties of the pilot projects and was focussed on the potential problems of PPP projects and possibilities of their solution in the conditions of the Czech Republic.

Key-Words: public private partnership, PPP projects, barriers in PPP project implementation, Public Private Partnership Association

1 Introduction
In the present demanding economic conditions, cooperation or partnership among all the involved economic entities is a way how to achieve economic growth and strengthen competitiveness of both the individual entrepreneurial entities and the entire economies. These partnerships lead to creation, transformation and transfer of valuable knowledge and resources. One of the relevant forms of partnerships in the given context is the partnership between the public and private sectors. Projects implemented within this framework, so-called public private partnership (PPP) projects, represent projects of building an extensive infrastructure implemented in the public interest using the financial resources of the private sector, where not only the financial resources of private enterprises, but also their know-how, organizational and innovative potentials are used. As for more details of the PPP problems, see e.g. Cellucci [1], Delmon [3], Dewulf, Blanken & Spiering [4], Osborne & Osborne [8], Yescombe [22].

The fact is that PPP projects are used in the Czech Republic to a limited extent although they are connected with a number of positive microeconomic, macroeconomic and extra-economic effects [17]. The paper deals with the outcomes of the research carried out in the Czech Republic in 2011 focussing on the barriers in PPP project implementation, aimed to identify the problems connected with application of PPP projects in the Czech Republic and to propose their possible solutions, and it was carried out in the form of a survey among the members of the Public Private Partnership Association and the ordering parties of the pilot projects.

2 PPP Projects in the Czech Republic
PPP projects in the Czech Republic can be divided into two basic groups: so-called pilot projects and local government projects.

The pilot projects represent projects that the Ministry of Finance of the Czech Republic chose as model projects on the basis of which the public administration should learn. They are projects from different areas, which should show for what type of projects PPP projects represent a suitable solution in the Czech conditions. However, it is the fact that the list of the pilot projects has been modified several times since its first establishment in 2005, and none of the pilot projects has been implemented so far. In 2005, the list of pilot projects included 5 projects: AirCon - Airport Connection, Central Military...
3 PPP Project Implementation Barriers

Professional literature admits that implementation of PPP projects is connected with certain disadvantages and risks, like prolonged project preparation, insufficient experience of the partners, a demanding process of ensuring transparency of the relationships, a long-term and complicated character of concluding contracts, negative financial effects in the case it is necessary to terminate the relationship, information asymmetry, and also the fact that the economic aspects of the projects are preferred to the social, environmental, or other aspects, or an increase in mandatory expenditure and generation of a hidden debt [17]. The other potential risks can be seen in the demand risk, the financial risk, the residual value risk, the construction risk or the environmental risk, also the risk of choosing a private partner, the political risk, the hidden defect risk, the availability risk, the sustainability risk, the hidden protectionism risk, or the force majeure, see more e.g. [2], [5], [7], [13], [16].

From the point of view of the Czech Republic practice, the following factors can be considered as those complicating implementation of the pilot PPP projects on the basis of the Transparency International – Czech Republic report, published in 2009 [21]:

- basic pilot project parameters enabling comparison have not been defined;
- existence of two dependent regulators - the PPP Centre and the Ministry of Finance;
- non-bindingness of the PPP Centre methodology documents;
- the PPP Centre does not act as a coordinating expert body, which would ensure transfer of good practice among the projects and assist the ordering parties;
- the organizational background of the PPP projects from the institutional point of view is neglected;
- insufficient monitoring of implementation of individual pilot projects;
- the ordering parties’ incapacity to define the desired outcomes clearly;
- the ordering parties’ incapacity to steer complex projects;
- insufficient planning on the side of the ordering parties;
- questionable project management credibility.

Another relevant source of information from the point of view of the biggest barriers preventing introduction of the PPP projects in the Czech Republic is the research of Jirásková [18], carried out in 2007, which identified, from the point of view of the public sector entities, the following key problem factors:

- minimum experience of the public sector;
- minimum planning on the side of the public sector;
- minimum experience of the private sector;
- questionable project management credibility.

In 2007, the list of pilot projects was extended to 9, and the above list was extended by the projects Campus of the University of Jan Evangelista Purkyně, Na Homolce Hospital, Pardubice Regional Hospital, and Sports-Leisure Centre Ponava in Brno. [11]

Nowadays (2012), the list of pilot projects includes 8 projects (including 3 local government projects): AirCon - Airport Connection (upgrading of the Prague-Kladno railway line and construction of a railway connection to the Ruzyne Airport, including operation and maintenance), Central Military Hospital (hotel-type lodging house for Central Military Hospital staffs and parking site), D3/R3 Motorway (construction, maintenance and operation of D3 motorway and R3 road), Guarded Prison (construction, maintenance and operation of a new guarded prison with the capacity of 500 inmates that will meet European standards in Rapotice area), Justice Court in Usti nad Labem (construction, maintenance and operation of court house in Usti nad Labem - infrastructure and support services focus only), Revitalization of the Trebic Bus Station (design, construction and operation of bus terminal in the city of Trebic, including construction of a shopping gallery and parking house), Central Heating Supply in Koprivnice (construction, maintenance and operation of central heating supply system in Koprivnice) and Sport and Recreational Complex “Pod Cervenym kamem” (reconstruction, maintenance and operation of complex of sporting grounds, with the possibility of sports and recreational activities). [10]

The local government projects represent PPP projects implemented by municipalities and regional governments. The PPP Association now registers 48 such projects, and 22 of them are already in the phase of implementation. The most projects (15) are from the area of sport and recreation, then from transport (9 projects), water management (6 projects), power engineering, social and local government services, and education (3 projects each). [9] However, only the following 4 projects have been put into operation to date: Parking House Rychtarka in Pilsen, and 3 homes for senior citizens in Litomerice, Vysoke Myto and Pisek. [14, 15]
• lack of information;
• missing example of a successful project;
• limited human resources in the public sector;
• lack of interest in the private sector;
• imperfect legislation.

From the point of view of the private sector entities, the research identified the following problem factors:
• insufficient practical experience of the public sector;
• the Czech creativity and seeking the “Czech ways” (based on unethical behaviour);
• unwillingness of the public sector to initiate PPP projects and face the related risks;
• missing political will;
• financial and administrative demands of PPP projects.

4 Problems Related to the PPP Projects in the Czech Republic

The list of problems preventing implementation of PPP projects in the Czech Republic can obviously never be presented as complete. The problems considered as the key ones by the public sector institutions and organizations are different from those considered as the key ones by the private sector. Moreover, it is possible to assume that the character of the problems changes in time. In view of this fact, in the first quarter of 2011 we carried out a survey called “The Problems Related to PPP Projects in the Czech Republic” among experts in the given problems, who were the national members of the PPP Association (40 respondents) and the pilot project ordering parties (7 respondents). The survey aimed to identify the problems connected with application of PPP projects and to suggest possibilities of their solution stressing the conditions in the Czech Republic.

The questionnaire was drawn up in the way to contain, apart from the identification part, 10 selected problems where the respondents decided whether they consider them as a problem or not. For each of the problems, the questionnaire also suggested a solution and the respondents expressed their opinion whether they agree with the given solution or not, and they could also enlarge on their opinion in the comments. 36% of the respondents returned the questionnaires.

Problem No. 1 was defined as “The financial demands of PPP project preparation”, and the suggested solution offered “Considering the cost of project preparation as savings in the cost of solution to future deficiencies”. This fact is considered as a problem by 53% of the respondents, and 89% of them identified with the suggested solution. The comments imply the fact that considering the initial financial demands of a project as future savings (i.e. from the point of view of the entire project life cycle) should be a natural thing not only for PPP projects, but generally for all investment projects with higher capital demands in the initial phase.

Problem No. 2 was called “The time demands of PPP project preparation” and the proposed solution was “Simplification of the process of preparation on the legislative level”. 65% of the respondents agreed with this problem, and 64% of them agreed with the proposed solution. At the same time, it is apparent from the comments that the time demands of preparation are logical and natural from the point of view of duration of such a project (a concession contract), i.e. everything must be prepared very well to achieve savings in the future. The only thing that can prolong the preparatory phase of a PPP project ineffectively is the disproportionately long decision-making and authorization process on the side of the public sector (the ordering party). This fact results from only little experience of the public entities with this type of projects.

Problem No. 3 was specified as “Missing practical experience with PPP project implementation”, and the suggested solution was “Utilization of foreign experience on the general level only and careful analysis of the Czech specifics”. 82% of the respondents identified with this problem, and 79% of them consider the suggested solution as effective. The comments then supplement this problem by the fact that practical experience is not missing in the professional sphere, but there is a lack of it on the side of the public sector. Furthermore, there is no political support or will on the side of the ordering parties. Moreover, this problem could be effectively solved by implementation of at least one pilot PPP project of a significant range, which would prove viability of this concept in the Czech Republic.

Problem No. 4 was presented as “Not very well worked-out or missing methodology of PPP project implementation”, and the suggested solution was “Broader scope of activity of the PPP Centre in the area of creation and publication of methodology”. Only 35% of the respondents agreed with this problem, and 83% of them agreed with the proposed solution. The comments imply the fact that the volume of methodologies is sufficient, but the problem is that they are not binding. Some respondents even note that there are too many methodologies in place, and that it would be better to have only one all-embracing methodology.
Problem No. 5 was specified as “Complexity of legal regulations (PPP projects fall within the concession act)”, and the suggested solution was “To put, from the point of view of legislation, the process complexity of concessions on the level of public orders”. This fact is considered as a problem by 53% of the respondents, and 89% of them agreed with the proposed solution. In their comments, the respondents agree with the fact that the legal regulations are not too complicated from the point of view of the obligations stipulated for PPP projects, but that it is rather incomprehensible and obscure. There were also suggestions that the obligations should be simplified for smaller projects, while effectiveness of bigger PPP projects should be assessed more strictly.

Problem No. 6 was “Low transparency enabling bribery”, and the proposed solution was defined as “Bigger emphasis on transparency guaranteed by the private partner”. 71% of the respondents identify with this problem, and 50% of them agree with the proposed solution. The comments to this problem discuss the fact that bribery is an issue not only for PPP projects, but also for typical public orders. It mainly results from insufficient control mechanisms on the side of the public sector. This means that it is necessary to look for a solution on the side of the public entity, but not on the side of the private partner. Such a solution could be in the form of making the law more restrictive and the anti-bribery police more active, or in the form of introduction of financial liability of particular persons for their bad decisions. To sum this problem up, it is possible to say that although transparency is considered as a significant issue, the respondents suggest solution on the side of the public sector.

Problem No. 7 was defined as “The political responsibility risk (a change of the political representation)” and the proposed solution was “Acquiring support of a wide political spectrum and the citizens by the present political representation”. 76% of the respondents agreed with the existence of this problem, and 69% of them agreed with the proposed solution. Their comments explain the current situation, where individual political parties do not have a clearly decided opinion of the PPP concept, and that is why when the political spectrum changes, PPP projects are stopped, terminated, or reassessed, which prolongs them in a disproportionate way. The proposed solution has been enriched with the finding that successful implementation of a PPP project, which would convince both the professional and general public of meaningfulness of this concept, would most help win broad support.

Problem No. 8 was specified as “Complexity of combining the EU grants with private sources” and the proposed solution as “Adjustment of disadvantaging a private applicant for a grant by the EU bodies”. This problem is important for 59% of the respondents only, and from them 80% agreed with the proposed solution. The comments imply the fact that it would be better if PPP projects did not combine with the EU grants at all. It is disproportionately demanding from the point of view of administration, legislation and time. Moreover, it could lead to non-transparency and to a decrease in the responsibility of the private sector (it is relatively easy to spend granted subsidies).

Problem No. 9 referred to “The hidden debt risk (a burden for future generations)”, and the proposed solution was “Making sure that negotiations over PPP projects are transparent, which brings a higher rate of security”. 71% of the respondents agreed with this problem, and 67% of them identified with the proposed way how to solve it. In their comments, PPP project supporters asserted that it is not a hidden debt, but that this kind of indebtedness is, compared to typical public orders, clearer and more transparent. On the other hand, opponents of PPP projects expressed their opinion that it is a hidden debt because if the Eurostat conditions are met, PPP project expenses are not included in the public debt. However, both parties affirm that a burden of future generations is an inherent constituent of each investment project, i.e. also a PPP project. This implies that the problem of a hidden debt has been confirmed, and its solution should be redefined as follows: “Indebtedness should be understood as transparent, bringing a higher rate of security to the public budgets”.

Problem No. 10 was defined as “A high rate of the project failure risk”, and the proposed solution was “Decreasing this risk through a high-quality project management”. 71% of the respondents consider this as a serious problem, 67% of them agree with the proposed solution. The comments supplement this problem with the fact that PPP project failures are mainly caused by political decisions, i.e. this problem is closely related to the political responsibility risk. They also stated that a high-quality project management is a natural thing for PPP projects as the presence of a private partner enables more affective application of the project management rules and tools.

At the end of the questionnaire, the respondents were invited to mention other problems they consider significant. One of such problems was ignorance of the possibilities, rules and procedures connected with PPP project implementation on the
side of public entities, where a solution could be seen in better education, training of the relevant workers of the public entities, or utilization of services provided by specialized consulting firms. Another problem was found to be the related legislation (e.g. the state property act, the insolvency act, or the tax laws) did not reflect creation of the concession act with its specifics. It is necessary to rectify this situation by amending the affected acts in the way to amend, for example, the tax specifics of the property operated by a party different from the owner on a long-term basis.

5 Conclusion
If we assume that, for interpretation of the outcomes of the survey “The Problems Related to PPP Projects in the Czech Republic”, agreement of a two-third majority of the respondents will be considered, given the limited number of respondents, as a determinant result, it is possible to conclude as follows. The most important problem can be seen in the missing practical experience with PPP project implementation, where it is possible to find a possible way of solving this problem in utilization of foreign experience while respecting the national specifics. Another basic problem is the political responsibility risk (a change of the political representation), where this problem could be solved by winning support of the wide political spectrum and the citizens by the current political representation. Another significant problem is the hidden debt risk (a burden for future generations), where it is however necessary to consider indebtedness on the basis of PPP projects as a transparent type of indebtedness, bringing a higher rate of security to the public budgets. Another substantial problem is a high rate of the project failure risk, which can be decreased through a high-quality project management. And, last but not least, another significant problem closely related to the previous ones is seen in low transparency of projects enabling bribery. This problem could be solved through amending the appropriate legal standards and a more intensive activity of the anti-bribery police. It is possible to see a possible way in application of the social responsibility principles (see more e.g. [6], [19], [20]).

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