A view of an office bearer on development aspects of PPPs

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1. Introductory statement

Sharjah, UAE: „PPP as an abbreviation for Public money to Private Pockets“

Unfortunately, the existing „state-of-the-art“ of PPP experiences and recommendations are of the PmPP kind, rarely of the PPP origin (for example those of UK).

Most important: who will pay the final bill, not so much who has been paying the initial investments - once the final bill is passed to public budget, the development is of the PmPP kind.

In my country, ***Czech Republic***, there are practically no PmPPs yet (and no PPPs) but almost 2/3 of construction industry incomes are from public budgets: it is not only bad, it is, I am sure, unacceptable.

In this presentation: **PPPs, not PmPPs**

In general: economic activities of private business should not be exclusively, or almost exclusively, dependent on public budgets. That is not only (so to say), a statement of a liberal principle, therefore of an ideological principle, it is a highly urgent principle of any healthy market economy.

2. Transitive and developing economies (TDEs)

The highest UN goal: to remove the gap, and a similar EU goal of reducing disparities - results are far from beeing impressive both in UN and in EU.

These challenges are highly misunderstood: they are merely declarations of best intentions instead of real, completely and professionally mastered procedures.

If a real success is to be achieved, some basic principles have to be respected and very practical highly professional business measures to economic and social development have to be both designed and (much more important!!!) turned into practical policies of real and strong development projects.

Principles to be respected:

- ✓ **technologies** are the main force of economic and social success - civilization breakthrough process (briefly: Process) has been initiated in the US; globalization is one of side-effects of the Process;

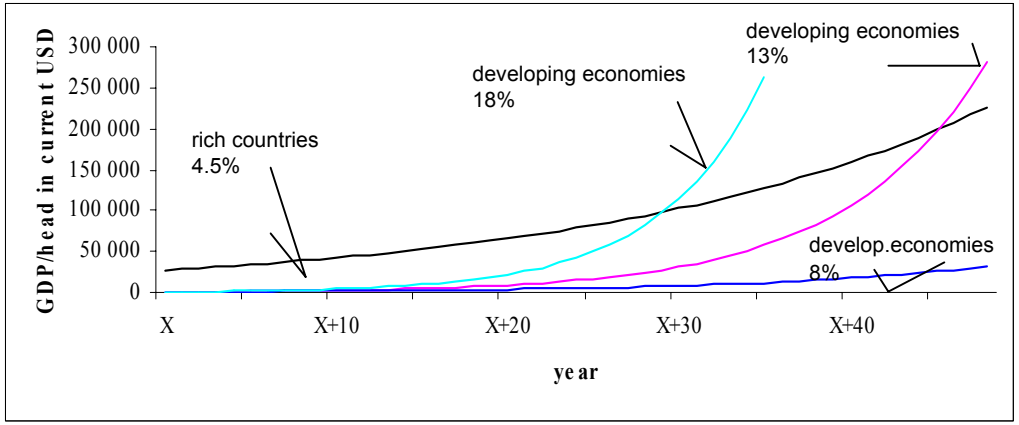
- ✓ **global forces of the Process & free international trade trends**: a strict equation - an economy can be successfull if and only if it is at the spearhead of the Process;

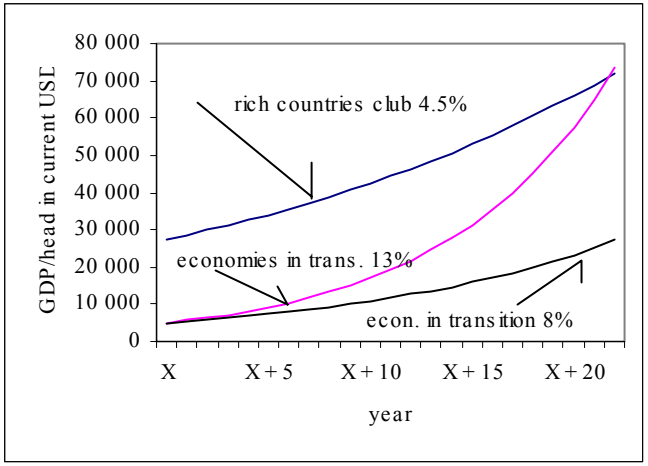
in other words, an economy is successful if and only if it is among those at the top, any other position is a position of a loser;

- ✓ **top economies are investing yearly about $7 000 to $13 000 per an average workplace**, they have educated and skilled workforce, perfect and complete infrastructure.

3. Convergency to the world top economies has to be the main goal of TDEs

Such a goal requests about **25 to 30 years of 13% yearly GDP/head growth** in terms of current dollar exchange rate for a TDE with about $5 000 GDP/head in current dollar exchange rate, and about 32 years of such a GDP/head growth for an economy with $800 GDP/head.





<u>Note</u>: using of purchasing power parity GDP/head is not only misleading, but it can be a fatal mistake (see e.g. the transformation experience of the former GDR - East Germany).

Three phases are needed:

a) Preparation phase of about 3 to 7 years.

b) Initiation phase: investments in the range of $100 000 per an average workplace in the time period of about 8 to 15 years are the absolute and minimal must (so called development constant).

Result: a broad spectrum of economic activities from core activities guaranteeing that the basic needs of citizens will be satisfied (food, housing and so on) to the high added value, especially high-tech ones, featuring (among other) a high international trade potential;

highly educated, creative and skilled workforce has to be available;

appropriate social and health care;

Infrastructure is a special phenomenon: almost necessary but far not sufficient condition of the success - costs of completing the typically obsolete and very unsufficient infrastructure of a typical TDE are grand but they are „only“ about 1/10 of the giant investments needed by the development constant.

At the end of this phase, the road to the final goal, successful convergency, should be irreversible.

c) Reaching the convergency goal: another 10 to (say) 25 years of a massive economic growth are needed (of the same kind as ad b)).

Considering an infrastructure development only is a serious, maybe a fatal mistake

At first, there exists no TDE with enough financial resources for completing all its missing infrastructure - moreover, there is no TDE with enough financial resources to do „all what is urgently needed“ infrastructure.

Case studies: ***Czech Republic*** $ 122 bn GDP expected for 2005 by EIU, hard infrastructure needs of CZK 2 to 2.5 tr (= $ 83 to 104 bn) in construction costs; if credits should be used, it represents $ 132 to 187 bn, essentially more than yearly GDP. Road investments represent here about CZK 1 tr (= $ 41.5 bn) in construction costs, with credits $66.5 to 74.8 bn.

The task principally cannot be mastered by traditional procedures, including traditional PPPs.

Here: Czech Republic is a relatively strong TDE and former Czechoslovakia bolshevics were rather dilligent in making infrastructure: Poland ones were lazy, and those of Ukraine, Russia and so on extremely lazy.

Our (very rough and initial) estimation: hard infrastructure development & reconstruction needs of

Poland: 200% - 400% of the yearly GDP

Ukraine: 500% - 800% of the yearly GDP

These tasks cannot be done by traditional technologies at all.

Case study: ***UK***, really one of the PPPs leading forces invested to PPP projects about £ 55bn in the more than a decade. This represents about 4.27% of the expected 2005 UK's GDP of £ 1 288.2 bn (by EIU prediction), thus and everage burden of about 0.4% of the yearly GDP.

At second, if something is done, at the cost of serious or heavy debts (like in Croatia), no investment resources will be available for other goals, moreover, the shocking experience will follow that nothing or almost nothing has happened in economic development of the country, in reduction of unemployment, in social matters in general and so on (a bright example: former GDR).

Case study: ***Croatia highway development success***. Highways are very, very important for Croatia, especially for its tourist industry. But: following the traditional (PmPP) recommendations, the country has been rewarded by giant integrated debts, $23 bn in 2004, compared to GDP of $26 bn; obligations to pay for the credits and interests were about $3.5 bn in the 2004. Tourist industry represents about 6% of the country's GDP. Therefore, the side effect of the (really!) very successful highway development is that there are almost no investment resources for other parts of Croatia's economy!

Case study: ***transformation of the former East Germany***. Initial estimations in the time of reunification: DM 10 bn will be needed to transform this 10th world strongest economy (by purchasing power parity evaluations) to the same position with the West part - other DM 110 bn should be needed for social transfers, costs of the reunification of DM and DEM, and so on.

Reality to the end of 2001: DM 1 700 bn to 1 800 bn spent for transformation of economy, another DM 1 400 for social transfers. A great success from one point of view, because in 1999:

GDP/head was:	DM 32 401 (East)	DM 48 653 (West)
average income:	DM 4 447	DM 5 537.

No other former Soviet Bloc economy can present comparable results!

On the other hand, at the East is a high unemployment, SMEs are rare and weak; in last five years the gap between the two parts grows again, after the construction boom is over (by the way: similar experiences were done decades ago when the Ruhr region was transformed, but the experience was forgotten).

Now the same bad medicine is recommended to TDEs in general (with no outlook for the same range investments).

4. Solution: under one umbrella PPPs

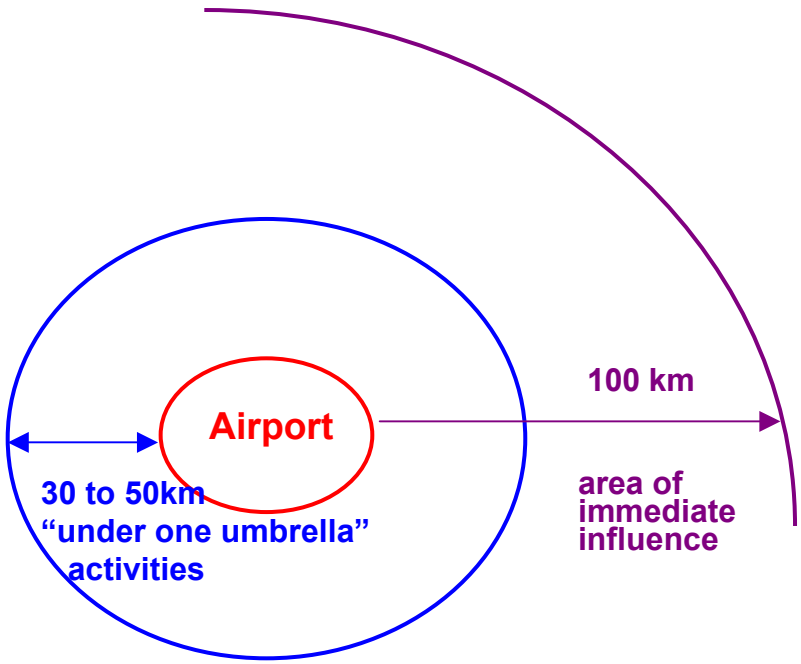
Here the heavy paradox has to be solved: despite TDEs are unable to finance completing of infrastructure they have to succeed in convergency - 1 to 10 requirement in costs only!

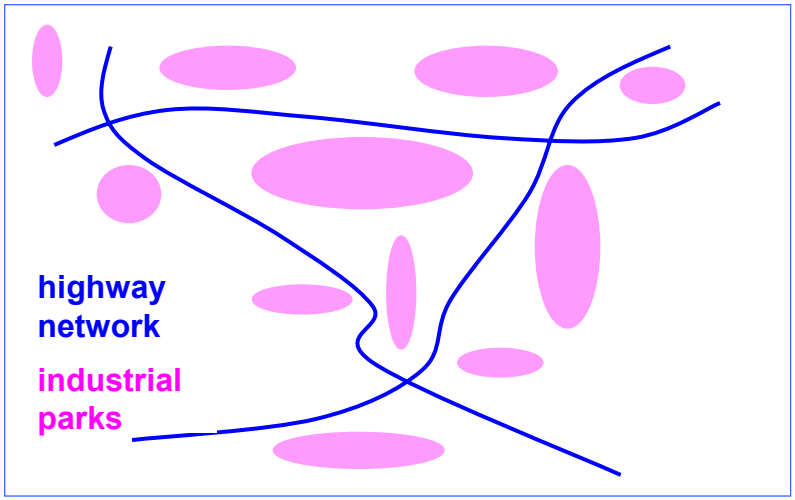
Under one umbrella PPPs: large projects of massive economic, usually regional developments, typically around of a large infrastructure deal playing a catalytic role.

Such projects: essentially deeper and broader concessions than in traditional PPPs (PmPPs)

On the other hand: exclusively responsible for (profitable) return of all investments.

Typically: private business 70% with a(n almost) complete responsibility for financing, public institutions with 30% of only non-monetary obligations of support (area planning, access to land, legal support if needed and so on).





The principal feature of such projects: to initiate a massive economic development in the area of the project - in the size and speed of the convergency process requirements - to guarantee a (profitable) return of (exclusively private) investments.

Very robust and very flexible projects.

Final financing: by outputs from this massive economic development.

Example: **projects of regional developments around of new highways** - such an under one umbrella project will get a monopoly of land use to 30 to 50 km around of the newly constructed highway (no greenfield projects other than inside of the projects will be allowed but everybody who would like to join this project will be welcome).

Our project for ***completing the highway network of the Czech Republic***. Special and formally very powerful Task Force established (five ministries were represented, four of them by deputy ministers);

Unfortunally: D47 PmPPP project appeared; result: the PmPP project was canceled and our project interrupted.

Currently: to do all from budget and privatization money - after one or two years there will be not enough resources of that kind anymore and I am sure that our project will return.

By all our analyses **no other approach than that of ours can be successful in completing highway networks in Poland, Ukraine, Russia**, ... (UN/ECE PPP Alliance office bearers June meeting in London: homework which will use UK PPP experiences to formulate a project of completing highway network in Poland).

Conclusion: in promotion and implementation of PPP technologies, economic & social aspects should be main issues, legal questions should be the tools guaranteeing success of projects, transparency and so on (official conclusion of the group chaired by me last year in Barcelona).

In TDEs, (a massive) economic & social development should be the main goal, PPPs being a tool able to essentially contribute - in such massive economic & social development projects infrastructure should be an organic, business part, usually serving as a catalyst there.

Isolated PPP infrastructure projects („pilot“ projects) should be avoided as much as possible: if a large PmPP project of such a kind is done, the result can be useful, maybe very useful, but it robs the public finance resources, moreover, no other project following the „pilot“ one cannot be attempted for there are no financial resources anymore.

The technological and transport miracle of the *Channel Tunnel* is a bright example of a financial disaster at the same time: if it was an under one umbrella project, instead of an isolated infrastructure development, it would be financially very, very successful!

A special note: **highway tolls** are, in fact, taxes (up to excise and value-added taxes applied to oil), their impact on road transport is negative (people do their best to use other than the tolled roads). Tolls should not be used for highways at all, irrespective whether traditional or electronics.

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