SESSION 2 – FINANCING THE INFRASTRUCTURE

CONTRIBUTION

“FINANCING TRANSPORT INFRASTRUCTURE IN POLAND - PAST EXPERIENCES AND FUTURE PLANS”

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Development Program

Poland’s policy priorities have been firmly stated in the government strategy “Infrastructure – a key to development”, “Motorways and Other National Roads Construction Program” and the “National Development Plan 2004 – 2006”. The development of the system of transport was revised recently by the “Strategy of Transport Infrastructure Development in 2004 - 2006 and the following years”. The periods of planning (2004 - 2006 and 2007 – 2013) are in line with the EU planning, what shows the importance of the EU infrastructure plans and financing for Poland’s infrastructure development. Although the Strategy concerns all the transport modes, roads and railways are of supreme importance.

The main priorities are:
- improvement of connections of Warsaw with European capitals to 2006 and with main country regions to 2013,
- effective transport system for intensified trade turnover within the Single Market and with the Eastern Europe,
- improvement of accessibility of main urban areas in Poland,
- support of the regional development,
- improvement of road traffic safety,
- environmental protection and reduction of costs,
- development of the inter-modal systems.

The quality of transport infrastructure is one of the most important factors stimulating the economic development and competitiveness. If bad, it doesn’t provide for proper quality of passenger and cargo traffic services and an effective allocation of industries and services. Bad transport infrastructure has a negative impact on foreign direct investments and mobility of labour force. Because of the geographical position and market size the bad condition of Poland’s transport network hampers the international trade with EU and the other neighbouring countries. For the enlarged Single Market effective connections of Poland with EU and new member countries through TEN is of great importance.
The existing system of transport in Poland consists of road, rail, air, inland water and sea transports. Road and rail transport are predominant, see and air transport are more important in the international rather than internal connections and the role of inland water transport is marginal. The transport network in general is considered as proper from a spatial point of view and very bad as concerns its quality.

**Roads**

The roads traffic movement in Poland was doubled in the last ten years. The lack of national roads network of adequate standard appears nowadays as critical both for national and international transport. As many as 34% of the national roads require an immediate modernisation and additional 37% should be modernised in the nearest future. Pavements standard is not adjusted for the heavy trucks movements. The total length of roads accepting the load of 115kN/axle, being a basic European standard, is estimated at 447 km (only 2.7% of the total national roads network). The total length of motorways in Poland is only 404 km and express roads only 206 km. All the main cities suffer from the bottlenecks and traffic safety decrease. The main urban centres (Warsaw and Silesian agglomerations) are particularly affected by the road accidents, congestion and the environmental pollution.

This results in additional economic, social and ecological costs of road transport, which is the most dangerous and expensive in terms of the human life. The human aspect can not be overvalued. In Poland 60 thousand road accidents are recorded each year, in which almost 6000 people are killed and 55 thousands are injured. In the 1990’s accident ability rate in Poland was almost 3 times higher than EU average (6 fatalities per 10 000 vehicles). Each year the social costs of road accidents are estimated at 2.7% of GDP and probably can be doubled by the external costs.

To improve the road traffic quality the modernisation of national roads, construction of access-controlled roads network (motorways and express roads) and construction of city bypasses are required. Only very big road infrastructure investments shall allow to increase its efficiency and safety. It is understood that the saving effects generated shall even exceed the required expenditures but unfortunately the infrastructure investments require relatively long time and capitals exceeding abilities of Polish Budget.
Railways
The network of Polish railways lines, estimated at 20.100 km, is well developed. It is relatively well electrified, often with two and more lines, but generally railways infrastructure is technically degraded. In comparison to the EU countries Polish railways infrastructure shows very bad technical parameters; only 22,9% of the tracks and 19,7% of the turn-outs meet the EU standards. There are only very few sections with maximal train speed above 100 km/h. It would be difficult to say what is worse; the lines infrastructure or the rolling stocks, stations and service equipment. Also the system of organisation, management and financing seems not to be effective and progress incentive.

The bad condition of the infrastructure results in the necessity of the commercial speed limits on many lines, low quality of services and worsening of safety. PKP SA is not able to meet the needs of the fast movement of the passenger streams, especially between Warsaw and the other main Polish cities and regionally (ia. in Silesian agglomeration).

Relatively low competitiveness of Polish Railways PKP SA creates a growing burden for the National Budget and in the commercial areas risk of loosing market after its opening for the other EU operators. It means that accession to EU will not create the need of the quantitative changes in the Polish railway network, but will need to carry out serious investment works in the field of modernisation and interoperability on the main transport lines.

Some of the issues will be solved in the long term by restructuring and the expected privatisation of the selected sections of the railways. However to make a progress a great financial contribution is necessary. Public – Private Partnership models can be applicable as a solution for both; better organisation and management of the services and increasing financial inputs through involving private capitals.

See and inland water transport
Four main Polish commercial seaports: Gdańsk, Gdynia, Szczecin and Świnoujście are located in Trans-European Transport Network (TEN-T). The total annual traffic volume of 47–50 million ton has stagnated since the beginning of the 1990’s. Insufficient cargo services, delays in handling operations offered by the ports and increased service costs are caused by insufficient sea/land access infrastructure.

In the Polish sea/land transport chain the railways play a predominant role and direct road access to ports is far insufficient for heavy trucks transport traffic.

The inland waterway transport, although most ecological one, is playing minor role, serving only Szczecin and Świnoujście seaports. The realisation of the Odra 2006 Program shall result in doubling the inland shipping transport volume, water economy improvement and flood safety increase. Sustainable competitiveness of Poland’s seaports and their integration with TEN requires improvement of direct road and rail links to ports. Also modernisation of seaways and approach ways, reconstruction of port entrances and port quays, modernisation of vessel traffic management and radio-navigation systems have been undertaken and will be continued in future.
Air transport
Airports infrastructure in Poland is covered by the central international airport in Warsaw, 2 main regional airports, 10 regional airports and 43 local airports and airfields. F. Chopin Airport in Warsaw handles about 5 million passengers per year, of which about 87% is the international traffic. 10 airports handle regular passenger traffic connections. The Warsaw airport has been rebuilt and modernised but the rapid growth of the air traffic requires strategic decisions about a new airport for Warsaw and further development of the regional airports.

Financing sources
Till now the transport system modernisation has been financed out of the following sources: public (national) funds, EU funds (PHARE and ISPA) and private capital (marginal role). In the period of 1991 – 2003 the financing of transport infrastructure in Poland has totally amounted to 7,800 mln EUR. It has been covered mainly by the Polish budget, in 45,2 % supported by the International Financial Institutions (EIB, World Bank and EBRD). The input of EU grants has been 24,4 %. In the coming years the sources shall not change but the role of EU funds (Cohesion Fund and Structural Funds) and private capital should increase.

Table 1. Financing of transport infrastructure in Poland – sources (in the period of 1991 – 2003)

<table>
<thead>
<tr>
<th>Source</th>
<th>Cost (MEUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>STATE BUDGET</td>
<td>3 230</td>
</tr>
<tr>
<td>EU GRANTS</td>
<td>1 905</td>
</tr>
<tr>
<td>LOANS FROM EIB, WORLD BANK, EBRD</td>
<td>2 365</td>
</tr>
<tr>
<td>TOTAL</td>
<td>7 500</td>
</tr>
</tbody>
</table>

If we refer to the Trans-European Network (TINA Final Report, 1999) the Polish allocation of expenditures in the years 1998 - 2015 values at 36,400 mln EUR, of which 17,550 mln EUR are planned for roads and 14,600 mln EUR for railways. This investments could not be accomplished without the participation of the private sector. To great extend the poor quality of Poland's transport network results from the investments backlog in this sector. In fact all transport modes are facing serious investment needs and the main barriers are: capital and effectiveness of its spending.

Public national funds
Improvement of the national transport network standard is one of the Poland’s development priorities but the Motorway Construction Program initiated in 1994 fell short of expectations. The growing criticism of the roads users has been reflected by the public debates and unwillingness to accept any additional public charges for financing transport infrastructure modernisation. This resulted in parliamentary rejection of the vignettes proposed by the government in the beginning of 2003.
Existing models of transport infrastructure financing are based upon:

- traditional system of the State Budget financing supported by the International Financial Institutions’ loans and European Union Funds;
- BOT model (in roads) based on the concessions for motorways construction and operation.

The lesson has been learnt and the BOT model for motorways will be developed taking advantage of the experience already gained. The new BOT projects should be prepared for the A4 motorway sections between Wrocław and Gliwice. Basically the section Wrocław – Opole has been already finished but requires some additional investments (construction of petrol stations and rest facilities). The A4 sections have been done by the General Directorate for National Roads and Motorways, which is the state authority responsible for development, modernisation and maintenance of national roads and motorways. The Directorate annual budget is included in the State Yearly Budget and is derived from the part of fuel charges.

It is possible that the new motorway sections of A4 financed by the State Budget shall be operated by the National Road Fund, a new institution planned to be established by the Government. Its creation is part of the new project of amendments to the existing Law on Tolled Motorways, which has been actually discussed in the Parliament. The National Road Fund, tied to the state bank Bank Gospodarstwa Krajowego BGK, would be in future the leading institution in the process of Poland’s road infrastructure development financing.

The responsibility for the communal roads rests with the communities and the underdevelopment of urban transport infrastructure reflects the very limited financial abilities of the communities. Very often the main cities administer also the sections of the national roads, which are within the city areas.

Increasing public debt (49.8 % of GDP in 2002) implies limited possibilities of receiving loans by the Government and issuing bonds. The future BOT projects should not even involve state guaranties. The debt allocation is considered as one of the main issues. Public funds need to be directed to areas where the private sector has not shown any interest and priority should be given to activities that do not deepen the state budget deficit.

**EU funds**

The involvement of UE funds (shown below in figure 2 and 3) has been very important for the development of Polish transport infrastructure. It has been growing from year to year since 1991 started with PHARE program and supported by ISPA in 2000.
As concerns the EU involvement the basis for the realisation of the strategy in the years 2004-2006 is: Cohesion Fund Strategy 2004-2006, Sectoral Operational Programme Transport 2004-2006 and the transport part of the Integrated Operational Programme for Regional Development 2004-2006. Cohesion Fund resources shall be concentrated on railway and road projects located on TEN and projects included in the Sectoral Operational Programme Transport shall be financed by the structural funds (ERDF). These projects shall be aimed at balanced development of the national transport system and safer transport infrastructure. According to the National Development Plan the input of EU funds will amount to about 2,900 mln EUR in the period of 2004 – 2006. The co-financing will require up 700 mln EUR from the national budget.

Figure 3. Financing of transport infrastructure from EU funds (in the period of 2004 – 2006)

The EU funds availability should be also an additional factor for increasing the investment attractiveness for the private sector.
The role of International Financial Institutions can not be overvalued. In the period of 1991 – 2002 the total value of credits amounted at 1.872 mln EUR, of which more than 50% originated from the European Investment Bank. Also the World Bank was very active.

**Figure 4.** Financing of transport infrastructure from IFI’s loans (in the period of 1991 – 2002)

The cooperation with the International Financial Institutions has resulted not only in the financial support of the national budget but also high quality of proceeding and introducing international standards in the Polish market. In future the role of IFI shall be even bigger but the private sector (concessionaire) should be the debtor rather than the state.

**Private capital**

The traditional system is still prevailing but the private investors involvement should increase in the nearest future. The urgently needed investments in Polish transport infrastructure are much higher than the available public sources. This creates the potential area for Public – Private Partnership, which turns a growing interest of public administration and private business.

Under the BOT concession agreement the 61 km section of A4 motorway has been operated by Stalexport SA and the first section of A2 motorway of 48 km has been operated by Autostrada Wielkopolska SA. Two more sections of A2 motorway have been under construction. The financing of both models is based on the toll system but the modernization of the section of A4 motorway has been financed by the State Budget while the sections of A2 motorway have been built (partly upgraded express road) by the private concessionaire. The third concession granted to Gdańsk Transport Company SA for a section of A1 motorway has not yet resulted in the concession agreement. Originally it was planned for a shadow toll system because the traffic projection was not high enough to justify the profit return on capital for the private investor.

There is also a “Project for Private Sector Preparation to Upgrading, Maintenance and Management of Roads in Poland” developed by the international consultant (consortium of Booz Allen & Hamilton, Parkman and White & Case) and financed by the EU PHARE grant through the EBRD. The two pilot DBFO projects cover two sections of the national roads - no. 19 of 150 km and no. 62 of 100 km, of the total investment costs estimated
at 220 mln EUR. It can be a very interesting experience of entrusting a private partner with upgrading, maintaining and managing roads, while at the same time the public co-financing is expected.

The private capital is expected to support public finances in co-financing the EU funds’ projects. It shall be difficult as an additional complication of the structure of projects. The other major concern of PPP models is the relatively long time to get the PPP project started. To some extend it results from the complexity of the process but also from the lack of experience of the parties.

The “Guidelines for Successful Public–Private Partnerships” has become a kind of manual for the decision makers preparing infrastructure projects involving EU funds and private financing. As far as the basic knowledge and good experience are concerned a big progress has been done in Poland. It is one of the pre-conditions of the development of PPP projects. As the biggest potential for PPP is probably in the transport infrastructure the Ministry of Infrastructure has become a centre of this expertise.

Except the road transport there are also a few projects of railways passenger services where the possibility of PPP model application has been examined (WKD – Warsaw Commuter Rail, SKM – Tri-City Suburban Rail, Regional Railways in Lower Silesia and in West Pomeranian). The aim of all this projects is similar: rehabilitation, upgrading of the rolling stock, maintenance and management of the lines. In all this cases operation of the networks is not possible on commercial conditions only, without the state subsidies. Moreover the vital interests of the local communities must be respected. There is also one more project - Warsaw Metro - realised by the City of Warsaw. Examining all the projects mentioned above shows us clearly the weaknesses and barriers of Polish public financing, public procurement, budgetary and fiscal regulations, which do not favour the PPP solutions. Necessary changes of the financial and legal framework have been prepared now.

Although the objective of PPP is getting projects done in a better way than in the traditional approach (value for money oriented, competitive, non-discriminatory, public, transparent) it is also a method of bridging a financial gap through involving long-term private financial resources. But even if we attract the private sector to invest in the infrastructure projects the funds at some point must be returned. It applies also to the funds borrowed from the IFI. That means we have to make a very good use of money, which is a rare commodity in Poland.

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