

REPORTS FROM THE CONFERENCE WORKSHOPS

- I. Best Practices in the City Role in Business Development
in the New Europe
- II. Public Private Partnership at the Local Level

WORKSHOP I

“Best Practices in the City Role in Business Development in the New Europe”

Moderator: Mr Evgenius Gentvilas, former UBC vice-president. Member of Klaipėda City Council

Mr Anders Leckne, Chief Executive Officer, Linköping City Growth Prize 2003 – the construction of triple helix

Criteria for the City Growth Prize:

- Positive net migration 2002 and a positive average 1997-2001;
- Larger increase of gross salary incomes than average Swedish municipality 2000-2001;
- Larger decrease of unemployment than average Swedish municipality 2002;
- Larger increase of employment than average Swedish municipality during 1990-2000.

The Swedish Growth Prize additional criteria:

- Innovative and creative development of the municipal service and the efforts to create attractivity;
- A good municipal leadership;
- Networking competence with neighbouring municipalities and with the business community;
- Interest and engagement for an increase of entrepreneurship in the municipality;
- Know-how on the importance of internationalisation and its importance for the development of the municipality;
- Efforts to increase social stability.

Mr Andrzej Pietrzyk, Vice-Mayor, and Mr Andrzej Sabiniarz, Deputy Head of the Integration Office, [Chojnice](#)

Economical and tourist development of Chojnice

The Chojnice district is situated in the north of Poland where many important routes cross. Tourists enjoy the commerce, services and cultural offers, and the Chojnice Rural Commune is an excellent recreation resort. There are over 5.000 companies in the Chojnice District. 3.500 of them are based in the town.

The „Programme of development of Chojnice until the year of 2002”

The main goal was a limitation of the number of the unemployed in Chojnice and consisted of a number of separate actions:

- The construction of the complex of swimming - pools - ”Water Park” Ltd.
- Modernization and restoration of the Downtown.
- Modernization of the sewage treatment plant.
- Creation of the Chojnice Companionship of Social Building,
- Modernization of crossroads in Chojnice
- Modernization and repairs of tenements

City role in business development

Property tax discount up to 80%:

- for a new created company which employs unemployed people for minimum 12 months
- for already existing company which employs the unemployed people for minimum 24 months

Up to 50% discount in land rental for company which employs people from Chojnice region during 36 months

The Człuchów-Chojnice Pact

In the year 2001 four neighbouring communes signed **The Człuchów-Chojnice Pact** in which 3 strategic goals were specified:

- Creation of the Common Labour Market on the basis of industrial zones in Topole and Rychnowy;
- Economic and industrial growth in the area of communes;
- Creation of the „two-town” with a preservation of the individual identity and independence.

Investment offers

- grounds for housing and service-buildings
- industrial grounds
- grounds in the area of the Special Economic Zone and Industrial Zone buildings

**Ms Bodil Anjar, Sustainable Sweden Southeast AB. Kalmar.
Networking – a tool for creating a sustainable society**

Our starting point:

- Kalmar Region has a high environmental competence
- Environmental technology and sustainability have a prominent position within the local universities
- Proactive attitude and concern from the authorities
- Our partners hold leading positions in their line of business

Win-win situation

We need to establish business and society solutions that support sustainability.

Our concept is to link and coordinate experiences and knowledge from trade, industry and community with research resources from universities and institutions.

- Competitive Clusters
- Committed ownership
- Large “locomotive firms” with a big local heart;
- Intensified interaction between business, social organizations and university research & education;
- The productivity of public investments by private firms;
- The necessity of public institutional funding of long-term cluster projects.

Core Values

All our activities are aimed to support development towards a sustainable society. The close co-operation between universities, companies and municipalities is our strength and promotes business. Regional location and communication is of great importance.

Know-how is a resource with increasing value when being transferred and developed. The engagement in Sustainable Sweden offers possibilities to create business but also to contribute with knowledge and resources. The company concept provides strength and power to act.

Mr Juris Grikis, Deputy of Executive Director, and Mr Armands Muiznieks, Chief of Department of Tourism and Foreign Relations, Jūrmala

Cooperation between Municipality and entrepreneurs, NGO and all society is very important. In Jūrmala, which is the largest sea resort on the Baltic Sea with 57000 inhabitants, 100 sq km territory and 33 km long beach, tourism is main industry. In the last two years Jūrmala City Council stated three main priorities in the tourism development - improving service and tourism product quality, attract investment and activate marketing. To work for involvement of entrepreneurs in all these issues is

essential as creating of image of the city, pushing general ideas, brochure production, participation in travel fairs, organisation of seminars and workshops is available if all actors in industry are working together. The role of the municipality is to COORDINATE and lead the activities.

For the first time this year Jūrmala had own stand in the MATKA travel fair in Helsinki and MITT travel fair in Moscow. It was a great success because tourism department of the City Council involved Jūrmala accommodation establishments, Latvian travel agencies and foreign travel agencies working together with Jūrmala's Administration.

The other example is a river ferry from Riga to Jūrmala. That was popular attraction in soviet times, but after getting independence in 1990 that business was stopped. Two years ago municipality renovated pier in Jūrmala and helped ferry owner with marketing activities. Now in summer time ferry is going on weekends. Tourists are happy, entrepreneur is happy and municipality as well.

There are a lot of such examples and the conclusion is that we, municipality workers, should be active and not wait while entrepreneurs will come. We should encourage them and at the end of the day everybody will be satisfied.

Mr Erling Winther, Director, the Industrial Development Council, Kolding

Mr. Erling Winther pointed in his presentation out the great importance of sharing the expertise and knowledge achieved in one company with other companies in order to learn from each other. Many resources are hidden here, if they are used properly.

The role for the industrial departments in the municipalities or the local chambers of commerce is to establish a confidence between companies, which make it possible for them to exchange knowledge and to cooperate on a practical level.

The Industrial Development Council of Kolding has with great success worked with the establishment of networks and cooperation between local companies for ages. This is a very essential reason for the fact that Kolding has become one of the most successful cities in Denmark.

Mr Vitas Maciulis, Vilnius City Council Member, Vilnius.

Strategic planning as tool for improving business environment of the City

One of the major priorities in the activities of the City Council is the development of favourable economical, administrative, infrastructural and social business environment in the City. Strategic planning is a major tool for achievement of these goals.

Vilnius is not a large city in not small country. Therefore, only challenging strategic ideas can create the capital of Lithuania to be attractive for investments, economy, tourism and culture. For the next 20 years Vilnius formulated its vision as follows:

- Vilnius – the Capital of Lithuania,
- The most modern city of the Central and Eastern Europe,
- International centre of politic, business, science and culture.

In order to reach the vision Vilnius formulated 4 major priorities of development:

1. Increasing of the competitiveness of the City on an international scale,
2. Development of new knowledge-based economy,
3. Building an advanced society,
4. Development of the transport and engineering infrastructure oriented towards the needs of citizens and business.

Implementation of these priorities has been already commenced:

- new City centre is developed with new comfortable and modern office buildings,
- idea of dipole: Vilnius-Kaunas with 1,5 mln citizens is developed,

- modern leisure and entertainment centres are under construction,
- system of tax incentives for start-ups and Public – private partnership is developed,
- frame of knowledge economy cluster “Sunrise Valley” is in final stage of consideration,
- new local community centres are in rapid development.

Strategic planning has helped Vilnius city to understand its role in the region deeper and helped to assist in making more argumentative decisions of City development.

WORKSHOP II

“Public Private Partnership at the Local Level”

Workshop Moderator: Mr. Artashes Gazarian, The School of Democracy and Administration, founder, trainer, Klaipėda

Professor Esko Antola, Director, Jean Monnet Centre, University of Turku

What the is PPP? (European Commission, March 2003)

PPP is partnership between the public sector and the private sector for the purpose of delivering a project or a service traditionally provided by the public sector. By allowing each actor to do what it does best, public services and infrastructure can be provided in the most economically efficient manner. PPP also provides aims to structure the relationship between the parties so that risks are borne by those best able to control and meet them. Increased value is achieved through the exploitation of private sector skills and competencies

PPP is an Umbrella Term for various actions

1. Outsourcing: Contracting by a Public Agency for the Completion of Government Functions by a Private Sector Agreement
2. Public – Private Partnerships: Means of utilizing private sector resources in a way that is a blend of outsourcing and privatisation
3. Privatisation: The sale of Government owned assets to the private sector

Why PPP?

American experiences point at several advantages with PPP:

- Cost savings
- Flexibility and less Red Tape
- High quality service
- Increased innovations
- Instead of lack of state support of political leadership
- Instead of lack of State personnel and expertise
- Speedy implementation

Three types of PPP

Public-sector driven

- Initiated by public sector
- Public sector maintains control of the project
- Decision-making in control of public sector

Equal partnership

- Equal shares
- Equal participation in decision-making (50-50)

Private-sector driven

- Initiated by private sector
- Profit orientation
- Private dominates decision-making
- Private sector takes the risk

Mrs Kairi Teniste - Head of Tallinn City Enterprise Board

The City of Tallinn earlier owned more than 50 enterprises. Many of them did not have to be owned/operated by the municipality. Tallinn has decreased its involvement using 4 main methods:

1. full privatisation;
2. partial privatisation – water and sewerage : 51% of the shares of the municipal company was sold;
3. leasing the assets – distant heating : the assets of the municipal distant heating company were leased for the period of 30 years. Essentially we are talking about a 30-year concession;
4. liquidation (2 cemeteries + Kadrioru park) or bankruptcy procedure.

There are also some other public services where private operators are involved:

Public transportation – there are two municipal transportation companies, the city holds open bids for individual lines or groups of routes. Today 5% of the routes are serviced by private operators;

Waste management – The new landfill of Tallinn is owned by the city (35%) and a private investor / operator (65%), but the city may not stay the owner very long;

PPP in a wider meaning also means involving private capital into social, cultural and sports facilities. There is a number of successful projects in Tallinn with co-financing from the city, and operated on a commercial basis. The city has mostly financed the engineering infrastructure. Saku Arena, Tiit Sokk Basketball School, Premia Ice Arena.

In the narrow sense PPP is defined as a method of procuring public services and infrastructure by combining the best of the public and private sectors with an emphasis on value for money and delivering quality public services. According to this definition the city purchases services without investing into the infrastructure. There are no projects of this type in Tallinn so far, but there are plans to have at least three multi-level intersections with related roads and some new roads built and operated as PPP projects.

Despite the great degree of liberalisation, there are definitely many possible areas for PPP projects, such as for example cemeteries, health care, care for the elderly, retirement homes, etc.

Another aspect of public and private sector cooperation is what we call “soft” activities, such as, for example, joint marketing efforts. Tallinn City Enterprise Board has for two successive years focused its marketing on one target country – in 2002 it was Sweden and in 2003 Germany. We have participated in trade fairs, organised road shows and meetings with local business representatives and always involved in these events Estonian companies that are interested in either investments or exports. The main sectors were ICT, engineering, and real estate development.

Ms Anna-Lena Cederström, Chef Executive, Karlskrona

What is Project financing?

- Project financing is a way to allocate risks belonging to big investigations to parties who can best handle them.
- The project is financed outside the balance sheet of the purchaser and the security of the lender limits to the cash flows of the project.

What are PPP-solutions?

- PPP - Public Private Partnership - A partnership in the private industrial life.

- A PPP-solution is a financing of a project to a purchaser of the public sector according to certain models developed in Great Britain.

Why use Project financing?

- High level of a loan that increases the yield of capital.
- Reduced financial risk, allocation of risks of investment, production and any environment risks to external parties.
- The project is refinanced through the capital market. Diminished public transactions.
- Quicker realization.
- The present value of costs of the public by project financing is usually lower than the prize of a traditional purchase.
- Risks concerning quality, time of delivery and prize are allocated to the deliverer.

Presentations of a problem

- Very expensive financing especially in the beginning of a project.
- Difficult to find neighbourhood banks taking these kinds of risks.
- The size of the projects.
- Political hesitation.

Solutions, Financing

- The public sector can take the initial risks on financing if an internal bank function is set up especially for the project/projects.
- Giving guaranties is a worse alternative as it is reducing the motive power of the project.

Solutions, the Size

- Standardization of documentation, "Smarter agreements"
- Public internal bank
- Defined projects for instance as combined power and heating plant.

Solutions, Political hesitation

- Explain that it is not about any privatization.
- Explain that this can lead to possible projects not being realized
- Explain that the risk can be transmitted to the private sector. Compare with "Hallandsåsen" and the English Channel Tunnel.

Project of combined power and heating plant of Karlskrona

- Project description? Investment cost? Market potential?
- Lifetime costs of running and maintenance?
- The will of prospective parties to alternative solutions?

Experiences

- Allocating risk is not easy, the cost is high
- Differences in accountants – have to account in balance sheet
- Need of some sort of development agency (independent part) starting up the process and who can handle the initial project costs and difficulties in laws.

Mr Rimvydas Bakas, Senior Program Manager of Kaunas "Energija"

AB Kauno Energija Shareholding Structure: Municipality of Kaunas City 86 %, Municipality of Kaunas District 8 %, Other shareholders 6 %.

The Company's generation capacities include a power plant in Kaunas (Petrašiūnų Elektrinė) and 2 district boiler-houses in Kaunas, plus 14 isolated boiler-houses in Kaunas; 8 isolated boiler-houses in Kaunas region; 1 district boiler-houses in Jurbarkas.

Installed heat capacity 1,543 MW. Heat supplied to network 1,332 GWh. Installed electricity capacity 170 MW. Total fuel consumption 2,119 GWh. Percentage of gas in fuel consumption 94 %
An investment program of EUR 39 million has been proposed for 2003 – 2006 and EUR 77 million for 2007 – 2018. There is an opportunity to invest in one of the largest Central Heating Plant in Lithuania.

Why Lithuania?

- a new energy market and regulatory structure is being created in Lithuania in accordance with the EU principles;
- Lithuania is among the fastest developing countries in the Central and Eastern Europe;
- Lithuania welcomes foreign investment and has successfully completed a number of high profile privatization to major international companies;
- Lithuania leader in CEEC in energy sector privatisation.

Why Kaunas city?

- Kaunas city is the second largest city strategically positioned in the centre of Lithuania;
- Kaunas municipality fully supports the tender;
- Kaunas leading in new ideas generation for energy sector.

Selling Kaunas CHP: positive objectives to Kaunas city and KEC

- To reduce financial burden on Kaunas energy company;
- To ensure tariff (price) stability for consumers and attractive price for new consumers;
- Attract reliable investor/partner for the future and to prepare for coming new market conditions
- To allow Kaunas energy company to concentrate on further development of DH sector and the heat transmission and distribution business
- Additional income to city budget, new working places, environmental benefit.
- Liberalization, competition;
- To meet the goals of the National Energy Strategy.

Mr Jan Tojkander, NCC

The topic for this workshop is PPP, but since PPP and BOT (Build, Operate, Transfer) is similar I will tell about two BOT projects executed by NCC, where one is finalized since two years and one is under construction. Basically the difference between PPP and BOT is the participation of the Client in the Concession Company in the PPP, while a BOT project normally is based on private ownership.

A2 Highway in Poland

This project consists of 255 km of new highway 2, from the German border to 100 km east of Poznań. First phase (149 km) is between Nowy Tomyśl and Konin will be completed 2004. Second phase will start 2005. The project is built as a toll motorway, where all vehicles have to pay at new toll plazas. The contractual structure follows the normal procedure. The Government of Poland issues a concession to a Special Purpose Company (SPC) who will be the concession company. The SPC arranges the financing, partly by own equity and partly through investment banks and/or commercial banks. Parallel the SPC contracts a contractor for the execution of the project and an operator for the operation during the concession period. The concession period is 40 years.

At A2 Highway project the SPC Company is named AWSA (Autostrada Wielkopolska SA) and is owned by NCC with 10%. AWSA has given the construction contract to a consortium NCC / Strabag (NCC part is 50%) and the operation to EGIS (former Transroute from France).

The value of the project is 897 million Euros and the value of the construction is 657 million Euros. One important issue in creating a BOT project is the long time between the first discussions about the project arises and the completion, when the income from users can start to repay the loans. At A2 project this lead-time was 10 years.

Arlanda Link project

The Arlanda link project is a high-speed train project between Stockholm Central Station and Arlanda Airport.

The project is the first BOT project in Sweden of this magnitude and consists, besides design and construction also to run the project for 40 years.

Also in this project the Government has issued a concession to a SPC company, in this case named A-train. A-train has awarded the construction to Arlanda Link Consortium, consisting of NCC (Design and Construction), Mowlen (Electrical and signal system) and Alstom (Trains).

As above the lead-time for this project, from idea to start of commercial traffic, was 10 years.

The PPP system, where the Client is part owner of the SPC is a better solution, since then also the client shares the risk. In a clean BOT system all risks are at the owners of the SPC Company and facing eventual political changes or other changes in 30-40 years are impossible to predict.

All parties involved must realize that the lead-time is long, in a normal BOT scheme up to 10 years. During those 10 years a lot of money will be spent for personnel, design, estimations, negotiations, presentation materials. A huge effort and costs will be spent in arranging the financing, also fees as concession fees, preliminary building permits etc.

This results in that if you should enter a BOT or PPP scheme you must know exactly what you are doing and you must be aware that you will spend huge costs before your projects gives an income. Normally this happens after all loans and costs are repaid.

Rapporteur - Mr Juhan Janusson