



THIS WEEK

- News
- Estonia <
- Latvia <
- Lithuania <
- Business
- Finance
- Sports
- Opinion
- Outlook

ENTERTAINMENT

- Out & About
- Cinema

MARKETPLACE

- Classifieds
- Real Estate
- Business Calendar
- Jobs
- Advertise

SUBSCRIPTION

- Subscribe
- TBT Online

FEEDBACK

- About us
- Contact
- Letter to the Editor
- Forum
- Download Newsletter

SPECIALS

- Specials
- Expat
- Advanced search

TBT EVENTS

- TBT Open

► ARTICLE

09.03.2005

Taking counsel

By Reimo Hammerberg, a senior associate at Sorainen Law Offices in Tallinn

Business Perspective of Public-Private Partnerships

2 Reimo

Hammerberg

A Public-Private Partnership is a contractual and corporate agreement between a public agency (state or local) and a for-profit corporation. Through this arrangement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition, each party shares the risks and rewards potential in the delivery of the service and/or facility.

Usually PPP is formed and used for building and operating infrastructure, hospitals, schools, sport facilities, and prisons. There are different structures used for forming PPPs, however, the common feature is that the private sector partner undertakes building a certain facility (as described before) and operating it. The public sector pays an agreed fee to the private sector, which is subject to change upon occurrence of certain agreed circumstances. For that purpose both partners enter a long term (i.e. 15 to 20 years) PPP agreement. From the agreement proceeds, the private sector partner services the loan(s) taken for construction and operation in the start-up phase.

The public sector is interested in PPPs since it means substantial cost saving when the private sector partner is involved in providing public services. For example, the U.S. National Council of PPPs claims that numerous surveys indicate that governments save costs of 20 to 50 percent when the private sector is involved in providing services. There is no reason to say why this would not apply to the Baltic States. The government can therefore decrease its administration costs. Furthermore, many objects required for providing public services would not be built at all if financed and operated by the public sector, since public infrastructure and service needs far exceed the government's budget capability. In addition, as said before, practice has proven that the private sector provides better services than the public sector.

The private sector is interested in PPPs because it opens many new business perspectives. The possibility to build a facility and operate it provides grateful business opportunities for the private sector in many levels. For example, business is generated not only for the PPP private sector, but also to contractors for the facility's construction, operation and supply. Thus, new employment opportunities are created with positive consequences.

A successful partnership can result only if there is commitment from "the top". The most senior public officials must be willing to be actively involved in supporting the concept of PPPs and taking a leadership role in the development of each partnership. Equally important, there should be a statutory foundation for the implementation of each partnership. Based on statements made by Estonian public officials, it could be said that there is political will to carry on and implement PPPs. Still, there are several legal issues hindering PPPs, which need to be dealt with by the governments. However, since the political will for PPPs exists, it is likely that also statutory issues will be solved.

Therefore, based on the positive experience of other countries and the current political situation, it is fair to assume that Estonia, Latvia and Lithuania will be introduced to many PPPs in the near future. For gaining maximum benefits from implementing PPPs, more knowledge and experience is required from participants.

Sorainen Law Offices in co-operation with Baltic Property Trust Asset

User name

Password

Login

Not TBT online subscriber?
Subscribe now

Management is organising a seminar "Project Finance and PPP" on 17 March in Tallinn at Viru Hotel Conference Centre.

[Advanced search](#)

© The Baltic Times. No material may be reprinted without permission.