

PANDEMIA WILL PASS, INFRASTRUCTURE WILL REMAIN

THE OFFICIAL POSITION OF THE STASZIC INSTITUTE
ON THE PRESENT STATE OF INFRASTRUCTURAL INVESTMENTS
AND THE DESIRED DIRECTIONS OF THE STATE'S POLICY



*The Staszic Institute is the independent think-tank, dealing with the social problems in the context of the sustainable development. The group of co-workers of the Institute includes publicists, academic lecturers and experts.
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The times of crisis such as the current pandemic, cause that the decision makers and often the public opinion, begin to think in a short time perspective and at the status of moral panic. It is reflected in the statements and postulates, formulated by the politicians and publicists, in relation to such problems as giving up the significant investments especially in respect of defence (purchase of F-35), infrastructure (building of the Central Communication Port) (Solidarity Transport HUB Poland) or other important road and railway investments. The Staszic Institute expresses the opinion that the infrastructural investments are the element which may greatly stimulate the economy in the period of crisis and slowing down, and help fighting with the unemployment.

At present, we deal with the situation of "now or never". The exhaustion of the EU funds as the basic source of financing the infrastructural investments in the successive EU perspectives decides on the fact that it is the last moment when we may change permanently our infrastructure with the support of the external financing.

The infrastructural sector in the period of COVID-19 (coronavirus)

Pandemic and the related problems have generally affected the construction sector although relatively to a smaller degree as compared to other branches of the economy. The work is more frequently performed at the open air, the manufacturers of the products have introduced the appropriate procedures and

ensured the protection means, facilitating production; investors, GDDKiA (in English: General Directorate for National Roads and Motorways) and PKP PLK (Polish Railways, Inc.) have the financial means at their disposal for the implementation of the investments. It causes that the basic expectations of the sector is not the support of the Government but the possibility of carrying out the work and of producing the goods for the infrastructure on the level assumed in the governmental documents. We may, indeed, run the whole package of investment matters as not to make the branch the burden for the State and to work in the rate which is possibly least disturbed by the pandemic of Covid-19. According to the information of Polish Road Congress, it results from the averaged information that the companies assess their executive potential – especially in respect of staff – at more or less 73% of normal and planned potential.

Of course, pandemic brings real threats to the sector such as slowing down of the implementation of the commenced investments or even their interruption. It may be caused by the reasons such as absence of the employees, lack of sub-constructors, problems with obtaining the necessary materials, with logistics or quarantine after the disease of any worker. The discussed sector suffers also from the so-called prolonged effect – due to lower orders or lack of the orders for materials and products, and, in consequence, limitation or cessation of production by the companies, working in favour of the mentioned investments. Pandemic may also cause slowing down or interruption of announcing the tenders by the investors, being caused by frequent – during the time of Covid-19 – changes in

the mode of the work (remote work, suspension of the projects, closure of offices, etc.).

Meanwhile, Poland is found in the middle of investment offensive, especially in the field of roads and railways. The National Railways Programme assumes the expenses of PKP PLK on the investments in the current year at the level of 12.4 billion PLN. They will be the highest annual expenses of PLK: let's mention that in 2019, the discussed expenses amounted to 10 billion PLN (record sum). Despite the pandemic, the level of 12.4 billion PLN is possible. The condition includes the urgent settlement of the tenders under proceeding and announcement of the new ones.

Even if a part of the new tenders is implemented from 2021, the contractor will be able to buy a part of materials after the settlement of the tender in the current year and after having concluded the agreement. Such earlier purchases could be – until now – financed by PLK up to the level of 90%. There are no obstacles it could be 100%. Owing to this fact, it would be possible, as early as in 2020, to utilize the means on the account of expenses in the successive years. Moreover, there is no already space for moving the expenses and works for the successive years. National Railway Programme plans the sum of as much as 15.3 billion PLN for 2021! Additionally, the third EU perspective for 2021-2027 will be commenced in the next year and PLK has already documentations for the projects concerning the mentioned perspective in the "build" system, i.e. for quick implementation. ***So, until the end of 2023, Polish economy will meet with the race against time concerning the utilization of the means from the perspective for 2014 – 2020; the third perspective will be practically commenced in Poland in 2024 instead of 2021. Besides it, the announcements of the reform of the EU funds show that it may be the last real chance for obtaining such meaningful means for infrastructure.***

GDDKiA has also now a potential for maintenance and intensification of the work in the road segments. According to information, given by the Directorate, 95 projects, covering 1178 km length in total are implemented now; 16 tasks for 184.7 km are covered by tenders and 138 tasks concerning 2760.9 km in total are under the preparation.

It is therefore clear that the road sector pays also attention to the necessity of utilizing the potential of construction for stimulation of economic development what requires continuation of big investment programmes: "Programme of Building the National Roads", "Bridges for regions", "100 bypass roads (ring roads)" and investments at the *poviat* and community levels, co-financed from the Self-Governing Road Fund. ***The road sector indicates the keeping of financial liquidity as the priority; it is dependent on all entities: purchasers, contract engineers, general contractors and sub-contractors. The postulated solutions include; introduction of partial payments, lowering of guarantees, and a simplified access to credit lines, with the payments subsidized by the State.*** In the years of the previous crises in the construction sector, many companies were enrolled by banks on the so-called "black lists". Nowadays, the same firms are a chance for the banks. If the banking sector finances them,

it will obtain the interests. ***The acceleration of the work receipt, issuance of Interim Payment Certificates and invoicing are the way to accelerating the money turnover.***

We cannot forget that pandemic has additionally deepened the problems and pathologies, harassing the Polish infrastructure sector, such as big movement of the dates of announcement and settlement of the tenders. In the previous years, KPK (National Railway Programme) has been never implemented in accordance with the earlier assumptions; to-day, the delays may be even greater. There was a common practice to shift the non-performed work to the successive years. So, KPK of September 2015 assumed the expenses for the years 2021 – 2023 as follows: 7 billion PLN, 3 billion PLN and 1.9 billion PLN, respectively. The recent ones, dating to September 2019 amounted to 15.3 billion PLN, 12 billion PLN and 8 billion PLN, respectively.

The next problem during the recent two years concerned big differences in price offers of the contractors in relation to the prices, estimated in the tenders. The exceeding cases, amounting to several dozen percent cause prolongation of the procedures and, also, annulations of the tenders. The scale of the problem is illustrated by the fact that the sum of crossing the limit, measured as a difference between the lowest offer in the tender and the price, established by PLK in the discussed period is higher than 10 billion PLN.

Infrastructural investments as the best anti-crisis tool

Economic history – also in the case of big crises beginning from the thirties of the 19th century – shows that just the infrastructure investments ate the best possible anti-crisis protection and a driving force of economic development and generation of the work places. ***The infrastructural investments are just the element which may, to the greatest degree, stimulate the economy in the period of crisis and slow down and may help fighting with unemployment. Besides it, the infrastructural investments are implemented, as it was mentioned, in the long-time perspective.*** The circumstances are changing and the implemented infrastructural investments decide – for decades – on the strength and economic safety of the State, perspectives of the economy and quality of life of the societies. Moreover, we have finally the situation of "now or never" type. The exhaustion of the EU funds in the successive EU perspectives as a basic source of financing the infrastructural investments and, also, geopolitical changes give a critical meaning to the infrastructure investments, being implemented here and now.

Paradoxically, the present situation may support the solution of certain problems of infrastructure sector, including those ones generated by the coming crisis. The branch which has struggled with the labour shortage for few years may absorb (also due to a low entrance barrier) the workers who lose their work in other sectors, especially in the situation of the exit of thousands of employees from Ukraine. Therefore, the lack of new orders and tenders may be connected with the catastrophic situation in the work market – the employers cut the costs and will be forced to reduce the employment and lower the remuneration.

Therefore, in order to keep the strength of the infrastructural sector as a type of flywheel of Polish economy in the period of slow down, Polish State should stimulate the development of economy via investments on infrastructural projects, giving an impulse to the successive sectors and branches. The State institutions play a key role in respect of planning and communication concerning the new investments in the road and railway infrastructure. The determination is needed in order to continue the programme of development, with the effective utilization of the EU means in the present perspective and in the successive years.

The European Union has admitted the transfer of the means for the struggle with the pandemic; however, the infrastructural investments should be the last ones which could be considered for such operation. The economy of the State will resist the restrictions for a defined period of time and more it will be shorter, the greater will be the activity of the entities, especially in those areas where – with the introduction of the appropriate insurance – the discussed activity is possible. Undoubtedly, the infrastructural investments belong to the mentioned areas, not only due to the possibilities of implementing but also due to the quantity of the involved subjects and the relating employment. It would be better that the mentioned labourers could receive the remuneration from the employer and not stay on the expense of the State, being supported by the money moved from investments.

The rate of the announcement and settlement of the successive tenders are equally important. The status of the investments' implementation will determine how quickly the Polish State will be able to get out from the crisis. Moreover, crisis generates the occasion to repair the problems which are harassing the sector every day, i.e. simplification of the tender procedures, requiring good quality and good practices instead of dictate of the lowest price, reliable settlement of the contracts.

Besides it, *the State should stimulate the activity of banks to ensure financing of the activity of the entities, involved in the implemented infrastructural investments.*

What should be financed and how?

The attitude of the banks to the whole process connected with the discussed investments and to the implementing companies has not been recently enthusiastic. It resulted from the reasons, lying on the side of the state investors, GDDKIA and PKP PLK as well as on the side of contractors.

The first ones did not ensure the organization of the investment processes at the time and level adopted in the governmental documents and the second partners – when competing in the tenders – offered the prices, being often by tens of dozens lower in comparison to the prices estimated by the investors; in consequence, it was at the cost of profitability. And finally, let's mention the behaviour of the state's institutions: in the successive years, the governments approved the failures to perform the infrastructural investments in the previous year and moved the expenses into the next years. In effect, we had and we have still the passive attitude of the banks in relations with

the companies, especially in the field of the railway investments.

The period of epidemic is a paradoxically good time for change of the discussed attitude and change of the practice. At present, the effective implementation of the infrastructural investments lies in the interest of the Polish State. The mentioned investments will be also a basic instrument in returning of the country's economy to equilibrium after Covid-19. Hence, the government and the state institutions have a duty of ensuring such activity of the banks as to stimulate and not to make difficult – as it is today – reaching of the universally expected targets. It is just the State which is a guarantor of transferring the means from the budget as well as from the EU funds, for the infrastructural investments. The State approves, by the legal acts, the appropriate programmes, including the expenses for investments. The state therefore should create the conditions for their implementation and enforce the performance of the programmes. The effective financing of the investment processes by the banks is one of the deciding conditions. Without it, many companies will not be able even to take part in the tender, e.g. due to the lack of the means for a guarantee of performance.

The univocal, strong message of the government, as addressed to the financial institutions and, especially, to the banks is necessary; it is also indispensable to introduce the mechanisms which would result in change of the banks' attitude to the infrastructural investments and, in consequence, constructive relations with the implementing companies. The prolongation of the passive position and activities of the banks will create undoubtedly the serious difficulties in reaching the targets not only of the particular sector but of the whole country in connection with the infrastructural investments. The action of the government must be quick and effective.

Summing up and conclusions

In the conclusion of the above, the Staszic Institute stresses that in the period of the pandemic and the approaching crisis and slow down, the continuity of the infrastructural investments and announcement of the new tenders by the state investors – GDDKIA and PLK will be a real and effective assistance. The structural investments are the element which may – to the greatest degree – stimulate the economy in the period of crisis and slowing down, and help in the struggle with unemployment. Besides it, the structural investments are implemented in the long-time perspective during which a lot may happen: the natural disasters, epidemics, crises as well as the periods of prosperity. Nevertheless, the circumstances are changing and the infrastructural investments decide on the strength and economic safety of the state, perspectives of the economy and the quality of life of the societies for decades.

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