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## THE ROLE OF THE PUBLIC-PRIVATE PARTNERSHIP IN LOCAL DEVELOPMENT

### ABSTRACT

The article is devoted to the peculiarities of the Public-Private Partnership (PPP) utilization in local development. The public-private partnership is currently considered an innovative tool of the territorial units' development at local and regional levels. It is a collaboration of the state and private business in developing the common use of infrastructure facilities and related service provisions, which involves changing the traditional role of the former in this process, namely the redistribution of the functions of design, financing, construction, rehabilitation, operation and maintenance of roads, airports, railway stations, water supply and so on to the private sector, including the transfer of risks. The article takes into consideration the general characteristics of PPP and its models. The main trends of global PPP market development are defined. The necessity of PPP use in the development of regional infrastructure is grounded, and its advantages are presented.

**Key words:** public-private partnership (PPP), public infrastructure, infrastructure services, government, PPP market.

**JEL Classification:** H54.

### 1. INTRODUCTION

Recently, the public-private partnership as a mechanism of public infrastructure development and related services provision has developed worldwide. The point is that the government traditionally transfers its inherent responsibilities regarding the development of highways, bridges, tunnels, airports and sea, public services, etc. under the responsibility of the private sector. Unlike traditional public procurement, this approach involves grouping the whole cycle of works (from design and construction to provision of infrastructure services) under the responsibility of one company or a consortium of private companies, the transfer of risk from the government to private sector, fundraising of latter, etc.; the state, in its turn, controls the quality and accessibility of services for end users, their coverage, ensuring social security for workers in the case when infrastructure goes into the temporary use of the private operator, performing of investment obligation by the private business, etc.

The main reason of PPP application is government's failure to ensure alone the development and maintenance of common use infrastructure and related quality

services provision since the situation of infrastructure and the possibilities of the Ukrainian budget for its recovery are not adequate.

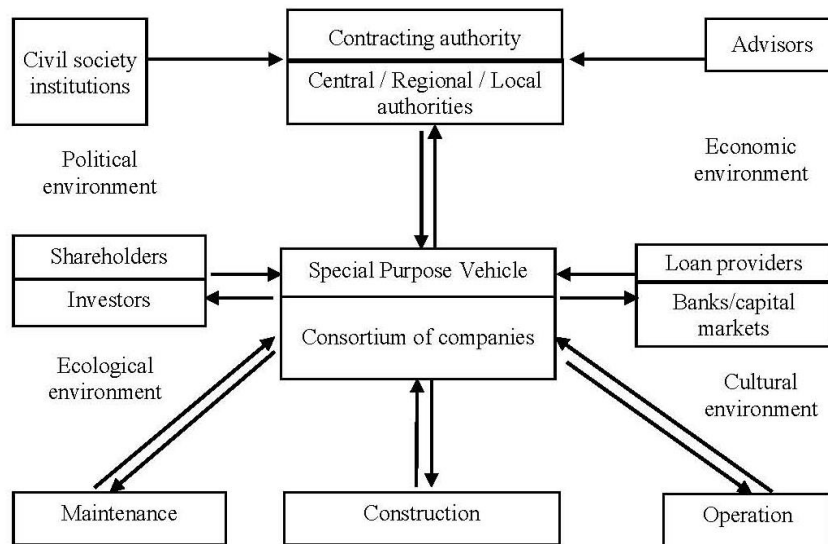
Cooperation between the public and private sectors has its own history and has been used for a long time in different countries. It is accordingly reflected in scientific achievements in this field. Specifically, these problems are investigated by scientists such as Joseph E. Stiglitz, Stephen P. Osborne, Edward R. Yescombe, Emanuel S. Savas, Michael R. Reich, Michael Geddes and others.

## 2. MATERIAL AND METHOD

The methodological base of research is generally represented by accepted methods of scientific research. The theoretical bases are the fundamental tenets of economic theory, the theory of economic development, the institutional theory, regional economics, the theory of transaction costs, financial management, works by leading Ukrainian and foreign scholars on public-private partnership, financial management issues, and so on.

## 3. RESULTS AND DISCUSSIONS

The relations within the public-private partnership project are presented in Figure 1.

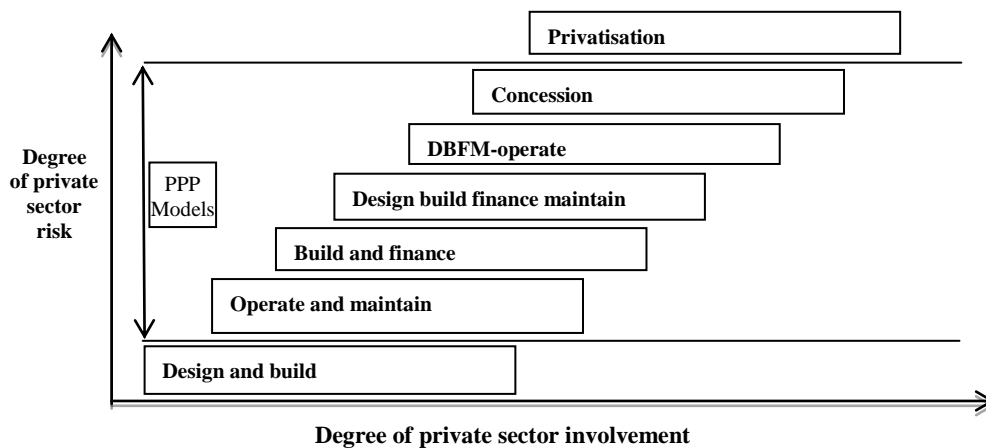


Source: author's elaboration

Figure 1. Relations within public-private partnership.

The Public-Private Partnership can be defined as a set of relationships that are stable and long arising between the state through its central, regional and local authorities on the one hand, and representatives of business, civil society and local communities on the other hand about the redistribution of power to create public infrastructure, and to provide works and services that are traditionally considered a state monopoly; the settlement between the parties in this regard consists in sharing responsibilities, risks and liabilities for financial support, design, construction, maintenance, operation, ownership participation in the management and distribution of profits, based on the principles of equality, transparency, non-discrimination, competition, efficiency and minimizing risks and costs.

There are different approaches to the classification of public-private partnership models. One of them is presented in Figure 2.



Source: adapted from Canadian Council PPP 2009

Figure 2. PPP models.

It also concerns the provision of infrastructure services at local as well as at regional level. The decentralization processes that can be noticed in the developed world economies need reforms in this area, as one of the main preconditions for ensuring the competitiveness of the territory. As the experience of other countries shows, the prominent place in this belongs to the cooperation of the state and private business in the field of public infrastructure and related services under the form of public-private partnership.

Nowadays, the global PPP market is characterized by the following trends (KPMG, 2015):

- Social infrastructure PPPs have plateaued globally with transport PPPs on the rise, led by an emerging US market.
- Deal flow in the mature markets (Canada being the exception) has stagnated, particularly the UK where the Private Finance Initiative (PFI) pipeline is marginal.

- North America is fast becoming the PPP powerhouse with continuing strong Canadian and emerging US markets.
- Emerging economies, such as Brazil and India, are making a significantly greater contribution.
- Asian markets are experiencing growth, but attracting business remains challenging.
- Traditional PPP models have given way to a suite of procurement options and a variety of financing structures.
- Social infrastructure projects push service privatization further and expect improved social outcomes, with social impact investment on the rise.
- Transport projects once again look to user-pays opportunities to fund the growing fiscal gap for projects required to ensure continuing economic prosperity.
- Megaprojects, incorporating an array of additional procurement models, have emerged globally.
- A backlog in civil infrastructure maintenance is being addressed via huge multi-asset PPPs covering broad geographic regions.
- The financial crisis has resulted in higher pricing of risk within financial markets.
- Governments are looking to innovate to balance value maximization and PPP model integrity, with reduced total financing costs.
- Australia has looked to capital contribution models, while the US has adopted an array of federal support initiatives to reduce costs and incentivize PPP investment.
- The Non Profit Distribution model in the UK enhances stakeholder engagement and returns profits to the public sector.
- Funding shortfalls are motivating alternate funding mechanisms, including user-pays and general value capture.

An important factor for ensuring the country's sustainable development is a creation of conditions for economic development in the regions. The guarantee to this is the development of local public infrastructure and related services provision. That's why the level of the region's infrastructure sector development becomes a crucial factor of the territorial economy elaboration.

If we were to describe the situation in general, one can notice a paradoxical situation: with the progress in all spheres of life, especially in technological development, almost no change occurred in the field of public infrastructure and related services; government has been continuing to bear the main burden. It is too early to speak about introduction of market approaches in this area, although some tendencies are noted. In this context, Helmsing (2003) identifies two groups of forces which are crucial in the implementation of changes in local economic development. The first group refers to fundamental changes in policy development. It consists of the following components:

1. Structural restructuring and liberalization policy. The latter implies reducing the state's role in economic and social life, including and involving the private sector in carrying out public functions under PPP form;

2. Ideological frustration by the state and its policy. This created a vacuum that is to be filled;

3. A "fatigue" of aid and the decline of official development assistance (grants, subsidies, etc.) cause the search for alternatives.

The second group of forces causing influence on local development, which Dicken (1998) called "geo-economics", includes:

1. Technology of "space reduction" in transport and communications. The point is that modern transport and communication capabilities allow for shorter way to the end user.

2. Technological and managerial changes in the production of goods and services.

3. An increasing number of people, capital and companies which are mobile in a global dimension.

As noted by many researchers, due to globalization, there is an accelerated "aging" of municipal functions of territorial units, which, in their turn, adversely affect the competitive advantage of territories. Many cities find themselves under pressure of stringent investment needs, on the one hand, as a result of new demographic, economic, social and environmental challenges, while on the other hand the key role of cities is challenged through the development of competitive, knowledge-based economies. In the year 2011, the researchers defined three critical strategic issues relating to the improvement of urban infrastructure in the so-called "New economies".

1. Increasing the capabilities of public funding by mobilizing financial resources of the private sector.

2. Improving efficiency of public finance.

3. Introducing the consumer-oriented management.

On the other hand, there is an influence of neoliberal ideas aimed at reducing the state's role in the development and growth of private sector involvement in carrying out state functions, including the development of infrastructure of common use and related services provision. As noted above, an innovative approach to development of the state infrastructure complex is to attract private capital to carry out public functions under the form of public-private partnership.

The factors influencing the initiation of partnerships between government and the private sector at the level of separate localities can be defined as follows (Cosma, 2005):

1. High growth rate of economic development which is the result of population increase and territorial expansion of cities. And this is understandable: the existing capacities of the infrastructure sector in the region make it difficult to cope with the increasing needs of the population and business.

2. Development of infrastructure and management of services provision by public institution. This, in its turn, presupposes an increase in attracting additional funding because, as international experience shows, the possibilities of the state budget to meet these needs are insufficient.

3. Policy aimed at improving the quality of life at local level. This implies stimulating entrepreneurship and attracting investments at local level.

4. Trends of transferring certain functions concerning infrastructure management and related services provision by public institutions to private companies. This primarily concerns the utility sector, when private business is involved in the collection and disposal of solid waste, maintenance of technological and computer equipment, transport services provision etc.

5. Lack of necessary capacities by local authorities, which would give it an opportunity to realize common use infrastructure development projects and public service delivery. In particular, in most cases of the construction of public infrastructure assets is done with the involvement of private procurement and construction firms.

6. The recognition, by both sides (government and private business), of the common risks and the ability to distribute them in the most suitable way. This factor will favor the efficiency of budgetary resources use as well as local infrastructure projects implementation and related services provision, which results in reduced timing of construction, delivery of infrastructure facilities on time or ahead of schedule, reduction of overall costs, of unexpected losses and service delivery costs, etc.

7. Useful experience that both state and private business can obtain, resulting from the use of PPP. This is a mutual benefit from cooperation between partners who are antagonistic in their nature. For government agencies, responsible for infrastructure development and related services provision, it supposes the use of a commercial approach, which means focus on the end user, which will result in the increase of the level of satisfaction, improvement of service quality and reduction of costs.

8. Peculiarities of natural and geographical factors (availability of fossil minerals, relief, climate, etc.). In this case, the cooperation of the state and private business will help to fully put into value the potential of the territories, which under the traditional approach would be impossible because of budget constraints. This may relate to the development of tourism infrastructure, investments in the development of mineral resource deposits and supporting local initiatives (e.g. folk crafts).

9. The limited capabilities of local budgets. They are the primary incentive to attract private business opportunities under the form of PPP to implement in order to improve state functions in the field of infrastructure development and related services provision. Thus, the private sector resources, among other advantages, allow financing infrastructure projects and measures, including social ones, which under the traditional approach would remain unfulfilled, due to budget restrictions.

The specificity of public-private partnerships at local level is that most infrastructure services are designed to meet the social needs of the population and

therefore involve the influence of stakeholders on the progress of such projects. The point is that the implementation of PPP projects at local level affects two aspects, critical for end users: service quality and pricing. To avoid conflict situations, in the world practice there is involvement of civil society institutions and local communities to control private participant to comply with the established standards of service quality and level of tariffs, so as to ensure its accessibility to population.

The analysis of the use of public-private partnerships at regional and local levels allowed us to conclude that all PPP projects can be combined into two major groups: of strategic nature (often called partnerships, aimed at developing regional marketing) and those aimed to meet the specific needs of areas (building infrastructure facilities and related services provision). The main feature of the cooperation between the state and the private sector in the development of public infrastructure and related services provision of strategic nature is that they are directed to solve social and economic problems of a certain territory in general, increase its competitiveness and create conditions for economic growth. These are joint efforts of the state and the private sector in solving the unemployment problems, in investment attraction, innovation application, promotion of entrepreneurship, etc.

An illustrative example of cooperation between the state and private business in the sphere of innovation are the technology centers, business incubators, clusters, most of which have been launched in the European countries since the 1980s. The share of state and private sector in these institutions vary, depending on the proximity to the market; the state would prevail in science parks, while the private sector would prevail in the structure of founders of business parks.

#### 4. CONCLUSIONS

The use of PPPs in municipal infrastructure will enable:

1. More effective use of limited budgetary resources of local communities in the development of infrastructure facilities and services of local importance.
2. Acceleration of the development of infrastructure complex at local level.
3. Implementation of those municipal infrastructure projects, which would be impossible if only the local resources are relied upon.
4. Re-allocation of existing resources of the territorial unit in favor of other social goals.
5. Introduction of innovation technologies at local level, requiring additional investments.
6. Improvement of the quality of public services provided to end users and diminution of their costs.
7. Implementing the managerial experience and commercial approach of the private sector in the provision of local infrastructure services that will improve efficiency in general.

8. Involvement of financial and other resources of the private sector, as well as budgetary resources of central government in infrastructure development and related services provision at local level.

9. Transfer of part of risks to the private party that will stimulate the latter to provide services more effectively to meet the needs of the local community.

10. Ability to group all the stages of development of infrastructure facilities and service provision at local level (from design to operation) under the responsibility of one private operator that would reduce their costs.

11. Involvement of end users, civil society institutions and other stakeholders in decision-making, which will enable taking into account their concerns and ultimately improve the quality of services and arrange relations with the local community.

12. Distribution of the development and operation costs of local infrastructure facilities throughout its life cycle.

13. Shortening the periods of construction and commissioning the utility infrastructure assets.

In addition, the state participation (as in the case of PPPs for the local development – local self-governance) will defend not only the private party commercial purposes, but also the social interests of end users.

The use of public-private partnership in the development of municipal infrastructure and related services provision in many countries has proven its effectiveness. At the same time, the theorists and practitioners of this approach argue that this is not a “panacea” for all problems related to infrastructure development, and the use of this approach cannot always replace traditional public procurement. Therefore, in each case, the decision regarding the launch of PPP projects, including the local level, must consider all the “pros” and “cons” on issues like risks, costs of financing, total project cost, size of tariffs, accessibility of services for end users, etc.

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