

ABOUT THE ADVANTAGES OF PUBLIC-PRIVATE PARTNERSHIPS AND ITS ORGANIZATIONAL FORMS[□]

Popa Florina

Institutul de Economie Națională, Academia Română
(Institute of National Economy, Romanian Academy)

florinapopa2007@gmail.com

Abstract

The advantages and disadvantages provided by joining in public-private partnership reveal the challenges the economies are constrained to, pursuant to the impact of PPP on certain economic processes. There are identified forms of public-private partnership, which, in their development, are based on a number of factors: the actors involved, the origin of the financial resources, the duration of the contract, the existing traditions, types of agreement in relation to the way of sharing responsibilities and risks between public and private actors. The paper reveals studies achieved on the elements of public-private partnership, advantages, disadvantages they highlight, the forms of partnership grouped in relation to different factors, the stages pursued in the initiation of public-private partnership projects.

Keywords

financial resources; agreements; projects; forms; partnership

JEL Classification

H41; H42; H44

1. Introduction

Studies and opinions concerning Public-Private Partnership are often met in professional economic, financial, judicial publications, used in marketing, in product and service supply, collaboration between the two sectors (public and, respectively, private,) being a contemporary chapter of interest of administrative actuality.

The problems faced by governments in their actions aimed at achieving a high efficiency in public works development such as insufficiency of governmental financial resources, have led to the initiation of new forms of institutional cooperation, generic called Public-Private Partnership (Wettenhall, 2003; Boase, 2000; Osborne, 2000).

Although the notion of Public-Private Partnership emerged in the 70s of the last century, on the background of the New Public Management procedures getting into public administration, the collaboration between the public and private sector dates back to the ancient times, in the course of history, undergoing transformations and evolving until the modern age. The cooperation with the private sector, by the privatization or outsourcing of public service delivery has led, over time, to a

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diminution in the role of the state and an increase in the performance of the public sector in public activities development (Savas, 1982).

2. Advantages, disadvantages of Public-Private Partnership

In this form of cooperation, the partners voluntarily commit themselves to a common goal achievement and, to this end, mobilize the necessary resources, the costs, risks, responsibility and profit allocating proportional to the contributions of the parties. Thus, the partnership is an expression of the participants' awareness of the advantages that the endeavour of such cooperation represent them, comparatively to the individual option.

The impact of PPP on some economic processes can lead to varied effects, both in terms of the advantages and disadvantages they develop.

2.1. Advantages

Among the **advantages** of partnerships practice, can be considered:

- can help to improvement of the operation form of state-owned enterprises, by giving the service delivery, implicitly carrying out some investments, to private entrepreneurs; without being the only provider, the public sector retains the role of decisions making on the chosen objectives and overseeing compliance with standards in the public interest;
- supporting public investments, the partnership mechanism allows the possibility for the development of infrastructure programs and, at the same time, for governmental resources orientation to support other economic and social sectors, avoiding taking or increasing public loans;
- there is a transfer of the project operational and execution risk from the public sector to the private sector, the latter having an advanced experience and technology of performance, which favours the increase in the pace of project implementation.
- it is created the possibility of introducing competitive principles into traditional activities of the public sector, which leads to an increase in service quality, encouragement of innovation, reduction of costs. Thus, the elements of PPP policy favour the private sector managerial principles getting in the economic concepts of the public sector, respectively, the implementation of the New Public Management;
- there are created the possibilities for the supplier, to ensure the performances, according to the contract's standards, these being a condition to accomplish payment of the services;
- there is a prospect of cost savings achievement in the implementation of a project through PPP, of a quality comparable to that of the traditional executions, or of a higher quality project, under the same level of expenditure;
- the mobilization and sharing of participants' resources, exchange of experience and the mutual support through implementation of the knowledge they hold is the stake in achieving the objectives pursued by the participants, their optimum being conditioned by the contribution of each of the associated partners.

2.2. Disadvantages

Performing some works in PPP can also lead to **disadvantages** such as:

- engaging in some long-term contracts under a technology of execution, at that time, removes the supplier's constraint to adapt to new technologies (which involve additional costs associated with), to increase competitiveness;
- the PPP transaction costs (related to contract bidding, negotiation and administration) may be higher than those associated with traditional government purchases;
- the possibility of certain difficulties occurrence in the administration of the contracts, caused by a parties' faulty cooperation, the elements of difficulty may also be determined by the involvement of several actors, in the contract; the situation involves the need to manage possible conflicts of interest among the participants, through dialogue and negotiations which lead to their overcoming;
- obtaining the estimated profit, from the achievement of the project varies in relation to the volume of the assumed risks, the complexity of the project, the competitiveness of the developers;
- the government may encounter difficulties in assessing proposed costs for the cases where the private entity has a share of knowledge and experience in project implementation.

Reducing the probable disadvantages encountered in PPP works achievement can be favored by taking into account actions such as:

- the transfer of risk to the most qualified part in the achievement of the project, in order to optimize the results of the cooperation;
- close monitoring of the performance of the contract, of the quality and estimated performance;
- ensuring a satisfactory number of bidders, which will facilitate the introduction of competition, but will ensure the possibility of control on the quality of the offers.

3. Forms of public-private partnership

PPP is based on a contract between the public and private sector through which the private sector contributes with financial resources and projects, and the public sector is responsible for delivering services to the population, respecting the needs of individuals and contributing to the standard of living raise. (UNECE, 2008)

❖ Among the first forms of Public-Private Partnership are the mixed ones, which have varied over time, in relation to the actors involved, the origin of the financial resources, the duration of the contract, existing traditions in different countries, from which can be mentioned (Wettenhal, 2003):

⇒ *Mixed enterprises*, existent in many countries where the structure and form of activities development were considered mixed, by the scientific literature. For example, the state-owned company, Singapore Airlines, which, although sold shares for capital growth, has maintained its status of state-owned company (Thynne and Ariff, 1987); Singapore Telecommunications Ltd (SingTel), where the government owns the majority of the shares, bought, entirely, the enterprise Australian Telecom Optus. (McDoanld, 2001).

⇒ *Outsourcing* - agreements by which the public authority requests, by contract, to a private company, to carry out some activities, which remain the property of the public sector, pursuing to merge the public interests with the private ones. (Callender and Johnston, 1998).

- ⇒ *The subsidy, controlled competition, regulation* etc. - a related form that reveals aspects of the Public-Private Partnership; is manifested by granting subsidies from government to private companies in order to achieve objectives difficult to be met by the state.
- ❖ Although there are a variety of forms of Public-Private Partnership agreed between the government and various entities that cover different market areas, the scientific literature groups them into two broad categories:
 - ⇒ **Institutionalized PPPs** refer to a joint entity setting up - joint ventures which belong to public partner and to the private one, against providing a work or service for the benefit of the public.
The ways in which an institutionalized PPP can come into existence could be:
 - creation of a new entity by the public and private actor;
 - the private actor buys and holds shares in a public company, exploiting the service, and the public sector keeps the control of the company, through shares.
 - ⇒ **Contractual PPPs** are different forms of agreements that express contractual relationships between the public and private partner and the delegation of tasks to the private partner.
The two categories depend on country-specific implementation modalities and are regulated at European level.
 - ❖ In relation to the forms of sharing responsibilities and risks between public and private actors, the models of contracts and, adequate, of Public-Private Partnerships, are presented as follows:
 - ⇒ **Buy-Build-Operate (BBO)** - contract through which the transfer of a public utility to a private or public entity is achieved through the sale, for the modernization and operation of the infrastructure over *a specific period of time*, on advantageous terms (The National Council for Public-Private Partnership; UNECE, 2008).
 - ⇒ **Build-Own-Operate (BOO)** - financing, construction, property and the operation of a utility *come to the private sector, forever*, without the public authority having to buy the public utility (The National Council for Public-Private Partnership; UNECE, 2008).
 - ⇒ **Build-Own-Operate-Transfer (BOOT)** - financing, designing, construction and operation a utility come to the private partner who will *charge taxes for them, for a specified period*. At the end of the period the property is transferred to the public sector (UNECE, 2008).
 - ⇒ **Build-Operate-Transfer (BOT)** - under *a long-term concession contract*, designing, financing, construction of a new utility come to the private partner who exploits it during the concession period (UNECE, 2008).
 - ⇒ **Build-Lease-Operate-Transfer (BLOT)** - financing, designing, construction and operation of a rented equipment and charging taxes of user during the lease contract period come to a private partner, *through franchise* (UNECE, 2008).
 - ⇒ **Design-Build-Finance-Operate (DBFO)** - *through a long-term lease contract*, designing, financing, construction of a new building and its exploitation during the lease period come to the private sector (UNECE, 2008).
 - ⇒ **Operation License** - it comes to a private partner, usually, for a specified period (UNECE, 2008).

- ❖ Different from these classifications, also it can be mentioned other categories of PPP, in relation to some criteria (McQuaid, 2000):
 - a) In relation to *the pursued objective* - *exogenous or endogenous, strategic or program or project-oriented* partnerships.
 - *exogenous* when it pursues to attract additional external resources or *endogenous* when it aims to maximize the efficiency of internal resources use.
 - *strategic or program or project-oriented*: they pursue major goals of the organization by developing of a spread strategy for a particular area, or are geared towards specific long-term projects/programs. From the perspective of the area of activities pursued, the strategic partnerships can target a narrow or a wider area of activities.
 - b) In relation to *the geographical area*, it can identify:
 - PPP targeted at *certain categories of customers*, from small disadvantaged urban areas or from larger areas;
 - PPP oriented towards *policies at national, regional or local level*, such as those related to social exclusion, discrimination or urban regeneration.
 - c) In relation to *the mobilization relationships* between actors, within partnerships it can identify:
 - **Top-down**, the initiative is taken by a high-level authority such as the central government;
 - **Bottom-up**, the initiative is taken by local communities through strategies that rely on the local level existing resources. (Bailey, 1994; Friedmann and Weaver 1979).

4. Conclusions

Over time, there has been an increase in interest in partnerships as well as in the experience gained in their development, against a background of the emphasis of the privatization process, which has become almost dominant. Maintaining, in partnership, both parties, keeping the values of partnership and risk-taking can ensure a sustainable character for partnership.

The reason for partnership setting up, by appealing to the private sector, is largely due to the insufficiency of budgetary resources and technologies needed at the public sector level, in the achievement of public works and delivery of public services.

Through PPP, the public sector aims to attract additional financial resources needed to finance large infrastructure projects for which the funds collected from taxes and tax rates are not enough. The resources come from both the state budget and the private sector but also from the service users (partially or entirely), thus, increasing the safety of finalizing the projects at the scheduled time, avoiding the situation of spending overcome by the public sector, by setting up a payment scheme before the beginning of construction.

By way of action, PPPs can determine advantages or disadvantages that generate a series of challenges, through the impact they have on the economic processes.

The forms of partnership have evolved over time, bearing changes in relation to the degree of involvement of the public and private sector, responsibilities and risks sharing between the two parties, the financial resources allocated, the objectives pursued, the historical period in which they have developed and the existing traditions.

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