PUBLIC – PRIVATE PARTNERSHIP IN PROVIDING PUBLIC GOODS AND SERVICES

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Abstract:

Local administrations are searching for new ways to efficiently deliver services and to develop and maintain the infrastructure that allows economic development. Increasingly, they are turning to public-private partnerships to do so.

PPPs covers a wide range of partnerships arrangements, such as: outsourcing, joint ventures, concessions, sales of equity stakes in state owned business, privatization, private finance initiative, but these forms of PPPs are not adopted by all specialists. Some organizations and specialists exclude privatization from the PPPs, because in their opinion PPPs are viable alternatives to privatization. The concept of PPP is very ambiguous.

Keywords: *public-private partnership, concession, outsourcing, privatization*

Around the world, local administrations are searching for new ways to efficiently deliver services and to develop and maintain the infrastructure that allows economic development. Whatever the reason for the partnership, the common theme is that partnerships bring together the strengths of both the public and private sectors, using the innovative capacities of private sector to create efficiencies that allow local administration to free up public funds for more economic and social programs ("Public-Private Partnerships" – Workshop, The PCVs' Role in Developing Local Parterships, page 1).

Defining the term of public-private partnership is not very clear, but has succeed in an end in shaping the practical, theoretical and legislative aspects of this method of providing public goods and services.

The public-private partnership (PPP) is defined such as ("Public Private Partnership"- Emil Yotov, Bulgaria):

- A project that involves the public and the private sectors;
- An innovative approach that integrates most positive aspects of the public and private sectors in order to reach maximum added value in offering public services;

- A partnership between the public and the private sectors aiming to provide social services or implement a project traditionally provided by the public sector.

The European Commission defines the PPP such as: "forms of cooperation between public authorities and the world of business which aim to ensure that infrastructure projects can be carried out or that service of use to the public can be provided. These forms of partnership have been developed in several areas of the public sector, such as ***transport, public health, education, public safety, waste management and water distribution***" ("Parteneriatul Public Privat "- Sandor Maria).

PPPs covers a wide range of partnerships arrangements, such as: outsourcing, joint ventures, concessions, sales of equity stakes in state owned business, privatization, private finance initiative, but these forms of PPPs are not adopted by all academics. The concept of PPP is very ambiguous.

Akintola Akintoye, Matthias Beck and Cliff Hardcastle, in the book "Public Private Partnership – Managing risks and opportunities" present different opinions regarding the concept of PPP. They stress the idea that government worldwide have sought to increase the involvement of the private sector in the delivery of public services. These initiatives have taken many forms, which are the cause of frequently debates between specialists in the field. It is generally recognized that a PPP programme offers a long term sustainable approach to improving social infrastructure, enhancing the value of public assets and making better use of taxpayer's money. Such a partnership might be as extensive as privatizing facilities or services, or it might simply involve applying financing or management techniques from the private sector. In the opinion of The National Council for Public Private Partnership of the USA, ***PPPs can include everything from outsourcing contract to full privatization***. Some organizations and specialists exclude privatization from the PPPs, because in their opinion ***PPPs are viable alternatives to privatization***, because they provide the opportunity to alter the institutional milieu without the loss of public influence ("Public Private Partnership-Managing risk and opportunities"- Akintola Akintoye, Matthias Beck, Cliff Hardcastle, Blackwell Publishing, page 4-5, 2003).

The most known PPP models that are found in the UK are ("Public Private Partnership-Managing risk and opportunities"- Akintola Akintoye, Matthias Beck, Cliff Hardcastle, Blackwell Publishing, page 10, 2003):

- ***Asset sales*** – the sale of surplus public sector assets.
- ***Wider markets*** – introducing the skills and finance of the private sector to help make better use of assets in the public sector.
- ***Sales of business*** – the sale of shares in state-owned business .
- ***Partnership companies*** – introducing private sector ownership into state owned business, while preserving the public interest and public policy objectives through legislation, regulation, partnership agreement, or retention by government of a special share.
- ***Private finance initiatives*** – the public sector contracts to purchase quality services, with defined outputs, on a long term basis from the private sector.

- ***Joint ventures*** – partnerships in which the public and private sector partners pool their assets, finance and expertise under joint management, so as to deliver long term growth in value for both partners.
- ***Partnership investment*** – partnership in which the public and private sectors contributes to the funding of investment projects by private sector parties, to ensure that the public sector shares in the return generated by these investments.
- ***Policy partnerships*** – arrangements in which private sector individuals or parties are involved in the development or implementation of policy.

Matei Lucica in her work "Empirical Approaches of the Public-Private Partnership in the Services of Public Utility" presents schematically the general structure of a public- private partnership, as follows:

Structure of the public-private partnership

Level 1	**Public sector**		
Level 2	**Private sector**	Economic agent	Consultant
Level 3	**Agreement**	Direct agreement	Project agreement
Level 4	**Financing system**	Banks	Investors
Level 5	**Provider**	Public Private	

Source: Matei Lucica - Empirical Approaches of the Public-Private Partnership in the Services of Public Utility, page 4

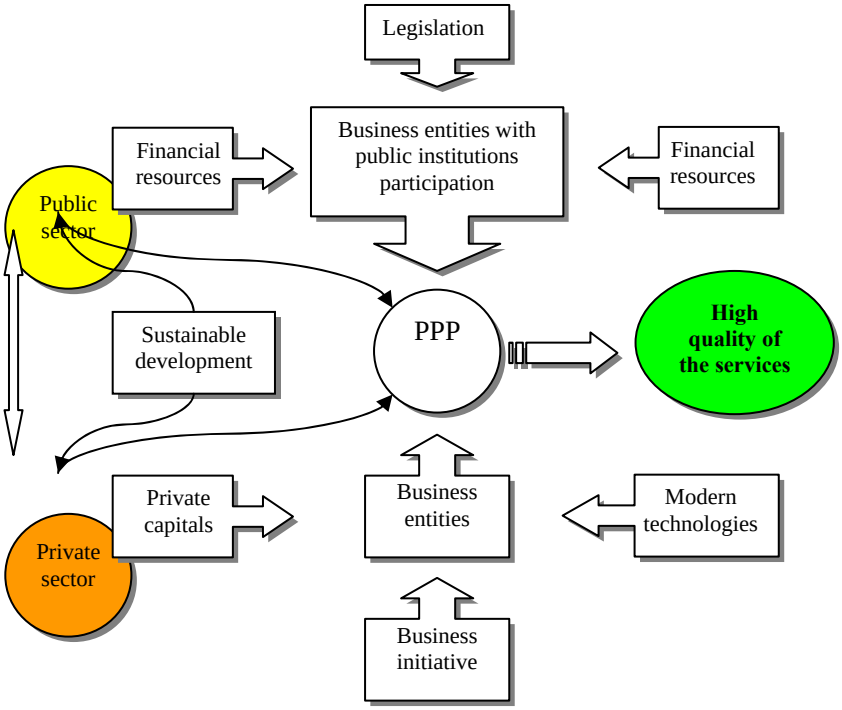
We may ask "why are these PPPs necessarily?". The answer seems to be very simple: because the public sector is generating weak performance, the public services are not innovative, not enough flexible, they are over regulated, too slow and are not consumer oriented; the organizational structures typical for the public sector are too rigid. Instead, the private sector enables innovation, flexibility, adaptability and change. The public authority through partnership seeks an improvement of public service quality and private operator seeks a partner profit with the invested capital, his competences and risks. While the public power seeks to achieve a service on long term and to diminish the public funds for that service, the private partner builds the

objectives on short and medium term and seeks to maximize the financial gains ("Empirical Approaches of the Public Private Partnership in the Services of Public Utility"- Lucica Matei page 4-5).

The PPPs produce a number of benefits and risks for both parties, but we express the one for the public sector in this work. The ***potential benefits*** for the public authority are:

- ***Cost savings***, because private partner may be able to reduce the cost of different services by applying innovative technologies, economies of scale.
- ***Reduce the time to implement a project.***
- ***Reducing the risk***, because with PPP public authority can share risks with a private partner.
- ***Improved service/good quality***, because of the used of new technologies by the private sector.
- PPP also offer the opportunity to introduce more ***innovative resource sources*** that would not be possible in the case of public sector offering.
- These PPPs may stimulate private sector to ***increase the employment***.
- PPPs contribute to ***economic growth***.

Emil Yotov presents part of these benefits through a representative scheme:



Source: Emil Yotov- Public Private Partnership

There are also ***potential risks*** associated with PPPs:

- ***Loss of control by public authority***, because PPP involves a sharing of decision-making between parties. But this disadvantage can be annihilated through a well done contract.
- Private partner may suffer labour disputes, financial problems or other circumstances that may ***prevent them from honoring their commitments***.
- ***Increased user fees,*** when establishing user fees for services, not all public parties consider the real costs of providing services.
- ***Accountability issues,*** because in PPPs the lines of accountability for the provision of services are less clear to the public than under conventional service delivery.

In Romania, the legal framework established by GEO number 34/2006, defines three types of public-private partnerships:

1. The public procurement of works, services or goods agreement;
2. The concession of public works agreement;
3. The concession of public services agreement.

GEO 34/2006 does not make any further references to PPP arrangements. Concession, by some authors, is the most important PPP arrangement for the private sector and is said to contribute to best value service in public services. The service provider finances, designs and builds a new service facility or improves an existing one. The service provider retains ownership of the completed facility and operates, maintains and repairs it for the duration of the contract, which is typically 20-30 years. The government grants concessions to recover the cost by collecting user charges and tariffs ("Public Private Partnership-Managing risk and opportunities"- Akintola Akintoye, Matthias Beck, Cliff Hardcastle, Blackwell Publishing, page 12, 2003).

The concession contract is awarded by the completion of one of the following procedures ("Survey of Public-Private Partnership Arrangements under the Romanian Law", by Pachiu and Associates, 2006, available at www.lp-legal.com):

- ✓ open tender, where every interested entity is allowed to submit its offer;
- ✓ limited tender, every interested entity is allowed to submit its offer and the public authority is allowed to select only those entities deemed as fit for the performance of the public-private project;
- ✓ competitive dialogue, such procedure applies when the project is of such complexity that the contracting public authority could not establish the technical or funding requirements of the project without a dialogue with applicants and parties involved;
- ✓ negotiations, such procedure allows the public authority to establish the final terms and conditions based on previous negotiations with selected offering entities;
- ✓ offers request, such procedure may be used only when the aggregate value of the project, without VAT, does not exceed a certain sum stipulated in law;

- ✓ solutions comparison, such procedure is mainly used for public domain development projects.

In Romania, in absence of a special regulation to be enacted on PPP, the only means private entities may contract public works are the public works and public services concession agreement, regulated by the GEO 34/2006.

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