

**PUBLIC-PRIVATE PARTNERSHIP
IMPACT ON LOCAL ECONOMIC
DEVELOPMENT. EVIDENCE FROM
ROMANIAN COUNTIES**

Abstract

From a theoretical point of view, public-private partnership (PPP) is constantly associated within academic literature dedicated to local economic development (LED) with a mechanism capable of stimulating local economy through implementation of general interest projects. However, poor empirical evidence proving the impact of PPPs on LED can be found in the literature body.

Therefore, the aim of the paper is to present the results of an empiric analysis on the impact public sector and business environment relationship has on the economic and social development process of local communities, in a Romanian context.

Research reveals the extent to which PPPs contribute to economic development at local level (county level), using the results of a questionnaire administered to county authorities representatives.

Keywords: public-private partnership, local economic development, administrative capacity, public projects

JEL CODES: R42, O18, O57

**PARTENERIATUL PUBLIC-
PRIVAT ȘI IMPACTUL
ASUPRA DEZVOLTĂRII
ECONOMICE LOCALE.
STUDIU LA NIVELUL
JUDEȚELOR DIN
ROMÂNIA**

Laura MINA-RAIU

Assistant Professor PhD., Administration and Public Management Faculty, Bucharest University of Economic Studies
E-mail: lauramina.ase@gmail.com

Rezumat

Din punct de vedere teoretic, parteneriatul public-privat (PPP) apare frecvent asociat în literatura academică dedicată dezvoltării economice locale (DEL) cu un mecanism capabil să stimuleze economia locală, prin implementarea de proiecte de interes general. Puține dovezi empirice în legătură cu impactul PPP asupra DEL se regăsesc însă în literatura de specialitate.

În acest scop, prezenta lucrare evidențiază rezultatele unei analize empirice privind implicațiile pe care intensificarea relațiilor de cooperare dintre sectorul public și mediul de afaceri le generează asupra procesului de dezvoltare economică și socială a colectivităților locale, în context românesc.

Cercetarea reflectă măsura în care PPP contribuie la dezvoltarea economiei locale, prin intermediul rezultatelor unui chestionar aplicat la nivelul autorităților județene din România.

Cuvinte cheie: parteneriat public-privat, dezvoltare economică locală, capacitate administrativă, proiecte de interes public.



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1. THEORETICAL FRAMEWORK

Intensively promoted, but at the same time very much criticized, public-private partnership (PPP) is a contemporary concept, flexible and very inclusive, that does not therefore enjoy very clear theoretical boundaries, generating a series of controversies (Mina, 2012). The fact that public-private partnership is an ambiguous concept is due to its very nature, as an intermediate alternative for public works and services provision, situated between the classic method of public procurement and privatization and also is a result of the variety of stakeholders involved in a PPP and the diversity of interests each of them has.

The generous selection base of different PPP meanings, as well as the various national experiences make it impossible to issue an operational, integrated and unanimously accepted definition. Among the most frequent meanings of public-private partnership (Hodge and Greeve, 2007; De Bettignies, Ross, 2004) is "new governments` instrument aimed at replacing the classic public procurement method".

Also PPPs are identified with a "new concept specific to public management terminology", that signals the involvement of private organizations in public service delivery process.

Another point of view related to PPPs multiple meanings highlights a new "method for developing public infrastructure projects". From this perspective, public-private partnership builds itself as a mechanism capable of stimulating local economy through private capital infusion for financing projects of general interest (Watson, 1995; World Bank, 2001; Dapice, 2008). This specific approach to PPPs is very common in European countries, that are very much influenced by the anglo-saxon trend, which promotes two major objectives of public-private deals: creating new jobs and local economic development oriented towards economic and social cohesion (IPP, 2004:15).

Local development strategies and plans use PPP as an instrument for reaching promises and goals that hold them accountable to the citizens. Governments use PPPs in order to create public policies meant to fight financial crisis effects and bring welfare for all society levels.

Academic literature dedicated to local economic development also describe LED as a public-private partnership *per se*. Thus, most authors highlight that LED is based on the collaboration between public entities, business environment, nongovernmental sector oriented towards jobs creation, economic and social welfare, improving living standards (Blakely and Leigh, 1989; Profiroiu, 1998; Popescu, 2003).

However in this paper, the focus will be on PPP as instrument for LED at county level, in Romania. This particular approach is due to the fact that the current social and economic context in Romania (transition to market economy, EU integration process, decentralisation process, current economic crisis) represent a challenge for public-private partnerships, as they address insufficient public budgets, inefficient bureaucracies and pressure from citizens (Profiroiu *et al*, 2013).

At theoretical level there is a generalized perception that PPPs contribute significantly to the local economic development process. However, poor evidence on the impact PPPs have on LED can be found. The aim of this paper is to bring such evidence, using the both information from a PPP database created by the Ministry of Finance and the results of a questionnaire that was administered to county level authorities in August 2012.

2. METHODOLOGY

Research objectives and hypotheses

The aim of the questionnaire was to reveal the state of the art of PPPs at the level of Romanian counties, to show the perception of county authorities representatives on the influence PPPs have on LED and also reveal the administrative capacity of county authorities in developing PPP projects.

The objectives of the quantitative research based on questionnaire were:

- Presenting the influence relationship between PPP and LED at the level of Romanian counties
- Evaluating county authorities administrative capacity in preparing and implementing PPP projects

Six hypotheses were set to reach the research objectives:

1. The adequate level for implementing PPPs is the subnational level;
2. At county level in Romania, public-private partnership is still in an early phase of development;
3. At county level in Romania there is particular interest for the public-private partnership formula;
4. County level contracting authorities level of expertise in the PPP field is poor;
5. At county level in Romania, public-private partnership has a positive effect on local economic development;
6. Romanian county level authorities lack administrative capacity for preparing and implementing public-private partnerships.

The sample of the questionnaire is represented by 40 out of the 42 counties of Romania. The choice to eliminate Bucharest and Ilfov counties was due to the fact that Bucharest-Ilfov region does not fit into the local trend related to the degree of development of public-private partnership and economic development. After the administration of the online questionnaire a 90% response rate was reached (36 counties out of 40).

The respondents were management level civil servants, with solid expertise in the area of administrative contracts in general and public procurement, concessions, PPPs in particular. Approximately 92% of the respondents represent County Councils, while 8% come from Prefectures.

Sample description

The sample of the questionnaire is represented at institutional level by County Councils and the Prefect Institution. Although the PPP phenomenon is suitable for a stakeholders' approach, my option for including only public authorities in the sample is due to the fact that the public sector is the main stakeholder, that initiates and organizes PPP deals, influencing in a decisive manner all aspects and phases of a PPP project (Corețchi, 2011, p. 218).

The rationale for including in the sample only county level authorities is based on the finding that 42% of the PPP projects included in the Ministry of Finance PPP database are initiated by county authorities, 48% by municipalities, 4% by ministries and 6% by other public entities (Ministry of Finance PPP database, 2011).

Respondents are management level civil servants (senior county managers, public managers, directors, senior officers, officers, inspectors) working in county councils and prefectures, familiar to a great extent with administrative contracts, public procurement, concessions, privatization, in general and of course PPPs, in particular.

The response rate was 90% (36 out of the 40 counties included in the sample answered the questionnaire) (Figure 1).

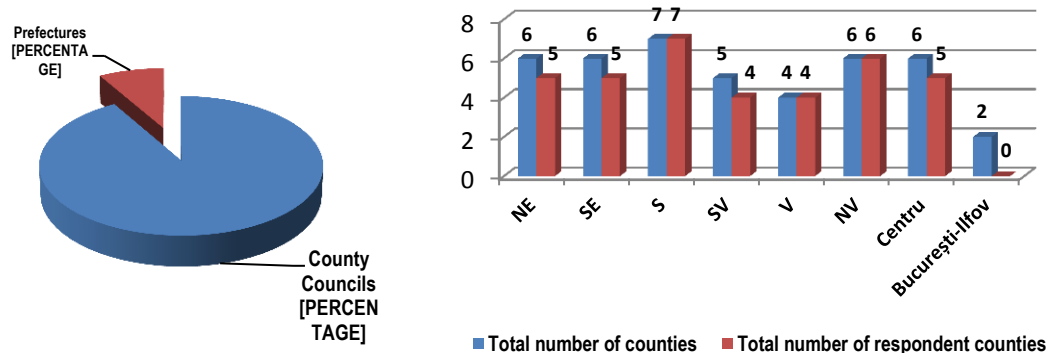


FIGURE 1. DISTRIBUTION OF RESPONDENTS ON INSTITUTIONS AND REGIONS
Source: data processed from questionnaire, 2012

Structure of the questionnaire

The questionnaire that was administered to county level authorities is structured on seven sections and contains 43 questions, plus a separate section that includes questions about respondents' profile. Most questions are closed, but some questions leave respondents the possibility to add an extra answer option or extra details.

The introductory section is composed of questions on general aspects of PPPs. The second section is about county authorities on PPPs. The third and fourth sections are related to legal, institutional and technical aspects of PPPs. The fifth section is aimed at identifying the state of the art of PPPs at county level, in Romania. The sixth section looks into the impact of PPP on LED and the last section contains questions on how respondents anticipate PPPs future in Romania.

Questionnaire were administered electronically, using Zoomerang platform¹. Data was gathered and processed through univariate analysis, multivariate analysis, descriptive statistics, using Excel and Statistical Package for the Social Sciences (SPSS) softwares.

3. RESULTS AND DISCUSSIONS

In this section of the paper I present the most relevant results of the questionnaire, in relation with the research objectives, which were translated into hypotheses.

Hypothesis 1: The adequate level for implementing PPPs is the subnational level

One relevant aspect that came out after processing the data is related to **the most adequate PPP implementation level** (Figure 2). Thus, 83% of respondents consider that the sub-national level (local, county and regional level) is the most suitable for PPPs, by contrast with only 17% that indicate the national level. Apparently this result contradicts the theory and practice of PPPs in countries that are early PPP promoters (especially UK, Canada, Australia), that support PPPs as instrument for big infrastructure projects, characterized by high level of complexity and high transaction costs, that are usually developed at national level. However, this particular result seems to highlight the big discrepancy which exists in Romania, between the national and subnational level of development and implicitly the deep need for PPPs at sub-national level.

¹ Questionnaire is available at: <https://s.zoomerang.com/Survey/WEB22GDUCJGWJL/>

Q1. Which do you consider to be the most appropriate level for PPP implementation?

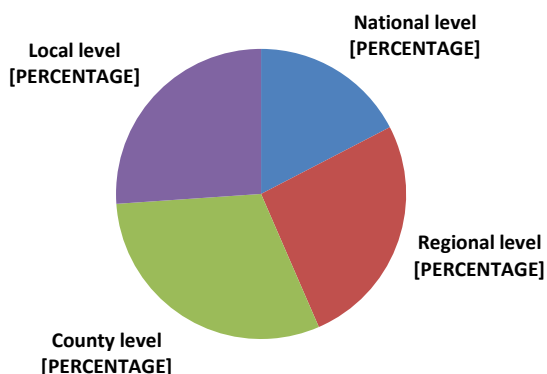


FIGURE 2. MOST ADEQUATE LEVEL FOR PPP IMPLEMENTATION

Source: data processed from questionnaire, 2012

Hypothesis 2: At county level in Romania, public-private partnership is still in an early phase of development

Q3. How do you consider PPP state of development in Romania at the following levels:

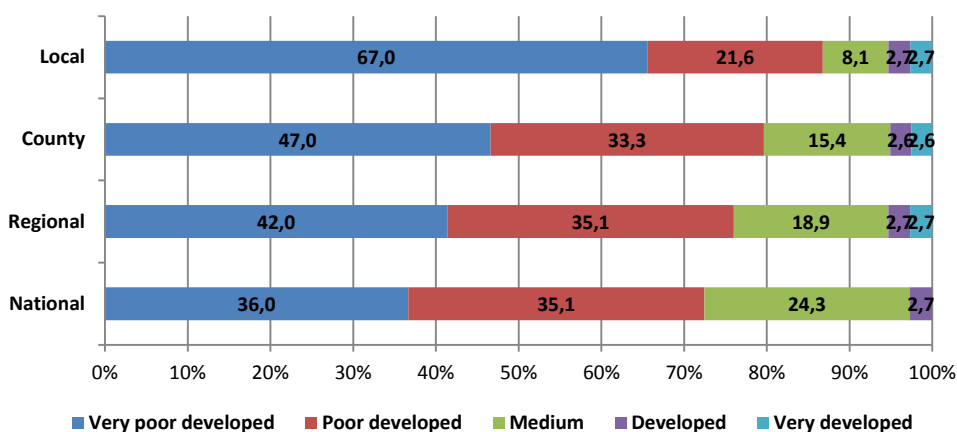


FIGURE 3. DEVELOPMENT LEVEL OF PUBLIC-PRIVATE PARTNERSHIP IN ROMANIA

Source: data processed from questionnaire, 2012

No matter the administrative level (national, regional, county or local level), more than 70% of the responses are directed towards the attributes "poor developed" and "very poor developed". Interesting to mention that no respondent indicated the "very developed" attribute.

The ranking of the administrative levels according to the PPP state of development, as perceived by respondents is: national level on the first place, followed by regional, county and local level. County

authorities representatives position is most probably motivated by the fact the PPPs are by nature more adequate to big projects of national and regional interest and also by the fact that at central and regional level the perceived PPP expertise is higher than at county and local level.

However, the reality of PPPs in Romania, according to the Ministry's of Finance PPP database shows the contrary: PPPs at subnational level are much more well represented than PPPs at national level. It becomes clear that the knowledge on the PPP reality and consequently the official dissemination of information on PPP projects' state is limited, strengthening the hypothesis that after more than a decade of official PPP reglementation and practice in Romania, this type of agreements between public bodies and private companies are still in an early phase of development. Moreover, the fact that respondents knowledge on PPP reality is poor may also indicate a poor level of expertise in this field (hypothesis 4).

Hypothesis 3: At county level in Romania there is particular interest for the public-private partnership formula

Almost 90% of the respondents consider PPPs as an adequate alternative for county level public investments. No respondent considers PPP a non suitable solution (Figure 4). Nonetheless, only one third of respondents indicated that such projects were developed in their county (Figure 5). What results is an obvious discrepancy between PPPs' perceived expectations and opportunities and PPP's practice and experience, which strengthens the initial assumption that there is a particular interest for PPPs.

Q17. Do you consider PPPs an adequate alternative for public investments at the level of your community?

Q16. Within your institution have there ever been or are under implementation PPP project?

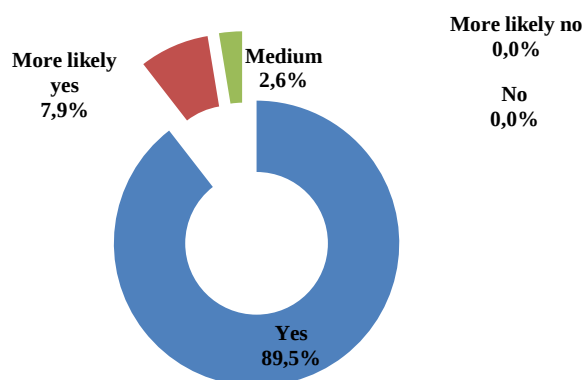


FIGURE 4.
 PPP AS APPROPRIATE ALTERNATIVE FOR COUNTY
 LEVEL PUBLIC INVESTMENTS

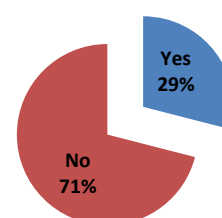


FIGURE 5.
 IMPLEMENTED PPP PROJECTS

Source: data processed from questionnaire, 2012

Hypothesis 4: County level contracting authorities level of expertise in the PPP field is quite low

Regarding the **level of expertise of county authorities in the field of PPPs** (Figure 6) most answers are situated on the axis “medium- quite poor- very poor”. Grouping the answers on major categories: legislative expertise (specific legislation for PPPs, procedures for selecting partners and contractual clauses), technical expertise (defining technical requirements, estimating construction cost for public investment projects, risk analysis) and financial expertise (evaluating the most economic alternative for the public authority, projection of payment mechanisms, developing financial models for establishing PPPs` financial viability) it becomes evident that all three dimensions of expertise register severe deficiencies.

Q7. Which do you consider to be the general level of expertise of county level public administration in the field of PPPs, in relation with the following aspects?

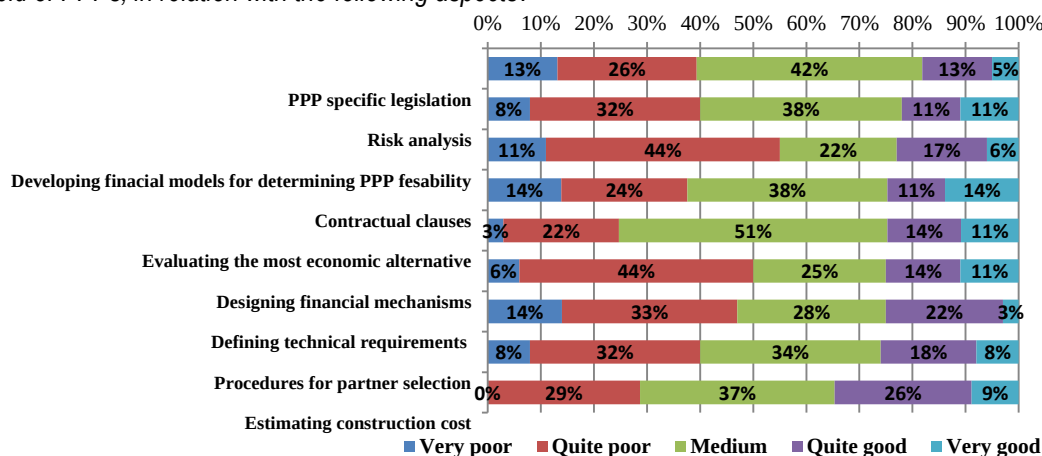


FIGURE 6. COUNTY LEVEL EXPERTISE IN THE FIELD ON PPPs

Source: data processed from questionnaire, 2012

Taking into account that the answers to this question actually represent a self- evaluation, there is a high probability that the real level of expertise of county level authorities in implementing PPPs is even lower than the results of the questionnaire point out.

Q8. Employees within your institution have attended training courses, seminars, conferences on PPP topics?

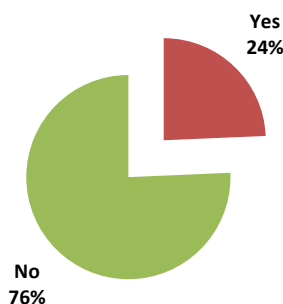


FIGURE 7. PPP HUMAN RESOURCES TRAINING/EDUCATION

Source: data processed from questionnaire, 2012

More than three quarters of the respondents indicated that respondents within their institution did not benefit of any type of training in the PPP field.

Q14. Which of the following alternatives represent in your opinion the most adequate risk allocation alternative?

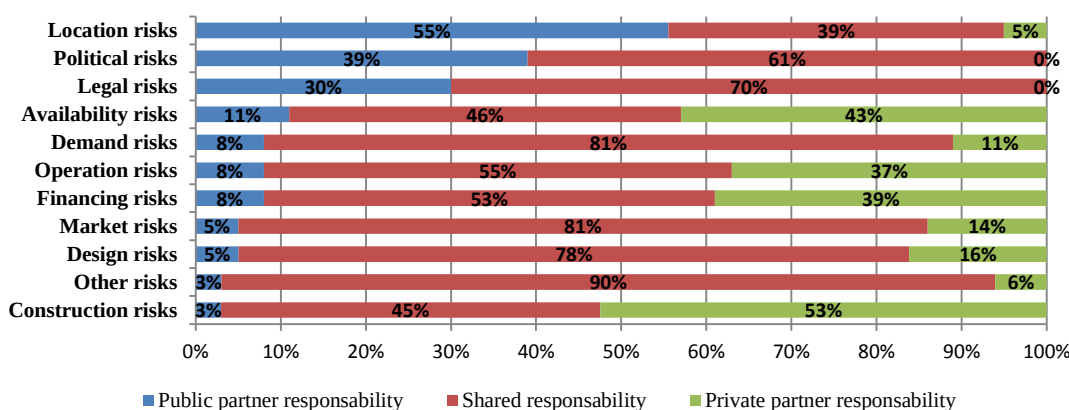


FIGURE 8. ADEQUATE RISK ALLOCATION BETWEEN PARTNERS

Source: data processed from questionnaire, 2012

Each PPP project is unique from the perspective of risk allocation between partners. However, there are some risks that are traditionally entirely transferred to the public sector (location, political, legal risks) or the private sector (design, construction, operation risks). Results indicate that only 16%, 53%, respectively 37% of the respondents are willing to transfer these risks to the business environment. Public authorities tendency to retain risks leads to a suboptimal risk allocation, which means higher costs and inefficient use of private companies know-how. The overall distribution of answers in Figure 8

clearly reveals respondents strong attachment to the classic procurement method and therefore a poor expertise in the field of PPPs.

Hypothesis: At county level in Romania, public-private partnership has a positive effect on local economic development

The three most important reasons for PPP adoption at county level are stimulating local economy (78%), increasing local economic development rhythm (75%), limited budgets and improving public services quality (both reasons scored 73%). Creating new jobs and need for public infrastructure investments are on the next position, gathering 72%. Secondary reasons in terms of importance are know-how transfer (38%) and EU requirements (27%). Anyway, respondents consider most reasons as important and very important, which reveals that PPP is an instrument that public authorities use/ would use in order to reach simultaneously more goals.

Q29. Which are the reasons that justify the use of PPPs within your county?

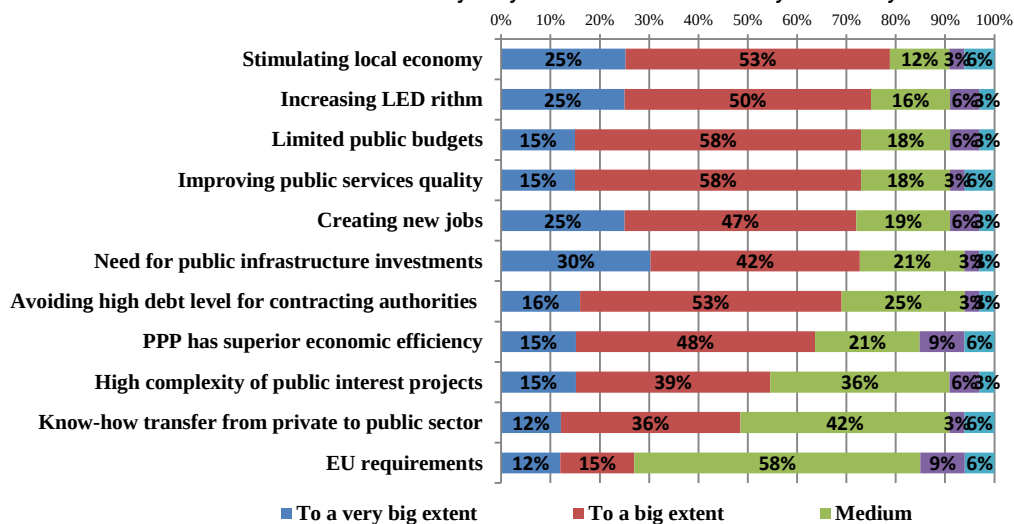


FIGURE 9. REASONS FOR PPP ADOPTION AT COUNTY LEVEL

Source: data processed from questionnaire, 2012

Surprisingly, the main driver for PPP use at county level (stimulating local economy) has a strategic nature, because it does not address punctual limitations (such as oversized public budgets), but is aimed at developing mechanisms capable of inducing multiple benefits.

Q39. How do you consider the benefits brought by PPP projects at the level of your county, in relation to the following aspects:

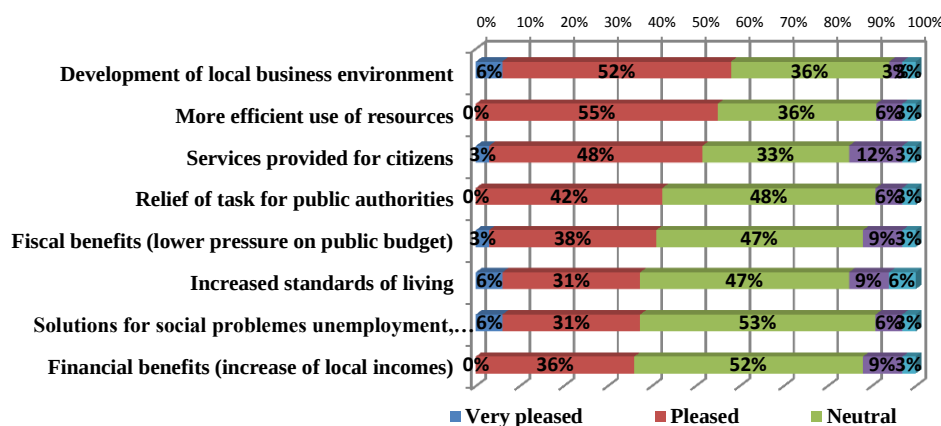


FIGURE 10. BENEFITS BROUGHT BY PPP PROJECTS

Source: data processed from questionnaire, 2012

The top three benefits brought by public-private partnership projects, in relation to which respondents declare themselves pleased and very pleased are: development of local business environment (58%), more efficient use of resources (55%), services provided to citizens (51%), all of them being factors that contribute to local economic development (Figure 10).

Hypothesis: Romanian county level authorities lack administrative capacity for preparing and implementing public-private partnerships

Regarding the **determinant factors that influence PPP agreements** to a high and very high extent (Figure 11), after the legislative and institutional frameworks and governmental policies, considered to be formal factors, respondents indicated access to capital, administrative capacity and macroeconomic context. Surprisingly, PPP projects tradition is seen as a less important factor, by comparison with the other factors.

Q6. To what extent do you consider the following factors determinant for developing PPP projects?

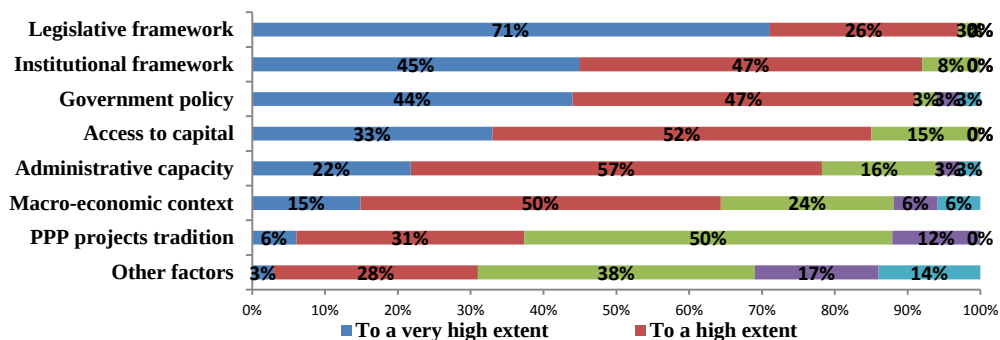


FIGURE 11. DETERMINANT FACTORS FOR PPP IMPLEMENTATION

Source: data processed from questionnaire, 2012

Q40. On a scale from 1 to 3, how do you consider the obstacles you were confronted with when implementing PPPs?

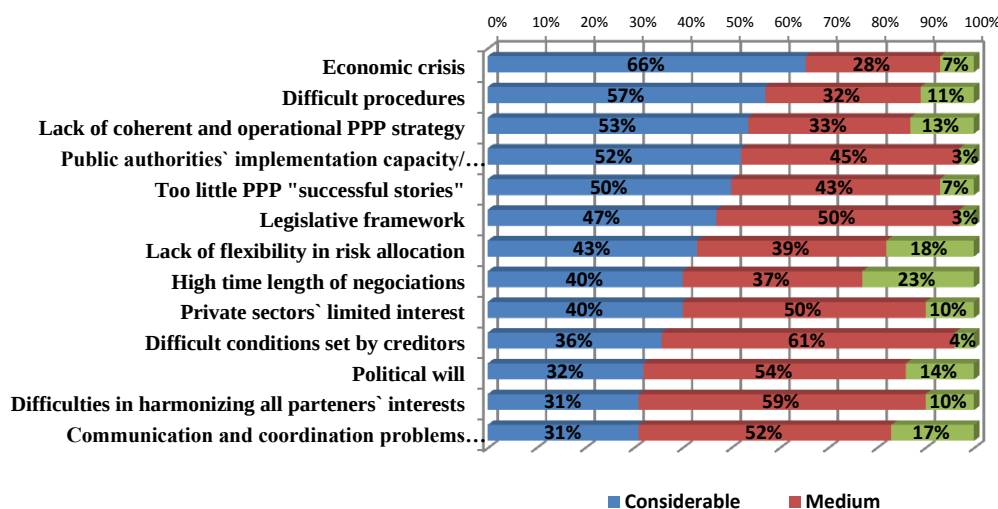


FIGURE 12. OBSTACLES IN IMPLEMENTING PPPs

Source: data processed from questionnaire, 2012

The main considerable barriers for PPP implementation indicated by respondents are the economic crisis (66%), difficult procedures (57%), lack of coherent and operational PPP strategy (53%), public authorities administrative capacity (52%) and few PPP successful stories (50%).

Because administrative capacity is seen both as a determinant factor for PPPs as well as an obstacle for such projects, hypothesis ... is also verified.

4. CONCLUSIONS

The main results gathered after centralizing and processing the questionnaire reflect an **incipient stage of development** that characterizes the PPP phenomena in Romania, resulting both directly from the evaluation of 70% of the answers, that indicate a poor and very poor level of development and indirectly, as less than one third of the analyzed counties (29%) have developed public-private partnership projects. Nonetheless, almost 90% of county authorities have clearly defined PPPs as an appropriate alternative for performing public investments at county level. None of the respondents has considered PPPs an inappropriate solution, which point out that although there is no positive and significant history for such kind of government-business agreements in Romania **PPPs remain an attractive formula for county authorities**, that consider **subnational level the most adequate level for PPPs** (83%). The highest percentage of answers are to be found within the area of county level PPP projects.

At the same time, the reduced rate of partnership projects represents a valuable clue for **county authorities' expertise in the PPP field**. Thus, respondents openly and directly admit there are deficiencies in the field of knowledge related to legal, financial and operational aspects specific for PPPs. Just a quarter of the respondents reported the personnel from their institution was trained or participated at conferences/ seminars about public-private partnerships. A similar conclusion results indirectly from the answers at the questions related to PPPs distinctive features, level of partners involvement or risk management. Public authorities' tendency to retain risks that in PPP logic are totally transferred to the private environment reflects a low degree of familiarity of the public sector with the innovations brought by PPP by comparison with classic methods for public services procurement.

Concerning the **influence of public-private partnerships on local economic development**, the most important benefit experienced by the respondents as a consequence of implementing PPPs is the development of the local business environment. Furthermore, the main reasons authorities use to explain their interest in cooperating with private firms is local economic stimulation and accelerating the rhythm of local economic development.

The most significant barriers that hinder county authorities in implementing PPPs obstacle are: the economic crisis, laborious procedures, lack of a coherent and operational strategy in the PPP field, authorities capacity of implementation and a modest presence of successful domestic PPPs. All these findings enable us to consider the results of the questionnaire validate the formulated hypothesis and evidently demonstrate public authorities perception of PPPs is corresponds to an instrument capable of stimulating local economic and social development. Moreover, it becomes evident that county authorities have a low potential in accessing partnership projects, mainly because of the reduced level

of legal, technical and financial expertise, but also due to the political factor inconsistent vision over PPPs in the last decade.

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