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PARTNERSHIP WITH THE PRIVATE SECTOR AS A LOCAL DEVELOPMENT LEVERAGE

Abstract: The purpose of the paper is to present the influence of public-private partnership on local development. Aside from the model of public management with the participation of the private sector, the determinants and factors of local development are also presented. The closing part evaluates PPP in local development.

Keywords: public-private partnership, local development, local self-government, development factors.

1. PPP – the new form of public sector management

Public sector management is subject to strong transformation, in the direction specified by achievements in the public sector management. The traditional juxtaposition of the private and public sectors is giving way to the concept of shifting tried and true solutions from the private to the public sector [Zalewski 2005, p. 16] properly adapted to the specifications of public task and entity management. The latest concepts even point to the need for cooperation between both sectors in implementation of public tasks, i.e. it allows for the presence of private partners as contractors of such tasks and the profits gained from this activity. It called for a change in perception of such issues by the local people and society, a change which has contributed to the creation and development of a novel concept in public sector management: public-private partnership which is recommended by e.g. the European Union.

The European Committee specifies public-private partnership as a form of cooperation between the public and private sectors, whose aim is to conduct projects or render services traditionally from the core activity of the public one [*Guidelines for Successful... 2003*]. *Guidelines for Successful Public-Private Partnerships* includes such partnership forms as lease contracts or service contracting, yet puts more emphasis on the so-called non-traditional forms of cooperation, assuming sharing investment commitments and particular risk factors between partners.

Public-private partnership is linked with passing on public task implementation to entities which operate according to market rules. The essence of such solution lies in applying the partnership potential between the public entity and the private part-

ner. The term *Public Private Partnership* is a broad one and in fact encompasses different scopes of such cooperation.

Its underlying rule is joining private capitals and public means [Kulawik 2000, p. 83]. It is an agreement between a public entity (whose feature is the non-profit activity) and a private partner whose activity is commercially oriented. One might assume that the essence of partnership is based on a long-term commitment of the private entity in implementing public investments and participation in rendering public services, where either partner accepts the proportion of risk which they are more likely to consider (for more effective risk management [Zysnarski 2007, p. 10]).

The primary feature of applying public-private partnership is the benefit of the public sector – a benefit that surpasses the one achieved by other means of implementing the task [Brzozowska 2006, p. 21]. In practical terms, it is the maximum efficiency with given means, with economizing on the public expenses, improving quality standards and technical parameters, as well as limiting inconvenience for the surroundings. PPP pertains to implementing a joint venture. This might be an investment task, public utility task to render long-term public services, if it refers to utilization, maintenance and management of property units, simulating economic and social development, as well as pilot, promotional, cultural or educational activities. There is one common link between such activities – they must lie within the public task scope as formulated and to be implemented by the public entity.

The concept of public-private partnership is part of New Public Management (NPM) which encompasses changes to the public sector along with the speedy scientific-technological development. They are accelerated and popularized mostly by the managerial revolution – in the aftermath, the evolution of public organizations management has transformed into a comprehensive reform of public administration, functioning from the inside as well. Research in this area is oriented towards improving the methods and management techniques applied to achieve particular objectives [Ireisat 2001, pp. 542-543]:

- to provide responsibility in public management, particularly in its political context,
- to measure and evaluate results as against the traditional expense and expansion orientation,
- to increase state commitment in public administration human resources development, particularly through retrofitting the recruitment process and promotion of employees on the basis of substantial qualifications, their training and development,
- to promote ethics in public service and eliminate corruption through: establishing foolproof control and assessment units, funding ethics education programs, and creating more efficient claim and jurisdiction methods in breaching the code of ethics,
- to apply cost-lowering enterprises and increase the awareness of applying more efficient techniques based on reliable informing on public issues (including implementation of public tasks),

- to introduce quality criteria in the overall public service sector, which would include clearly specified stimuli, managerial entitlement of public entities and prompt to render more citizen-friendly services.

Public-private partnership must not be regarded as a concept which appeared out of nowhere – the traditions of public and private cooperation in implementing particular public tasks have been known for some time now. PPP is rather an attempt at unifying the capacity of engaging private partners in public sector management, while at the same time, it is a concept which points to introducing more profound changes to the socio-economic development policy of a given territorial unit. It is linked with depoliticizing the spectrum of public task implementation [Zalewski 2006, p. 35].

Following on the NPM concept, public-private partnership may be regarded as not merely a form of task implementation in the cooperation between the public entity and the private partner, but also as a tool of augmenting local community participation in local affairs management. It might be assumed that initiating partnership – regardless of whether it is the public entity, the potential private partner or yet another entity oriented at changes to the implementation of public tasks that ignites the process – means commitment in local affairs and is the consequence of discussing the need of reform and streamlining the public task implementation spectrum. It also points to the existence of entrepreneurial culture – it might be used for greater efficiency of implementing the tasks.

A contract or separate entity can be considered as a model of PPP. In the light of the former and within the latter, both the public and private sectors are liable for ensuring high quality of service to the society. The public party wields administrative power, vitally influences the possibilities and conditions of running a business activity through establishing legal and system solutions. It also holds property strategic for the local development. The public sector, on the other hand, possesses vaster knowledge, technology, funding capacity and exhibits greater operational efficiency.

The above description of PPP indicates that it need be treated as a key local development management tool. The public sector, as a strongly centralized structure, subject to (in a particular territorial unit) self-government bodies, is in fact a significant organizer of economic processes. Any changes to its activity (resulting from various funding levels and the structure of allocating the budget for implementing particular public tasks) strongly affect the local economy. Assuming that the aim of public-private partnership is increasing the efficiency of completing public tasks and more public infrastructure outlay, the decision to apply the PPP concept contributes to igniting adjustment processes in the local economy and thus augmenting its development. From this standpoint, it can be described as the synergy effect, resulting from combining the two sectors' potential (expanding the scale of rendered public service and/or reducing their cost – the general improvement in efficiency and qual-

ity of the service). For private partners, entering the public sector opens quite novel activity and profitability capacities which, within the public sector alone, are shrinking due to increasing competitive pressure and dwindling profitability.

2. Local development determinants

Local development is not an easily definable issue due to its multiple meanings, with the creators of particular definitions building on different theories explaining the essence of development processes on the local scale. Broadly speaking, the term “development” stands for directed, long-term changes of something or somebody, in the course of which the entity evolves from basic, less complex forms and states into ones more elaborate in particular aspects. In these terms, development comes close to the notion of progress [Ziółkowski, Goleń 2006, p. 55].

In its essence, the idea of local development pertains to a particular extract of the geographical sphere. By this, it should be identified with the development of local governments, understood as communities of local residents, populating specific territories. At the same time, the complexity of the concept must be highlighted, and the degree of complexity is a derivative of multi-layer aims to be served by the development proper, alongside with the diversity of its shaping actions [Zalewski 1994]. Here, the notion of local development is contained within a specified unit – on the one hand by understanding local development as creating new workplaces in a particular commune (detailed approach), yet on the other – by perceiving development as comprehensive shaping with given determinants (internal and external), optimal living conditions of the local community, possibly enhancing the organization, struc-

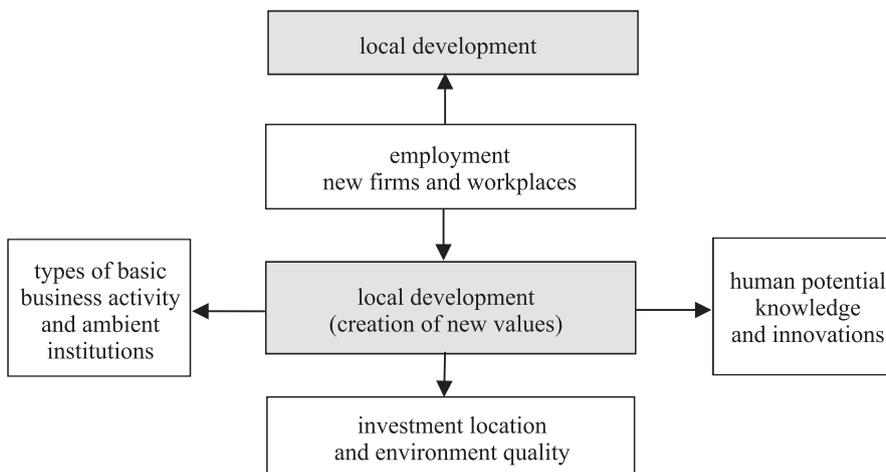


Fig. 1. Effects of local development

Source: [Brol 1998, p. 10].

ture and functioning of the commune through best application of local development outlay on work reserves, communal property, space, natural environment, cultural heritage and finance (general approach) [Ziółkowski, Goleń 2006, p. 56].

The effect of local development is the creation of new values on the level of one territorial unit, as specified by Fig. 1.

The values incorporate: new business units and workplaces, new goods and services catering for local and over-local demand. They are also attractive localizations, providing the so-called hard localization factors in the form of property and infrastructure, alongside with high-quality natural environment. Others are soft, non-material factors: knowledge, qualifications and new abilities of local community [Brol 1998, pp. 9-10].

The scale and pace of local development depend strongly on not only shaping optimal proportions between social and economic needs, functions and spatial management, but also on external determinants in the form of opportunities and threats existing in the local self-government ambience. The determinants fall into [Ziółkowski, Goleń 2006, p. 58]:

1) actual determinants: general development level of the country, structure of national economy, its lieu in the global economy, technological development level, level of inflation, demographic cross-section, level of education, size and qualifications of workforce, conditions of the natural environment, natural resources and their utilization (maintaining the rules of eco-development);

2) formal determinants: legal system, state strategy and development policy, formed by various sector policies: financial, structural modifications, industrial, agricultural, social, spatial management, regional, foreign affairs, education, health and social care, social insurance, transport, ecologic, etc., which shape and modify socio-economic processes state- and voivodship-wise and encompass state authority influence on communes.

The activity aims of entities co-creating the local economy are accompanied by contradictions and conflicts, yet each aims at maximizing its own benefits. It would be mistaken to think that the sum of individual aims will eventually lead to maximizing the benefits of the overall local system. It is the outcome of various implementation means employed by local economic units. Maximization of benefits can be achieved at the expense of other entities – due to monopoly practices, unfair competition, minimizing tax burdens, avoiding increasing pollution costs and so on. For this reason, a key role in the local development system lies on the self-government units whose task is to troubleshoot existing contradictions and coordinate activities of entities acting for the benefit of the commune's community as a whole, economy and ecosystem. Local self-government authorities serve as a subsystem which steers the development of local socio-economic system [Ziółkowski 2005, p. 92].

Managing local development is conducted with self-government interventionism tools, i.e. the local authority-community, economy and space influence package capacity within a self-government territorial unit [Patrzalek 2004, pp. 39-41]. The package incorporates, among others [Brol 1998, p. 14]:

- legal norms by local authorities, i.e. acts by authoritative bodies, executive orders, other regulations;
- administrative decisions, including orders, prohibitions and limitations, resulting from statutory regulations about environmental protection, land management, sanitary norms, fire safety, etc.;
- economic-financial tools which aim at motivating economic units to act accordingly to demand within the self-government territorial unit; such tools might be: taxes and local tolls, grants, communal charges, lease rents, terrain prices and preference, tax reliefs, etc.;
- business activities which satisfy the needs of local community and self-government economy that cannot be satisfied by free market enterprises; this specifically refers to the public service sector which completes won commune tasks, resulting from the commune self-government act. The necessity of territorial self-government bodies engaging in business activity results from the market's failing (within the public utility spectrum) to act as resource allocation mechanism – these happen to be limited in relation to existing needs;
- activities by the local self-government which shape entrepreneurial culture and create business infrastructure in the commune; such activities comprise: commune promotion activities, supporting small business entities by, e.g., business incubators, guarantee funds, professional trainings for the unemployed, establishing zones for developing preferred functions (local special economic zones), organizing and participating in the activity of semi-public institutions of local development (local foundations or local development agencies inspire and formulate local development programs and enable implementation procedures by raising and effectively managing capital).

Local development management by public authorities has also focused on public-private partnership. It may be deemed as an attempt at breaking the monopoly of public entities in rendering public service, even though it is the self-government authority that possesses some tools connected with formally initiating particular PPP actions [Kosiedowski (red.) 2005, p. 258].

To engage the largest possible group of local or regional development entities in actions which allow the development of a particular territorial unit would contribute to establishing forms of cooperation between the private and public sector entities, resulting in launching investment actions under the principles of PPP.

3. PPP areas and development processes

Breaking away from public entity monopoly on implementing public tasks means initiating development processes in the local economy – engaging private partners releases an adjustment mechanism which allows to achieve particular objectives (gaining extra investment capital, introduction of know-how, increasing the span and/or

quality of public property and service on an equal funding level or limiting public funding). The development of public-private partnership is inseparably linked with the shortage of means of the local sector – in particular infrastructure investment expenses [Brzozowska 2006, p. 23]. However, today PPP needs a broader treatment – as a local development tool.

Engaging the private entity in the building and maintenance process of communal infrastructure should be preceded by applying the suitable PPP method and partner. The enterprise's success depends on properly implementing the given solution and whether the private participation variant selected suits local conditions and if it will create public trust when implementing. So far in Polish reality, the system of funding communal activities with reference to the public-private partnership principle has been applied typically in rather commercial spheres – showing a natural need to engage private partners and involving relatively simple agreements between entities. This principle is most evident in waterworks and sewage, heat engineering, municipal transport, waste management. The agreements are complex if the cooperation is to concentrate on non-commercially associated domains, expressing an element of social aid. In such cases, the occurrence of asocial (market-oriented) behavior of business entities and corruption accusation is not at all uncommon. Opinions of such sort might impede diverse (economically-rational) projects for self-governments that have already been ongoing. In order to avoid similar problems, the local residents should be informed beforehand about the introduction of PPP into the communal investment funding system, with the rules clearly stated and highlighting the advantages of this support for local and regional development [Kosiedowski (red.) 2005, pp. 258-259].

It is worth mentioning that communal infrastructure (including the commonly available part) as well as some public property and service directly determine the development prospects within one territorial unit – without such, business units are unable to run and develop their business activity. From this standpoint, any rationalization, i.e., creating and extending communal infrastructure, increasing the span and quality of public property and service contributes to the expansion of development potentials on the local scale. Thus, launching public-private partnership not only constitutes a development mark in itself, but also can – and typically does – dynamically stimulate the processes in one territorial unit. In this situation, external investors frequently appear.

The logic to development on a local scale – parallel to the macro scale – is the existence of economic situation changes. This indicates that spells of booming economy are interwoven with those of stagnation or even regression, which also holds true for the public sector. By retrieving a percentage of income (taxes and charges), it shapes its own budgets. Budget restrictions – resulting from more public spending pressure – become yet greater in periods when, due to the economic downturn, funds are shorter. Then, there is increasing pressure on protective social aid and benefits for groups which struggle with deteriorating situation. The public sector, however, hap-

pens to be relatively “stiff” and therefore finds it difficult to respond to changes occurring in the local socio-economic system due to the proper (quantity-, quality- and allocation-wise) public property and service supply.

As a tool, public-private partnership can increase flexibility in adjusting the supply of public services to changing demand. Demographic changes, for instance, bring about changes in nursery places demand. Public entities’ reacting to such changes always involves high costs. Thus, it seems a more efficient solution to rely, to some extent at least, on the cooperation with private entities characterized by greater flexibility (e.g. employment forms and cutbacks), more smoothly adapting to service supply changes. The public entity (the commune self-government) can actively support the entities – on preferential terms – by letting offices, grant-procurement aid and smaller forms.

The above arguments show public-private partnership as a perfect tool for implementing the local socio-economic policy. In particular, the following functions become evident:

1) providing extra means (in the form of capital and goods) from private partners, as well as by granting their procurement from financial institutions with implementing a particular task in the PPP formula;

2) activating – in relation to local economic needs – local entities by leading them through an open door to new business activities, or seeking external investors interested in rendering public service within one territorial unit (and frequently supplementing the activities with commercial ones, related to the principal public service scope);

3) giving a development spur to units cooperating with a partner involved in implementing a PPP project; in the era of cooperative merging and outsourcing, one activity – including the public sector – gives way to others, in a “budding” way.

Some of the hypotheses presented above, which reflect the benefits from applying PPP as a tool for local politics and socio-economic development, might strike as controversial. For instance, an aim of local authorities to drive regional development is the creation of new workplaces. This is contrary to the fact that the private partner engaged in PPP activities will search any cost-cutting means (to increase its profitability level), which is often correlated with decreasing employment. No research so far has indicated changes in local economy employment – particularly with public task implementation – with reference to public-private partnership, yet it may be argued that one way to increase public task implementation efficiency is staff cutbacks. On the other hand, modifications connected with implementing PPP projects frequently take into account securing the situation of communal entity staff, hitherto engaged in implementing a public task. Then, it is the role of the private partner to increase the scope of activity (basic and supplementary) and produce extra income, with reducing costs in areas other than human resources.

Public-private partnership is a novel and not yet fully developed form of public task implementation management or – in a broader sense – a tool of managing local development. More in-depth research into the essence and expandability of PPP

– with the application of e.g. various funding techniques, organization forms – should in the future increase the attractiveness of partnership as a form of public task implementation, with stimulating and sustaining local development. A vital aspect of partnership is the opportunity to identify an optimal formula for implementing public tasks through cooperation with sectors in virtually all conditions. The fact that PPP is always linked with at least forecasting the potential predominance of benefits over public entity costs should be regarded as the guarantee of launching development processes on a local scale.

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PARTNERSTWO PUBLICZNO-PRYWATNE JAKO CZYNNIK ROZWOJU LOKALNEGO

Streszczenie: Przedmiotem artykułu są rozważania na temat wpływu partnerstwa publiczno-prywatnego na rozwój lokalny. Oprócz modelu zarządzania publicznego przy współdziałaniu sektora prywatnego przedstawiono również uwarunkowania i czynniki rozwoju lokalnego. W ostatniej części artykułu dokonano oceny wpływu zastosowania ppp w rozwoju lokalnym.