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THE OPPORTUNITY OF FINANCING THE LOCAL COLLECTIVITIES THROUGH PUBLIC-PRIVATE PARTNERSHIP

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Abstract:
This paper's purpose is to analyse the financial situation of the local authorities in the EU countries and to consider alternative funding through public-private partnership. Both because of the economic and financial crises that has affected the earned income but also because of the decentralization process that has enlarged the responsibilities, local authorities are put into difficulty in providing public services at a higher quality level and starting new public investments.

Empirical research on this track will reveal the public role that the public-private partnership can play at a local level, but also various obstacles that inhibit its usage in some of the EU countries. In this article we also aim to determine certain methods to overcome the obstacles that stand in the way of increasing public-private use at a local level. Thus, we emphasize the context in which public-private partnership is a local solution and that is sustainable on a long term. To achieve this objective we will make a foray into the literature and the specialty studies in the field and we will analyse the factual situation that exists at the level of local communities in EU countries.

Key words: public-private partnership, local collectivities, economic crisis, budgetary constraints, public investments, public services, European funds.

JEL classification: H 54, H 74, H 83

INTRODUCTION

In most countries local authorities provide much of the water supply, waste management, healthcare or energy services and experience shows that they can hardly face the continuous increasing demand for public services. These are just a small part of the necessary investments because at a local level it is necessary to carry out partnerships between the public organizations and private ones in order to ensure sustainable economic growth and the development of the technological capacities (Bennet and James, 2000). Thus, public-private partnership is one of the promising emerging forms for financing local public services, given that they have to deal with budgetary constraints and having to approach urban challenges in a sustainable way. Using public-private partnership is also a challenge for local authorities since in their turn they have to take risks and overcome obstacles. Thus, this article aims at high lightening the local economic situation in EU countries and to analyse the opportunity of using the public-private partnership in local collectivities funding.

THE POSITION OF THE LOCAL AUTHORITIES IN THE CURRENT GLOBAL ECONOMIC CONTEXT

In many cases local communities and regions worldwide have been attributed too many responsibilities on public services and the implementation of infrastructure works, but at the same time ascertaining a growth of the population's expectations for other services and infrastructure works other than the traditional ones, such as social housing or the development of former industrial sites (Ficher, 2010). Increased responsibilities and expectations of the local communities is accompanied by unfavorable economic context which has strongly affected the world states, including the local collectivities.

Financial and economic crisis were felt at the level of local collectivities on four levels: the level of incomes that faced a sharp decrease, both in terms of its income and revenues transferred by the state, the level of expenditures has increased due to the decrease of the economic activities and the growth rates of unemployment and other social benefits, the level of financing capacity which is reduced because of current difficulties in attracting external loans and the level of external investments that were reduced because of the cancellation and the postponement of many projects (Paulais, 2009). In this context local collectivities have to seek new ways of financing, mostly because the two great systems of financing, bond issues and the banking system have been severely affected. The banking crisis has directly affected local collectivities by the following aspects (Conseil d'Europe, 2010):

- Deducting dividends paid by banks partly owned by local authorities, such as Dexia and Austrian Kommunalkredit. Flemmish communes lost thereby 52.7 million Euros.
- Losing a part of the reserves and depreciation of pension funds (14 Dutch communes lost 85 million Euros and this cost the local British collectivities almost a billion Euros)
- Difficulties in obtaining a loan for investments or their renewal (especially for foreign banks located in another country such as the Austrian banks in Central and Eastern European countries or the Scandinavian banks in Baltic States).
- An increase in the cost of debt denominated in euro in countries where the currency has depreciated.

After the havoc that they caused on the banking and real estate market, the crisis had disastrous effects on public budgets. Deficits in the EU member states increased from 2.3 % of GDP in 2008 to 6.85% in 2009, reflecting the loss of revenues, expenditures on stimulus and bank failures. Although EU states average budget deficit in 2009 was 6.85%, there were countries that have experienced alarming figures such as Ireland with 14% in 2009 (it was even 31.3% in 2010), Greece with 15.8% or Great Britain with 11.5%. In these circumstances local collectivities are inevitably exposed to budget constraints due to lower revenues, the decreasing of the state subsidies and to the increased cost of the public debt and the increasing of the social benefits for the persons who have been affected by the crisis.

In what concerns the local public sector in the European Union , the last decade was marked by the economic crisis, so that if in 2000-2007 the GDP, the public revenues and expenditures have steadily increased , in the years 2008-2009 there was an increase in the indebtedness of the local public sector and 2010 showed the largest decrease in public investments.

Table 1. Macroeconomic issues in local public sector in the EU27

	Bil euro	% of GDP		% of public sector		The average evolution in volume	
	2010	2000	2010	2000	2010	2000-2010	2009-2010
Public Expenditures	2069	15,1	16,9	33,4	33,5	+2,4%	0,0%
At a local level....	1671	11,5	13,6	25,5	27	+3%	-0,1%
Ordinary income	1967	15,0	16,0	33,1	36,4	+2%	-0,8%
At a local level......	1591	11,5	13,0	25,3	29,5	+2,5%	-1,1%
Budget balance	-103	-0,1	-0,8	-	13,1	-	-
At a local level...	-91	-0,0	-0,7	-	10,3	-	-
Direct investments	211	1,6	1,7	69,9	65,3	+1,9%	-7,6%
At a local level...	201	1,5	1,6	65,0	62,1	+2,1%	-7,7%
Public debt	1486	9,6	12,1	15,6	15,1	+3,6%	+6,0
At a local level...	826	5,6	6,7	9,6	8,4	+3,2%	+5,9%

Source: processing after Dexia, *Finances publiques territoriales dans l'Union Europeenne*, 2011, p. 1

As it was shown in Table 1, for the local collectivities within the European Union, both revenues and public expenditures have steadily evolved, with no large fluctuations in the analysed period. However, we can see that the most affected, in 2009-2010, were direct investments which have decreased by 7.6%, after a period of almost a decade of steady growth. The increasing of investments in 2000-2009 was due to the decentralization process that led to the transfer to the local level of competences, investing to align with the aquis communautaire (transport, waste, water), easing the access to credits and attracting European funds which requires local financial participation for co-financing projects (Dexia Credit Local, 2011). For example, in France, the Law of 14 August 2004 on decentralization widened the local authorities competences, making them responsible for the provision of road infrastructure (national roads and departments), as well as port and airport infrastructure (Marty and others, 2006). During the economic crisis was found that, paradoxically, the investment spending have been extended at the level of local collectivities in the European Union, but this was caused by the anti-cyclical policies adopted by the governments to stimulate local investments through grants, by reducing the procedures on public purchases and by relaxing the constraints on the debt and public deficit.

Table 2. Direct investments in the local public sector in the European Union

Country	Bil euro	Euro/rez	% from GDP	%from expenses	% from public investments
Germany	20,2	247	0,8	10,2	57,7
Austria	1,2	148	0,4	5,3	41,7
Belgium	2,7	245	0,8	10,6	46,8
Bulgaria	0,5	69	1,4	21,0	30,4
Cyprus	0,1	147	0,7	30,4	17,9
Dennmark	3,1	561	1,3	3,5	61,7
Spain	29,7	644	2,8	11,6	72,0
Estonia	0,2	116	1,1	10,8	45,4
Finland	3,3	616	1,8	8,2	69,5
France	44,7	689	2,3	19,5	73,2
Greece	1,4	122	0,6	21,5	21,0
Hungary	2,1	213	2,2	17,3	65,4
Ireland	3,8	845	2,4	35,4	64,8
Italy	23,5	389	1,5	9,6	72,8
Latvia	0,5	231	2,9	25,4	65,7
Lithuania	0,6	195	2,3	20,6	51,5
Luxembourg	0,7	1296	1,6	30,6	39,2
Malta	0,0	22	0,1	22,5	6,6
Holland	13,8	828	2,3	13,6	65,9
Poland	11,6	305	3,3	21,9	58,1
Portugal	2,9	275	1,7	23,6	45,5
Czech	3,5	334	2,3	19,7	71,5
Romania	2,7	126	2,2	22,6	37,8
Great Britain	20,8	335	1,2	8,7	49,6
Slovakia	1,0	192	1,6	21,7	62,0
Slovenia	0,9	423	2,4	24,0	56,5
Sweden	5,8	616	1,7	6,5	50,9
Total EU	214,6	428	1,8	10,3	65,8

Source: processing after Dexia, *L'Europe locale et régionale. Chiffres clé 2010*, p.9

As it can be seen from table no. 2 among the states in which the local public investments remained at high levels include Finland, Germany and Holland, and in many countries structural and cohesion funds had a lever effect such as Romania, Slovenia, Poland and Lithuania (Martry and others, 2006).The decrease of the local investments in numerous states also had a negative impact on public-private partnership projects. Numerous projects have been suspended or cancelled, the most affected sectors being that of energy and of telecommunications (Paulais, 2009).Projects were most affected in municipalities in areas such as that of the drinking water , sanitation and transport which have decreased in volume and as number of projects with about 40-50% (Leigland and Russell, 2009). Is not only the local collectivities from the European Union that have been affected in this period, but also those from the United States Of America. In the U.S. the main form of financing the local collectivities is represented by local bonds, and because of the negative financial evaluation these are in great financial difficulty.

Because of income diminution and an unstable public spending, the local public deficit in the E U countries has slightly increased from 0.7% of GDP in 2009 to 0.8% of GDP in 2010, in the amount of 103 billion euro and 13.1% of local public deficit (Dexia Credit Local, 2011). The motivation behind the diminishing level of the local public deficit is due to the economic recovery period and to the control of expenditures at a local level, but also to the devices of financial supervision of the local budgets that are currently in programmes of fiscal consolidation in countries like Spain, Italy, France, Austria, Germany and Belgium (Dexia Credit Local, 2011). As for the public debt at a local level it has seen a decrease in 2010 compared to 2009, but it still remains at a high level of 6%. The size of public debt was influenced by an attractive level of interest rates and credit monitoring procedures still favourable in 2010.

However, governments have tried to mitigate the repercussions of the crisis, and one action was the increase in capital expenditures, as an anti-cyclical measure to protect employment especially in the construction field that has been strongly affected and to stimulate consumption in general. Consequently, public authorities have made available for the local collectivities additional funds for local investments projects as follows:

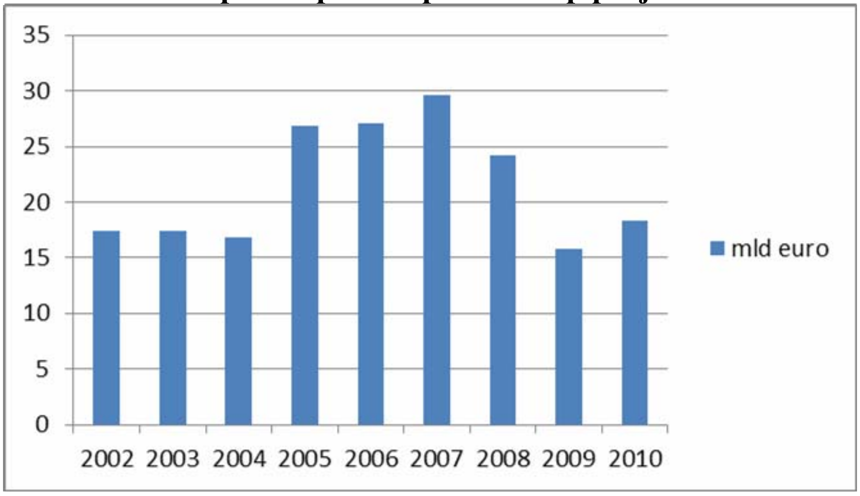
- Austria has adopted a package of measures of 3 billion euro for local infrastructure financed by loan, and federal and regional administrations cover 75% of the cost of the debt service;
- France repays in advance VAT amortizations from the constructions expenditures realized by the local collectivities
- The German Federal Budget has allocated 10 billion euro for investments at a regional and local level (of which 25% are co-financed by the beneficiaries)
- Greece has implemented a local investment fund worth 2.3 billion Euros provided jointly by the Government, the European Union and the local collectivities.
- Norway used 4 billion crowns for small local investment projects in 2009
- Comparable funds were established in Portugal, Spain (8 billion Euros), Sweden, Ukraine (funding of 371 projects on schools, hospitals and streets rehabilitation).

OPPORTUNITIES IN USING THE PUBLIC-PRIVATE PARTNERSHIP AT A LOCAL LEVEL

The economic crisis affected not only the local collectivities , in terms of reducing revenues and increasing public expenditures, but also the private sector, which is affected both by the decreased consumption and the weighting of the access to credits. As a result of the crisis it is expected that the local collectivities should become more interested in realizing investments by involving in the private sector, especially in the context of the increasing demand for infrastructure. This interest is due to the fact that money for investments are brought by the private partner, which will absorb the investment in a longer period of time, either from the user's taxes (for concessions) or from the money transfer from public authorities (Private Financial Initiative model). The main attraction is represented by the fact that in public-private partnership the funding is private as it is realized by the private party so that it cannot be seen any increase in the public loans. On the other side, the private partner, although operating in an uncertain economic context, will receive a guaranteed flux of incomes over a long period of time (Hall, 2009).

Although private-public partnership has been considered a tool that can blur the effects of crisis and its usage has been promoted, the figures of Chart 1 show that the value of the private investment attracted through public-private partnership has declined significantly in 2009 compared to the previous years, but increased in 2010 due to the advanced number of small value projects in the public-private partnership (The World Bank, 2010).

Chart no.1 Value of the public-private partnership projects between 2002-2010



Source: processing after **EPEC,** *Market Update Review of the European PPP Market in 2010*; EIB, *Public-private partnership in Europe – Before and during the recent financial crisis*, p. 7

Local collectivities must understand the importance of attracting European funds in the achievement of the public-private partnership projects, as they provide an accessible tool which can encourage the participation of the private partners but also of the public ones .In this respect, there are certain financial instruments for the development of the public-private partnership projects in energy, transport and the development of the urban areas.

Marguerita Fund, or as it is known, the 2020 European fund for Energy, Climate Change and Infrastructure, was founded in 2008 and will run for 20 years focusing on medium and large investment projects, the main targeted sectors being the transport infrastructure, the energy infrastructure and on renewable energy, thus involving a strong co-operation between the public and the private sectors.

Jessica Fund (*Joint European Support for Sustainable Investment in City Areas*) initiated by the European Commission and Bank of Investment promotes sustainable investments and jobs growth in urban areas, the collaboration between the public and private sectors being also targeted in this case, not only in terms of attracted financial resources, but also of the know-how and of the competences that the latter has. Using the Jessica Fund requires a new approach of the local authorities in the Community countries that must use efficient public-private partnership projects, have a strategy and a long term vision.

The Elena Fund (*European Local Energy Assistance*) is an European instrument which aims to support authorities in accelerating their investment programmes in the energetic efficiency field and renewable energy sources. The Elena Fund does not concentrate specifically on the private-public partnership, but it recognizes the public-private partnership as a possible method of acquisition. Also, in addition to this funds, the European Investment Bank is an important pillar of support for the public-private partnership and all these are for the private environment an important source of fund attraction which cannot be appealed to for any other situations. However, although the investors are taking the biggest financial risks, they receive in turn the biggest part of the profit if all goes according to the plan.

CHALLENGES IN USING PUBLIC-PRIVATE PARTERSHIP AT A LOCAL LEVEL

Local public authorities around the world have to face new challenges in the 21st century in what concerns the provision of services, finance, labour and citizen involvement in public life. While privatization was a major innovation in the last decades of the 20th century, the lack of cost reduction and the loss of public values when provided by the market has led to a rearrangement of the state role in economy. In the 20th century local public authorities must concentrate exclusively on rebuilding the capacity of the local administrations to finance critical infrastructure, attracting and retaining a skilled labour and involving citizens in designing innovative solutions in approaching public problems. There is a possibility that, because of the desire for innovation in providing public services, public authorities might look out for other models without neglecting the importance of the public-private partnership which balances the responsibility, the equity and the efficiency (Warner, 2010).

The economic and financial crisis with effects on a global level determined the banks to grant the loans much more difficult, and as a result, for companies this means that it would be practically impossible to borrow money in order to finance the projects from the public-private partnership. Currently, public-private partnership projects are being affected by the inability to refinance existing debt and the ongoing projects are affected because of the lower demand (Burger and others, 2009).

Another crisis connotation is played by the exchange rate fluctuations. If the private partner had to cover a high external debt, the exchange rate fluctuations have had repercussions over the project. This situation appears especially when the private partner underestimated the exchange rate risks or it is under construction and needs to import goods whose acquisition leads to an unestimated increasing of expenditures. The financial crisis made its presence felt by an increase of the interest rate, this affecting particularly the public-private partnership projects there were still in process and made the private investors to stay in expectation for future investments. Also, due to the financial crisis the volume of cash loans diminished, this affecting not only the credit price but also the available amount to be offered by the credit institutions (Burger and others, 2009).

The issue of the public-private partnership should concentrate more and more at a local level, as the talkings and strategies developed at a national level tend to have a general character (Bennett and others, 2000) and are unable to consider the issues and the characteristics of each local community. The legal framework for the public-private partnership should be established at a central level but the negotiations on the project to be managed locally, this making the commitment stronger. The most important partners in developing public-private partnerships are local governments which are in the position of finding innovative answers in the management of public services, especially since their powers have been increased by the decentralization process. While a high level political commitment is essential for facing legal and political bottlenecks, the consolidation of the capacity should concentrate on a local level.

An issue that may become critical in the use of public-private partnership relates to the human resources involved in impletementing such projects. The human resources from the public administrations don't have currently the necessary expertise for realizing projects in public-private partnership, this thing being considered a barrier in increasing the level of using public-private partnerships (Zhang, 2002).

The challenge in what concerns the usage of the European funds in realizing public-private partnerships lies in the fact that a combination between the European funds and the public-private partnership is still difficult to achieve. The first aspect is given by the fact that in many EU countries the national legislation is not being adapted for such schemes which may combine both structural funds and the public and private ones. Also, there are still just a few best practices in the domain, being registered only a low number of projects also for EU12, among them being Great Britain, France or Germany, countries with a strong tradition in realizing public-private partnership projects. This is because in these countries the state involvement in this type of complex projects is limited, both at a central and regional and municipal level, due to the increasing restriction of the active involvement of State (European PPP Expertise Centre, 2011).

In addition to using funds from the European Union for promoting the use of public-private partnership there are also the funds from the European Investment Bank. This is a strong promoter of partnership, in 2008, allocating for this 57 billion Euros and this amount is going to increase by 30% in the coming years (DLA Piper, 2009).

The public sector must respond as well as it can to the expectations of the private investors who believe that there are significant barriers to the market entry in certain countries in what concerns the competences and the capital, the instability of the legal framework and the lack of transparency in negotiating at the level of local and municipal authorities (Noel and Brzeski, 2005). The private investors will be reluctant in entering into public-private partnership projects as long as the problems that are considered to be an obstacle in entering on the market of a certain country will not be solved.

The importance of using and considering the public-private partnership a tool available to local collectivities for achieving the objectives of local economic development is mainly due to the radical socio-economic changes worldwide and the traditional approach of the local development has changed radically because of poverty, international competition, unemployment and the stress of the local tax burden (Argiolas and others, 2009). Reducing national economic support, restructuring the economy and reaffirming the local policies based on local dimensions combined with other problems or opportunities have led to the need for a regional development policy. In this context, public entities are increasingly aware of the added efficiency that the involvement of private actors can bring. Combining different abilities, competences, resources and capabilities could bring added value to the local systems. Thus, the partnership model was adopted in order to solve a great number of issues that affected the local development.

CONCLUSIONS

An increase in the degree of the public-private partnership usage for the future is conditioned by the way in which this will adapt to existing needs at a central and local level in each country but also by the way of responding to the challenges that it faces. How EU funds will be used to finance the public-private partnership it is an issue that can influence positively the appeal increase for a public-private partnership. However, a clear legal framework is necessary, to enable such a mixture, it requires the human resource who should have the necessary expertise to carry out such projects but also procedures to simplify access to these funds. All these aspects need to be satisfied because the public-private partnership is a complicated and complex scheme and a greater increase in the complexity of the paperwork related to attracting and managing financial resources from European funds is not desirable.

Local collectivities should take advantage not only by the financial instruments provided by the European Union, but also by those of the European Investment Bank which wants to be a promoter in using the public-private partnership for the economic and social development at a local level.

Although there are certain financial instruments provided by the European Union and the European Investment Bank to promote the usage of the public-private partnership, the effective use of these instruments is directly dependent on the initiative of the public administration. Agents of the public administrations must find the best way to capitalize on the advantages offered by the public-private partnership in providing public services and to manage the risks that these projects take.

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