

## PUBLIC-PRIVATE PARTNERSHIP RISKS AND POSIBILITIES IN CONDITIONS OF THE UP-TO-DATE ECONOMICADVANCEMENT

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**Abstract.** The article is devoted to the study of the public-private partnership possibilities to achieve the system of goals as well as risks in the implementation of the public-private partnership because of their classification. The empowerment effective ways through reducing and preventing risks are proposed herein too.

**Keywords:** public-private partnership, public-private partnership possibilities, risks of the public-private partnership, risk management, project risk assessment methods.

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### Articulation of Issue

The public-private partnership has not practically widespread yet as well as the theoretical analysis multifaceted in conditions of the up-todate economic progress of Ukraine. Ways and shapes of some economic growth, especially its motivated and strategically prospective grounds exist in spite of the fact that there are not any contradictions that such a partnership is new with its many specific features. The current conditions of the world economy development in all its diversity are characterized not only by some commercial interests of the subjects which are at the heart of the economic relations, but also by the social orientation clearly evident herein and the state spirit to ensure the decent life for its citizens and its priming on general civilizational values (Heiets, 2009).

Both the state and the business try to find opportunities to join efforts for the fuller and faster results. The partnership in and of itself acquires such importance. Every subject in each sector is looking for a reliable partner with unidirectional goals and appropriate ways to implement them, and a private business often became such a partner for these states in practice, and each state, in its turn, became the partner for the social business. The world experience of any partnership between the state and business has taken the form of the public-private partnership widely spreaded in many countries with high development. The public-private partnership implementation allows to carry out the monitoring for the process from the state and provides opportunities for any business to get profits from this cooperation as well as to be responsible for final results. Any private financing of the public important tasks assists to reduce the risks both for the public sector and for the private business. Therefore, the analysis of the empowerment and reduction of risks in the public-private partnership for the further economic development have an important theoretical and practical importance.

## **Analysis of the Recent Publications and Studies**

Aspects of the public-private partnership formation and implementation have been studied in the works of many scientists, including: J. McGillBuchanan, Jr., V. Varnavskiy, M. Weber, T. Veblen, E. Durkheim, J. R. Commons, D. North, R. Nureyev, G. Schmoller, V. Bazylevych, S. Varnalii, O. Vikarchuk, A. Halchynskiy, V. Heyets, N. Hrazhevskaya, P. Yeschenko, T. Yefymenko, I. Mazur, S. Mochernyi, A. Chukhno and others.

### **Remaining Open Issues**

The analysis of many theoretical studies and practice of the public-private partnership project implementation confirms the expansion of the private enterprises and private companies reasonably considering the state as a prospective partner. Then, the convincing conclusions about the opportunities that any private business will get and the risks, which it will avoid when participating in the public-private partnership as a partner of the state, should be made. Only after that, ways both to increase opportunities and to reduce risks for the long-term development through the public-private partnership can be offered.

### **Purpose of the Article**

To study the opportunities and risks arising in the joint activities of the state and business in the public-private partnership implementation, as well as ways to increase the opportunities and to reduce the risks both to the partners and to the society resulting in the facilitation of the economic development – the purpose of the article.

### **Key Findings**

The analysis of the theoretical background and practice of the public-private partnership in up-to-date economic development conditions of many countries shows that either theoretical understanding of the public-private partnership or the practice of the public-private partnership has its own specific nature. So, the partnership is sometimes identified with the private finance initiative as well as it is seen as a way of the economic development of cities, and as one of the effective mechanisms to combat the social inequality, and as a factor of the civil society development.

The world practice considers the "public-private partnership" in three vectors explaining it as:

- a system of relations between the state and business being used as a tool for the economic and social development or as some cooperation being implemented jointly by the government agencies and the private companies at the sites of the state and municipal property.

- a form of the business project implementation of the government using the resources of the private sector to meet the public needs.

Therefore, the theoretical consideration of the public-private partnership takes into account these three vectors whose features and directions are interpreted through the practice. And the theory reveals the essence of the public-private partnership is much broader than the practice sees it today including the following four aspects:

- 1) forms of the cooperation between the state and business for the realization of the socially significant projects on mutually beneficial terms;
- 2) cooperative relationships between the government and business to implement such socially important projects in various areas;
- 3) social institutions where both the joint activities of the public authorities and the private sector meet the society needs;
- 4) agreements between the public and the private parties in the production and provision of the infrastructure services and means of the budget financing effectiveness.

The legislation of Ukraine involves both the world practice and the theory of the public-private partnership understanding. Any partnership is regarded herein as the cooperation based on the contract between the state and the local authorities on the one hand and the legal entities and natural persons - entrepreneurs (private partners) on the other hand on terms determined by the legislative standards (Varnalii, 2007).

The public-private partnership is the cooperation among Ukraine, the Autonomous Republic of Crimea, local communities represented by the respective state authorities, the local self-government (public partners) and legal entities, except the state and municipal enterprises or individuals - entrepreneurs (private partners) if it is based on the agreement in the manner prescribed by this Law and other legislative acts.

The public-private partnership is understood as official relations or agreements on fixed / endless time between the public and private parties where these two sides interact in the decision-making process and invest some limited resources, such as money, personnel, equipment and information to achieve particular purposes in the specific field of science, technology and innovation (Mazur, 2007).

According to the definition given by the World Bank, the public-private partnership is an agreement concluded between the public and private parties on the production and provision of the infrastructure services in order to attract the additional investment and, more importantly, as a means of the budget financing improvement of the effectiveness (Public-private partnerships in Europe – before and during the recent financial crisis, 2010).

The European Commission's Green Paper concerning the public-private partnership defines it as a form of some cooperation between the public authorities and the business community, whose aim is to provide funding, construction, renovation, management and maintenance of the infrastructure or provision of services (Commission of the European Communities).

The International Finance Corporation (IFC) determines the public-private partnership as the relationships used by the private sector to provide the public with some infrastructure assets and public infrastructure services traditionally provided by the state (Graeme, 2004).

The United Nations Economic Commission in Europe (UNECE) states that the public-private partnership is a contractual arrangement between the public and private sectors in the provision of some public services and infrastructure development. They will combine all the best that there is in these sectors: the private sector resources and its qualification potential, as well as the public sector capacity in the economic regulation and protection of public interests (Institute for Public-Private Partnerships, 2013).

As can be seen from the above, and taking into account all these definitions of the public-private partnership, we can determine its directions and such specific traits as:

- the public-private partnership is organized to achieve socially significant goals, and specific objectives of the economic and social development;

- the outcome of the public-private partnership is the improvement of public services and the effective use of the resources of the public and private partners in the current and long-run period.

Given this, we can conclude that the direction of the public-private partnership, its purpose and the results determine the essential characteristics of any public-private partnership. They are:

- any social and public control of the government and business interaction;
- some equality of the partnership, members of the public and private sectors;
- the partnership realization through the investment activities;
- common efforts and resources of the partners and reduction of their risks;
- parties' relationships being built as the contractual relationship based on the contracts having been defined and fixed before.

Some determined characteristics of the public-private partnership allow us to clarify those forms of the cooperation, which had not been defined as a public-private partnership between the private and public entities without such an orientation and characteristics. This significantly not only extends an understanding of the public-private partnership as a special form of the cooperation between the state and business, but also stresses that any public-private partnership is a new practical consolidation of efforts by all entities for the economic development.

Under the Green Book of the European Commission on the public-private partnership, such a partnership is characterized by:

- some relatively long duration of the relationship involving the cooperation of the public partner with the private partner in various areas of the planned project.
- project financing which is partly due to the private sector, partly due to the complex arrangements between the various actors but in some cases – with the possible involvement of public funds, including those which are in large amounts.
- service provider which is determined as well as its role at various stages of the project design, financing, implementation and completion which are specified.
- public partner's significance mainly focusing on the definite objectives to be achieved to meet the public interest, quality of services and pricing policy which are determined. The public partner is responsible for the project monitoring and the implementation of the requirements for each partner to achieve these goals.
- risks which are identified and allocated between the public and private partners, and the allocation of risk usually taken on the public partner.

One of the public-private partnership particular feature providing the same partnership, but not a temporary mutual cooperation is the coordination of risk-sharing, where the private partner assumes all the risks, or even most of them (Methods Identifying Types of Risks of the Public-Private Partnership to Assess and Determine the Risk Management Form, n.d). The exact distribution of risk is determined in each case according to the ability of the parties to control and to cope with risks (Braylovskiy, 2013). It promotes the public-private partnership in the European Union and makes actual need to complete the legal acts of Ukraine to promote the cooperation between the state and business, the improvement of the regulatory activity and the regulation of the public-private partnership, the procedure of its establishment, implementation, and the monitoring which is consolidating the distribution of risks. The legislation of Ukraine defines such peculiarities of the public-private partnership as:

- the technical and economic performance ratio guarantee, which is rather higher than in the case of such an activity performed by the public partner without the involvement of the private partner;
- the relationship length from 5 to 50 years;
- the transfer of risks to the private partner in the implementation of the public-private partnership;
- the private partner investments in the partnership objects with sources not prohibited by law.

As we can see, such features of the public-private partnership are different from the public-private partnership specific traits defined in European legislation. They primarily involve such differences in:

- the vision or duration of the partnership terms of its functioning;
- the vision of financing side allowing to involve various forms of the project financing including the public funds and their use;
- the definition of the roles of the public-private partnership parties, the identification of the service provider and the public partner;
- the vision and approach to the risk allocation, taking into account the ability of the parties to deal with such risks, as well as keeping the proportionality in the distribution of such risks.

So, specific traits of the public-private partnership determined clearly and in detail in the European legislation convince the potential participants in partnership with the state that the cooperation of the state with the private partner provides a number of benefits for each side. Improving legislation as to the detailed opportunities and risk sharing in the public-private partnership will promote the development of the public-private partnership in Ukraine.

The public partner of the public-private partnership gets the opportunities subject to the ways of the economic development and achievements both for the state and for the society. We divide them into two groups: opportunities for the state and society development and opportunities for the economic advancement.

The first group of the state capacities for the development of state and society and public-private partnerships include:

- Urgent implementation of only socially important projects;
- Quality improvement and expansion in number of public goods and services;
- Public infrastructure improvement;
- Expansion of the control and the overall development strategy influence;
- Integration of science, education, manufacturing promotion;
- Public and private R&D and design works;
- Corporate social responsibility.

The second group of the state opportunities for the public-private partnership economic development include:

- state property effective use;
- modernization initiatives in key sectors;
- new technologies to attract foreign investments;
- more financial and material resources;
- budget savings;
- management experience expansion;
- development of the project financing innovative forms;
- avoidance of risks and threats; and

- increase in jobs and employment.

However, the private partner in the implementation of the public-private partnership gets opportunities that can be divided into two groups:

- opportunities to have the status and play a significant role in the economy;
- economic and investment priorities.

The first group of opportunities involves the following features:

- participation in the economic development of own country and the effective assistance to its social development and welfare of citizens;

- project status advance because of its importance in the economy and the participation of the public partner in it;

- improvement of relations and the regulatory framework through the forward and backward linkages like "society - the state -business";

- creation of the positive business image in the society;

The second group of the economic opportunities and investments consists of the:

- expansion of own market share;

- entry previously closed sectors of the economy (infrastructure, utilities, social, etc.).

- availability of loans and concessional loans, including credits against the state guarantees;

- involvement of the budget for the project development;

- reimbursement of credit guarantees;

- security of sales and implementation services;

- reduction of the competitive pressure and the need for the constant improvement of competition;

- decrease in the investment risks;

- avoidance in the number of risks in the long run.

Some difficulties appear together with the public-private partnership capacities, which we offer consider as tasks to perform. Such tasks ensure the implementation of the:

1) budget planning - the implementation of the individual projects where the source of income is the cost of the budget and there is some need in a detailed budget planning;

2) expansion of the managerial skills and abilities, and continuous qualification improvement of civil servants who control the implementation of the public-private partnership;

3) analysis of potential risks, their assessment and possible consequences.

Therefore, we consider the nature and characteristics of risks in the public-private partnership. The term "risk" means such circumstances which, according to the parties, may have an adverse effect on the benefits which the partners plan to get implementing the project.

The risks for each participant in the public-private partnership arise at each stage of a public-private partnership from its planning to the implementation of goods and services. The appetite for risk will be different for each side of the partnership depending on its role in the implementation of the public-private partnership. We define the following four groups of risks. The first group of risks focused on risks of the legislative provision and regulation. The second group of risks consists of financial, monetary and associated with changes in the exchange rate risks. The third group of risks involves technical and technoeconomic risks in the design of the construction and operation. The fourth group of risks deals with market risks associated with changes in market prices or demand for manufactured goods and services.

Any risk assessment of each group foresees their detalization in each the public-private partnership project and determines the likelihood of their occurrence, possible adverse effects

and the size of possible losses. The result of the risk assessment should be the formation of the mechanism of risk sharing based on the following principles of:

- proportional distribution of any risk among the public and private partners;
- possibilities for each partner to evaluate and control the hazards and their impact on the performance of the contract;
- timely implementation of measures to prevent risks or minimize their effects.

The risk sharing mechanism and its application in practice requires the risk assessment in each situation with taking into account the resource capacity to the partnership (Klimov, 2012).

The public-private partnership world practice offers to reduce these risks through the government guarantees, insurance coverage or through the guarantees from the international financial institutions or export credit agencies and investment promotion.

As to the assessment and measurement of risks, we propose to divide the risks which can be assessed and the risks that are difficult to be deductible. The risks being difficult to assess and to reduce include risks associated with the legislative framework imperfection and monetary instability in the current conditions of the economy. This is particularly true when we talk about issues of licenses, permits, taxation and contract enforcement, and risks associated with currency fluctuations, especially the depreciation of the national currency.

Therefore, measures reducing risks may be as follows:

- involvement of the public or private partners' additional resources having been defined and agreed by the partners before;
- contract review because of the risk including the extension of its actions;
- termination of the agreement by one of the partners with a simultaneous settlement of issues dealing with the compensation of the related losses;
- insurance against failure or improper performance of the contract because of the risk of the partnership.

Taking into consideration the fact that any funding of the infrastructure projects from the private sources provide an opportunity to reduce the cost of public funds and resources allocated for the development and operation of any infrastructure, then, the state support for these projects must be at the regional level. Such projects must be included into the plans of the regional development by reducing the risks for the participants of the public private partnership.

Thus, proportional and equitable distribution of all the groups of risks among partners is essential for the successful implementation of any public-private partnership. Conversely, the disproportionate allocation of risks, or its shuffling off the burden on one of the partner will slow down the project implementation and reduce its effectiveness, despite the great opportunity for each participant of the public-private partnership and the desire to participate in such a partnership for the development of economy and society.

## **Conclusions**

1. Any public-private partnership is to achieve socially significant goals and to clear objectives of the economic advancement, as well as to improve the efficiency of public services and the effective use of resources.

2. The legislation features of any public-private partnership should be clearly defined and convince the potential participants of the public-private partnership that their mutual beneficial participation in the long term as defined in European legislation where the terms of

the partnership functioning is not governed, allows various forms of the project financing, in particular, the use of public funds. The participants define the public-private partnership significance as an organization - the service provider and the public partner, the division of risks with regard to the ability of the parties to deal with such a risk. To follow some proportionality is recommended in the allocation of risk to facilitate the cooperation between the public and private partners and increasing benefits for both parties.

3. Any participation in the public-private partnership projects extends the capabilities of each partner, which are complemented and mutually provided.

4. Together with the possibilities of public-private partnership, some difficulties need to be considered as a task to be performed. They ensure the realization of the opportunities like budgeting in case of the individual project implementation where the budget expenditures foreseen and the expansion of managerial skills and abilities of the public servants controlling the implementation of public-private partnership.

5. Both the analysis and evaluation of all the groups promote the mechanism of the effective risk management as well as the public-private partnership partners' capability implementation grounding on the following aspects:

- proportional distributions of each risk among the public and private partners;
- possibilities for partners to evaluate and control the hazards and their impact on the contract performance,
- measures timely implemented to prevent risks or minimize their effects.

6. The mechanism for the efficient risk sharing and its application in practice requires the risk assessment in each situation and taking into account the resource capacities of all the partnership participants.

7. Ways expanding opportunities and reducing risks is to improve the legal framework regulating the activities of the partners and their responsibility with taking into account the business proposals and the prevention of the corruption elements in the contractual relations among the public and private partners.

8. Considering the fact that the infrastructure projects create an opportunity to reduce the cost of public funds and to accelerate the economic advancement and growth, different ways of motivation to develop any public-private partnership should involve the state support for these projects at the regional levels and its inclusion into the plans of the regional development.

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