



OPPORTUNITIES FOR ECONOMIC DEVELOPMENT OF BULGARIA THROUGH PUBLIC PRIVATE PARTNERSHIP

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Abstract

The paper discusses the development of public- private partnership as necessary and required form of cooperation between public authorities and private sector. The positive and negative aspects of the public-private partnership for the development of Bulgaria will be determined. An analysis will identify the opportunities and threats of public-private partnership development by attracting funds from private partners/investors.

The financing through public-private partnership allows the implementation of holistic approach to design, financing, construction and operation, emphasizing on the invested from it funds in the whole project cycle.

This type of financing publicly-state owned projects allows using private resources in infrastructure project realization. This results in most cases in following the pre-set budget and timeframes for project construction. The capacity and experience of the private partner, which can be used in infrastructure project realization, are of crucial importance for the financial sustainability and development of the project.

Keywords: public-private partnership, infrastructure, financing, private partner

1. INTRODUCTION

The public-private partnership is one of the financial instruments that successfully ensures investments in the infrastructure, which is publicly-state owned.

Financial gap in the state and municipal budgets results in the need to seek alternative forms of country development.

The definition that the public-private partnership is cooperation between the public and private sector in order to implement investment project or service, traditionally provided by the public sector, is generally accepted (Metodicheski ukazaniJa za publichno-chastno partnyorstvo, Ministerstvo na

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finansite, 2009g, Guidelines for Successful PPPs, European Commission, Jan. 2003.).

The public-private partnership allows the application of innovative methods for structuring and financing investment projects and ensures investments for developing basic infrastructure for providing qualitative public services in the country.

Recently the development of public-private partnership in Europe is stimulated by the accelerated regional development of the common European market.

This in turn will results in the need of development of transport, environmental and social infrastructure that meets the growing needs.

The combination of these needs with the adopted European Directives in the field of environment and transport will result in necessity of big investments in this basic infrastructure.

The possibility for achieving a better value of the invested public funds by using the effectiveness and efficiency of the private sector in providing public services is recognized.

On the other hand the applied strict monetary and fiscal policy imposes restrictions on the consolidated budget.

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2. ANALYSIS

It has to be mentioned that public-private partnership allows sharing project risks between public and private partners.

Traditional infrastructure financing can be summarized mainly as state obligations for implementing periodic payments to hired contractor during construction phase of the infrastructure project.

After the construction works the state is committed to the operation and maintenance of the built infrastructure. In this type of financing the main burden is for the state as it takes all risks

during the project realization and infrastructure operation.

The practice shows that frequently when we have traditional financing the forecasted construction price is by far exceeded and making an assessment of the state expenditures on the operation and maintenance of the infrastructure is hardly feasible.

Therefore the financing through public-private partnership is appropriate form for applying holistic approach to design, construction and operation of infrastructure project.

The value of the invested funds during the whole project cycle is important for the financing of infrastructure project through public-private partnership.

This is the reason the state to compare not the value of the infrastructure construction, but the total expenditures for providing the desired service, in assessing the opportunities for implementing public-private partnership.

Another major difference with the traditional financing is that when we have public-private partnership the payments of the state are due when the desired service is received in the desired volume and quality, i.e. there are no financial liabilities during the construction phase of the infrastructure.

Very important advantage of the public-private partnership is the possibility for balance of risk taking between partners. In terms of financing the project, this means that the state can transfer all risks, associated with financing, construction, maintenance and operation of the infrastructure project, to the private partner and share only the risk for provided service demand.

This type of financing publicly-state owned projects allows using private resources in infrastructure project realization. This results in most cases in following the pre-set budget and timeframes for project construction.

The capacity and experience of the private partner, which can be used in infrastructure project realization, are of crucial importance for the financial sustainability and development of the project.

The public-private partnership includes different forms of cooperation: leasing, franchise, concession, management contract, BOT (Build-Operate-Transfer), BOOT (Build-Own-Operate-Transfer), DBFO (Design, Build, Finance & Operate), DCMF (Design-Construct-Manage-Finance), joint venture, etc. (Boeva & Vasileva, 2008)

The public-private partnership is one of the key elements of the modern business, due to the benefits it provides, namely the interesting way of financing and providing investments in the public infrastructure.

This defines the role of the public-private partnership as a source for public goods provision.

The provision of more accessible service of better quality whilst implementing the contract strictly and on schedule may be indicated as positive effect in project implementation through public-private partnership.

Giving the option of project risk-taking is exceptional strength, since all risks have their value and thus the public sector may transfer significant expenditures to the private sector.

This approach is particularly topical and applicable for the Transport sector.

The public-private partnership allows the development of major infrastructure projects without significant start-up investment costs with funding from the budget, which in turn ensures improved public infrastructure.

To have successful project implementation through public-private partnership requires taking into consideration important and particularly necessary for the successful business indicators, namely the presence of equality between the partners and absolute transparency of all actions to limit corruption.

The efficiency of project implementation through public-private partnership depends on both the political and public support and the availability of legislative frame suitable for applying models for public-private partnership and different ways for project funding.

In order to guarantee the qualitative and beneficial implementation of projects through

public-private partnership is required the procedures to be transparent and open thus resulting in reducing to an absolute minimum the possibilities for misappropriations.

The projects implementation through public-private partnership creates options for conflict of interests, because the municipalities' government in Bulgaria is carried out by different political parties, lobbying for certain companies.

The maximum effect for the population of certain municipality is not always achieved since the process of project implementation through public-private partnership can be very expensive and long. There is a need of highly qualified specialists for preparation and implementation of procedures, associated to the public-private partnership.

Recently the economic development of Bulgaria is low due to stagnation of economy, privatization and lack of financial resources for realization of economic policy.

The way out of this situation is attracting funds from private partners and creating public-private partnership between the public and private sector for implementing certain project or service in public sector.

Such an arrangement can be realized in the construction of highways and railways, in the reconstruction, management and maintenance of infrastructure, as the public and private sector share expenditures, profit and risk.

The public-private partnership in Bulgaria is used mainly for maintaining and developing transport infrastructure, mostly in roads, bridges and railways, garages, parking, etc.

An upward trend in public-private partnership in the sectors of waste management, water, health, etc is reported. The public-private partnership development through attracting financial resources from private partners offers opportunities as efficiency, innovative solutions, risk sharing, financing.

In times of financial and economic crisis our country cannot fully engage with financial resource for implementation of certain projects. This factor allows private business to be involved

as partner as cooperation in the form of public-private partnership is carried out.

Thus an attempt to overcome the scarcity of budget resources though attracting private capital is made.

Regarding the Bulgarian municipalities the application of public-private partnership is of key importance as the scarcity of public resources, caused by the crisis processes, increasingly limits the traditional funding of public services.

The public-private partnership creates conditions for stimulating and developing business by creating prerequisite for economic benefits via increasing employment and providing opportunities for economic growth and competition increase.

The competition in turn results in both innovations development and productivity increase.

The opportunities, provided by the public-private partnership can be directed towards project implementation and services provision in different economic spheres.

- Social Services
- Waste Management
- Transport Infrastructure
- Transport Network Maintenance
- Telecommunications
- Tourism
- Power Engineering
- Health Services
- Water Supply
- Public Works (urban infrastructure, landscape architecture, restoration of municipal buildings and monuments)
- Agriculture and forestry
- Consulting Services
- Civil Engineering
- Energy Efficiency
- Construction of Industrial Parks
- Education and Culture
- Sports
- Others: Zakon za publichno-chastnoto partnyorstvo (2013), Pravilnik za prilagane na Zakona za publichno-chastnoto partnyorstvo Priet s PMS # 6 (2013), Metodicheski ukazaniya za publichno-chastno partnyorstvo (2009)

In Bulgaria, the Public Private Partnership Law is in force since the beginning of 2013.

A restrictive approach has been adopted in the law in force as the activities, where public-private partnership projects can be realized are explicitly specified – technical infrastructure projects (parking, garages, public transport, surveillance and security systems, street lighting systems); social infrastructure projects (health services, education, culture, sports, social assistance); green system projects (green spaces, parks, gardens).

Currently different proposals for amendments in the law in force are introduced and the opportunities, offered by it are expanded, so that the benefits of public-private partnership are used constructively.

The success of the public-private partnership is highly dependent on local conditions (i.e. political risk, laws, experience, etc.).

Typical for Bulgaria is that most of the projects through public-private partnership are carried out in the sphere of environment and in particular in the field of waste management (39 %).

Then follow the projects in the field of power engineering – 25 %, as those in the areas of water supply, public works and social activities are third in the ranking, having 18 %.

The smallest number of realized public-private partnership projects is in the field of transport and cultural tourism (11 %) and telecommunication (7 %).

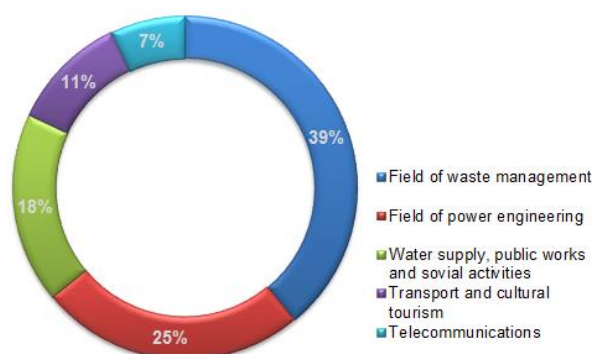


Fig. 1 Project of public-private partnership sectors

A modern infrastructure is a major stimulus for economic growth and raising the standard of living.

Our country in its process of economic development needs modern and alternative solutions in the field of public services and in the modernization of infrastructure projects and utilities.

The practice shows that the public-private partnership is successful financial instrument to ensure investments in the public infrastructure, when the State and public budgets do not have the resources and want to provide a better value of the invested public funds.

It is, in particular, essential to assess in advance whether the projects are appropriate for implementation through public-private partnership, considering the fact that the goal of the public-private projects is not just to build infrastructure or facility, but to provide certain service, which is of better quality or cheaper than realized by the state only.

On the other hand, there should be both a fair balance of risk taking and when the private investor incurs a larger risk in project implementation to receive a higher return on investments respectively.

Why is it recommended to use public-private partnership, especially in the current economic conditions?

The answer of this question can be summarized as a result of the analysis of the positive and negative aspects in project implementation through public-private projects, as follows:

- Ensuring additional allocations for funding;
- Using the expertise of private partners in project implementation;
- Offering additional benefits to the consumer and society via providing new, better and qualitative services;
- Optimal use of resources;
- Rational balance of risk-taking;
- Transparency and openness of procedures so that the project success in long run is ensured;
- Creating opportunities for business and employment.

When is it recommended to use public-private partnership as a form for project realization?

- If there is financial need when there is budget deficit;
- Poor state of the infrastructure;
- Looking for greater efficiency and innovation in project implementation;
- Competitiveness;
- Sustainability of the results in project implementation;
- If there is holistic approach to design, construction and operation of infrastructure project;
- Competency.

To ensure sustainability of the funding and operation, the option for implementing projects through public-private partnership is increasingly explored, which is promoted as a form of top-up of EU funds in the next programming period.

The role of the public-private partnership in Europe is gradually growing, but during economic crisis it is necessary to apply more flexible forms of cooperation between the state and the private partner – both in the implementation of projects and methods of funding.

3. CONCLUSIONS

In the economic conditions of our country development, the public-private partnership is an efficient solution of managing projects of public interest and may be considered as top priority for economic development.

Considering the national priorities, objective facts and primarily the resource limitations of the country, the public-private partnership is a certain perspective for Bulgaria.

The public-private partnership is a form of interaction between the public and private sector that still have a development ahead, following the best European practices and will contribute to the development of beautiful Bulgaria.

The public-private partnership provides considerable opportunities for development of Bulgaria, for improving its infrastructure and competitiveness.

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