

Public private partnership as bond between the public and the private sector – case of Republic of Macedonia

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Abstract – The process of transformation of social ownership into private, foreign investments in the national economy, as well as the influence of global flows, require major changes related to the modern economy trends, and the way they are implemented in Republic of Macedonia. In that manner, the public-private partnership as a modern concept in mutual investing in the public and private sector is considered, especially in the field of greater infrastructural and environmental projects. More precisely, this study is a theoretical analysis for the need, the importance, and the character of the public private partnership in the modern business, when most of the world national economies have dual nature i.e. are characterized with simultaneous existence of public and private sector. In that direction, a special review is put in the practical experiences of the public-private partnerships in Republic of Macedonia.

Keywords – public private partnership, dual economy, public good, public sector, private sector.

I. INTRODUCTION

The public private partnerships are very important instrument for realization of greater investment projects in many countries. The actuality of this form of investment comes from the need to allow more rational and simpler ways of realization of greater infrastructural and environmental projects. Basically, the idea of public private partnership is the following: instead of a country financing and building the project, the public sector is doing it. At the same time the private entrepreneur gains the right to manage the project in certain period of time in order to return the investment. After finishing that exploitation period, the project is being handed to the state. The goals that need to be achieved with the public private partnership are: arranging and performing greater number of infrastructural and environmental projects between the public and private sector, risk sharing between the public and private sector in performing such projects, more efficient use of funds of the taxpayers, using greater efficiency and effectiveness of the entrepreneurs that perform in the real sector in building and managing the economic goods which are outcomes of such projects, creating added value by merging the finances and human resources in public and private sector, stimulating the economic growth of the countries in which the public-private partnerships are realized etc. In that content, the private sector has dominant role in designing, projecting, building, reconstructing, maintenance, financing and managing the project, while the public sector is focused on defining the basic goals that need to be achieved, before everything, the quality of services and the price. At the same time, the supervision of assigning,

implementation and working on the project is a complex task. That is the reason why the countries usually want to make specialized and autonomous state agencies or organizations with special purpose (special purpose vehicles), whose sole responsibility is supervision of JPP projects.

II. THE NEED OF HAVING PUBLIC SECTOR IN MODERN ECONOMIES

Starting from the Great world economy crisis (1929-1933), and until today, the role of the state in the economic life is significantly increased. [1] Although, the range and intensity is different from state to state, it is a fact that this role is a significant corrective in the resources market allocation. The modern market economies that in the basis rely on the private sector are characterized with less or more developed public sector.

This states that they are dual economies in which the private and public sector act in parallel, are mutually dependent and related. In the modern economy literature, the need of state regulation of economic activities is performed and justified with the so-called phenomena of market failure. Namely, in certain domains of economic life and in certain domains of economic state, the market is not able to make rational distribution of resources and offer appropriate solution for the problems, making the state intervention into the economy inevitable. That is the case with the public goods. The market, as the most effective mechanism for allocation of limited resources, turns out to be unsuccessful. Because of that, there must exist public sector to ensure effective offer of

public goods as defense, protection of public peace and order, judiciary, education, science, culture, health care, social stability, cleaning services etc. These goods are of specific nature and differ from the private goods. That is why the way of satisfying both goods and the role in the market differ. The function of the market economy makes assumptions for efficient usage of the resources in the requirement of public goods. Unlike the private goods, the public goods cannot be obtained via market, i.e. via transactions between the producers and the consumers. The market can fail or can function improperly in their satisfaction. What is typical for these goods is that they are consummated together i.e. they must be consumed in equal amount (example: street lighting). To provide optimal offer of public goods it requires having a public sector. [2]

III. THE CHARACTER OF PUBLIC PRIVATE PARTNERSHIP (PPP)

Republic of Macedonia as a state opened the process of making market economy in the beginning of the 20-ties in the last century. The former environmental-economic system was self-governing socialism, that although in many terms was different than the typical central-planned systems of the states of Eastern Europe, in many segments it has the attribute of command economy with insufficiently developed market system due to lack of integral market: market of goods and services, market of labor, market of capital etc. The basic ideological premise of the socialism was existence of collective interest, and denial and even judgement of the personal interest. This system was built on the trust of the greater companies that were owned by the state. But, with the downfall of this environmental-economic system, the private sector started to arise. The new companies could not be formed and act based only by the politic of the “free market” and the “invisible hand” of Adam Smith. The government support was essential to make faster environmental and economic development, especially in the part of appropriate institutional support and access to finances. This somehow represents the genesis of the dual nature of the Macedonian economy i.e. mutual existence of the public and private sector.

The public-private partnership is a form of collaboration between the public and private sector with aim of implementation of a project or service that was traditionally provided by the public sector. With combining both the public and private resources, and aspiration of the partners, the public private partnership contributes for better market valorization of the public property and increasing the effect in spending the money of the taxpayers, aiming to achieve publicly useful purposes. [3] PPP acknowledges that both sides have certain pros regarding performing certain tasks. Allowing both sides in PPP to do what they can do best, the public services and infrastructure can be provided in the most economic and most efficient way. This is the reason why the main goal of PPP is to construct relation between the sides, so that the risk will be on those who will have bigger chance in controlling it, while added value is achieved by exploiting the knowledge and capabilities of private sector. According to the arrangements of PPP, the contractors of the private sector are not just short term investors of funds, but long term service providers to the public sector, combined with the

responsibilities for the design, construction, work and possible financing.

IV. PUBLIC PRIVATE PARTNERSHIP AND THE CASE OF REPUBLIC OF MACEDONIA

Many options are available for giving public services with which the public sector can transfer whole responsibility, risk and usage of giving public services to the private sector. The legal regulation for forming PPP in Republic of Macedonia is contained in the Law of concession and other types of PPP [4]. This law predicts organization of the modalities for joining the private sector into the financing the infrastructural projects and giving the public services, which are traditionally done by the public sector, promote and allow private initiative in financing the public services, providing equal approach, transparency in the procedure for giving concession and contracts for other types of public private partnership, as well as a quality and efficient performance of work and services from the given concession and contracts for other types of public private partnership. According to this Law, public partners can be: central or local government, public companies, public facilities and other legal entities denoted by Law. Private partners can be domestic or foreign retail and corporate entities. The contracting parties, public and private partner, are equal, but take different tasks and obligations. In the meantime, PPP can be formed on basis of a contract for partnership or on basis of forming a new legal entity. We need as faster as possible implementation of PPP in different spheres so that we can transfer part of this activities to the private sector. In this context, we should have in mind that for privatization of some public services certain provisions of law are used to regulate the activities of the public services separately as for example: Law for health protection, law for higher education, law for high school education etc. In this way it is harder to create equality in creating public-private partnerships in the public sector of Republic of Macedonia. Also, there exist potential risks of corruption and abuse of public-private partnerships. Nonetheless, having in mind the positive experiences from the public-private partnerships so far, we can state that it is required greater expansion of such projects in the Republic of Macedonia, which will allow portion of these activities to the private sector.

Taking in consideration that legal frame is different in different countries, there are different terms for public private partnership. Most common forms of PPP are: BOT (Built-operate-transfer) and PFI (Private Finance Initiative) by which the private owner with his own funds is building, maintaining, and governing the project, and ant the end is returning it to the state; and concession, when the private partner is building the object on a state property, and for that object he needs approval (concession) from the state. PPP can be set as:

- 1) concession for public work,
- 2) concession for public service
- 3) contract for public procurement of work, or
- 4) contract for public procurement of service (Law for concessions and private partnership, act Gazette of Republic of Macedonia 6/2012).

One of the first PPP projects in the Republic of Macedonia was the project “Energetically efficient building with accent

on the façade technology”. The leader of this project on a local level was the Center for energetic efficiency of Macedonia –MACEF. The main goal of these types of projects is the practical application of energy-efficient and technical norms. All this is abided by the price of the energy which is constantly changing on the market in upper direction. Other examples of active projects of this nature are: Project Crna River, Boskov Bridge, Project for building windmills, Thermal center in Bitola, Lukovo field, remediation of six hydropower plants etc. Successful example of PPP in the field of transport in the Republic of Macedonia is the signed contract for concession with the Turkish company Tepe Akfen Ventures (TAV) in 2008 for managing both airports in the country for period of 20 years. The highway Kicevo-Ohrid also represents PPP in the field of transport with Chinese construction companies. In the field of ecology, the given concession for the landfill reconstruction “Drisla”- Skopje should be highlighted, including the building of new stations for garbage disposal in accordance with EU standards. The contract leader at this concession is the city Skopje, and the contract is made on a period of 35 years. These are just a few practical examples for the perspectives of PPP in Republic of Macedonia. [4] Along with the Ministry of Economy, other relevant institutions in the Republic of Macedonia that work in the field of PPP and concessions are: Public Procurement Bureau, Public commission for complaints on public procurement, and the Council of public private partnership in the government of Republic of Macedonia. It should be considered the law for institutions in PPP for giving public services at the classic public services (education, culture, science, health, social security etc). [5]

V. CONCLUSION

The public private partnership is consisted of commercial contract between public organizations and private companies with final goal of projection, performance, financing and working in the public infrastructure and services that were traditionally performed by the public sector, in occupations such as: transport, energy, health services, water supply, education, communal services etc. This partnership is consisted whether of partnership contracts between the state or local government and private companies, or of forming project company that includes together the public and private sector. Generally, public-private partnership is a form of association of the state with a private investor. Meanwhile, both partners benefit, but the major benefit has the society as a whole. The public partner finds means of realization of greater investments without proportionally overloading the Budget and creating fiscal deficiency, and the private partner finds field for new investments i.e. investing in objects of public interest. Every government should find appropriate, efficient, practical, profitable and economically justified concept by which it will develop the parts of the economy that are weak and need financial injections. This comes to the fore in terms of economic and financial crisis that was until recently present in the world economy. In that context, huge impact have public-private partnerships especially in financing greater infrastructural and environmental projects. Republic of Macedonia as a state-candidate for membership in EU has serious problems in separate parts of its national economy. The infrastructure, transport, water supply, energy

sector, tourism, are economy sectors that are in disadvantaged position. By this mutual public-private partnership, there is greater probability these economic branches to be developed and reach satisfactory level. This pragmatic concept of direct investing in the economy by the state together with the private sector has good perspective for our economy especially having in mind its specific characteristics.

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