

New forms of investment financing on the example of selected local government units in Poland

EXPLANATORY STATEMENT

The economy of many countries is currently experiencing a crisis and downturn of considerable financial implications. The European Union has been in a difficult economic situation, particularly because of countries such as Greece, Spain, Italy, Portugal and Ireland. The decision of the United Kingdom to leave the European Union also had a major impact in this regard. Measures in the form of financial aid offered to individual EU countries can significantly reduce the possibilities of generating funds in the general EU budget for the years 2014-2020, i.e. in the period of the new financial perspective.

The increase in budget deficit, and consequently public debt, raises questions about the financing of development processes. The public finance situation in Poland is relatively difficult. Public debt is approaching the threshold level of 55% of GDP. Exceeding this statutory threshold would trigger necessary but also drastic prudential and remedial procedures. Actions are being taken to reduce the possibility of further debt both in the governmental and local-government sectors. On the other hand, the intensifying inflationary processes, accompanied by the slowed-down economy, require the Monetary Policy Council to take balanced monetary decisions and, in particular, to raise the NBP interest rates cautiously so as to curb demand for loans and increase the cost of debt servicing.

These phenomena, coupled with the current situation, may possibly inhibit the investment process, especially in local government units. This may concern both planned investments as well as projects already implemented and under way. There are many research questions of significant theoretical and practical significance. It is necessary to assess the real possibilities of borrowing by local government units and determine other ways of financing investment activities. This is related, in particular, to the provisions contained in the Public Finance Act, concerning the individualized formulation of debt limits and expenditure rules. In the presented circumstances, it might be worth seeking new methods of investment financing and deciding on the impact of it on the budget of local government units.

This paper presents an analysis of the actual state of affairs in debt and financial capacity of public finance sector entities (descriptive analysis method). It then goes on to assess the possibility of implementing alternative methods of financing investments (referred to in this paper as new forms of financing). Analyzed and assessed were, *inter alia*, JEREMIE

and JESSICA support software, public-private partnerships, sales of municipal assets, leasing, factoring, municipal bonds, revenue bonds, hybrid financing and EU funds. In addition, the ability to generate funds for financing municipal investments was assessed based on changes in the structure of assets, sales, armaments and the creation of investment areas.

The examples of projects implemented using the aforementioned methods are demonstrated in the paper through case study. It should be emphasized, however, that new forms of financing are still very rarely used and it is difficult to find practical examples of their implementation. Each new form of financing tasks has its own specific nature. Choosing the right solution should be preceded by an analysis of the determinants - first and foremost financial and legal ones, and then those social and economic. Although the new forms of financing are not too popular and generate little interest, the study contains examples of mechanisms that are in place and that are successfully used by local government units. With that being said, the results cannot be applied to the entire group, as there are many individual factors that determine each form of funding.

THE OBJECTIVE

The principal objective of this master's thesis is to analyze the achievements of economists in terms of debt, available forms of financing the investments of local government units and their impact on the financial situation of the latter.

The empirical part of the paper attempts to assess the use of possible new forms of investment financing by local governments. These types of financing can be considered a promising formula for strengthening the development of local government units. The study will help determine the proper methods of financing municipal investments, indicating both their strengths and weaknesses. Analysis of investment financing methods will improve the effectiveness of investment decisions and the appropriate selection of instruments for specific tasks. On the basis of selected local government units, the suitability, conditionality and efficiency of new forms of financing and identification of barriers of cooperation between local governments and financial institutions and entrepreneurs will be assessed.

RESEARCH PROBLEMS

The main research problem of this work can be expressed as a question: do local government units in Poland apply new forms of financing public tasks in order to overcome the financial constraints of investments?

By further exploring the research problem, one can come up with questions that reflect the detailed research problems tackled in this paper:

- To what extent do local government units are willing to turn to new sources of financing from the ones they have used so far?
- What is the list of profits of using alternative methods of financing municipal investments?
- What is the awareness of local authorities in terms of new forms of financing?
- Does the use of new forms of financing significantly contribute to reducing the debt of municipal bodies and to local development?
- What are the barriers encountered by municipalities in cooperation with both financial institutions and entrepreneurs?

In the analytical and descriptive section, attempts were made to answer these questions. In addition, research hypotheses were put forward, the verification of which should point to the real and tangible benefits of the implementation of tasks through the new forms of investment financing.

HYPOTHESES

The main hypothesis of this paper is: *it is necessary to seek and use new forms of financing the investment of local government units in the context of the increasing needs of residents and the tasks undertaken by local authorities.*

The following research hypotheses were formulated in relation to the research problem (questions) and objective:

H1 The financial crisis and economic downturn have an impact on the financial situation of local government units and their ability to properly carry out assigned tasks;

H2 Local government units are increasingly seeking new forms of financing their public tasks;

H3 The ability to generate funds for municipal investment financing is shaped by economic, legal and political processes;

H4 The application of new forms of financing the investments of local government units varies according to the type, size and revenue of these governments;

H5 The implementation and use of new forms of financing the investments of local government units is still rarely used by local governments.

RESEARCH METHODOLOGY

The number of investment undertakings based on the new forms of financing the investments of local government units is not significant. Originally, the research was supposed to be based on the communes of Lodz Province, but since not all new forms of investment financing were available there, it was decided to extend the research area to Poland.

Initiatives of the implementation of new forms of investment financing in other provinces were reviewed. Therefore, the research section of the paper presents the assumptions and the current outcomes of implementing these solutions. The research part is based on several cases of applying new forms of financing the investments of local government units. The selection of projects relied on nonprobability sampling. The research-worthy undertakings were selected based on prior discernment. The sampling criterion was the inclusion of research projects implemented by local government units in Poland. An important fact in the selection of projects was the willingness of the implementers to make available the data needed to carry out the appropriate analysis and assessment. This made it possible to present the different types and characteristics of the undertakings, emphasizing the aspects that being researched, i.e. the use of new forms of financing for investment tasks, previously based on traditional financing methods.

Indication and determination of the expected results of applying new forms of investment financing prove very difficult due to the complexity of the problem and lack of objective assessment methods in a comparative system. Changing the way of financing the tasks of local government units (replacing loans, grants and subsidies with new forms of financing or their complementation) is a long-term and evolving process. The implementation of new forms of financing leads to substantial and significant changes in financing methods, as well as in the philosophy of the public sphere (sustained use of market-proven mechanisms). In light of these observations, the rationale for new forms of funding against traditional solutions must assume only a certain portion of possible aspects of performance evaluation. Accordingly, given the framework of the reflections contained in this work, the focus was limited to the following aspects:

1. Methodology for assessing the ability of local government units to borrow money in order to pre-finance expenditures on municipal investments;

2. Implementation of the methods of repayment of municipal investment that are not used in Poland;

3. Public-private partnership engineering methods accounting for selected risk areas;

4. Possible mechanisms of privatization of municipal property;

5. New methods of generating funds for non-repayable financing of these investments.

Due to the specifics of the facilities that have been tested (differentiated in terms of areas and new financing methods used), the analysis of the results will be descriptive, of a qualitative type, and it will constitute the basis for the conclusions:

- 1) being an application for practical implementation and use;
- 2) identifying existing barriers to the broader application of new forms of financing the investment tasks of local government units;
- 3) pointing to the direction of changes in the legal and practical aspects;
- 4) presenting possible advantages of using new forms of investment financing.

The basic method of research in the empirical section of the paper is the analysis of statistical data from the Polish Central Statistical Office (GUS), Eurostat, the Ministry of Finance, the reports of the Regional Accounting Boards. Detailed data from public information bulletins of local government units will be used as supplementary sources. The work was additionally backed up by examples of projects implemented using the case study method.

CONTENTS

This paper consists of introduction, six main chapters and conclusions. Chapter deals primarily with the regional development policy in light of the current conditions of the European Union in the new financial perspectives for the years 2014 - 2020. Indicated were also actions undertaken in the previous planning period and the attention was drawn to the crisis and the economic downturn prevailing in the EU countries. Chapter 2 discusses the systematics and contains a detailed description of public debt, including explanation of its interpretations and limitations. Prudential and remedial procedures in the debt management process and the methodological problems of the amount of debt were also indicated. Chapter 3 is devoted to the investment opportunities of local government units. Increasing the efficiency and effectiveness of the budgetary policy pursued by local government units requires seeking new sources of investment financing. Chapter 4, meanwhile, systematizes municipal investments and their significance for the development processes. Chapter 5 measures the potential of generating funds for financing municipal investments and it then

discusses new forms of financing investment tasks of local government units. Chapter 6 assesses the existing solutions and highlights the sources of financing and the implementation of the tasks of local government units through new mechanisms and instruments. The case study method was used to elaborate on the real-life financial solutions, environments, and elements that are important for these processes.

In the empirical section of the research, projects carried out using new forms of financing were analyzed, focusing in particular on their genesis, selection criteria, implementation conditions and assessment. The selection of research areas was based on the availability of documents for the new forms of investment financing, and at the same time on the assumed approach to presenting undertakings that apply new forms of financing: JEREMIE and JESSICA support software, public-private partnerships, sales of municipal assets, leasing, factoring, municipal bonds, revenue bonds, hybrid financing and EU funds. In addition, the ability to generate funds for financing municipal investments was assessed based on changes in the structure of assets, sales, armaments and the creation of investment areas

The papers deals with the practical aspects of implementing and using new forms of financing the investments of local government units. Due to the multifaceted nature and interdependence of individual projects, as well as the methodological basis for assessing specific investments, the analysis of their relationship is a complex problem. Therefore, the research procedure is subject to certain drawbacks. Most importantly, there seems to lack the possibility to verify and point to the real advantages that result from the replacement of traditional financing methods with the new forms, which in addition to tangible benefits also bring less objectively assessed qualitative results. Another difficulty is the determination of these results as they often appear only in the long-term perspective. The results of the analyses may be subject to a difficult to estimate error, arising both from the essence of new forms of financing and the influence of economic, legal and political circumstances. These problems can nevertheless be a certain methodological starting point for further research on the new forms of financing the investments of local government units.

The paper is concluded by a summary of the research results and recommendations for local government units and individuals who have a say in the decision-making process and the selection of investment policy.