

Public-private partnership in the Russian Federation: interaction of theory and practice in the service sector

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Abstract. Under conditions of limited internal funds the state has to draw outside resources, owned by private, non-public sector of economy for better rendering socially desirable goods and services. The key role is given to Public-Private Partnership that means cooperation on a negotiable basis between public bodies and private companies to provide certain kinds of public services while retaining the state's control of their scope and quality of performance. [Glukhov V.V., Gafforova E.B. **Public-private partnership in the Russian Federation: interaction of theory and practice in the service sector.** *Life Sci J* 2014;11(11s):320-324] (ISSN:1097-8135). <http://www.lifesciencesite.com>. 73

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Since co-residence of individuals for some economic, political and other reasons, public bodies, performing in the name of the state, render their population a set of services aimed at supporting integrity of the whole society.

The list of services provided by the state and meant for both individual and collective consumption is rather extensive and covers the most costly and important sides of society's activity, that is educational and medical services; payouts of various subsidies and transfers to the citizens (retirement benefits, allowances, scholarships, etc.); construction of social and cultural infrastructure, roads, housing and community amenities, telecommunication services; financial support to implementation of national and regional projects in different branches of economy; scientific development and research; military and security spending; maintenance of law enforcement authorities; facilitation and aid to sport, culture, art, business and so on.

At the same time the conception of a service itself is differently interpreted by researchers depending on their author's position and belonging to corresponding scientific school, for example:

- *services* are kinds of activities or works, in the process of performance of which no new material or tangible product is created, but the quality of the existing and created earlier ones is changed; these are goods provided not in the form of objects, but in the form of activity, and rendering services proper builds up the desirable effect [1];

- a *service* is a kind of rational activity, the useful result of which appears during its performance and is connected with meeting a certain need; services fall into material and non-material and correlate with sectors of production activity [2];

- what is traditionally implied by a *service* is activity and its results, not having material form, realized and consumed in the process of carrying out this activity [3].

The cited above sample definitions for the concept "service" allow to follow various interpretations of the suggested formulations.

Financial relations, arising between business agents, people of the country (who settle various kinds of statutory payments) and the state (that provides services, called public goods, to the equivalent of payments received), should be closed ones. As a matter of fact, it's not quite true, as governments do not always have enough resources at their disposal to make ready, render or provide corresponding services that are essential for life activity of society.

Under conditions of limited internal funds the state has to draw outside resources, as a rule, owned by private, non-public sector of economy for better rendering socially desirable goods and services.

This paves the way to the onset of Public-Private Partnership (PPP) in many industries of social and economic life of society. Efficiency of implementation of PPP lies in the fact that private investors are given the reins of management, investment and business activity while the state keeps the ownership.

Historical facts bear witness to examples of implementation of PPP in different countries to a various degree of efficiency and variety of used forms, methods and directions of cooperation.

First concessional projects were launched in France in the middle of the 16th century, basically in the sphere of public services (construction and maintenance of roads, provision of housing services and utilities, etc.). In the 17th century the concessional law was adopted in Great Britain, and first concessions in the U.S. were granted nearly 300 years ago.

Assimilation and development of vast territories of the Russian Empire was also held with the assistance of PPP – Siberia, the Russian Far East

and many others were explored and developed. In the beginning of the 19th century great many objects of road infrastructure were constructed at the expense of funds of private investors. Under the agreements of PPP the majority of railroads were built out of the funds of private companies.

The Soviet Union also used the form of PPP for attracting foreign capital onto the territory of the USSR, or contributed Soviet capital to economies of other countries.

In the end of the 20th century the term Public-Private Partnerships (PPP) has been used since the 1990s to describe a form of private sector participation in infrastructure financing. Although definitions vary, all are based on the common principle that PPP is a procurement process to provide services or deliver assets through public and private sector cooperation.

Forms of PPP include inter alia, concessions, build-operate-transfer and its variants, and leases. Best practice PPP aims for an optimum balance of private sector risk and rewards: PPP recognizes that private sector has a higher cost and the private sector needs a return on investment, but this is offset by private sector ability to reduce the overall costs of infrastructure services delivery through higher efficiency and better risk management, for example during construction [4].

PPP is differently interpreted in the world practice. Firstly, it's treated as a system of relations between the state and business that is widely used as an instrument of national, international, regional, urban, municipal economic and social development. Secondly, what is meant under the term are specific projects, realized by public bodies together with private companies on the objects of governmental and municipal property [5].

In modern economic literature there exist the following approaches to interpretation of the term "PPP":

- PPP is defined as a wider conception, covering all possible forms of interaction between the state and business: charity, collective agreements between the government, trade unions and employers, all set of any forms of contractual and other agreements between the state and business;

- in narrow meaning PPP is an instrument of attracting business to performing governmental and municipal tasks connected with rendering public services, development of social infrastructure, commercializing large-scale and mid-size project of technological development [6].

At the same time, there is no broad international consensus on what constitutes a public-private partnership (PPP). Broadly, PPP refers to arrangements, typically medium to long term,

between the public and private sectors whereby some of the services that fall under the responsibilities of the public sector are provided by the private sector, with clear agreement on shared objectives for delivery of public infrastructure and/ or public services [7].

In France, Great Britain, Japan and Australia there's no universal law about PPP, and all basic principles of it are dispersed over various legislative acts and civil standards. Germany, Brazil, Greece, Egypt, Angola and a number of Western European countries in their turn have adopted separate laws concerning PPP. Among countries of the former USSR such states as the Ukraine, Moldova and Kyrgyzstan have laws on PPP, while other states only isolated acts that regulate different forms of PPP [8].

The U.S., for instance, has adopted the following definition of a PPP: "A public-private partnership is a contractual agreement formed between public and private sector partners, which allows more private sector participation than is traditional" [9].

The term public-private partnership PPP is not defined at Community level. In general, the term refers to forms of cooperation between public authorities and the world of business, which aim to ensure the funding, construction, renovation, management or maintenance of an infrastructure or the provision of a service [10].

Value for money in a public-private partnership scheme is related to the idea that public-private partnerships can produce a flow of services at least equivalent in quality to that which could be provided by the public sector, but at a lower overall cost (taking everything into account, particularly the allocation of risk) [11].

Modern public-private partnerships (PPPs), characterized by joint planning, joint contributions, and shared risk, are viewed by many development experts as an opportunity to leverage resources, mobilize industry expertise and networks, and bring fresh ideas to development projects [12].

Wide spread of PPP for solution of socially important problems takes place in the countries of the European Union, demonstrating that interaction of the state and private sector proves to be an efficient way of development.

Thus, from 1990 to 2010 the EU countries implemented 1452 PPP projects to the amount of 272 billion euro. Only in 2010 112 projects were realized to the sum of 18.3 billion euro. A considerable share of PPP projects are carried out in the economy of France: total value of PPP agreements in 2010 was of 1.8 billion euro [13].

The onset and development of PPP is conditioned by several factors that determine the

growing significance of joint forms of economic activity of the state and private business under market economy. They are as follows:

1. liberalization and privatization of state-owned assets, as it was done in most countries in 1980-1990; at that PPP plays the key role as Public-Private Partnership means partial privatization of governmental and municipal property and public services;
2. joint funding of industrial and social infrastructure;
3. mobility of private business, ability to innovation and use of technical and technological changes, etc. [14].

Under the conditions of the transfer of Russia to market economy, it's has become topical to face the issue of implementation modern instruments to support competitiveness of national economy, secure progressive advance of contemporary Russian society and provide access of population to the range of services, rendered by the state.

Organization and coordination of relations between centralized (public) and decentralized (private) sectors of financial system of Russia are fundamentally, by virtue of their nature, the result of the PPP mechanism, arising between public power bodies, business agents and population, appearing in the course of providing various services, aimed at meeting social needs.

PPP is the centerpiece of this process, initially implying contractual cooperation between public power bodies and private companies for the purpose of rendering certain kinds of public services without sacrificing control on the part of the state over their volume and quality of performance.

The basic principle of the modern model of PPP involves government's decision which products, infrastructure or services the state wants for performance of its public functions.

At the same time private investors put forward their recommendations how to better implement corresponding projects. However, such bids should reasonably correspond with the requirements of the state and priorities of social and economic policy [15].

The practice of employing PPP demonstrates that the use of the latter in the service sector helps to find a reconciled balance of interests of the state and private sector with regard to an increase of quality, support of developed infrastructure and managerial potential.

However, any service provided by the state, no matter of what nature it might be, or what kind of social activities it could refer to, demands the backup in the form of money funds for its successful rendering.

The state cannot finance itself, and inflows of money resources into the disposal of public authorities is carried out by accumulating statutory payments in the budgets of all levels and funds.

O. Lugovoy stresses, that necessity of theoretical modeling of economy of the state is determined by empirically evident fact that governments are involved in allocation of resources, choice of technologies and formation of budget restrictions for individuals.

Controversy of models of origin and essence of the state and public services, as well as the rules and results of the latter, is indicative of theoretical and economic uncertainty, and consequently, problematical character of the given aspects [16].

In recent years the significance of Public-Private Partnership in the Russian practice clarifies itself mainly by the chosen direction of economic policy – large-scale development of infrastructure and social reform.

Early PPP projects in Russia were fulfilled more than 10 years ago, they were construction of waste-water treatment plant in Yuzhnoye Butovo and Zelenograd and sludge composting fields complex in Moscow.

According to the data from PPP Development Centre there are the following infrastructure projects, implemented in the Russian Federation in 2014, table 1 [17].

Table 1. Infrastructure projects, implemented in the Russian Federation on the PPP terms

Areas of cooperation	By virtue of concessional agreements	Pursuant to regional law on PPP
Social infrastructure	26	25
Public utilities infrastructure	12	4
Energy infrastructure	18	3
Transportation infrastructure	11	11
Other areas		15

Nowadays more than 300 PPP projects are implemented in the sphere of automobile and railroad construction, and in housing and public utilities sector. Among them 32 projects are realized on the federal level (10 %), 1 – on the transregional level, 197 are regional projects (59,3%), and 107 – municipal ones (30,7 %) [18].

In terms of realization of PPP-based projects the North-Western Region is considered one of the most successful territories of Russia.

Cutting budget funding of social infrastructure objects facilitates attracting private money resources for implementing important projects for the state. It promoted market development of PPP in medical service, reconstruction and re-equipment of healthcare institutions, provision of services of all levels, etc.

Unlike developed countries, Russia still suffers from lack of common practice and culture of long-term cooperation between government and business, which is the main reason for poor efficient implementation of many similar projects in this country.

Today the PPP laws are adopted in 69 subject of the Russian Federation, though the majority of such legislative acts being declarative documents.

Besides regional acts, there are the following laws in force that reflect different variants of PPP projects realization: the Federal Law № 115-FL from 21.07.2005 “Concessional Agreements Act”, the Federal Law № 94-FL from 21.07.2005 “Placement of Orders for Supply of Goods, Performance of Works, Rendering Services for Public and Municipal Needs Act”. To some extent PPP is regulated by the Federal Law № 116-FL from 22.07.2005 “Special Economic Zone Act” [8].

On the ground of the research taken by the Chamber of Commerce and Industry of Russia together with the PPP Development Centre the following tasks, that require solution for efficient implementation of joint projects, were determined:

- adoption of the Federal Law “Basics of PPP in the Russian Federation” (finalization of the law project in the part of how to protect interests of private partners should be drafted with due consideration given to the opinion of business community;
- designing universal methodological basis for preparation and implementation PPP projects;
- creation of conditions for consolidation of business community into PPP sphere;
- development and continuous improvement of unified mechanisms of selecting private investors for PPP projects implementation, etc. [19].

The below factors, restraining development of PPP, should be paid heed to:

1. for successful realization of PPP it’s necessary to enact legislation that guarantees stability of financial investment mechanisms, aimed at solving strategic tasks of innovative development of national economy;

2. the form and structure of the state and business interaction must correspond to proportionate industrial development of regions of the Russian Federation;

3. investors should have access to credit resources to carry out complex long-term projects;

4. though being socially oriented in their nature, projects should equally honour the rights, responsibilities and concerns of all participants of PPP.

Within the framework of PPP the state undertakes a part of risks and invests in new projects. The main purpose of it is to create macroeconomic environment that will enhance the development of innovative activity. The state must eliminate the faults of the system, that hinder innovative development, and create incentives for innovational activity of its business agents [20].

From the above said it’s possible to conclude that organization of cooperation between public and private sectors on PPP basis in order to provide socially important goods and services should rely on reciprocity of their interests, mutual profitability and social orientation.

Such an interpretation of PPP allows to treat legal entities and individuals not only as sources of constant impersonal payments, but as investors who consciously direct their financial resources for development of social and economic infrastructure of the Russian society.

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