

## Development of the public-private partnership in Russia: the issues of reconciling the interests

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**Abstract.** The article is devoted to consideration of the theory and practice of implementing the institutional mechanism of the public-private partnership in Russia. The article reveals the content of the issue of reconciling the interests of the public-private partnership members in terms of the contemporary institutional theory. The capabilities of interaction between the public and private participants is assessed, a model for evaluating the positive and negative effects, which influence the conditions of implementing the public-private partnership projects is suggested. The authors offer the analytical data on the sectoral and regional structure of the projects, which characterize the practice of developing the public-private partnership in Russia.

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### Introduction

An important priority of the national economic policy of the Russian Federation is the innovative economy development. Hence, the tools and methods, which could be implemented in the Russian context and are the best global practices, have become of particular urgency. [1] The globalization of the world economy increases the tend in intensifying the relations between the private business and the state in the field of the capital penetration into the state property sector. [2] In the modern sense, a partnership of the government and the business is the institutional and organizational alliance between the state and private companies, banks, international financial and other institutions in order to implement the socially important projects. The nature of this interaction, the methods and specific forms could vary significantly depending on maturity and the national peculiarities of the market relations. [3]

Implementation of the state economic policy as to the development of the public-private partnership mechanisms in the Russian Federation is the process of reconciling the often conflicting interests of different institutional influence groups, therefore increasing its efficiency, proper arrangement of the procedures of determining and reconciling the tasks and purposes, developing the strategy (realistic if possible) equal to the purposes, have become important.

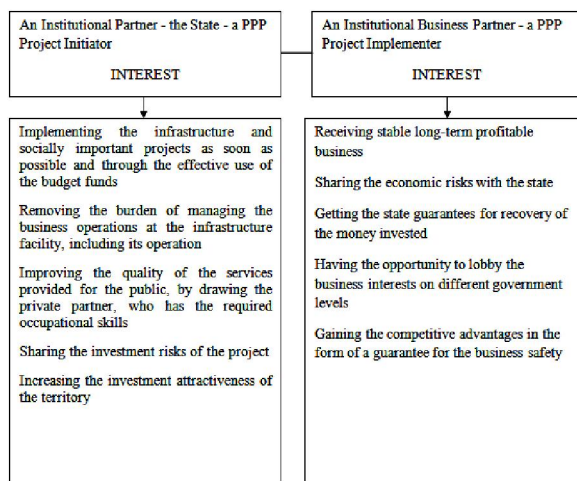
Nowadays in Russia there is no uniform understanding the nature of the public-private partnership (PPP) processes, as the legal framework

upon the subject has been still formed. Thus, the use of the public-private partnership mechanism is provided by the Federal Law # 116-FZ dated 22.07.2005 "On Special Economic Zones in the Russian Federation" [4] and # 115-FZ dated 21.07.2005 "On Concession Agreements". [5] The public-private partnership mechanisms have been further practically developed on the regional level: thus, as of 2013 in 65 constituent entities of the Russian Federation the relevant regional laws on the public-private partnership were adopted and come into force, most of them reflect the experience accumulated by the regions in implementation of the PPP projects, at the same time they are primarily declarative in nature. Now the draft Federal Law "On the Fundamental Principles of the Public-Private Partnership in Russia" is under the consideration of the State Duma of the Russian Federation and is intended to generalize the regional experience and to establish the unified legal framework for intensifying the use of the public-private partnership mechanism in Russia. [6]

In the prepared draft Federal Law, a public-private partnership is defined as "a long-term mutually beneficial cooperation of the public and private partners intended to implement the projects ... in order to achieve the objectives of the social and economic development of the public law entities, to increase the level of availability and quality of the public services, achieved by sharing the risks and attracting the private resources". [6]

### The PPP members' interests and interaction

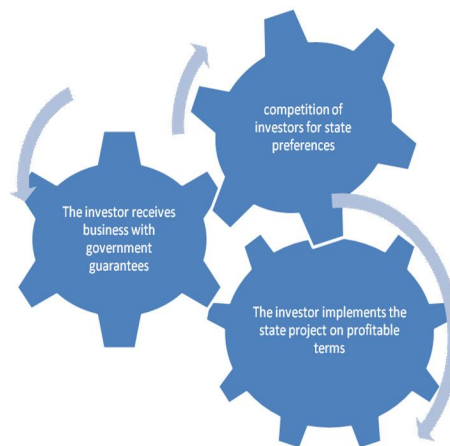
While critically considering the current institutional mechanism of the public-private partnership in Russia in terms of reconciling the institutional interests of the public and private participants let's present it in the form of a diagram (Figure 1)



**Figure 1. Interests of the PPP project participants**

It should be noted, that the efficiency of implementing the public-private partnership project is determined by the level of meeting the members' interests. Therefore, depending on the sector of the project implementation, in each individual case the business model, which is clear for the members and shows, how the members' interests will be taken into account during the project implementation should be developed. Initiating partnership is particularly important. Thus, the implementation of most public-private partnership projects is definitely initiated by the state, which invites business representatives for implementing the promising and socially important projects, in return offering them certain privileges, lobbying their interests on different institutional levels. Such interrelations could be hardly call the partner ones to the full extent. In fact, while involving business for implementing the infrastructure and socially important projects, the state pursues primarily the purposes of reducing the project implementation period and saving the budget funds. In this case the framework for developing the partnership is determined by interaction between the economic, institutional and personal interests of certain members. Moreover, the base for the mutual interest of the members is achieving a certain tier of authority.

In this case the mechanism of interaction between the institutional interests of the members is as follows:



**Figure 2. The institutional mechanism of reconciling the interests of the PPP project participants**

Thus, an institutional participant of the PPP project focuses on compelling the other agents to his will: he "considers material values as the means of reaching the power or authoritative positions". [7]

P. Joyce in his work "101 Key Ideas: Politics" states, that "the power is expressed in the relations between two parties, one of which is able to make the other one take the actions, which would not be taken voluntarily by it. The preferences of one party are binding upon the other one, as the first one is able to force the other one into submission under the threat of applying sanctions. Thus, the desire to avoid the sanctions, ensures the obedience from one party to another one... The power is different to the influence, which involves the ability of those who are not involved in the decision-making process, to influence the nature and content of decisions". [8]

From the institutional perspective it is profitable for a person to obey the rules, if they facilitate his interaction with other agents and contribute to implementation of the interests. In other words, the behaviour is determined by the consequences in which it results. Depending on whether these consequences contribute to implementing the interests, do not affect them or, on the contrary, infringe, the agent will show a tendency to repeat this behavioural act, not to attach any importance to it, or to avoid its repeating in future. The recurring interaction could find the signs of an institution and develop into the institution. For example, in the economic practice people find some acceptable behaviour and interaction samples and patterns, which gradually turn into standardized customs and habits by repetition and evaluation. After a while these behaviour patterns and samples are supported by the public opinion, are adopted,

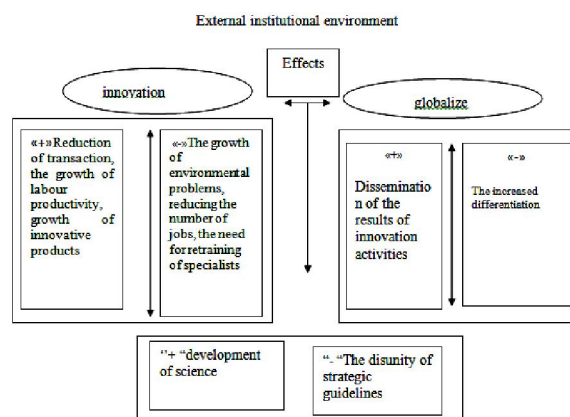
learned, and the consensus is established by mutual role taking. [9]

Power-based coordination of the individual actions means, that two or more decision-making centres are merged into one. It is the principle of the interest coordination, which is the basis for the proposed in the draft federal law mechanism for reconciling and protecting the interests of the public and private participants.

Upon the implementation of the state support for the private sector in the PPP context the issue of determining the investor's optimal profit interest and the total investment interest, regardless of the sector of the project implementation should be taken into account. It is necessary to establish, that each project participant independently sets the objectives and determines the interests, in accordance with which he evaluates the project profitability (it is usually a profit, which a participant expects to receive from the investments); a project developer should possibly understand the objectives and interests of the participant and justify the benefits from his participation in the project by the indexes, which better reflect these objectives and interests. [10] Giving an impetus to the investment activity should be based on providing the opportunities for achieving the maximum profitability. Investors require the long-term guarantees for recovery of the money invested, instead of the temporary benefits. If not, the increase in the business risk results in reduction of the investment proposals and the capital "escape" from the country. In its turn, in return of the provided legal guarantees for stability the state could insist on the new forms of supervision, the transparency of reporting of the PPP project participants. [11]

For the purposes of drawing investors to the investment projects implemented on the PPP basis, the state could to apply the measures, which encourage the investor (grants, subsidies, direct refund of the investment costs, etc.) in order to ensure the return required by the investor. In this case, it is important to consider, that while settling down an agreement with an investor the state is guided by not only the purely entrepreneurial, "business" motives, but also the public interests, the socially necessary objectives, the public utility.

The following model of evaluating the effects of the structural transformations within the public-private partnership is suggested by us.



**Figure 3. A Model of evaluating the effects of the structural transformations within the innovation partnership.**

PPP is an alternative to the direct budget financing of the capital investments [11]. The PPPs mechanisms are implemented through the basic structure of attracting extra-budgetary investments to the development of various types of the public infrastructure and public services. It means that while supervising the sectors related to the infrastructure, public or municipal services, the state could do more in the context of the available sources, to produce the required control lever. [12] PPP allows attracting the private resources to the public tasks, as the state is involved in the project risk management. In this case, it uses its highly specific and valuable resource - the ability to form a "corridor of the future" within the legal system and political stability, which determines the safety and return of the private investments. [13]

Thus, the predominance of either the economic or political interests and objectives of the public-private partnership members determines the peculiarities of implementing the specific projects and tools. Without a doubt, one could not strictly separate the economic and political aspects in the overall structure of interests of the public-private partnership members, as, in fact, the joint implementation of such projects often results in occurrence of business in the government quarters and, on the contrary, the policy introduction to business.

On the basis of analysing the experience of interaction between the executive and legislative bodies of the Russian Federation and the business associations in the economic field Kovalev A.M. has identified the main forms of such interaction:

- lobbying the business interests in the legislative bodies;
- carrying out the procedure of the public examination of the draft laws and regulations;

- establishing the public Business Councils under the public authorities;
- conclusion of the agreements on cooperation with the executive authorities;
- participation of the business associations in the work, executed by ministries and departments;
- participation of the business community representatives in the work of the regional commissions, councils, working groups;
- joint participation in the development, adoption and implementation of obligations of the tripartite agreements;
- making agreements between the sectoral ministries and the public business associations;
- holding the meetings with entrepreneurs, conducting the briefings, conferences, forums, visits to municipal units, etc.;
- support for the projects of the small business entities;
- organizing the work on eliminating tensions in the business environment, associated with the excessive administration;
- joint participation in improving the educational level of entrepreneurs;
- running the regional skills and rating competitions;
- joint participation in the information support of entrepreneurs;
- joint participation in developing the interregional and international cooperation;
- conducting the exhibitions and fairs. [14]

The implementation of all these forms of interaction could significantly improve the effectiveness of a partnership, the social responsibility of business.

#### Statistics of the PPP projects in Russia

The global experience indicates the possibility of the efficient implementation of the public-private partnership projects, what is confirmed by the following statistic data. From 1990 to 2010, in the countries of the European Union 1452 PPP projects for a total amount of 272 billion Euro were implemented. Only in 2010 there were 112 such projects, and their cost amounted to 18.3 billion Euro. A considerable rate of the PPP projects is presented in the French economy - the total amount of the PPP agreements has amounted to 1.8 billion Euro for 2010. In the context of EU, the volume of the PPP transactions in education and healthcare amounted to 6.5 billion Euro at year-end 2010. [10]

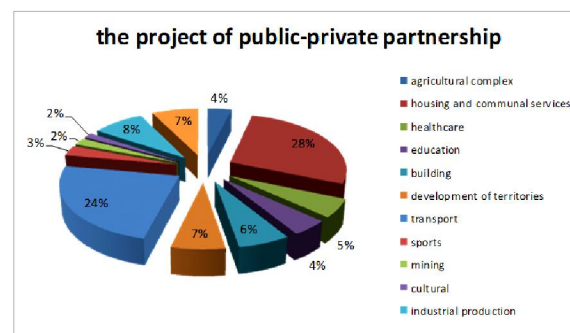
As noted in the task force guidelines for "Investments and Infrastructure" at the B20 Summit in the context of the St. Petersburg International Economic Forum (June 2013): "The amount of the required world investments to the infrastructure until

2030 is about 60 trillion dollars "[15]. The issue has become of particular urgency in Russia, where the lag of this field behind the European Union - is 25-80% in the sectoral context.

The studies conducted by the Russian Centre for the PPP development at the end of 2013, showed, that, as of the December 2013 in Russia at various implementation stages there were only 79 concession projects, in which about 1,500 property items, including 8 federal projects, were involved. Thus, since 2005 (the year of adopting the FZ "On Concession Agreements") among four major infrastructure sectors, where the concession agreements - the social, municipal, energy and transport ones - are applied, most concessions have been made and are made in the social sector nowadays - 35%. At the same time, the transport sector, which has been traditionally associated with the concession agreement mechanisms, ranks only second - 27%, and is followed by the municipal and energy infrastructure - 16% and 22%, respectively. [16]

Let's note, that the efficiency of using the concession mechanism for implementing the innovations in the infrastructure sectors is due to the fact, that the concessionaire, seeking to reduce the costs upon the implementation of the concession project, looks for the ways of improving the concession object performance and the employees' operation through the use of the most effective engineering solutions, implementing the innovative methods.

Let's access the indexes of implementing the public-private partnership projects in Russia upon the analysis of the data of the federal web portal "On Infrastructure and Public-Private Partnership in Russia"



**Figure 4. A structure of the PPP projects by sectors**

As the analysis of the sectoral project structure has shown, most of them are concentrated in the housing and utilities sector: 93 projects (28% of



the investment) and in the transport sector: 81 projects (28% of the total amount of the investment project support) - is the construction of roads, airports, railways, bridges, sea and river ports, logistics centres. In the energy sector 28 projects are implemented, what amounts to 7% of the investments to PPPs, 28 projects are implemented in the manufacturing sector. Nowadays in the construction sector, which is traditionally attractive to the investors, 21 projects are implemented and 6% of the PPP investment resources are concentrated; 22 projects are implemented in the field of developing the territories. The socially important investment projects in education, healthcare, culture, tourism, physical culture and sports are not less attractive and amount to 16% of the investments.

As the analysis of the regional structure of the PPP projects shows, most projects are concentrated in the Siberian federal district (30%), 14% of the projects account for both the North-Western and Central federal districts. About the same amount accounts for the Volga federal district. Fewest projects are implemented in the North Caucasus federal district (2.5%). It should be noted, that the development of the interfarm and intersectoral relations and interests, the formation of clusters result in the occurrence of the interregional projects among the public-private partnership projects, although nowadays its rate is only 0.3%.

Thus, nowadays in Russia about 200 PPP projects recorded in the register are implemented. The total amount of the investments attracted to the project implementation is about 3793 billion rubles.

Upon the adoption of the new law, which generates an uniform legal framework for these partnership projects, the primary task for optimizing the structure of the public-private partnership in Russia is to separate the positive results and problems, arising during the organization of the participants' interaction.

### Summary

To sum up the conducted analysis, the following conclusions could be drawn:

1. The globalization of the world economy increases the trend in intensifying the relations between the private business and the state in the field of the capital penetration into the state property sector. Increasing competition encourages the business to participate in the public-private partnership projects for protecting its competitive positions.

2. The institution of the public-private partnership in Russia is at the development stage. The established regional laws were taken into account in developing the draft Federal Law "On the

Fundamental Principles of the Public-Private Partnership in the Russian Federation", the experience of interaction between the business and government, intended to more complete understanding of the mutual interests, was accumulated. The basis for intensifying the use of the PPP mechanism is developing the coherent model of implementing the projects, in which each participant finds the possibilities and conditions for implementing his own interests. The predominance of either the economic or political interests and objectives of the public-private partnership members results in occurrence of business in the government quarters and, on the contrary, the policy introduction to business, increases the social responsibility of business.

3. The implementation of most public-private partnership projects in Russia is definitely initiated by the state, which invites business representatives for implementing the promising and socially important projects, in return offering them certain privileges, lobbying their interests on different institutional levels.

4. Nowadays in Russia about 200 PPP projects are implemented. The PPP projects are most actively implemented in the transport, housing and utilities sectors. The total amount of the investments attracted to the project implementation is more than 3793 billion rubles.

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