



REVISTA INCLUSIONES

HOMENAJE A MARÍA NOEL MÍGUEZ

Revista de Humanidades y Ciencias Sociales

Volumen 7 . Número Especial

Abril / Junio

2020

ISSN 0719-4706

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SCIENTIFIC BASIS OF THE ORGANISATION OF PUBLIC-PRIVATE PARTNERSHIP

Dr. Lyubov Semenovna Morozova

Russian State University of Tourism and Service, Russia

ORCID ID: 0000-0002-5712-3234

lyubov.s.morozova@mail.ru

Dr. Natalya Vladimirovan Khavanova

Russian State University of Tourism and Service (RGUTIS), Russia

ORCID ID: 0000-0001-7093-8705

natalya.v.khavanova@mail.ru

Dr. (C) Ekaterina Aleksandrovna Vetrova

Russian State University of Tourism and Service (RGUTIS), Russia

ORCID ID: 0000-0002-2518-0357

ekaterina.a.vetrova@mail.ru

Dr. (C) Julia Olegovna Sulyagina

Russian State Social University, Russia

ORCID ID: 0000-0003-4743-2508

julia.sulyagina@mail.ru

Fecha de Recepción: 07 de enero de 2020 – **Fecha Revisión:** 03 de febrero de 2020

Fecha de Aceptación: 09 de marzo de 2020 – **Fecha de Publicación:** 01 de abril de 2020

Abstract

The evolution of the relationship between public government institutes and entrepreneurship in developed and developing countries at various stages of the economy has shown that their constructive interaction is a key factor of successful socioeconomic progress. The ever-growing gap between popular needs and demands for social services and infrastructure and budget constraints have promoted the establishment of partnership between the government and entrepreneurial structures. As the role of the state transforms, this brings more focus on finding alternatives to direct regulation of economic processes.

Keywords

Budget constraints – Government – Entrepreneurial sector – Public-private partnership

Para Citar este Artículo:

Morozova, Lyubov Semenovna; Khavanova, Natalya Vladimirovan; Vetrova, Ekaterina Aleksandrovna y Sulyagina, Julia Olegovna. Scientific basis of the organisation of public-private partnership. Revista Inclusiones Vol: 7 num Especial (2020): 535-545.

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Introduction

The evolution of the relationship between public government institutes and entrepreneurship in many countries at various stages of economic development has shown that their constructive interaction is a key factor of successful functioning of market economies. Meanwhile, the nature of such interaction, its methods and specific forms may considerably depend on the development level and national market specifics. The development of the modern global community indicates that the role of the state is evolving steadily and it particularly affects economies.

Methods

Working on this paper, we analysed legal and statutory regulations governing public and municipal administration of the Russian Federation, socioeconomic policies of the Russian Federation and the Moscow region, the relationship of public and entrepreneurial structures and statistical papers, including publications of the Russian Federal State Statistics Service (Rosstat), proceedings of international and Russian conferences on the issues of public-private partnership (PPP)¹, national statistical releases, papers, reports and periodicals.

The methods of economic and statistical analysis and quantitative and qualitative analysis were used in this paper, as well as the systems and development principles.

Results and discussion

Researchers are probably right arguing that while "the government used to primarily compensate for the imperfections of the market mechanism, it now emerges as an active participant of economic relations and a critical constituent part of the reproduction process"². In such setting, the efficiency of the first two types of relations is no longer sufficient for implementing all the various purposes of the government. Therefore, the transformational economic framework puts forth the issue of finding ways and economic levers alternative to direct regulation. One such alternative relates to the forms of PPP, which has only become a topic of research not long ago.

The primary factor for partnership relations between the government and the private sector is the ever-growing gap between the rising demands to public services and infrastructure, on the one hand³, and financial and budget constraints, on the other hand.

¹ Proceedings of the conference "Financial and legal mechanisms of public-private partnership in Russia". Moscow. June 20. 2017; Proceedings of the roundtable "Public-private partnership in healthcare and national Healthcare project implementation. Saint Petersburg April 17. 2017; Proceedings of the workshop "Legal aspects of public-private partnership mechanism in Russia". Moscow. June 28. 2017 y Proceedings of the workshop "Public-private partnership as an instrument of attainment of strategic goals of regional (municipal) authorities". Moscow. February. 21. 2017.

² N. S. Volostnov, Gosudarstvennoe predpriyatie v rynochnoi (Moscow: Ekonomika, 2014); T. Konishcheva, E. Tikhonov, Vlast i biznes v odnom proekte. "Rossiiskaya Biznes-gazeta". N005. February 15. 2005 y N. V. Khavanova y E. V. Bokareva, "Analiz mirovogo i rossiiskogo rynka elektronnoi trgovli: tendentsii i problemy razvitiya", Servis v Rossii i za rubezhom, Vol: 11 num 3 (2017): 136-148.

³ E. V. Bokareva y E. N. Egorova, "Vliyanie nalogovykh preferentsii na formirovanie dokhodnoi chasti byudzhetrov", Servis v Rossii i za rubezhom num 9 Vol: 56 (2014): 161-170; D. A. Utorov, "Infrastrukturnye proekty, realizuemye pri gosudarstvenno-chastnom partnerstve", Ekonomika i

Partnership becomes critical in the areas previously exclusively reserved to the government, primarily in those segments where privatisation is not a possibility but the need in private investment is obvious. The need for fostering partnership between the government and businesses is also shaped by two propositions of the liberal development concept, namely, the alignment between the institutional development of private ownership and the advancement of growth, as well as higher productivity and economic efficiency based on private ownership as opposed to relations based on public ownership and direct regulation.

According to the World Bank, 2,700 PPP projects have launched in developing economies in transition since the 1990s.

Literature review across the range of Russian and international research and practical publications has indicated that PPP studies follow several approaches⁴.

The modernist approach to the public governance theory represents the state as either a mechanism to protect and advance the interests of the ruling class, i.e., as a class agent, or as a public social servant. In such setting, PPP is defined as a structure formed at the initiative and under control of the state to benefit the dominant class. On the other hand, PPP is seen as a mechanism to accommodate and balance the wide-ranging interests of various social groups pursuing economic interests as economic entities.

Another approach is to treat PPP as a mechanism facilitating the interests of capital⁵. Arguably, it is a very narrow-minded interpretation limiting the role of PPP to solely advancing the interests and facilitating the development of large corporations. Subsequently, this approach to PPP is limited in terms of social problem-solving.

In a different angle, PPP is associated with the harmonisation of interests of entrepreneurship, the society and the government. Researchers in this corner approach PPP as a mechanism to sustain economic development and help align the interests of the government, the private sector and households, ensuring they are secure. Thus, PPP serves as an efficient tool for promoting an advanced policy of spatial development.

sotsium num 3 Vol: 34 (2017): 1381-1385 y E. V. Bokareva; A. A. Silaeva; O. N. Borisova; I. G. Doronkina y A. P. Sokolova, "Analysis of the world and russian e-commerce market: development trends and challenges", International Journal of Engineering and Technology (UAE), num 7(4.38), (2018): 387-392.

⁴ V. V. Alekseev, *Ekonomika Yaponii* (Moscow: MGIMO-Universitet, 2016); Atamanchuk, G.V. *Teoriya gosudarstvennogo upravleniya* (Moscow: Omega-L, 2006); V. V. Gorovenko y D. A. Samolovov, "Kontsessionnoe soglasenie i soglasenie o gosudarstvenno-chastnom partnerstve kak dogovornye formy gosudarstvenno-chastnogo partnerstva", *Akademicheskii vestnik* num 4 Vol: 30 (2014): 69-75; S. V. Gritsai, *Ispolzovanie chastno-gosudarstvennogo partnerstva dlya povysheniya effektivnosti deyatelnosti promyshlennogo predpriyatiya*. Author's abstract of the thesis in candidacy for a degree of candidate of economic sciences (Moscow: Russian State University for the Humanities, 2006); S. D. Dansaranova, *Institut chastno-gosudarstvennogo partnerstva: stanovlenie i razvitie v Rossii*. Author's abstract of the thesis in candidacy for a degree of candidate of economic sciences (Ulan-Ude: East Siberian State Technological University, 2007) y N. A. Lebedeva, *Upravlenie investitsionnoi deyatelnostyu na osnove razvitiya institutsionalnykh form chastno-gosudarstvennogo partnerstva*. Author's abstract of the thesis in candidacy for a degree of candidate of economic sciences (Orel: Orel State Technical University, 2007).

⁵ S. A. Bezgodov, *Formirovanie ekonomicheskikh mekhanizmov v sisteme gosudarstvenno-chastnogo partnerstva*. Author's abstract of the thesis in candidacy for a degree of candidate of economic sciences (Saint Petersburg: North-West Academy of Public Administration, 2007).

The monetarist and conservative (neo-conservative) approaches analyse first of all the economic role of the state, for which its primary function is the development of the infrastructure environment. One of the axioms of this approach is the recognised relative inefficiency of the state in economic activities compared to an entrepreneurial structure.

Thus, in such settings, the nature of PPP is addressed in association with the issues of scope, distribution and mechanisms of ownership rights in the respective public (municipal) property and, at the same time, they act as the material foundation of production and service provision to households and other entities outside the public sector. In the current research, the forms and mechanisms of PPP are considered as optimisation solutions in establishing the sequence and procedures for legal structural re-engineering and profitable operation of ownership rights and related to the restriction of access to the property or resources for other parties.

To summarise, the following approaches exist in PPP research (Table 1).

Approach	Core principle	Economic and social role of PPP
Institutional approach	development of infrastructure environment for economic operation as the main economic function of the state	rearrangement of the scope, distribution and mechanisms of ownership rights in specific public (municipal) sector objects
Transformation approach	transforming the role of the state in the society and economic relations	mechanism to accommodate and balance the wide-ranging interests of various social groups and economic entities pursuing economic interests
		structures formed at the initiative and under control of the state to benefit the dominant class
Entrepreneurial approach	advancing the interests and facilitating the development of large corporations	mechanism facilitating the interests of capital

Table 1
Approaches to studying PPP

Obviously, the advance of a particular approach depends on the developmental aspects of the government economy and the perceived role of the state in cultural values and traditions. Therefore, there is no single view of the essence of PPP neither in the federal or regional legislative base nor in theoretical sources locally or internationally.

The term "partnership" itself bears several meanings, primarily, "cooperation" and "company". Business dictionaries describe partnership as a non-shareholding joint venture between several individuals and/or legal entities, where each of them is a unit holder directly involved in its operation. Such partnership operates under an agreement governing the rights and obligations of unit holders, cost reimbursement and profit distribution procedures, timing, liquidation terms and joint responsibility mechanism. A similar form under Russian laws is a general partnership, or other forms as set forth in the Civil Code of the Russian Federation, or limited liability companies established by two or more parties.

Thus, etymologically, PPP takes the form of entrepreneurial structures and public government authorities engaging in partnership and economic relations as co-owners of a

company, firm, or project, or as parties of operation or transaction acting formally on equal legal terms as agreement parties.

Economic theory interprets PPP as an institute representing a combination of formal and informal rules governing joint operation on economically equal terms between government authorities and the private sector to meet public interests. PPP performs the following functions: coordinating social and economic interests of the subjects, redistributing resources, bringing down transaction costs for the parties. Notably, the above definition highlights the subjects' economic interests, while, in our view, the government is primarily interested in social solutions and divestment of its non-core functions of the owner/manager. However, it reflects the institutional character of PPP as a system of special relations of the government and the entrepreneurial sector.

Many researchers and practitioners agree that PPP represents an institutional and organisational alliance between the government and businesses to advance socially important projects and programs in a wide range of industries, from manufacturing to R&D to services. However, such alliances are not necessarily characterised by partnership relations underlying PPP.

Practitioners widely agree that PPP involves attracting private investment in the industries traditionally funded by the government, from management contracts for existing operational entities to empowering full-cycle private companies for construction and operation of new infrastructure. The above definition, in our view, limits the idea of PPP, restricting it only within the area of investment and privatisation. It thus may be viewed as a specific example of PPP.

Another specification of PPP is rendering such mechanism as exclusively "a partial transfer of what is traditionally perceived as government functions to companies of the private sector"⁶. Moreover, in this instance, PPP may also involve lobbying and direct support, i. e., relations radically different from partnership.

Some experts propose a definition of PPP as a combination of tangible and intangible resources of the society (at the government or municipal level) and the private sector (private enterprises) on a long-term and mutually beneficial basis to create public goods (spatial development and improvement, development of engineering and social infrastructure) or provide social services (in education, healthcare, social security, etc)⁷. In our view, this is the broad interpretation, but it still provides no indication of partnership between the parties or the alignment of economic and social interests.

It is worth noting that the above definitions, as a rule, omit the focus of PPP on socially important projects. Besides, there is often no indication of the potential of PPP

⁶ V. Vakulenko, *Alternativnye skhemy investirovaniya*. Top-menedzher. March 22, 2006 y V. N. Morozov, *Osobennosti realizatsii proektov chastno-gosudarstvennogo partnerstva v oboronno-promyshlennom komplekse Rossiiskoi Federatsii*. Author's abstract of the thesis in candidacy for a degree of candidate of economic sciences (Moscow: Russian State University for the Humanities, 2006).

⁷ M. V. Romanova y I. G. Churilova, *Sovremennye problemy praktiko-orientirovannogo obrazovaniya v Rossii pri podgotovke rabochikh kadrov*, *Servis plus* Vol: 9 num 1 (2015): 57-62 y L. S. Morozova; A. N. Ananjev; V. Y. Morozov; N. V. Havanova y E. V. Litvinova, "Influence of tourism industry development on the regional labour market (on the example of the yaroslavl region)", *Review of European Studies*, Vol: 7 num 3 (2015): 51-65.

under informal rules and procedures operating as national economic traditions and principles.

Consequently, we believe it is crucial to refine the notion of PPP and suggest the following definitions: *PPP should be viewed as an institute based on a combination of formal and informal rules supporting the cooperation of the state, local municipal authorities and entrepreneurial structures to serve public interests while pursuing the parties' social and economic interests on equal terms (figure 1).*

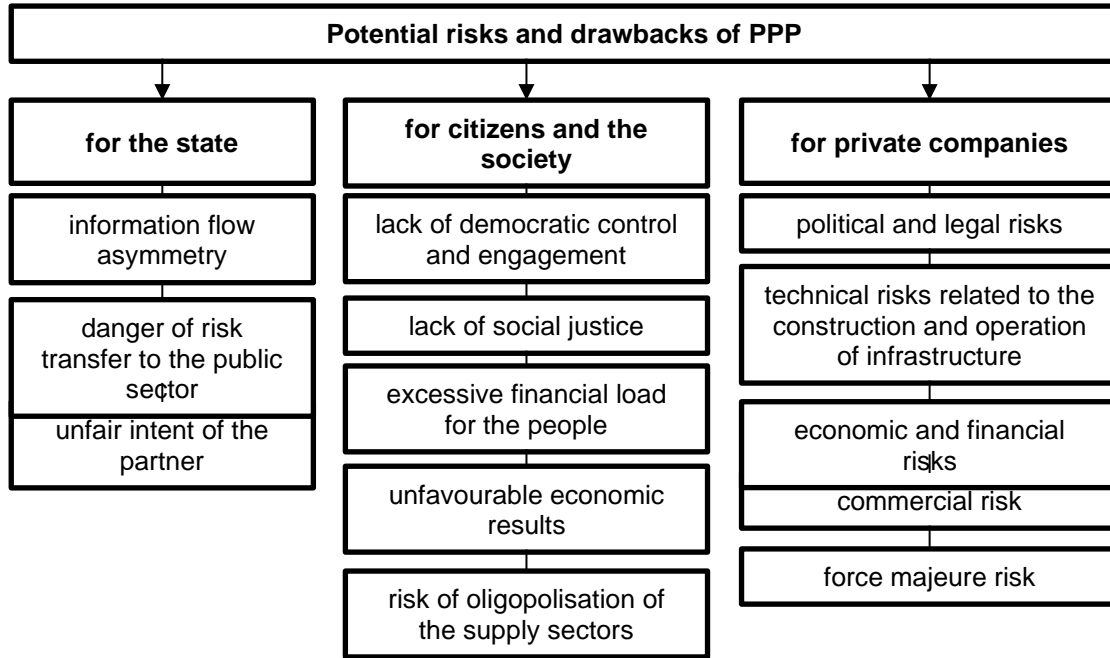


Figure 1
Potential risks and drawbacks of PPP

Above all, government engagement in the development of partnership relations with businesses helps to improve the economic climate, budget revenues and country ratings, ease access to capital markets, attract foreign investment in the real sector and galvanise the market. At the regional level, it also supports the development of local markets of capital, goods and services.

Consider PPP forms based on signing an agreement or a complex of agreements. For any such form, the common elements include:

- existence of a project with a unique purpose, structure and implementation patterns;
- establishment of a special project company usually endowed with autonomous resources and providing institutional support in project implementation;
- servicing interest and principal payments on liabilities from prospective income flow of the project. It means that capital-intensive projects require the development of a special funding concept with a long-term perspective;

- sensitivity analysis of prospective cash flows depending on significant factors and risks and establishing critical success factors;
- identification of risk areas, their evaluation and distribution among the project parties;
- development of an agreement ensuring smooth project performance as a major objective of all its parties;
- establishment of a project company, allowing the possibility for the parent company to operate off-balance sheet liabilities mediating also other activities;
- clear delineation of responsibilities and obligations of the partners.

A classification can be also proposed for institutional forms of PPP (Table 2).

Institutional form	Type
1 Government contracts	for the performance of works
	for management
	for the performance of public services
	for supplies of government requirements
	for technical assistance
2 Hire	traditional hiring agreement
	leasing
3 Concessions	of the Build – Operate – Transfer (BOT) type
	of the Build – Own – Operate – Transfer type
	operation without construction
	"shadow toll" concessions
4 Production sharing agreement	production sharing agreement
5 Joint ventures	shareholding (corporatisation)
	non-shareholding joint ventures
6 Financial industrial group	combination of various operations from different sectors of the economy

Table 2

Institutional forms and types of partnership relations between the government and the private sector in the leading economies

Experts identify five basic models of PPP (Table 3) and a number of individual forms (Table 4).

	Operator model	Cooperation model	Concession model	Contract model	Lease model
Ownership	Private/public	Private/public	Public	Private/public	Private
Management	Private	Private/public	Private/public	Private	Private/public
Funding	Private	Private/public	Private/public	Private	Private/public

	Operator model	Cooperation model	Concession model	Contract model	Lease model
Primary use	waste management	in industries with vaguely defined services where depreciation may not be applied	in industries with long project implementation horizons and ownership transfer excluded for political or legal reasons	in the energy sector where investment primarily targets current cost levels	in public-purpose building construction
Specifics	Strict delineation of responsibility and control between the parties	Performance by a co-project company engaging the government and private investors	Concession agreement	Cost-saving through current cost items, exceeds investment costs	Leasing agreement

Table 3
Basic models of PPP

Options	Duration	Compensation for the contractor	Contractor functions
Service contracts	Short-term (one to three years)	Compensation from the customer for service performance	Specific and always technically-related kind of services
Management contracts	Mid-term (three to eight years)	Compensation from the government for service performance	Managing functions transferred by the government
Hire	Long-term (eight to 15 years)	All proceeds, payments and fees from consumers for service performance; the service provider pays rent to the government for the object	Operation, repair and maintenance (and possibly investment) of municipal property engaged in service provision in line with specified standards
BOT	Long-term (15-25 years)	The government pays compensation to the service provider for the facility	Construction and operation of the facilities performing their core function, in line with set parameters
Concession agreement	Long-term (15-30 years)	All proceeds from consumers for service performance; the service provider pays contractual fees to the government and possibly undertakes to service existing liabilities	Operation, repair and maintenance of, and investment in, public/municipal infrastructure in line with set parameters

Table 4
Forms of PPP

That said, we believe that the purpose of PPP should not be the main and only classification criterion for its forms since it would limit the scope of problems potentially addressed through PPP. Such approaches overlook the diversity of service and management contracts and concession forms. Besides, BOT, in essence, represents a form of concession.

Other researchers analyse PPP forms such as joint ventures, production sharing agreements, public-private venture funds, concessions, government procurement system and establishment of special economic zones as an emerging PPP form, pointing out that PPP does not constitute a scheme of privatisation of public property or a temporary form of cooperation between the government and private capital. A special highlight is an idea of categorising the relations of the government with small businesses as a specific form of PPP.

Conclusions

Therefore, the development of social sphere indicates that irrespective of industrial specifics, the common issue is the lack of stable and sufficient budget funding resulting in inferior service and support quality. Meanwhile, social needs and demands for such services keep rising, as well as the government's quality requirements and expectations of institutional socioeconomic efficiency. This results in a contradiction that may be relieved through the engagement of the institute of entrepreneurship. While direct privatisation in the social sector is not a possibility, all the above lends relevance and viability to engaging PPP mechanisms in this field.

Meanwhile, the implementation of PPP in the social sector, due to its specific patterns, also has some special features.

Firstly, in our opinion, PPP projects in the social sphere should be dominated by social purpose reflecting the main essence and function/goal of the respective sector and the specific institution.

Secondly, social purpose is the objective of the government party, while economic objectives are pursued by the private party. The PPP mechanism should clearly delineate these objectives and provide for their consistency.

Thirdly, PPP projects in the social sphere, according to Russian laws, would largely be local and reserved to municipal administrations. Therefore, the initiative of PPP comes from municipal authorities or, less likely, from the federal subject administration, while the implementation is handled by their representatives.

Fourthly, the object of PPP in the social sphere, as a rule, would be a complex one (social, economic and spiritual), as each type of activity in this area is associated with the development and spreading of non-material social goods.

Fifthly, the complex nature of a PPP object, as well as control and supervision in the performance of social goal, require careful selection of indicators for public supervision.

Sixthly, the complexity of profit generation structure and the relatively low investment attractiveness profile in social sphere creates the need for including additional income-generation opportunities for investors in operation of the object of partnership.

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