

PUBLIC - PRIVATE PARTNERSHIP AS AN ENCOURAGEMENT TOOL OF INNOVATIVE DEVELOPMENT

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The main aim of this study is to substantiate the assumption that public-private partnership should be considered as an encouragement tool of innovative development. We use theoretical and empirical methods of research and a review of PPP impact on innovative development of state (region). It is shown that economic infrastructure (e.g., transport) is usually a priority for PPPs than social infrastructure is. We examine the mechanism of public-private partnership to improve the efficiency of budget expenditures. It is proved that at each stage of PPP development the emphasis has consistently shifted to those areas which were a “breakthrough” to solve economic and social problems of the state and to improve competitiveness and ensure economic security of the state at the time.

Key words: Public-private partnership; Innovative development; Project funding; Budget risk; Economic infrastructure.

INTRODUCTION

As the experience of the world leading countries shows, the partnership of government and private business provides an opportunity to achieve the goals of information society, to ensure innovative development on a qualitatively new level and to solve social and cultural challenges in practice.

The development of horizontal and vertical linkages between the state and business is aimed at solving strategic tasks of socio-economic development in the innovative economy.

The study of role and interaction mechanisms between state and society is extremely important and necessary for sustainable economic development in the conditions of transition to innovative economy. One of the most progressive forms of state and business cooperation is public-private partnership (PPP).

The wide range of papers studying the concept, content and essence of innovation and innovative management is of great importance for the theme. Most often these problems are discussed at macro and micro-economic levels from the standpoint of economic entities activities or state role and methods of state regulation of innova-

tive development.

OECD studies show that the mechanism of innovative PPP is often seen as an affordable and simple financing tool through which the business sector could attract additional funding without altering their current research tasks in Russia [01].

PPP can serve as an effective tool of project risks redistribution. Dutch experts in the field of public administration Van Ham, Hans, and Joop Koppenjan define PPP as a long-lasting cooperation between the private and public sectors, allowing them to develop products and services jointly and share risks, costs and resources associated with providing these products and services [02]

According to D Grimsey D., Lewis M.K. [03], the lack of PPP clear definition may be caused by the uncertain situation of this type of partnership between traditional– public – procurement and privatization.

«A major argument for utilizing the PPP model over traditional procurement methods is the prospects of minimizing time delays and cost overruns» as noted by Samuel Carpintero. Ole Helby Petersen. [04]

Issues of sustainable innovative development

are covered in the papers by Vertakova Yu. V., Emelyanov S. G., Zubareva A. S., Kharchenko E. V. (2011)[05], Vertakova Yu. V., Vatutina O. O. (2012)[6], Polozhentseva Y. S. (2012)[07]. The formation of the model of risk management of innovative projects is discussed in the studies by Kolmykova T.S., Sitnikova E. V. (2014)[08], risk management - by Tkacheva T. Yu., Afanasieva L. V., Belousova S. N. (2013)[09], the development of budget-fiscal mechanism – by Tkacheva T. Yu., Sevryukova L. V., Afanasyeva L. V. (2016)[10] etc.

However, it should be noted that despite the relatively large number of studies in this area there are no researches devoted to the assessment of public-private partnerships as a tool of innovative development.

RESULTS AND DISCUSSIONS

Institute of public-private partnership (PPP) in modern conditions is considered as an effective tool of economic policy, allowing targeted use of

innovative and investment potential of business in government determined strategic directions. However, until now there is no clear idea what it should be and what forms it should be.

Thus, among researchers and economists the understanding of public-private partnerships is formed as forms of business involvement in solving national problems mainly at the expense of budget funds. On the other hand, public-private partnerships can be seen as the implementation of state public functions through the involvement of private capacity in the use of financial institutions. It is possible to improve the project overall efficiency by using private sector experience and risk reallocation to the party which is able to cope with this risk more effectively. The state allying with business reduces the burden on the budget and uses more flexible and efficient project management system and the business gets a certain set of guarantees and preferences.

Partnerships are increasingly used as a tool of urban and regional economic and social devel-

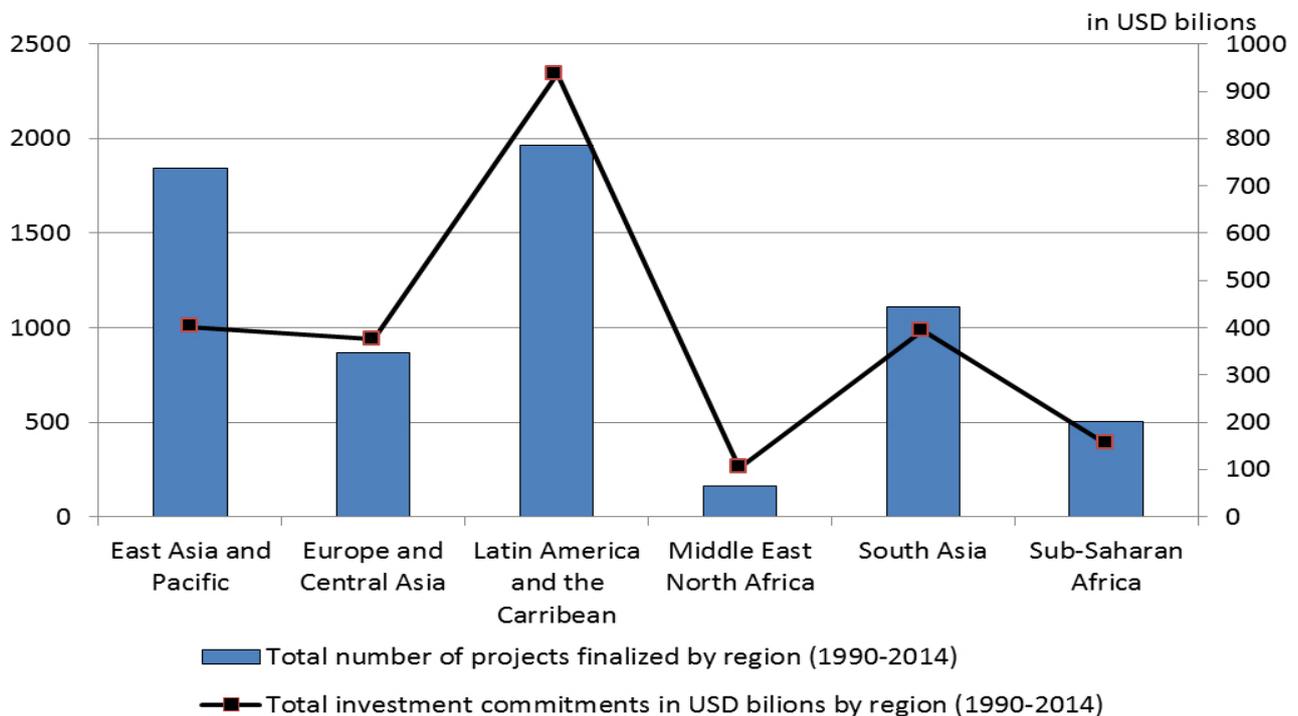


Figure 1: Total number of completed PPPs and investment volume by regions (1990-2014)

Figure 1 shows the total number of public-private projects. From 6449 projects (about 30%) the greatest number of PPP projects and the largest volume of investments (from 2366 billion. USA about 40%) are invested in the development of Latin America and the Caribbean.

Source: compiled according http://www.un.org/esa/desa/papers/2016/wp148_2016.pdf

opment and planning at the level of municipalities, forestry and national parks. Each alliance is temporary, since it is usually created for a specified period in order to implement a specific project and ceases to exist after its implementation. World experience has accumulated a number of PPP technologies, allowing combining the interests of business, government and science. It demonstrates the diversity of organizational structures for support and development of these relations, the diversity of legal forms of economic mechanisms. The PPP mechanisms are used in different areas abroad: housing and communal services, power engineering, transport infrastructure, business infrastructure, innovation, education, health, socio-charitable (humanitarian) etc.

According to the National Council for public-private partnerships 23 to 65 municipal services work in collaboration with the private sector in every American city. Their involvement in such projects allows local authorities to save 20 to 50% of the budget. PPPs are implemented in US education, including for so-called privileged schools which are in partnership with nonprofit, commercial and governmental organizations and use human, financial and organizational resources for their own development.

After analyzing table 1 we can see that the largest number of public-private projects is associated with electricity (it is 42.12%), but the most costly projects are in the sphere of telecommunication technologies realization.

Table 1: The number and amount of public-private projects investment by industries (1990-2014)

Source: compiled according : http://www.un.org/esa/desa/papers/2016/wp148_2016.pdf

Industries	Amount		Investment commitments	
	number	%	USD billions	%
Electricity	2718	42,12	744	31,41
Natural gas	352	5,45	61	2,57
Telecommunications	861	13,34	1009	42,59
Airports	168	2,60	64	2,70
Railroads	125	1,94	91	3,84
Roads	917	14,21	243	10,26
Ports	426	6,60	77	3,25
Sewage treatment plants	509	7,89	19	0,80
Public utilities	371	5,75	57	2,41
Transmission water systems	6	0,09	4	0,17
Total	6453	100,00	2369	100,00

Economic infrastructure (e.g., transport) is usually a priority for PPP than social infrastructure is for the following main reasons:

- 1) economically sound projects (roads, railways, ports and energy) are characterized by high profitability and, consequently, attractive for the private investor;
- 2) the mechanism of payments, as a rule, is well-regulated and can be qualitatively administered in economic infrastructure development projects;
- 3) huge product market able to generate new projects including social.

Note that priority guideline which is selected to

attract investments through PPP depends on the socio-economic development level of the country (region), investment climate and attractiveness, as well as on the implemented socio-economic policy. The higher the level of labor productivity, the level of GDP per capita, the level of social protection, healthcare and education quality, life expectancy, the more frequent we use PPPs in such sectors as health and education.

In world practice long-term partnership agreements (the contracts of the “new generation”) are considered as the most important mechanism of public-private partnership to increase the effectiveness of budget expenditures. Currently, they are mostly widespread in France (partnership

agreement legislation was introduced on June 17, 2004). In accordance with such agreement, the state (or its competent authority) has delegated "global service" for the implementation of financing the construction or reconstruction of infrastructure, management, operation and maintenance of facilities or other types of services in the public interest to the private partner for a period determined on the basis of payback. A distinctive feature of the French partnership agreement is that it is to provide services within the scope of the powers of the state (public) entities in connection with the exercise of public functions.

The subject of the contract is the purchase of government (public) partner in installments necessary services from a private partner. In contrast to the state order the "partnership agreement" includes the mechanism of risk distribution between the parties of the contract. It's a public party that bears the risk of demand for services, and the private party bears the risks associated with the construction, management and operation of facilities and quality of services. In general, the use of partnership agreements requires the authorized state bodies planning of volume and types of services that can be transferred to the private business and it gives a number of significant advantages, including:

- optimization of existing infrastructure investments by reducing the cost of the facility and its services;
- financial transparency of budget spending;
- reduction of project implementation time, a private investor is motivated to implement the project as soon as possible when making payments in installments from the date of putting an object into operation;
- ensuring the quality of the project through the commitment of a private investor for maintenance and object quality [11].

The modern stage of innovative modernization of Russian economy suggests using the PPP tool to solve the most important following tasks:

- co-financing of large industrial and especially the infrastructure objects of national importance. The activities of the Investment Fund of the Russian Federation is done at the Federal level under the same scheme for quite a long time. The institutional base of PPP modern trends is constantly being improved

and PPP is becoming a universal algorithm of government development institutions activity;

- PPP is a joint formation of modern management systems within large industrial and infrastructure (including transportation) systems. This task is solved through the development of concessions as one of the most effective legal mechanisms of PPP;
- interaction between the state and private business in improving the quality of social services (including housing services) on the basis of a combination of competitive market for these services and the state guarantees of their quality and accessibility. This aspect of PPPs has become of particular importance in connection with the reform of state and municipal institutions system, providers of social services, with the formation of a more open, competitive market for these services on the basis of competitiveness of institutions of different organizational forms. Among perspective directions of PPP a joint work of the authorities and business on the formation of new points of industrial-innovative development must be mentioned as the form of clusters, ensuring the effective functioning of specific or special economic zones.

CONCLUSION

PPP is the sustainable current model of relations between business and the state in the conditions of transition to innovative type of economy. The main reasons, why the government enters into partnership with private investors, are the following: failure to meet the growing investment needs at the expense of the state budget; low efficiency of allocated budget funds spending. The PPP model allows implementing major projects of national importance. In this situation the innovative aspect of PPP and its inherent specific mechanisms become critical for the development of this Institute.

ACKNOWLEDGMENTS

Article is executed within the state task of Southwest state university, a project code: 26.9190.2017/БЧ.

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Paper sent to revision: 20.07.2017.

Paper ready for publication: 03.08.2017.