The Main Features of the Public-Private Partnership in Terms of Modernization

ILDAR ABLAEV
Department of Economic Methodology and History
Institute of Management and Territorial Development
Kazan (Volga Region) Federal University
8, Kremlevskaja str., Kazan, 420008, Tatarstan
RUSSIA

director_general_of_tatar_academy_of_innovative_economics_management
ildar_ablaev@mail.ru http://kpfu.ru/ildar.Ablaev http://www.ano-tau.ru/about/

Abstract: The article deals with the practical use of the basics of the public-private partnership in the Russian economy. The characteristics of the profit interests of the both sides are given in the aspects of modernization and innovation, and the actual contribution of the public and private business to the joint partnership is outlined within this research.

Key-Words: Public-Private Partnership, Modernization, Innovation, Property-Authority Interaction

1 Introduction
The notion of the public-private partnership (PPP) should be interpreted not only as a state-operated tool to involve the resources of business for the purposes of various objectives, but as a democratic in its core and socially oriented mechanism of cooperation between the private business and the government, that should be based on a number of the principles implemented in Western countries as well. The most essential among these principles is that of equality and freedom which implies the two aspects: the first one is the equality of all economic agents in their access to public services, and the other is the equality of all private companies in their right to negotiate PPP contracts. The mentioned principle asserts that the PPP project participants act at their own discretion.

Regardless of the PPP project initiator, a public law entity or the private business, both parties use their own discretion and in their own behalf make a choice in favor of initiating the PPP project or not initiating, joining it or not, and decide whether to call for the fulfillment of the obligations by the other PPP party or not, whether to appeal for judicial protection of their own rights or not. [1]

From the juridical point of view, it totally corresponds to the dispositive principle in civil law (The Russian Civil Code, Part 2, Article 1).

The presence of the word “partnership” in the definition under consideration points out the public agents are involved in the PPP project on equally, along with the private business. The relationships within PPPs should not be coercive in their character, even in spite of the fact that one of the parties is a public law entity. [2]

2 The Main Features of the Public-Private Partnership
Among the most important principles or the indispensable conditions of the PPP projects realization are:
- the so-called principle of compensation, that is when in case of anticipatory repudiation the state should reimburse the private company all the funds invested by it and compensate for forgone income;
- the so-called principle of non-intervention, that is when the state after the signing the PPP contract should not interfere in the activity of the private company that takes all administrative, personnel and management decisions on its own. [3]

One of the relevant features of the PPP is the principle of competition, which implies the selection of the companies, the candidates for a PPP project, on the basis of open and transparent competitive arrangements. Therefore, in contrast to the administrative-commanding relations, the partnership of the state in the face of federal and regional authorities and of the private sector involves not a simple consolidation of resources, but a peculiar configuration of interests, powers and responsibilities of the parties. The necessity of the
PPP arises primarily in those spheres that the state traditionally takes the responsibility for, they are: the common amenities (transport, communal, social infrastructures, cultural and historical objects etc.), the so called public services; upkeep and reconstruction of the common amenities, territorial cleaning, housing and communal services, education and health.

In Russian practice of the PPPs the state provides some essential guarantees and benefits, and material and financial resources as well. The private business in its turn provides the main investments, effective management, professional competence, flexibility and efficiency in decision-making, innovative potential.

Although the degree of the innovativeness of the eventual results of the PPP projects are not analyzed in detail, in the course of realization of the partnership agreements the techniques and technologies are usually being ameliorated, new forms of organization of production occur, additional production capacities and objects of infrastructure are being introduced. At the same time it becomes obvious that for the fulfillment of the governmental strategy of socio-economic development of Russia and the transition of the Russian economy to the innovative growth pattern it is necessary to use the PPP mechanisms to the full properly in the innovation sphere.

Indeed, the presence of the state in the PPP is stipulated by the need for the upturn of those sectors of economy, whose development the private business is not interested to undertake without any state support (for example, because of the long-period recoupment of investments), or is incapable of undertaking those projects due to their considerable capital intensity. Both of these factors are present in the innovation sphere, besides, the state interference into the innovational processes is essential for originating those innovation incentives in the private sector that are not being generated by the imperfect institutional environment. As a rule, the state cannot completely relinquish its presence in all those spheres and has to retain control either over a certain kind of property (to remain the proprietor) or over a certain kind of activity. In any case, it designates the financing from the corresponding budgets.

The PPP in its economic nature is the result of the evolution of the traditional mechanisms of economic interaction between the government and the private sector aimed at development, planning, financing, building and exploitation of the objects of infrastructure. Each party makes its own contribution into the common project. So that the private business provides financial resources, flexibility and efficiency in decision-making and innovative potential, as it has been already mentioned, and the state from its part provides the proprietary rights, breaks and other privileges and guarantees, as well as material and financial resources. The social significance of the PPP consists in the fact that finally it is the society that benefits as customer, the receiver of more qualitative services. And at the same time the PPP is treated not only as an investment tool, but as an effective model of economic management, which permits the reduction and optimizing of the budget expenses on the one hand, and enables the improving the project implementation and the offered on its basis public services on the other.

More constructive approach to the PPP as to a particular and full value substitution for the privatization programs allowing the fulfillment of the public-private initiative potential on the one part, and the preservation the governing functions of the state in the socially significant innovational sectors of the economy on the other part. And unlike the privatization as a form of commercial transference of the state property to natural and legal persons, within the PPP the state preserve its ownership. However, the state property itself undergoes substantial institutional transformations, allowing the extension of the private business participation in its performance of some economic, managerial, administrative and other functions of the state. Remaining the owner, the state retains a certain degree of economic activity.

The PPP is a qualitatively new and effective means to attract the investments, because the partnerships of such type are able not only to facilitate the economic growth, but also evolve the socially important infrastructure. But it is noteworthy that not every contact of the state and the private sector can be considered as a PPP. The fact of the state being a party of a contract or an agreement is insufficient for considering this kind of cooperation as a PPP, even in the socially significant sphere. It is of great importance to observe the following criterions typical of the PPP: joining of contributions, risk sharing, and distribution of gained benefits between the partners. It is also advisable that the state would use its privileged right to provide the partner with those exclusive conditions or faculties unobtainable for any other commercial partner. The basic features of the PPP are as follows:

- the parties of the PPP are the state and the private business;
- the cooperation of the parties within the PPP is
fixed juridically (agreements, contracts etc.);
- the cooperation of the parties is of equal right in its character (i.e. parity and balance of mutual interests should be kept without fail);
- the PPP is distinctly public oriented (its main objective is to meet the public interest);
- in the course of PPP projects implementation the assets of the parties (resources and holdings) are merged;
- the financial risks and costs, and the gained profit are distributed among the parties in proportions according to the terms fixed in certain agreements, contracts etc. [8]

Thus, the main purpose for the PPP emergence is financing of the most capital intensive and marginally profitable sectors of the economy. The innovation sphere is of that kind. High risks and uncertainty in acquisition of income are determined by the nature of innovation itself. Therefore, the PPP mechanism is capable of creating a motivational constituent in innovation management.

3 Conclusion

The peculiar features of PPPs in comparison with other financing mechanisms consist in the fact that the partners pursue their own goals, undertake specific tasks, and have different motivations. The state is interested in the growth and in qualitative improvement of the offered services, in modernization and acceleration of scientific and technical progress in infrastructural and socially oriented sectors of economy. The private sector aims at stable and augmentative profit. The strategically thinking business set its priorities in the first place not merely pro rata the profit margin, but in the interests of the stable income acquisition from investment and innovation projects, at that both parties are interested in successful implementation of the project in general. Frequently the PPP projects facilitate the output of funds on the world market, activate the attraction of foreign investments to the real sector of the economy. The PPP is especially significant for the regional economy, where the development of the local markets of capitals, goods and services is based on it. However, the interests of the state and the private business can not only differ, but even contradict; therefore the conclusion of contracts should be preceded by the negotiations balancing these interests and the project objectives. [9] If to confront the needs of each sector with its positive (socially relevant) capabilities, the points of their intersection would correspond to the attributive elements of the economic partnership between the state and the entrepreneur.

References: