

## The Development of Public-Private Partnership in Social Sector of Russia

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### Abstract

*Infrastructure of social sector is based on the high physical and intangible deterioration amortization. It requires comprehensive modernization in terms of Russia's entry into the World Trade Organization. It is well known, the PPP is developing by effective legislation on public-private partnership model agreements with a clear division of obligations, risks and responsibilities of the partners: government and municipal agencies and private companies. The article proves the necessity to create and support a favorable investment and business environment at the federal, regional and local levels. This all is important for developing public-private partnerships in the social sector.*

**Keywords:** *Public-Private Partnership, Social sector, Modernization, Developed countries, Effective legislation, Model agreements, PPP projects, PPP in regions of Russia, Social infrastructure.*

### 1. Introduction

The concept of "public-private partnership" (PPP) is used widely worldwide and in Russia. However, there is no strict definition to it, neither in our country, nor abroad. In international practice, there are many common approaches for understanding patterns, spheres of usage and instruments, which are used for PPP. There is also a discussion in Russia about what can be called "public-private partnership". PPP center of State Corporation "Vnesheconombank" takes grounded position on this issue: private-public partnership is usually mistaken for charity, social responsibility of business, subsidies from government to private sector, competitive distribution of budget, privatization of infrastructure, but that's all is not correct. Here is definition of Vnesheconombank PPP Center, shared by the authors of this work: "public-private partnership – involvement of private business for more effective and qualitative execution of tasks and goals, which can be found in public sector, with condition of return costs, shared risks, competence and obligations"[5].

Kabashkin V.A. offers his own definition for PPP: "... PPP refers to a system of contracts between the state and the private investor, in which the State confers an individual right to participate in the implementation of some of its functions in the economic sphere, in relation to the state or municipal property or monopolistic activities" [4].

Also, Varnavsky V.G. provides us with the definition of public-private partnership: "... public-private partnership defined as a special, but a complete replacement of the privatization program, which allows to realize the potential of private initiatives, on the one hand, keep and control functions of the state in the significant for socially important sectors of economy, on the other" [2].

### 2. Method

Integrated normative and positive analysis of PPP development in social sector of Russia and developed countries.

According to the European PPP Expertise Centre, in the first half of 2013, 24 deals reached financial close, with a

total funding of 9 billion EUR [11].

The leader in the number of public-private partnership projects in 2012 in Europe was the United Kingdom (26 projects in 2012), France (22 projects in 2012), followed with large margin by the Netherlands (4 projects in 2012) [9, 11].

Spheres of application for PPP in different countries can vary due to the specifics of the economy, its level of socio-economic development, the geographical features, traditions, etc. The application of the PPP priority spheres are: territorial development (including transport, energy); municipal services (including housing and utilities), social services (including health, education, tourism, culture, etc.), safety and security, defense, public administration and other problematic spheres [8].

There are different classifications of government and business partnerships, that could be found in Russian and foreign sources. The choice of form of partnership with involvement of private capital depends on the goals of the government/municipality or entity operating the property and serves as the customer when placing an order, and the amount of property rights transferred by the state business [2, 3, 10]. The main factors that determine the shape of specific PPP projects are:

- Features of national legislation;
- Scheme of distribution of investment risks;
- Experience of contractual relations, required for partnership;
- Industry affiliation of project or activity;
- Identification of the payer(s) for the services of the object and the consequences for him (them) of the selected form.

The process of public-private partnership involves three parties:

- Government (state and municipal authorities);
- A commercial company;
- The consumer of the final product (individual, organization) and society, which is both a consumer for this product and also affecting the formation of the product.

Experience of interaction with regional administrations in Russia has revealed a number of issues that prevent PPPs at regional and municipal level, including:

- Lack of qualitatively made projects;
- Lack of qualified personnel;
- Priority of budget funding model for the choice of projects;
- Lack of coordination between the activities of ministries and departments of the regions.

To solve these problems, it is expedient to create special commissions in regional administration, which can help prepare, launch and manage PPP project (PPP regional center).

Specific work of PPP regional center is to select projects implemented through PPP, evaluating the effectiveness of projects in terms of the needs of regional development, submitting projects for approval by the regional authorities, preparation of tenders, approval of the contract and other documentation, as well as creating the conditions for closing transactions in financial projects, monitoring project implementation and management of contracts.

Priority directions of development of public-private partnership in the Russian Federation are:

- Development of social infrastructure in spheres of education, health, sports and culture;
- Environmental security (water and sewage systems, water treatment plants and sewerage, waste management infrastructure);
- Increase in energy efficiency of municipal infrastructure (heating, street lighting and municipal real estate fund);
- Providing infrastructure sites for affordable housing complex buildings and construction of technology parks;
- Development of transport infrastructure;
- Development of infrastructure of the state and municipal administration (multifunctional administrative centers, e-government, infrastructure, broadband access to the Internet).

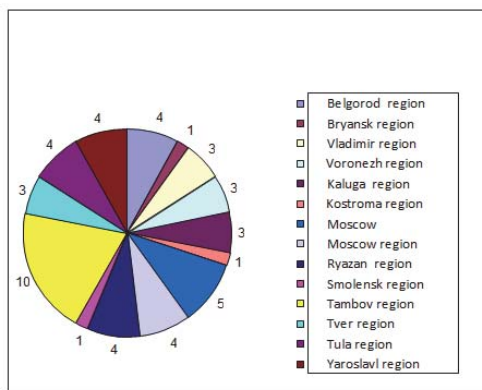
Overall number of PPP projects implemented or being implemented, according to the 2013, in Russian regions was 50 (see Figure 1).

One of the first large Russian PPP projects in the social sector is the "New School of Ugra". Vnesheconombank and the Government of the Khanty-Mansiysk Autonomous region in 2010 signed a contract for the provision of investment advisory services for the project "New School of Ugra", which involves construction of 77 schools and kindergartens [5].

Important direction of PPP in infrastructure development of physical culture and sports in Russia can be

construction (and maintenance) of fast-build and economical sports facilities by private companies commissioned by government (compared to conventional). In this case, it is important to mention the experience of ASATI (USA). ASATI built a number of prefabricated inflatable sports facilities in 2000s (gyms, skating rinks, swimming pool) in various regions of the country: Nizhny Novgorod region (Bor), Chelyabinsk region (Magnitogorsk), Republic of Tatarstan, Moscow region (Novogorsk, Schyolkovo), Orenburg region (Mednogorsk), Bryansk (Bryansk), Belgorod (Razumnoe), Yaroslavl, Krasnodar region, etc. [6].

**Figure 1.** Quantity of region PPP projects, implemented in the RF in 2013.



**Source:** Website PPP in Russia. <http://www.ppp-russia.ru/main/rubric-67.html> [6].

Another example of PPP development in the social sector is the creation of concession agreement after reconstruction of hospital №63 in Moscow for construction of four high-tech medical centers: early diagnosis of cancer, endovascular surgery, perinatal and rehabilitation. The total project cost is 5.5 billion rubles. Concession Agreement will last for a period of 49 years. Thus, the first four years allotted for reconstruction of buildings of medical center. Concessionaire undertakes the obligation to provide modern equipment to the complex of 63rd city hospital, as well as its further exploitation [7].

Analyzing trends of PPP development in social sector of the RF, some issues and troubles can be found. This regard, the creation of special economic zones (SEZ) in the social sectors is an important factor in their modernization and development in Russia. There is a large-scale project «Russia. Special economic zones» (RUSSEZ), designed to develop regions through the involvement of direct domestic and foreign investment in hi-tech industries, providing companies with a unique opportunity to use all investment advantages of Russia, bypassing such a barrier, as an inefficient administration. In the majority of investment projects cash flow for state and local authorities includes cash inflows from tax revenues in each period of the life cycle of the project.

To assess the effectiveness of the participation in the project of different budgets should expect performance indicators for each level of the budget.

The relationship cash flows of the various participants in effect on the correlation of performance indicators, calculated on the basis of each of the threads. Net discounted income (NPV) are related by the following equation:

$$NPV = \sum_{i=1}^n NPV_i$$

where NPV - net present value of investment projects at creation of the SEZ, and NPV<sub>i</sub> - net discounted income received as a result of implementation of the project *i* participate.

The net present value at calculation of budget efficiency is the difference between the total amount of taxes, fees and financing of investments of the state and municipal authorities:

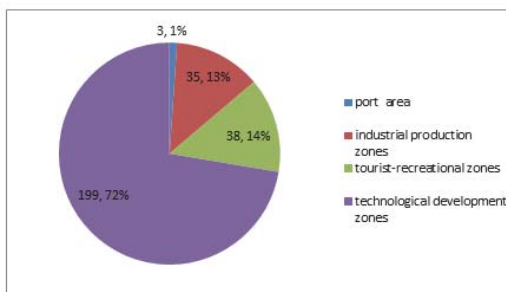
$$NPV_{be} = T - F$$

where NPV<sub>be</sub> - net discounted income when calculating the budget efficiency, T - the discounted sum of tax revenues for the whole period of functioning of SEZ, F - financing of investment institutions of state and municipal management discounted.

Today, there are 13 Federal special economic zones in RF, including social sector SEZ (Tourism and Recreational

zones, Technology Innovative zones). Number and structure of SEZ investors are represented in Fig.2.

**Figure 2.** Number and structure of investors by type of special economic zones in Russia (%).



**Source:** Andrianov,V. Centuries development Institutions and their role in the implementation of public-private partnership projects [1]

### 3. Results

Infrastructure of social sectors can be characterized by high physical and morale wear and tear, and requires comprehensive modernization, especially in the condition of country's accession to the WTO.

The total investments in PPP projects in the Russian regions in 2013 were characterized by considerable unevenness and lack of funds in a number of them because of reduced economic growth. In regions with the resources, PPP projects are not implemented, reflecting underdeveloped legislation on PPP, unbalanced state and business interests, imperfect design of project's documentation and other reasons (see Table 1). Policies that have to reduce social sphere costs in the federal budget of 2014-2016, creates serious problems in the implementation of national and regional development programs, social sector, financing of construction and modernization of social infrastructure.

The most important tool to attract private capital for development and modernization of social infrastructure in the developed countries is the PPP mechanism. PPP effectively developed through the adoption of effective legislation on public-private partnership model agreements and PPP with clear division of obligations, risks and responsibilities of the partners: government/municipalities and private companies.

**Table 1.** Distribution of investment in PPP projects in several regions of the RF in 2013 (m. rub.)

Region	Investments	Amount of PPP projects
Belgorod Region	0	4
Bryansk Region	27240	1
Vladimir region	42250	3
Voronezh region	0	3
Ivanovo region	30010	0
Kaluqa region	0	3
Kostroma region	11120	1
Kursk region	48900	0
Orel region	19920	0
Ryazan region	0	4
Smolensk region'	36000	1
Tambov region	46980	10
Tver region	0	3
Tula region	0	4
Yaroslavl region	51920	4

**Source:** Website PPP in Russia <http://www.ppp-russia.ru/main/rubric-67.html> [6] .

#### 4. Conclusions

Based on this analysis, it is possible to define public policies, which are necessary for the effective implementation of PPP projects in the social sector of the Russian Federation.

1. Finalization and adoption of the federal law "The basis of public-private partnership in the Russian Federation" and, based on the adjustment of existing or adoption of new laws relevant to him in Russian regions. On this basis, it is necessary to adopt appropriate amendments to the Budget Code, Civil Code of the Russian Federation.
2. Development of common model agreements on PPPs in the social sector, taking into account:
  - charged and free social services to the population;
  - attraction of private investment in the design, construction, modernization, operation or management of social infrastructure (or the performance of a number of these functions).
3. Provide tax incentives to private investors for the duration of PPP contracts in the social sector (VAT and income tax provision in the period of paid social services, tax on property of legal persons during the rental social object municipality or public authority control, etc.).
4. Provision of state guarantees for private investments in social infrastructure to natural disasters, man-made disasters and other adverse events for the private investor.
5. Government grants (co-financing) in the construction and reconstruction of large social objects.
6. Allocation of land by the state on favorable terms for the construction of social facilities and ensuring their utility infrastructure.
7. Necessary support and creation of favorable investment and business climate at the federal, regional and local levels to develop public-private partnerships in the social sphere.
8. It is necessary to organize training courses for municipal/government officials on PPPs in the social sector, including legislation, model agreements, organization, forms of government support, foreign experience, best Russian cases.
9. The most important condition for successful implementation of the new legislation and PPP projects in the social sphere of the Russian Federation is the increase of the responsibility of entrepreneurs and government/municipal management and control in strategic social goals set by the government.

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