

# The Fundamentals of the Public-Private Partnership in the Sector of Innovation

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*Abstract:* - In the article the main methodological approach to the economic essence of the public-private partnership is given in the aspect of the innovation process. The two parallel levels of the public-private partnership process in the Russian economy can be singled out within this approach: the first one is the official partnership level, and second one is the “shadow”, corruption level. The coexistence of these two levels form more realistic picture of the Russian practice of the public-private partnership implementation.

*Key-Words:* - Public-Private Partnership, Innovation, property-authority interaction

## 1 Introduction

The transition of the Russian economy to the innovative development supposes the use of the adequate economic-organizing forms, capable of performing the sequential modernization of the state economy sectors. The public-private partnership (PPP), a relatively new phenomenon in the modern, post-perestroika Russian economy, can possibly be one of these forms. Precisely it is the revival of the of private business management practices developed in the years of Soviet new economic policy (NEP), within these terms the state should perform the role of the economic entity as an active partner and motivate the structural modernization of the industries and regions.

The majority both of the foreign and domestic economists consider the PPP as a form of the cooperation between the state and the private business [1] on all the economic levels: federal, regional and municipal. As a rule, this kind of partnership is connected with realization of the investment projects at a particular enterprise or territory, and in its core there are split-level innovations: from the modernization of the existing productions and the infrastructure construction to the innovational breakthrough and creation of new prerevolutional innovations and new science intensive sectors (micro- and nanoelectronics, biotechnologies etc.). There are ambiguous approaches and interpretations of this phenomenon.

The concept “public-private partnership” originally came from the western economic vocabulary [2]. According to the approaches and definitions of the PPP present in the works of the foreign scientists it is possible to mark the specific character of the interpretation of the PPP abroad, which consists in that the PPP:

- is carried out in the sphere of the socio-economic responsibility of the state;
- aims at the infrastructure development, including production infrastructure and social infrastructure;
- provides the private company with the complementary possibilities for participation in the project management, except for the government work;
- is a long-term in character;
- ensures the risk sharing among the partners.

Thus, by the term of the PPP G. Delmon understands “all the contractual and juridical relations between the state authorities and the private structures for the purposes of improvement or/and enlargement of the infrastructural services, excluding the government contractual work (government purchases)” [8].

European PPP Expertise Centre considers the main economic objective of the PPP “the cooperation for the purpose of implementation of the infrastructural projects, such as the construction of highways and railways, airports”[12].

Deloitte company defines the essence and the content of the concept of the PPP as an “agreement in the form of the contract between the public authority and the private company, which allows the company to take part in the infrastructural projects implementation more extensively”, in comparison to the standard forms of cooperation [11].

## 2 The Public-Private Partnership in the Russian Economy: in Theory and in Practice

The Russian authors, polemizing with each other, disclose the economic matter of the PPP in their research works as follows:

the PPP is focused on the achievement of the various goals within the socio-economic policy of the state;

the PPP can be put into effect in the sphere of responsibility both of the state and the private sector.

Hence, V. G. Varnavskiy rightly notices that the PPP is “an institutional and organizational alliance of the state with the private business for the purposes of implementation of national and international, large-scale and local, but always socially significant projects in a wide range of fields: from the strategically relevant industrial sectors and the sphere of research and development to the public services”[4].

E. Korovin treats the PPP as “a medium or a long term cooperation between the public and the private sectors, within which they accomplish the political tasks by force of consolidating the competence and the expertise of several sectors and by sharing risks and benefits”[5].

Thus, the Russian authors, as distinct from their foreign colleagues, rightly interpret the economic essence of the PPP to wider extent and impute its scope not only to the infrastructure development, but other sectors of economy as well, including the science intensive ones, based on the tasks of the innovation policy being effected within a certain region or municipality. At the same time, a number of the Russian economists [9] prefer to rest on the definitions and the approaches suggested by the Western authors and account for the term itself has been originated in Great Britain.

We should be kept advised of the PPP’s through nature, so that methodologically the economic essence of this phenomenon is to be formulated identically on the federal, regional and municipal levels of consideration. In our opinion, it is methodologically important to outline the essence of

the PPP clearly, that subsequently would make it possible to determine its scope in a separate socio-economic system on the federal, regional and municipal levels, to disclose its function, the specific mechanisms and tools of its implementation, and to recognize clearly which forms of the PPPs are the most appropriate and needful for the innovative development of the Russian economy.

For the purpose of this methodological task the PPP should be defined as a stable and revolving process of the interaction between the bodies of government and the private business organizations in the economic sectors and the regions of the state on all the mentioned levels, and the element wise content of this process it should be explicated. For that it is necessary to highlight the constant attributive elements and their peculiar features that constitute relatively sustainable structure of the PPP with its set of elements, their interrelations irrespectively of the location and time constraints of its implementation, and also to articulate the interim, casual components brought to existence by the specific conditions of the PPP realization. It is also noteworthy to make clear the reason why the PPP abroad has spread mostly in the field of infrastructure. For that it is important to ascertain the levels of interaction within the PPP that have been emerged in the practice of cooperation between the state and the private sector in the innovation sphere in the past decades. This would make possible to find out the core secular attributive points of contact between the state and the private sectors of the economy for the partnership within the modernization strategy and the innovational development of the state economy.

In the historical and the institutional aspects the period since 1990 to 2012 can be defined as a phase of lost opportunities for the formation and development of the PPP, and its most negative left-over nowadays is the existing constant reproduction of the archaic institutions of the formal and informal (shadow) cooperation within the PPP. Basically, in our opinion, the economic essence of the PPP has two levels in Russia: the first one is formal, i.e. the official one with the corresponding set of the forms (elements) of the PPP. They are used in accordance with the subjective preferences and the choice of the regional and the municipal authorities, therefore are transient and accidental in nature. Hence, with regular change of the management team on the regional or the municipal levels the put in practice PPP forms and even its signification subject to modification.

In the economic literature this notion is widely

evaluated in terms of the attributive characteristic of the PPP: for one thing, it is treated as a system of relationship between the state and the business in terms of the contractual form, which is widely used as a regulative tool of socio-economic and innovative development in the industrialized countries. Secondly, the attributive essence of the PPP comprises the certain projects, being implemented on the basis of various ownership forms in cooperation with the state. Both meanings disclose the matter of the PPP regarded respectively to the necessity of the efficient use of the state (municipal) ownership for the purposes of development both of the municipality and its business partner.

Nowadays there are four the most significant and promising official forms of the PPP, existing and positively proven at present, and potentially prevalent in future: the concessions, the special economic zones, the innovational science and technology parks and the production sharing agreements. They should be considered to be an integrated system of forms of the official cooperation between the state and the private sector on the first PPP level, taking into account the synergetic effect of such cooperation and its permanently reproducing structure.

The second level of the PPP is a secular informal (shadow) structure correlated with the corruption constituent, with non-official administrative rent relations comprising two shadow PPP types: the administrative rent 1 (the payback in kind to the state official: luxurious gifts, apartments, garments, travel tours, cars etc.), i.e. the bribes, and the administrative rent 2 – the money-rent, the so called “kickback”. On this level the two mentioned types are key and determinative in nature, and the official PPP level arranges and serves them.

This suggested two-leveled methodological approach to the economic essence of the PPP is new and never occurred neither in the foreign nor in the Russian economic literature. The majority of the authors analyze only the official forms of cooperation between the state and the private business, meanwhile without taking the shadow PPP structures into account the content of the PPP in Russia cannot be entirely disclosed. The simultaneous coexistence of these two levels within the PPP, the official and the shadow ones, constitutes the paramount qualitative feature of the economic essence of the PPP in modern Russia. In this connection, R.I.Kapelyushnikov wrongfully concludes that “if one or another form of the economic organization exists, then it is efficient, because in the course of competitive activity the

strongest survive, that is the most efficient institutions”[6]. But in Russia, similar to other countries, the state officials, do not keep aside of the private business, but take part in it and further its investment and innovation projects for non-official reward. Such interrelation between the state and the private business by means of bribery of the state officials is not necessarily of public utility; on the contrary, it may cause the formation of the shadow cartels opposing the public interests. Therefore, it is reasonable to raise a question of the need for the development merely of the first, official PPP level forms that are generally useful and innovation-directed.

For instance, the state officials’ demand to enter their names on a list of devisers of the invention within the research and development activity, or demolition of the cultural and historic objects in the city core for private building and construction despite the official prohibition are typical examples of the shadow cooperation between the municipal authorities and the private business, when the incorporeal right of the real deviser (innovation carrier) and the public interests are infringed upon. Moreover, it should be kept in mind that the shadow structure of the state officials’ interference into the private business is being constantly reproduced and accompanies the official PPP level. The faster a state official decides an issue, the more expensive his service costs. Accordingly, the amount of the grafts is in direct proportion to the cost of the total funds and benefits received by the entrepreneur from the state. In our opinion, it means the lack of the sectoral, branch-wise bindings – the barriers for the shadow PPPs; their emergence is conditioned by the needs of the private sector, but the services of the state officials are to be recompensed. On the official PPP level there is no obstacle for the private business intervention into the state domain, furthermore, the private entrepreneur can perform a number of the state duties more qualitatively, faster and for less.

F. Shamkhalov precisely points out that “the property and the authority, the private business and the state are closely associated with each other and represent the key institutions of the modern society. They cannot be treated neither as the unceasing antagonists nor as a single whole without contradictions and confrontations all the more”[10]. In fact, within such approach F. Shamkhalov is at one with R. Coase who upon examination of the funding mechanism of the lighthouse services in England and Wales in XVI-XVIII cc. concluded: “the early history shows that, contrary to the belief of many economists, a lighthouse service can be

provided by the private enterprise”[3].

### 3 Conclusion

In the Russian economy, in this respect, there are the following tasks of current importance: minimization of the shadow constituent in the PPP implementation alongside with maximization of the official, generally useful forms of the PPPs not only for the corporate purposes, but for the welfare of the society in whole.

The history illustrates that since the statehood had been aroused the process of the expansion of the state sector of economy by means of the extension of the functions of the state was typical throughout the world [7]. As a rule, it usually was the reaction to any kind of external influence and effects. They might be both natural disasters (starvation, floods, earthquakes etc.), and foreign invasions. In any case, the state in order to deliver the country from the oncoming threats each time increasingly undertook more functions, even those that were not primarily in its responsibility domain. Thereupon, there are two types of functions performed by the state that are commonly singled out, they are the basic ones, invariably effected throughout all the history of the statehood, and the complementary, transient ones, conditioned by the current situation and varying factors; and it is noteworthy that the these complementary functions were socio-economical in nature, i.e. the state undertook those tasks that originally were performed by the citizens on their own or by their associations (communities, municipalities, guild etc.).

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