STATE-PRIVATE PARTNERSHIP: ESSENCE, FOREIGN EXPERIENCE, AND MECHANISM OF REALIZATION IN UKRAINE

LiliyaDmytrychenko and **Ilya Braylovskyi**
Donetsk National University, Donetsk, Ukraine

Kimberly Millier
Grand Canyon University, Phoenix, AZ, USA

ABSTRACT

The article deals with the essence of the economic category state-private partnership. The article is founded on an analysis of the historical basis of forming and developing a system that connects state and private business. The article includes publications of leading researchers in this field and critically interprets existing approaches. The authors formulate their own positions about the essence, foreign experience, and the mechanism of realization in Ukraine. Included in the article is a defined, common methodological approach to research of state-private partnerships (SPP). The article is grounded in but does not address previously defined categories of state-private partnerships that use as synonyms: municipal-private partnership, private-social partnership, private-state cooperation, public-private partnership, social-private partnership, partnership states and private sectors. The conditions and mechanisms needed to motive and develop the collaboration of the private sector with the state are an integral part of the article.

Keywords: state-private partnership (SPP), state sector, private sector, the mechanism of development of SPP, institutional base of development SPP, state-private business, Ukraine

DOI: http://dx.doi.org/10.15549/jeecar.v1i2.71

BACKGROUND AND STATEMENT OF THE PROBLEM

An essential condition for the proper functioning of a civilized market economy is constructive collaboration between private business and state structures. The nature of this interaction, methods, and specific forms may vary significantly depending on the maturity and national characteristics of market relations in a particular country. The state is never free from its socially critical functions related to national interests, and business, in turn, is always a potential source and engine for developing and increasing social wealth. In recent years, this interaction is realized in the form of public-private partnerships (PPP). Accumulated to date, forms of PPPs allow a partial (with the most important national facilities remaining in state ownership) transfer of powers to the private sector.

Despite the fact that in ancient times there was widespread collaboration between local governments and private businesses, the economic category Public Private Partnership is a recent development and as a consequence, its scientific paradigm is still in its infancy. Historically, the system of relations of public-private partnerships was formed starting from the service industry and municipal economy and gradually penetrated (with increasing importance to society) into transport services and other industries. For example, the government of France in the 16th century tried to use private entrepreneurs to develop at their own expense and under its own control economic activity that would provide municipal services for citizens. Further development of the fundamental theory of public-private partnership entered into the middle of the 19th century. The beginning of the modern use of public-private partnerships took place in the 80s-90s of the 20th century (Tazabekov, 2005, p. 56).

Scientific understanding of the interaction between the government and the private sector contributed to the concept of a state-private partnership (Public Private Partnership). To date, public-private partnerships are used in almost 100 countries. Interest in it is a logical result of economic evolution. However, research on the nature and definition of economic substance of the system of economic relations reveals that there are still different perspectives on public-private partnerships as an economic category.

In broad terms, a public-private partnership (PPP) is a method of providing public services that combine private and public sectors on a long-term contract basis to secure certain resources and obligations from each party. In domestic and foreign scientific literature, legislation, and practical materials there are different definitions of PPPs. In general, an understanding of PPPs in an international framework is based on the UN Millennium Declaration, adopted in 2000, and the Monterrey Consensus of 2002. As for the notion of international organizations, the nature of this mechanism is to achieve public infrastructure measures aimed at sustainable development through project financing and project implementation using private investment and in terms of risk transferring it from the public sector to the private sector. In Ukraine, in the absence of the usual and what worked in Europe for private investment mechanisms, to protect such an interpretation could lead to reluctance of private capital to participate in PPP projects as referring exclusively to the interests of the state party. This situation is updated and addressed through the scientific research on this subject that serves as a basis for this article.

PURPOSE OF THE RESEARCH

The purpose of this research paper is to determine the nature of the category Public Private Partnership by clarifying the economic substance of public-private partnerships and mechanisms for its implementation in Ukraine on the basis of research articles by experts and the experiences of the leading countries of the world. Among experts there is no clear understanding of the term public-private partnership. In the economic literature one can find the following options are used interchangeably: public-private partnerships, municipal-private partnerships, public-private cooperation, and a partnership of state and the private sector (Tatarkin, 2005, p. 16).

LITERATURE REVIEW

In analyzing public-private partnerships as an economic phenomenon, scientists E. Sava , E. Klyayn , H. Teysman , M. Herrard and A. Akyntoye investigated primarily foreign countries. Of particular interest is the work of Russian scientists regarding public-private partnerships. For example, A.Vayshnurs examines the international experience of public-private partnerships (Vayshnurs, 2012). V.Varnavskyy examines various aspects of public-private partnerships to clarify the methodological foundations of its nature as an economic category, the forms of implementation of specific projects, and the risks (Varnavskyy, 2009, 2010, 2011). Political and legal aspects of public-private partnerships are explored by A. M. Vilisova (Vylysov, 2013). Ye Mahortov's research focuses on a public-private partnership in terms of forms of relationship between business and government (Mahortov, 2013).

Among Ukrainian scholars, few explore the issue of public-private partnerships. However, noteworthy research papers by O. Holovinova and L. Dmytrychenko, reveal the theoretical foundations and practical aspects of public-private partnerships (Golovinov, 2010, 2013). Unfortunately, as evidenced by the adoption of the Law of Ukraine On Public-Private Partnership, the situation regarding scientific understanding and clarification of the nature and content of economic categories remains essentially unchanged.

In foreign economic literature, the term public-private partnership is defined in different ways. In continental Europe it is abbreviated as Public-Private Partnership (PPP), while in the U.S. and Canada - marking P3 or less - PP Partnerships, the UK uses the term private Finance initiative (Private Finance Initiative - PFI). France, for a long time used the term concession to refer to certain types of PPP arrangements prevalent in the country. In our view, the existence of different variations of the name of the same mechanism hinders the formation of a general concept of public-private partnership but does promote an exchange of experiences in this field.

The definition of the essence of public-private partnership has certain characteristics depending on the methodological approach chosen by the author(s). Thus, the Russian scientist V.H.Varnavskyy, recognized as the most authoritative expert on PPP in one of his works, defines this category as follows,

> *Public-private partnership is a legally enforceable form of interaction between the state and the private sector with respect to objects of state and municipal property and services performed and provided by state and municipal authorities, institutions, and companies to implement socially important projects in a wide range of economic activities* (Varnavskyy, 2009 p. 12).

In our opinion, this definition is correct in terms of plain economic relations. However, this definition focuses on the legal aspect and does not take into account differences in PPPs from public forms of economic activity, which is a rental of state property or public order.

Some Russian researchers define a public-private partnership as a,

> *Medium-term or long-term cooperation between the public and private sector in which there is [in effort to solve] political problems by combining the experience and expertise of multiple sectors and divisions of the financial risks and benefits* (Tatarkin, 2005, p. 16).

According to D. Budoysa, a public-private partnership is a long-term cooperation of government agencies that perform public tasks and private enterprises in which each partner brings its available resources to achieve common and individual goals (Budaus, 1998, p. 4).

In our opinion, these definitions are of an applied nature and do not reveal the essence of the economic phenomena. PPP in this case is seen as a formalized cooperation of public and private organizations specifically created for certain tasks and based on the relevant agreement between the parties. That is, these definitions are applied in nature as considering aspects of direct interaction between the parties.

Considering the definition of a public-private partnership given by various researchers and organizations, we note three main areas of approach to the assessment of this category. The areas are legal, functional, and microeconomic. For the authors, who tend to define public-private partnerships as a legal category, the main attention focus on the legal aspects; the legal form of cooperation. Supporters of functional direction define the essence of public-private partnership as focusing on what specifically will be done within the PPP. Researchers of the microeconomic analysis perspective regarding a public-private partnership focus mainly on the production of certain categories where there are public-private partnerships.

These definitional classifications of the public-private partnership category give rise to the conclusion that the essence of this category was formed on the organizational and institutional framework of actual experiences of economic relations between the state and the private sector within the framework of certain forms of PPPs. Examples include differentiation on the basis of ownership of public and private sectors and on the basis of the distribution of functions, rights, responsibilities, and risks between the government and the private sector of certain projects.

Undoubtedly, the existence of clear rules relating to a formal institutional PPP system, an important prerequisite for motivating the private sector to enter into public-private partnerships, is lacking. It is important to note that the PPP must strictly adhere to the balance of interests because of the obvious contradiction between the maintenance of public interests and attainment of profit. Only the maturity of civil society, development of public institutions, a strong legal framework, and transparency of activities can resolve these differences and ensure a balance between the interests of the state and the private sector.

Using existing interpretations of the concept of public-private partnership and based on the body of economic thought, the authors seek to formulate a definition that includes an economic aspect of the category while highlighting its main components. In determining the category Public Private Partnership above all should be given the answer to the question, “What is it?” Answering this question reflects the basic objectives and principles of the formation of the partnership interests of the participants and the fundamental aspects of their interaction. With regard to the rights and obligations of each party participating in the projects, based on this category, deadlines, industry characteristics, legal regulation of relations between design and other specific properties for the formulation of this definition as an economic category, in our opinion, are secondary. The authors propose that the definition of PPPs should be based on the study of the nature and interaction of the following economic categories: needs, interests, participants, resources, system of relations, and forms of interaction. Considering the category of needs, the authors believe that there should be an emphasis on the internal activity of the agent society (the state). Currently known are the specific needs—the need for identifying activities that are objectively determined as needed to sustain life and human development, groups, the nation, and society as a whole. At some point, needs take the form of interest. The state serves as the institute of generalization and realization of social needs and interests (Fig. 1).

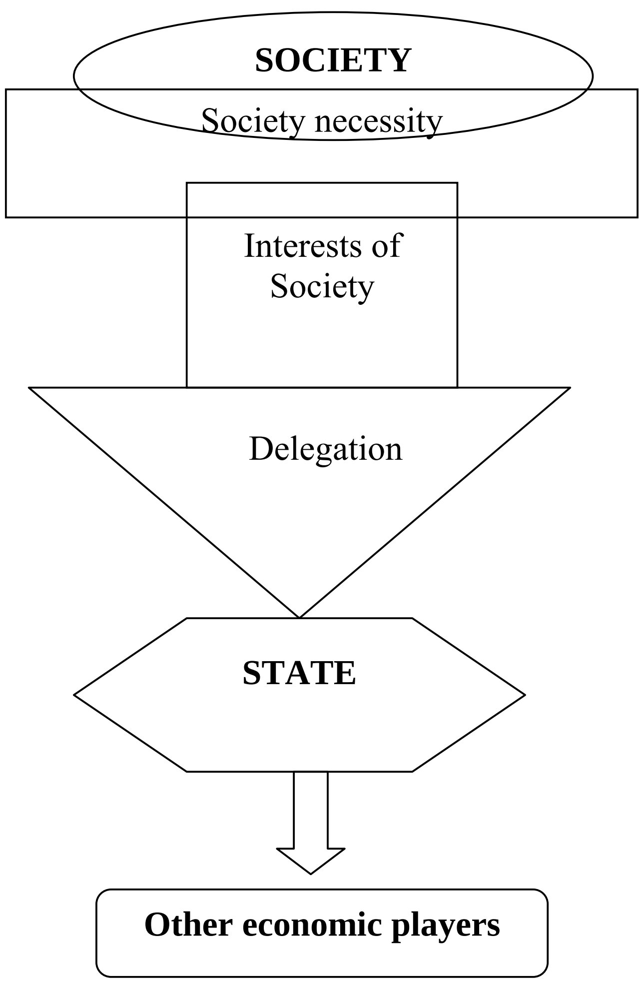

Fig. 1. Interpretation and report the state Public Interest to other economic actors (authoring)

Participants of economic interaction realized in the form of public-private partnerships, are the subjects of the public and private sectors, with the possible participation of third parties. Thus, the public sector acts as a customer, and private sector provides value-added resources and expertise. The central, regional, and local authorities, depending on the scope of the project, can represent the public sector in PPP projects. One or more private economic agents can represent the private sector. In some cases, participation in the preparation and implementation of PPP projects may involve third parties: academics, experts, lenders, suppliers, auditors, and others.

State PPP projects should, first of all, be the creator and defender of fair rules (a legal role); second, an objective arbitrator (an auditing role), that monitors compliance with the rules of each party; and third, assumes the role of a specific business partner that wishes to obtain different preferences of cooperation with private business. Today, the Ukrainian private business sector faces the dominant role of a state that positions the private sector as a passive participant, and it is reluctant to participate until a really strong, long-term partnership with mutual benefits is created.

The state, being the embodiment, voice, and guardian of society and its interests has certain resources—material, nonmaterial, industrial, financial, and others. Quite often there is a situation where the public sector is unable to address the needs of society because of the lack of certain types of resources and / or due to unsustainable use. At the same time, the private sector often has the resources and the tools for greater efficiency. The need for combined resources of the public and private sectors and means of use is another reason for forming a PPP. Thus, an important role is created with the combination of two specific economic actors--state and private entrepreneurs.

Partnerships between business and government reflect the following facts: the state does not have enough money to upgrade, maintain, and expand the country’s infrastructure, which is in the public domain. Many countries in recent years have reduced the degree of state intervention in the economy; the more effective owner in economic theory has always been considered to be private business, not the state. In addition, the private owner has a certain economic interest—profit and obtaining a competitive advantage through the development of economic niches that have not been introduced to the market or were in the exclusive possession of the state. One of the important tasks within the PPP is a harmonization of interests of the participants, which will allow them to realize their own needs with minimal economic loss.

It is known that the main reason for the emergence of public-private partnership financing is the existence of capital intensive and inefficient industries that need to be addressed. The features of PPPs over other financing mechanisms are that the partners can have different goals, solve their specific tasks, and the parties can have different motivations. The state is interested in increasing the volume and improving service delivery infrastructure and social welfare sectors of the population and economic agents. The private sector seeks to obtain a stable and increasing income. Moreover, strategic thinking is businesses’ first priority, not just the size of revenues but creating a steady stream of income from various projects.

In this case, both parties are interested in the successful implementation of the projects as a whole. PPP projects often facilitate access to global capital markets and stimulate the attraction of foreign investment in the real economy. PPP has particular importance for the economy of the regions where it is based on developing local capital markets, products, and services.

Given that a PPP provides a reduction in public capital expenditure, short-term effects of PPPs are to reduce the total amount of government spending and reduce budget deficits. In the long term, the future flow of payments and payments to the private sector should also be taken into account. When a PPP project is implemented, it is usually cheaper at current prices compared to the standard government procurement option (Fig. 2).

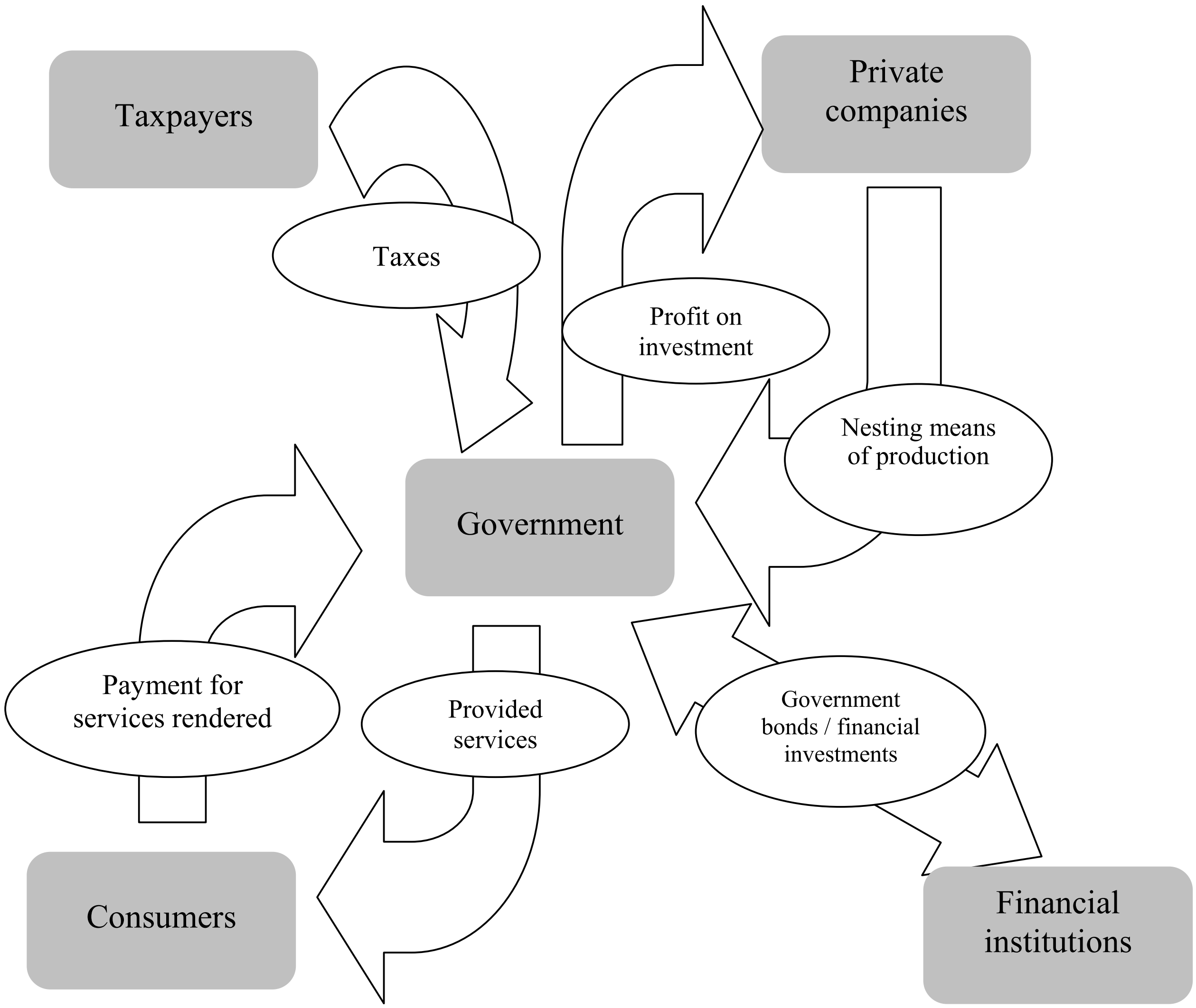

Fig. 2. A typical flow of services, payments for services and funding of state in the case of traditional procurement

Source: Developed by the authors: Phillips, P., Scott, R., & Leavitt, N. (2004). Project evaluation for public-private partnerships: Aligning development with strategic goals in Virginia Beach. Government Finance Review, 20, p. 13.

How the project will be cheaper will depend on the interest rates in both cases (because the interest rates paid by the private sector are usually higher than in the public sector), and the relative level of efficiency achieved in the two cases. Thus, if the increase of efficiency is that the government receives more financial benefits from PPP projects compared to traditional procurement, the net present value (NPV) of future revenues and costs can be improved and the implementation of PPP projects is more realistic. Thus, one could argue that PPPs are relatively more affordable than projects identified through the procurement process, and PPP projects often result in a higher level of financial performance. However, much depends on whether or not there are government funds available and if there are other budget constraints. When deciding on the implementation of PPP projects, it is necessary to assess whether funding is available for the project and whether it is advantageous compared to using the traditional procurement process. This means that the assessment of the feasibility and availability of PPP projects should be based on a comparative evaluation of traditional procurement and PPP projects (Fig. 3).

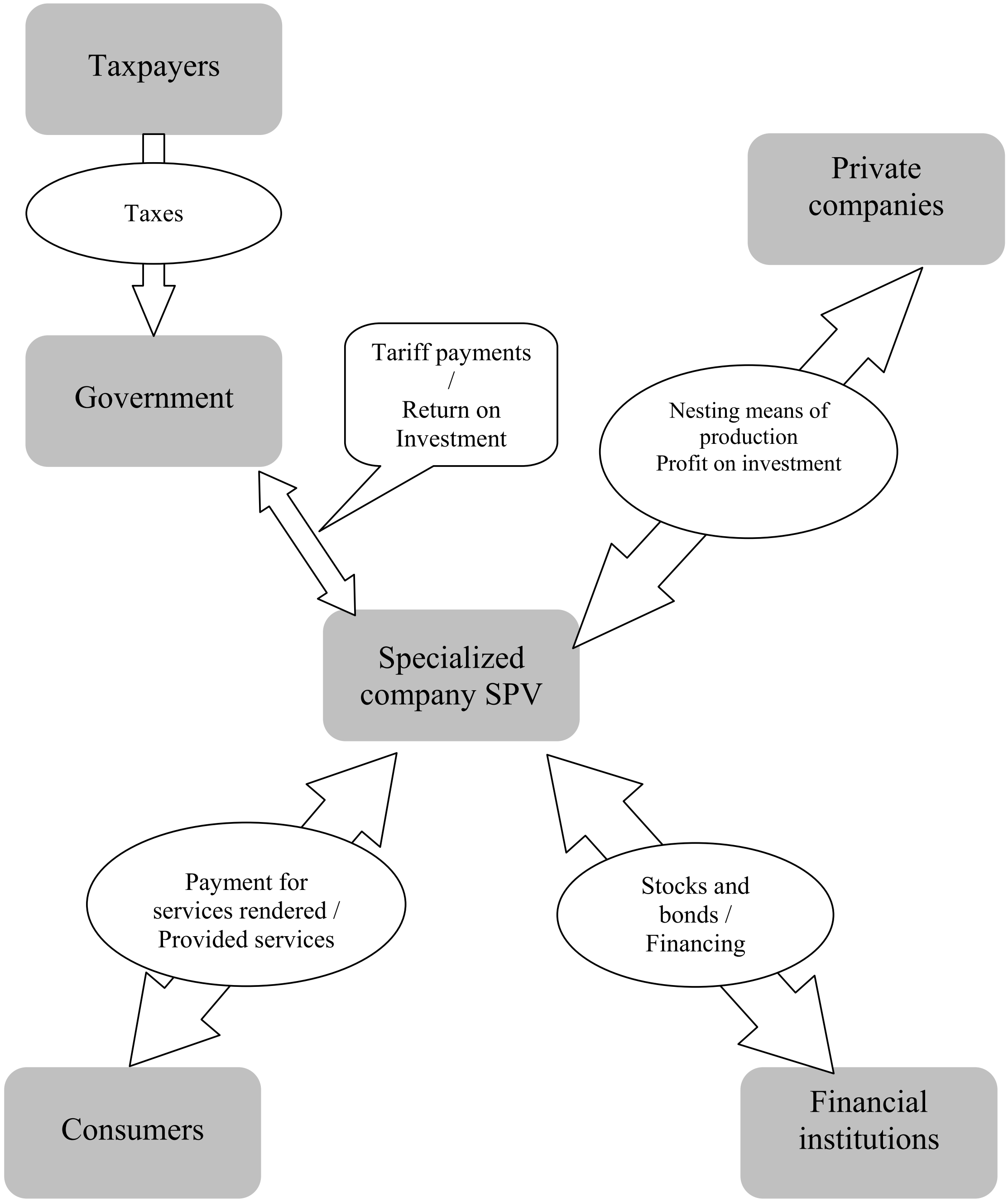

Fig. 3. A typical flow of services, payments for services, and funding in the case of a PPP

Source: Developed by Phillips, P., Scott, R., Leavitt, N. (2004) Project evaluation for public-private partnerships: aligning development with strategic goals in Virginia Beach. Government Finance Review, 20, p13.

Each of the parties to the partnership contributes to the joint project. From private businesses, contributions are: financial resources, expertise, effective management, flexibility, speed in decision-making, and the ability to innovate, among others. The participation of the business sector in joint projects is usually accompanied by the introduction of more efficient working methods, improved equipment and technology, the development of new forms of production, and the creation of new businesses, including some that are funded with foreign capital. Private businesses also emphasize cooperative relationships with suppliers and contractors. The labor market benefits from the subsequent increase in the demand for highly skilled and well-paid professionals.

The value added by the state in PPP projects includes determining the eligibility of private businesses and ownership, the possibility of tax relief, other incentives, guarantees, and providing some level of financial resources. The state, as the controlling partner and regulator is entitled to reallocate resources, if necessary, from production programs to programs designed for social purposes (education, health, science, and culture). In many cases, the state not only contributes to the overall improvement of the socio-economic climate, it determines which countries, if any, have permission to provide resources, and it has ultimate authority regarding the partnership projects. Moreover, within the PPP, the government has the opportunity to audit and monitor the partnership's core functions in the name of the public interest. Thus, in the development of the PPP's infrastructure, the state can shift the focus of activities based on the results of the audit. It is important in this regard that the risks are reallocated to reflect the changes, if any. The social significance of the PPP is that it ultimately benefits society through the better allocation of resources and services (Varnavskyy, 2011, pp. 98-100).

The potential benefits of using forms of public-private partnership may consist of the fact that this format in the relationship of business and government can provide:

1. greater efficiency and time savings in projects and the implementation of work through the application of the strengths of both parties to the partnership;
2. a variety of approaches to the development and subsequent implementation of projects through the use of various methods and expansion of the number of options;
3. higher quality of economic management decisions in the implementation of joint projects that can be provided by qualified businesses integrated with a complete account of the needs of society and the social significance of those needs provided by representatives of management;
4. integration of business entities in public life through their direct involvement in the implementation of meaningful, socially significant projects;
5. Improving the quality of goods and services through the establishment of stricter state control;
6. reducing social tensions and negative attitudes towards business from the population that will result from the business sector's contributions to the solution of social problems.

These potential benefits prompt authorities today to consider PPPs as an effective way to solve many problems of socio-economic development. The effectiveness of public-private partnerships must be considered from the perspective of each partner. If the private sector is required to apply the standard methods for evaluating the effectiveness applicable to any company, then the task of the state is difficult. The specific task that the state is trying to solve with the help of public-private partnerships cannot always be quantified. Ultimately, all these projects are aimed at addressing public policy objectives to reduce the severity of social contradictions. Mechanisms to assess the effectiveness in dealing with this type of structure (PPP) do not currently exist. However, it is safe to assume that precise planning of projects and maximum risk assessment will significantly increase the chances of both parties achieving their goals.

CONCLUSION

A public-private partnership refers to any official relationship or agreement on a fixed (term) time period between public and private parties. The two sides interact in the process of decision-making and in common invest their respective limited resources—money, personnel, equipment, and information to achieve agreed upon tasks in specific areas of science, technology, and innovation.

As an economic category, a public-private partnership is a system of mutually beneficial economic cooperation between the state and private sectors. There is also the possibility of involvement of third parties. Third parties may be integrated into the partnership in an effort to ensure maximum efficiency in the attainment and implementation of economic needs and to supplement those partnership members with limited resources or that may not be performing at the expected level even though the original partner was legally organized and approved.

This definition, in our view, contains important elements of public-private partnerships as described by various authors. Public-private partnerships are long-term, mutually beneficial contracts between public authorities and the private sector designed to create public infrastructure and provide services based on that infrastructure. During the implementation of the contract and using tangible and intangible resources of public and private sectors, there are shared risks, responsibilities, rights, and benefits between the government and the private sector. Today, the definition, requirements, and implementation of public-private partnerships are defined solely by the state.

The features of a PPP over other financing mechanisms are that the partners can have different goals, the ability to achieve their specific tasks, and the parties are able to have different motivations. The state is interested in increasing the number of projects that improve service delivery infrastructure and grow the social welfare sectors of the population while embracing economic agents. The private sector seeks to obtain a stable and increasing income from projects.

Since a PPP is focused on reducing government capital spending, the short-term effect of a PPP is to reduce the total amount of government spending and budget deficits. In the long term it is necessary to take into account the future stream of its payments and payments of the private sector. The implementation of PPP projects depends on many factors—the most important of which is the availability of government funds and its budget constraints.

REFERENCES

Tazabekov A. T., Study of world experience of public-private partnership as an important precondition for the following economic development of Kazakhstan / Economic Review. - 2005. - № 2 - p. 56.

Vayshnurs A. From big to small projects. HCP: International Experience // Construction and municipal economy in St. Petersburg. - № 105 - St. Petersburg, November 2012.

Varnavskyy V.A., Public-private partnership. - Moscow: IMEMO RAN, 2009. In 2 vols. V. 1 - p.12

Varnavskyy V.G., State-private partnership in Russia: Problems of Formation // Government notes. - M., 2011.

Varnavskyy V.G., Konceptual foundation of Economic and Legal concession activities / Debates. - № 13. - M., 2010.

Varnavskyy V.G., Partnership of private and state sectors: forms, projects, risk. / - Moscow: Science, 2011.

Vylysov M.V., State-private partnership: political and legal aspects / Center of problem analysis and state-regulation design. - M., 2013.

Mahortov E.A., State-private partnership as a form of relations between government and business in Russia, - M., 2013.

Golovinov AM., Dmytrychenko L.A., The theoretical basis and practical aspects of public-private partnership //

Economies and Government: International scientific journal. - Kyiv, 2010. - № 9 - S. 4-9.

Golovinov AM., Dmytrychenko L.A., Scientific and practical aspects of public-private partnerships in education // Economics and Law: Research Journal. - 2013. - № 1 (35) - pp. 84-89.

Tatarkin A.I., Romanova O.A., Lavrikova Y., The theoretical basis of public-private partnerships / Business, Management Law. - 2005 - № 1. - p.16.

Budaus, D. (1998). Public Private Partnership as an innovative organization form.. – Heidelberg, 1998.

ABOUT THE AUTHORS

Liliya Dmytrychenko, email: liliyadm@meta.ua

Dr. Liliya Dmytrychenko, - Doctor of Economic Science, professor, head of the political economy department, Donetsk National University (Ukraine). She was born in Donetsk and in 1970 graduated from Donetsk State (now National) University (Ukraine). In 1976 received the degree of doctor of philosophy in economic science (Moscow). In 2002 received the degree of doctor economic science. In 2002 received the academic rank professor, and in 2006 – rank Member of the Academy of Economic Sciences of Ukraine. She is the author of 18 monographs and more than 250 scientific articles. Under her leadership was defended four degrees of doctor of economic science and 20 degree of doctor of philosophy in economic science**.**

Ilya Braylovsky, email: brailovskiy@people.dn.ua

Dr. Ilya Braylovskyi, was born in Donetsk. In 2004 graduated from Donetsk National Technical University (Ukraine). In 2010 received the degree of doctor of philosophy in economic science. Currently working for a doctor's degree in political economy department of Donetsk National University (Ukraine). Research interests: problems of investment activity of enterprises, regional innovation policy, economic development of the state, venturing and development methods and ways to optimize the public-private partnership in Ukraine. Holds the position of Director at the State Enterprise "Scientific Union of Donbas", which holds archaeological survey in Eastern Ukraine.

Kimberly Millier, email: jkmconsult@gmail.com

Dr. Kimberly Millier, was born in the USA and is a Doctor of Business Administration. She is currently a Dissertation Chair for Grand Canyon University in Phoenix, Arizona. She received her BA and MBA from Boise State University and her doctorate from the University of Phoenix. Kimberly has published numerous articles on Central Asia and countries of the Former Soviet Union and conducted seminars and training sessions in over 50 countries. She was the Tucson project lead of a city-to-city program involving Kherson, Ukraine and Tucson, Arizona (USA).