



PUBLIC-PRIVATE PARTNERSHIP AS A TOOL TO INCREASE EFFICIENCY AND SUSTAINABLE DEVELOPMENT IN THE ROAD TRANSPORT SECTOR IN THE RUSSIAN FEDERATION

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The article focuses on the need for effective public-private partnership in the road transport sector for sustainable development in Russian Federation. Measures are proposed for pragmatic approach to implementing public-private partnerships.

Key words: Public-Private Partnership (PPP), PPP models, road transport, passenger as a consumer of public transport services.

The role infrastructure in socio-economic development of a country cannot be overemphasized. The problems of modernization of the transport, energy and other social infrastructure is significant and is featured in the decision-making processes of national federal and local government authorities. The developed infrastructure predetermines to a high extent the inflow of investments, which has direct impact on the socio-economic potential life the people. Governments the world over face heavy tasks of funding the necessary developmental projects in their countries, especially in the road transport sector which requires large budgetary allocation. Records show a significant drop in public funding of the road transport sector. As of 2014 the share of organizations that receive funding from the state budget for implementation of infrastructural projects in Russia was 0.8%, in Germany - 8.8%, and in Belgium - 12.7% [1].

The current level of budgetary financing of developmental projects of the transport complex of Russia is woefully inadequate which is reflected in the deplorable state of the roads. According to statistics by the Public Joint Stock Company, Gazprombank of Russia, the budgetary need for financing infrastructure projects in the Russian Federation in the next 10

years, is estimated at \$ 753 billion, of which road construction accounts for about 75%. It is obvious that financing the construction of these roads necessitates private sector partnership with the public sector [2].

Another area in the road transport service delivery mechanism which causes a concern is the application and processing of Drivers' License. The application process is characterized by bureaucracy and administrative bottlenecks. It appears that the state institution charged with the responsibility of issuing Drivers' License - State Automobile Inspectorate, is not adequately resourced to carry out its duties expeditiously. An innovative approach to processing Drivers' License, in the form Public-Private Partnership is necessary to effect efficiency in the delivery mechanism.

The term Public-Private Partnership (PPP) appeared in the early 1980s to characterize the special relationship between the state and the private sector in the socio-economic development a country [3].

According to the Federal Law of July 13, 2015 No. 224-FZ "Public-Private Partnership, Municipal-Private Partnership, (PPP)" is a public-private partnership, municipal-private partnership, legally issued for a specific period and based on pooling of resources, sharing the risks of cooperation between a public partner, on the one hand, and a private partner, on the other hand, which is carried out on the basis of a public-private partnership agreement, a municipal-private partnership, in accordance with the Federal Law in order to attract private investments to ensure the availability of goods and services in the economy.

PPP includes a contract between the public sector authority and a private party in which the private party provides a public service or project and assumes significant financial, technical and operational risk in a project. In some types of PPPs, project finance costs are made solely by the users of the service, and not by the taxpayer. In other types (especially the private financial initiative), the investment made by the private sector on the basis of a contract with the government, to provide the agreed services and expenses for the provision of services, is fully or partially incurred by the government. Government contributions to PPPs can also be in kind (especially transfer of existing rights in assets). In projects that aim to create public goods in the form of infrastructure, the government can provide a capital subsidy in the form of a one-time grant to make it more attractive to private investors. In some other cases, the government can support the project by providing income subsidies, tax rebate or annual income guarantees for a

fixed period of time.

In world practice today, PPP is becoming one of the main instruments of public administration in the field of road transport. The preference of the principle of PPP for the transport sector is predetermined by the following three advantages or realities:

- most transport projects are of great socio-economic importance (character), which does not attract much interest for potential private investors;
- acceleration of economic development of a country by way of additional investments from outside budgetary allocation sources or comparative advantage by the private sector in efficient service delivery;
- pooling resources and experience of both the public and private sectors in the implementation of projects with the lowest costs and risks to providing high-quality services.

The benefits to private investors (partners) are that within the framework of PPP, the state assumes a certain part of the costs, shares the risk, and also uses the available administrative resources to increase the attractiveness of the relevant project for the private partner [4].

According to a research carried out by O.I. Avtsinova, currently more than 60 countries are efficaciously implementing projects based on the PPP mechanism [7].

In the course of many years of business practice in the world, various forms of co-operation between the state and private capital and experience have been developed, especially in the road transport infrastructure provision. The table below presents the main models of PPP.

Table

Basic models of Public-Private Partnership

Denotation	Definition / Characteristic
Design –Build – Operate (DBO)	Private sector partner designs and builds infrastructure according to the technical requirements of the public sector partner.
Operation & Maintenance Contract (O & M)	The private sector partner, in accordance with the contract, manages the asset of the state
Design – Build – Finance –Operate (DBFO)	Private sector partner develops, finances, builds and operates a new infrastructure component on a long-term lease

Build-Own-Operate (BOO)	The private sector partner is given the right to build, own and manage the infrastructure component in perpetuity
Build – Own – Operate – Transfer (BOOT)	The private sector partner is granted permission to finance, design, build and manage the infrastructure component for a fixed period of time
Buy – Build –Operate (BBO)	State assets are legally transferred to a private sector partner to operate for a designated period of time
Build – lease – operate – transfer (BLOT)	The private sector partner is given the right to design, finance and build a structure on leased public land for a certain period of time
Operational License (OL)	The private sector partner is granted a license or other legal permission to manage the public service, usually until a specified time.
Finance Only (FO)	The private sector partner finances public infrastructure component and charges interest to the public sector partner
Build – Transfer – Operate (BTO)	A private organization carries out construction of facility at the expense of public funds. Upon completion, the ownership is transferred to the financing state organization, which can then transfer the property to the developer for a long time. During the rental period, the organization provides operation of the facility and makes a profit.

In the Design - Build-Operate (DBO) model, a private sector partner designs and builds infrastructure according to the technical requirements of a public sector partner often for a fixed amount of money. The private sector partner takes all the risk of designing and building the infrastructure for a specific period.

The Operation & Service Contract (O & M) model involves a situation where a private sector partner, in accordance with the contract, manages a state-owned asset on behalf of the state for an agreed period of time. The public partner retains ownership of the assets. The private sector partner is only responsible for current costs, and the public sector partner is responsible for capital investments.

One of the most common models is the “Design - Build - Finance - Operate” (DBFO) model. Here, the private sector partner designs, builds, finances and operates new infrastructure facility on a long-term lease. The private sector partners transfer the facility to the public sector

partner at the expiration of the lease.

In the “Build-Own-Operate” (BOO) model, a private sector partner is given the right to build, own and operate an infrastructure facility continuously due to its unique experience (private sector). Restrictions on a partner from the public sector are specified in the original agreement. In practice, this model is rare.

The most common model is the model “Build - Own - Operate - Transfer” (BOOT). Typically, a private sector partner is given permission to finance, design, build, and manage the infrastructure facility (and charge user fees) for a stated period of time after which the property is returned to the public sector partner.

The “Buy - Build - Operate” model (BBO) portrays a situation whereby state-owned assets are legally transferred to the private sector partner for a designated period of time. Most often, inefficient state-run assets that can be effectively managed by the private sector are entrusted to a private sector partner for a specific period.

The “Build - Rent - Operate - Transfer” (BLOT) model describes arrangements in which a private sector partner is given the right to design, finance and build a building on leased public land. The private sector partner operates the facility for the duration of the lease. When the lease expires, the assets are transferred to the public sector partner.

In the Operational License (OL) model, a private sector partner is issued a license or other legal permission to manage a public service, usually until a specified period. This model is often used in information technology projects.

The Finance Only (FO) model is characterized with financial organizations, such as banks and insurance organizations. Here, the private sector partner, usually a financial organization, finances the infrastructure facility of the public sector partner and charges interest on the provision of funds [5].

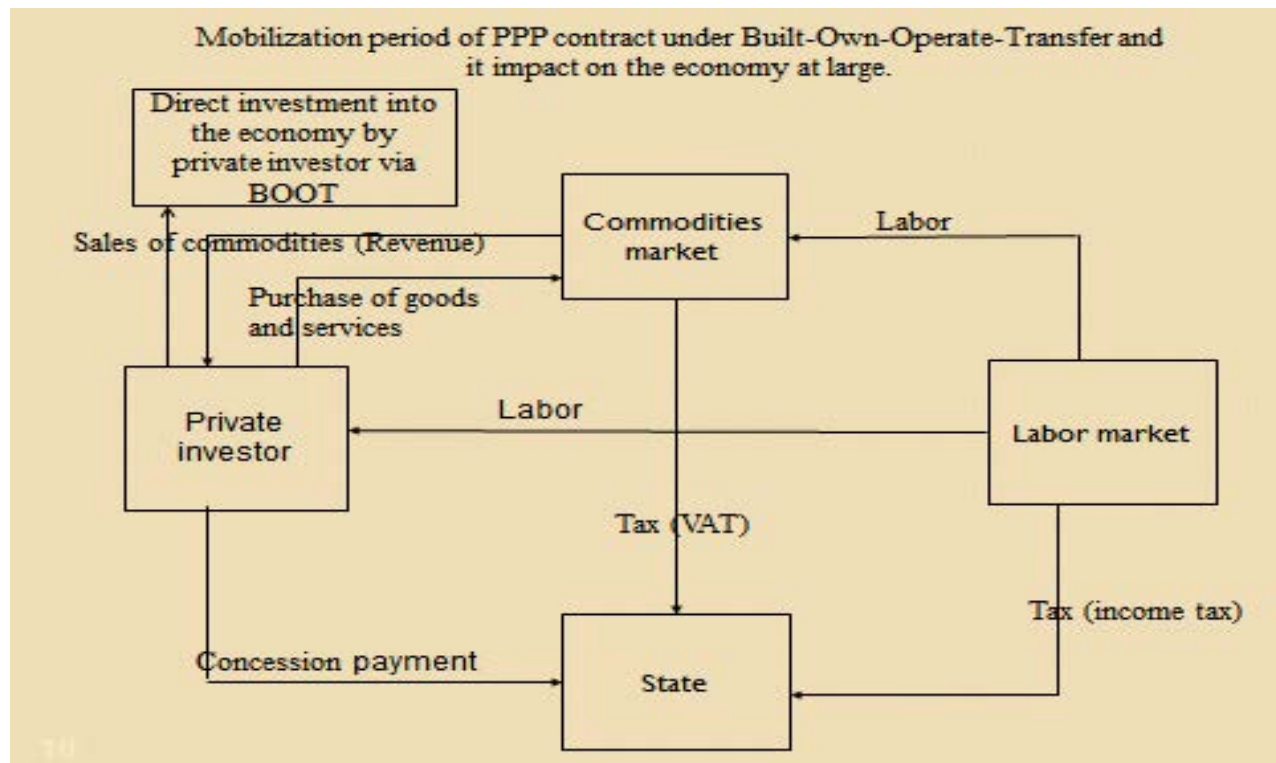
Having analyzed the various PPP models, vis-à-vis the current system of road transport in Russia, we would like to recommend the implementation of “Build - Own - Operate - Transfer” (BOOT) and “Operational License” models. The model “Operational License” is proposed to apply to a public service, where a private sector partner with specific skills is given the right to provide the public with a public service under a license. Private sector partners could partner with the State Automobile Inspectorate in processing and issuance of Drivers' License. They (private sector partners) could process and issue national Drivers' License to Russian nationals

while the public partner (State Automobile Inspectorate) could concern it itself with issuance of international Drivers' License to Russian nationals and foreign nationals as well. It should be noted that the license is renewable only if all terms of the PPP agreement are fulfilled. The State Automobile Inspectorate could again act as supervisory body over the private sector partners to ensure effectiveness their operations.

The model “Build-Own-Operate-Transfer” can be applied to the construction of roads and other infrastructure facilities. It offers a private sector partner the right to build and operate road infrastructure facilities and charge road users toll thereof a stated period of time after which the property is reverted to the state. The benefits of triggering a contract under this PPP model could categorized into three stages:

- 1). Mobilization period;
- 2). Infrastructure facility construction and utilization period (contract duration period) and;
- 3). Expiration of contract period (infrastructure facility reverts to the state).

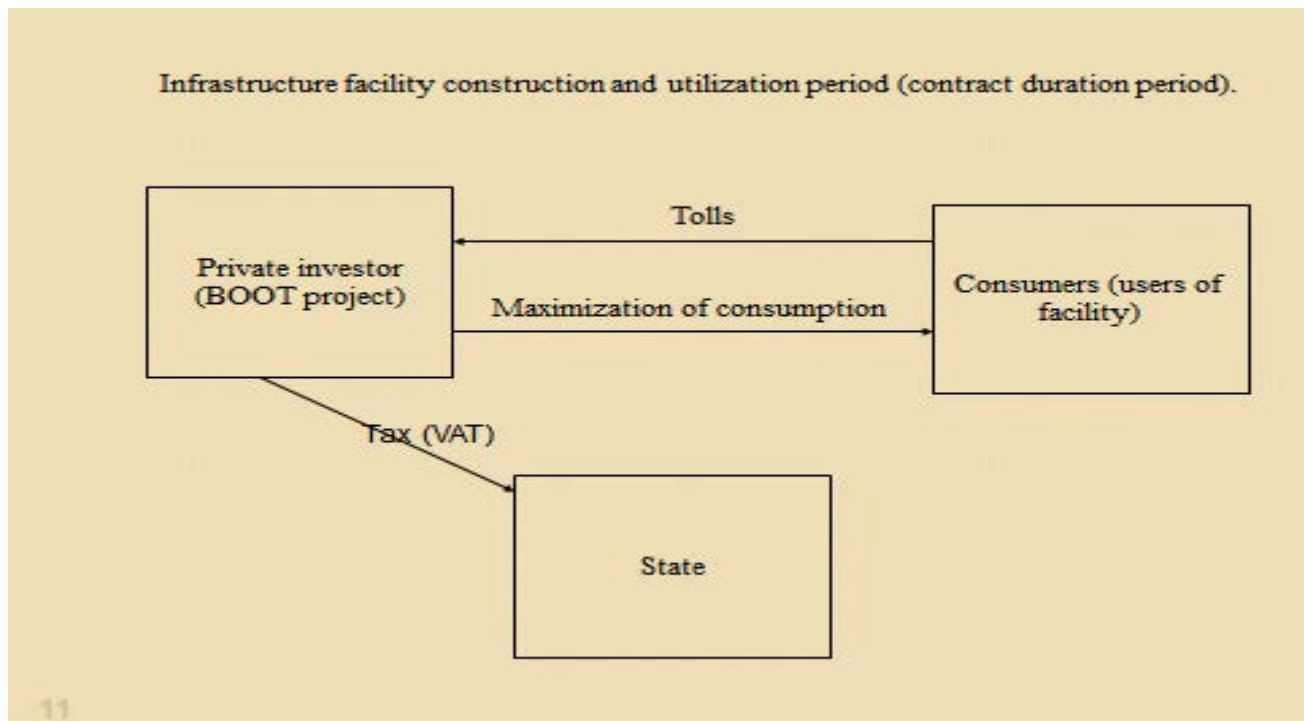
1). Mobilization period of PPP contract under Built-Own-Operate-Transfer and it impact on the economy at large.



First phase of triggering a contract under PPP model Built-Own-Operate-Transfer (BOOT).

As shown in the figure above, when a contract under PPP model BOO) is concluded, its implementation acts as a tool to stimulate the economy. A private partner (investor) invests into the economy, which, in its turn, causes an increase in demand for labor and for goods, and the government receives revenue via various forms of taxes.

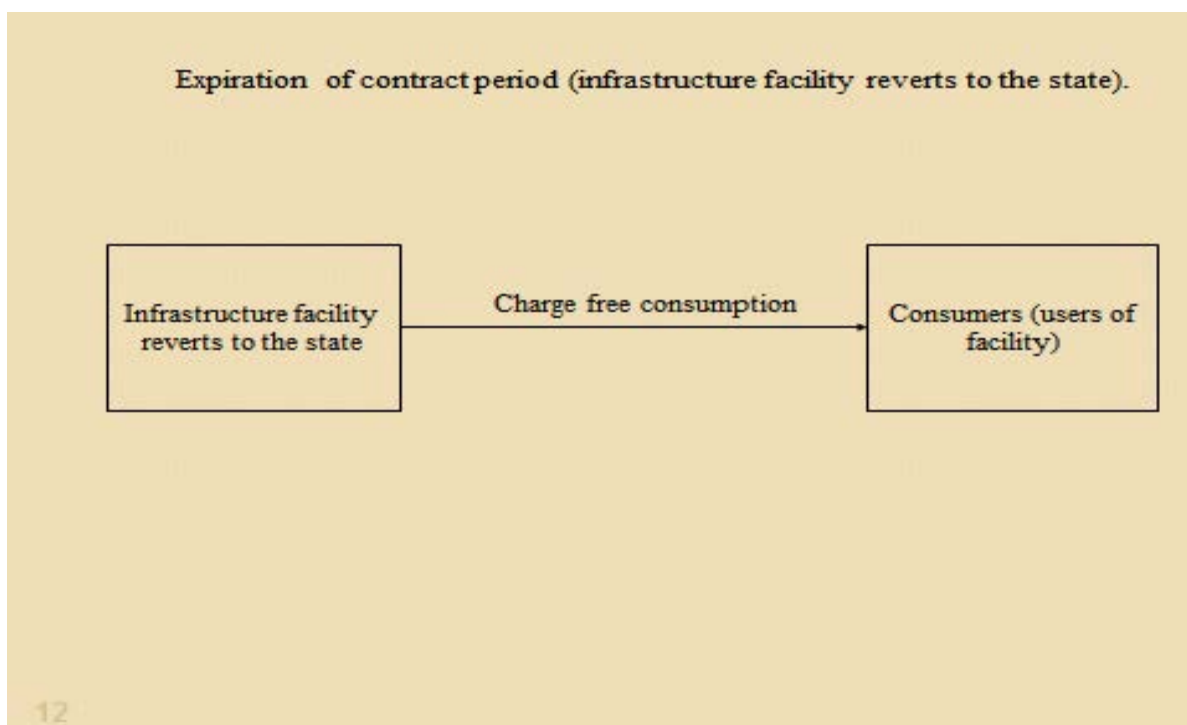
2). Infrastructure facility construction and utilization period (contract duration period).



Pic.2 - Second phase of triggering a contract under PPP model Built-Own-Operate-Transfer (BOOT).

On the second phase of BOOT contract, the state continues to receive taxes, the private investor receives revenue in the form of tolls, and consumers maximize their consumption.

3). Expiration of contract period (infrastructure facility reverts to the state).



Pic.3 - Second phase of triggering a contract under PPP model Built-Own-Operate-Transfer (BOOT).

On the third phase of the contract, the PPP project reverts to the state, allowing consumers to use the facility without any charges.

Thus, from the foregoing explanation and illustrations, it could be concluded that the time has come for the development of a partnership between the public and the private sector for the effective transport service delivery. PPP seeks to foster coo-operation between the state and private partners, which is a prerequisite for modern day economies where the private sector is the forefront of innovation and has proven to be the engine of the socio-economic development, especially the road transport sector. The burden of lack of financing for public transport infrastructure will be overcome with effective partnership of the private and public sectors, thus ensuring effective functioning of state apparatuses, rationalizing management and control, environmental protection, and risk sharing. The state could receive additional revenues via concession payments and variety of tax forms.

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