

PUBLIC-PRIVATE AGREEMENT AS A MANAGEMENT PROCESS: A STEP-BY-STEP MODEL OF EFFICIENCY IMPROVEMENT

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Abstract. *The aim of the study: to develop recommendations for the comprehensive improvement of the practice of concluding and implementing a PPP agreement. Research methods: analysis, synthesis, logical modelling.*

In the article the authors substantiate the analysis of the characteristic features of PPP agreements and identified four stages of this process: The first step. The process of initiation (start) of the project; Second step. The processes of execution (implementation) of the project; Third step. Monitoring processes (monitoring) of the project; Fourth step. The process of closing (completion) of the project. There are at least two participants in this process: a "public" partner (state) and a "private partner" - a business with different legal status and resources, as well as having different goals.

Each of the four selected stages presents "inputs" (initial action) and "outputs" (final action) separately for each of the participants. In the paper the authors reveal the content of each stage of the process and give step-by-step recommendations to improve efficiency.

From the point of view of the authors, consistent implementation of the recommendations presented in the practice of PPP will allow you to get away from the formalism and, in general, to increase the percentage of effective PPP projects.

Keywords: *efficiency, management process, public-private partnership.*

Introduction

Public-private partnership is currently a practice accepted in all developed and overwhelmingly developing countries, involving the alliance of the state (represented by state or municipal bodies) and business structures with the aim of implementing projects of social significance. At the same time, such projects can vary from large-scale - the construction of large transport hubs, airports, stadiums, etc., to "everyday" - the provision of public utilities and other public goods to residents of certain localities (Avdeeva, Averina, & Kochetova, 2018).

Nevertheless, a public-private partnership cannot be considered an exclusively new, modern phenomenon - agreements between the state (monarch) and business representatives were widely distributed in the XVII-XVIII centuries, having played an important role in the industrial revolution of the XIX century (Mazharova, 2018).

Nowadays, PPPs received an additional impetus to development in the 1990s, primarily in the countries of Eastern Europe (Poland, the Czech Republic, Lithuania) due to the need to rapidly modernize the infrastructure for these countries to join the EU. PPP agreements were actively supported (and funded) by international organizations because they allowed to solve two problems: to accelerate the development of market economy institutions and ensure the modernization of the infrastructure of these countries (expand the network of highways, ports and airports of international importance).

However, not all such projects can be considered effective. Thus, an example of an effective project is the modernization of the Warsaw airport: the intermediary between the “state and business” was the State Polish airline LOT, which became the guarantor for the fulfilment of obligations by contractors: medium and small construction companies of Poland and Germany, and the largest shareholders of the project were private airlines who compensated expenses after the start of operation of the airport.

An example of an inefficient project is the construction project of 80 km of a strategic highway in the Czech Republic: a foreign private company offered at first glance the best project and entered into an agreement without any competition. But the state, not having the necessary methodologies for evaluating PPP projects, was unable to predict in time the fact that the proposed financing structure shifted all risks to the state. As a result, the contractor had no incentive to fulfil the obligations on time and the Czech government was forced to terminate the project and pay a substantial penalty (Barkalov, Mazharova, & Sanina, 2017).

In the Russian Federation, public-private partnership in the modern sense has also developed since the 1990s, but it acquired significant proportions by the mid-2000s. The twentieth century represented the experience of both effective and inefficient projects (Barkalov & Mazharova, 2018).

Based on the above, the aim of the study: to develop recommendations for the comprehensive improvement of the practice of concluding and implementing a PPP agreement. To achieve this aim, the study solved the following tasks:

- the characteristic features of PPP agreements are defined;
- the main stages of the PPP project are identified and a model of public-private partnership as a management process is built
- recommendations have been developed to improve the efficiency of each stage of the process.

Research methods: analysis, synthesis, logical modelling.

Research results

The effectiveness of public-private agreements, as a tool to improve the quality of public goods provided by the state, is justified in the works of many authors and declared in a number of strategic documents of the Russian Federation (Mazharova, 2018).

As a result, the number of public-private agreements concluded over the past 10 years has increased almost 10 times (see Tabl. 1), however, quantitative growth does not always indicate efficiency: according to statistics, in some areas up to 30% of projects are prematurely terminated or implemented with significant lengthening the deadlines and increasing the cost of the project.

Table 1 PPP statistics in the Russian Federation
(Агентство стратегических инициатив, 2016)

Years	Number of projects
2008	21
2010	281
2013	887
2018 (forecast)	2446

Setting goals and objectives of the research study

In connection with the above, the aim of the present research study is to develop recommendations for the comprehensive improvement of the existing practice of concluding and implementing a public-private agreement, taking into account the specifics of public-private partnerships and its differences from contracts between commercial organizations.

To achieve this aim, the following tasks were set within the framework of the research study: to define the characteristics of public-private agreements; highlight the main stages of the PPP project and build a model of public-private partnership as a management process; develop recommendations for increasing the efficiency of each of the stages of the process.

Theoretical justification

As noted earlier, public-private agreements can vary significantly in terms of legal forms, as well as the scale and financing schemes, however, a number of features characteristic of almost any PPP project can be identified (see Fig. 1.).

The above features make it appropriate to consider PPP as a process, that is, a set of interrelated, sequential actions and operations carried out by the parties under an agreement to achieve a previously known goal.

Model of public-private agreement as a management process

Considering the public-private agreement as a specific management process, we proceeded from the fact that at least two parties act in this process: a “public” partner (state) and a “private partner” - a business with different legal statuses and resources, as well as having different goals.

In this regard, at each of the four stages identified, “entries” (initial action) and “exits” (final action) are presented separately for each of the participants.

Specific features of public-private agreements	long-term (10-15 years or more), but clearly defined terms of the agreements (the object must be built or the service rendered by a certain date)
	complex forms of financing: through private investment, supplemented by state financial resources, or joint investment by several participants
	specific forms of distribution of responsibility between partners: the state sets the goals of the project from the standpoint of public interests, and the "private partner" controls effectiveness at various stages of the project
	pre-established sharing of risks between the parties to the agreement on the basis of relevant agreements of the parties

Figure 1 Specific features of public-private agreements (authors' study)

Stage 1. Project initiation (start) processes

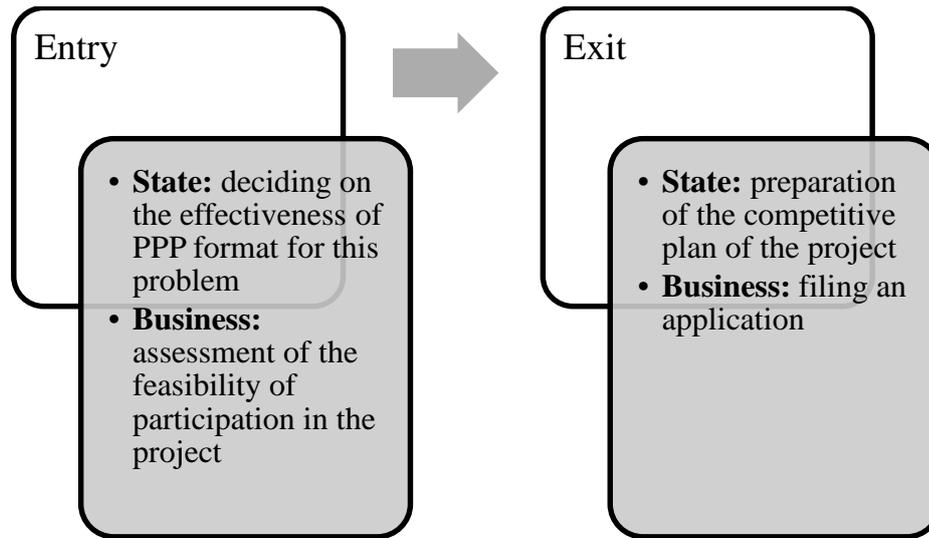


Figure 2 *Project initiation (start) processes (authors' study)*

At this stage, the main problems, from our point of view, are the unreasonable distribution of risks between the participants and the lack of a single assessment system for the state and business, as well as violations during the consideration of tender bids.

Accordingly, the solution to this problem can be the creation of recommendations that represent a standard risk distribution scheme, as well as the ranking of participants (not only private companies, but also government agencies) according to the degree of risk: counterparties who will be assigned an increased level of risk should be subject to a control procedures during competitions especially carefully.

Stage 2. Project execution (implementation) processes

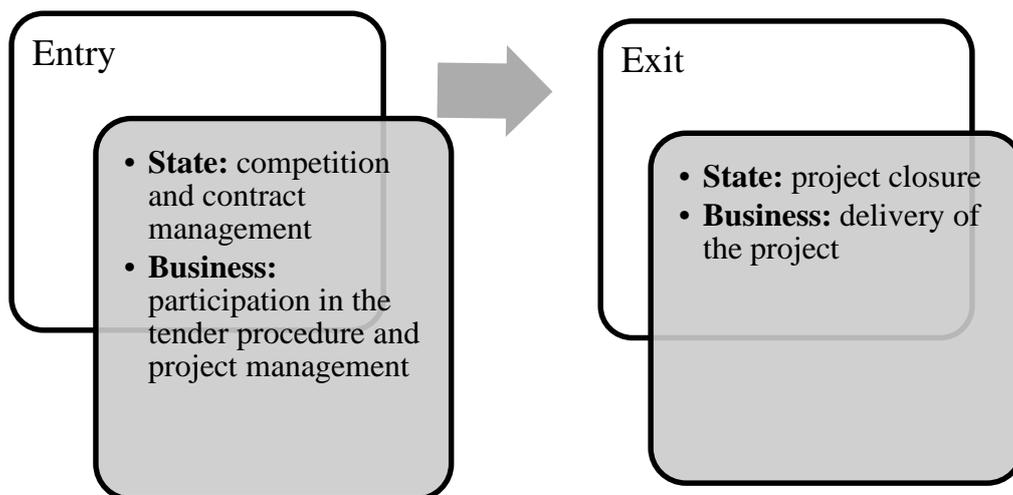


Figure 3 *Project execution (implementation) processes (authors' study)*

The problem with this stage, from our point of view, is the absence of constant guarantees from the public partner (state), which violates the principle of equality of the parties and forces private partners to avoid risks and innovations.

The solution in this situation could be the introduction of the principle of equality of the parties into a public-private agreement in accordance with the law, in particular guarantees of the stability of legislation on the implementation of a PPP project, as well as guarantees of liability of the public partner (in the person of responsible officials) for violation or unauthorized change of violations of the agreement.

Stage 3. Project monitoring (control) processes

At this stage, the problem is the lack of effective communication between the public and private partners, as well as various approaches to assessing the effectiveness of the project (as the main effect of the state is social effect, and for a commercial firm - economic feasibility).

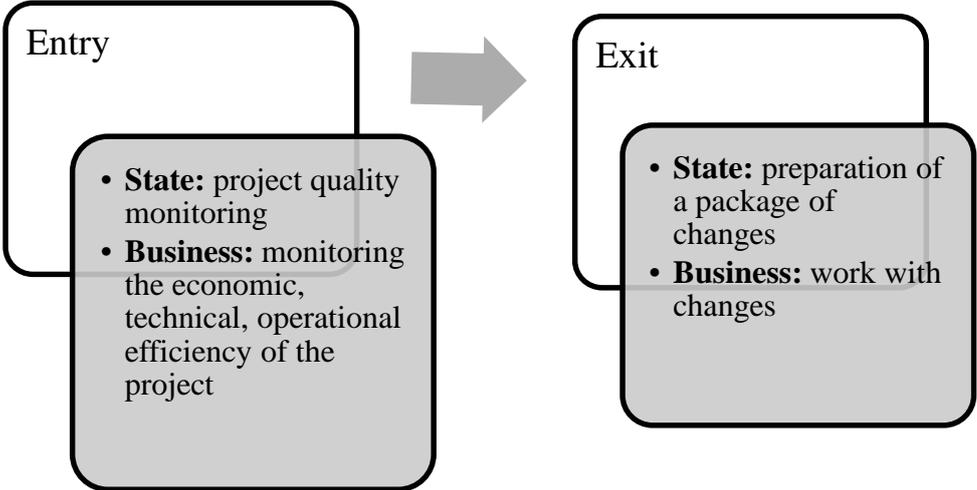


Figure 4 Project monitoring (control) processes (authors' study)

In this regard, to assess the feasibility of changes, the “last resort” may be the results of monitoring the “degree of satisfaction” of consumers - citizens.

Stage 4. Project closure (completion) process

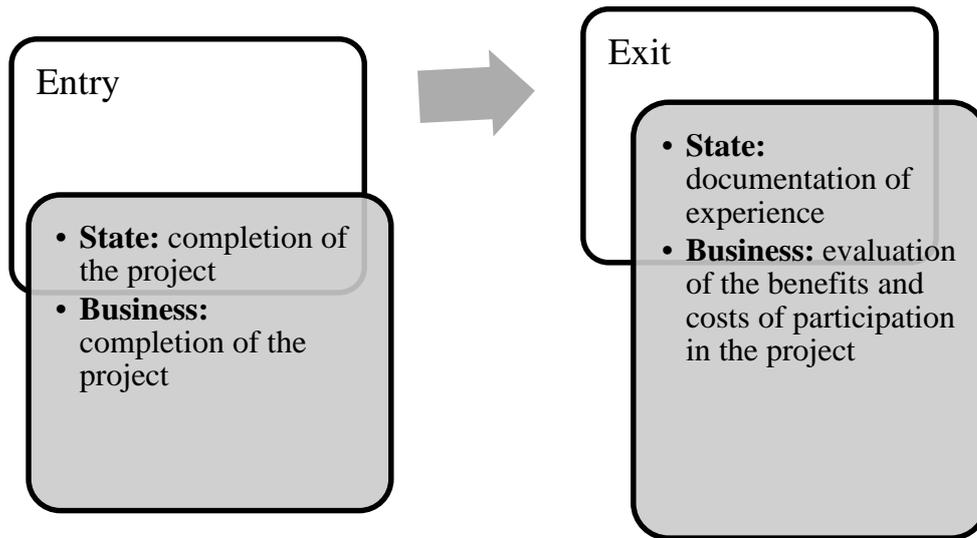


Figure 5 Project closure (completion) process (authors' study)

At this stage, the problem is the preservation and accessibility of information on the gained (including negative) experience, which can be solved by creating publicly available data banks on effective and ineffective public-private agreements.

Conclusion

Summarizing the above, we can conclude that, despite the active use of PPP practices, the number of unfinished or ineffective projects remains high. To solve this problem, an integrated approach is needed, which is applied in the framework of the presented PPP model - as a process, that is, a set of interrelated, sequential actions and operations carried out by the parties to an agreement to achieve a previously known goal. The choice of this model is determined by the specifics of PPP projects.

The development of such a logical model allowed us to identify the main problems that reduce the effectiveness of PPP projects.

These problems include: unreasonable distribution of risks among the participants; the absence of constant guarantees from the public partner (state), which violates the principle of equality of the parties; lack of effective communication mechanisms between public and private partners unavailability of sufficient information about the practice of specific PPP projects.

In this regard, the authors proposed a number of recommendations.

The consistent implementation of the presented recommendations into the practice of PPP will allow to avoid formalism and, in general, increase the percentage of effective PPP projects. In practice, the proposed recommendations can form the basis for legislative initiatives, as well as the creation of reference

documents, methodologies and databases administered by, for example, the PPP Development Agency.

Summary

In this paper, the authors developed a system of recommendations for the comprehensive improvement of the existing practice of conclusion and implementation of PPP agreements, taking into account the specifics of public-private partnership and its differences from contracts between commercial organizations.

The authors identified four stages of the process of concluding a public-private agreement: Stage 1. The process of initiation (start) of the project; Stage 2. The processes of execution (implementation) of the project; Phase 3. Monitoring processes (monitoring) of the project; Step 4. The process of closing (completion) of the project. There are at least two participants in this process: a "public" partner (state) and a "private partner" - a business with different legal status and resources, as well as having different goals.

In this regard, each of the four selected stages presents "inputs" (initial action) and "outputs" (final action) separately for each of the participants. In the paper the authors reveal the content of each stage of the process and give step-by-step recommendations to improve efficiency.

Ultimately, the consistent implementation of the presented recommendations in PPP practice will allow to avoid formalism and, in general, to increase the percentage of effective PPP projects. In practice, the proposed recommendations can form the basis for legislative initiatives, as well as the creation of guidance documents, methodologies and databases administered by, for example, the PPP development Agency.

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