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Public-private partnership in the UK and Russia: a comparative analysis

Abstract. Public-private partnership (PPP) allows attracting private investment to solve socially important problems of a country. In Europe, the cost of projects with the joint participation of the government and business is estimated at the level of EUR 72 billion over the last 5 years. The United Kingdom is an undisputed leader in the implementation of PPP projects.

Having passed through the «free» market stage in the 1990s, Russia is gradually returning to a model in which the government, using various mechanisms and tools, takes an active part in the development of public infrastructure and economy.

The article shows the results of a comparative analysis of PPP in the UK and Russia, which will take into account the experience of the UK and may facilitate avoiding undesirable mistakes and their consequences when using PPP in Russia.

The main reason for curtailing public-private partnership programs in the UK has been identified: the nature of any business is such that its main goal is making profit, therefore, projects implemented in the UK through PPP mechanism have not always been financially beneficial for the state, but only for the private investors.

In Russia, the threat of misleading project evaluation with implied losses for the state is supplemented by the imperfection of the legislation regulation, first of all, regarding the concession activity, which undermines the very idea of attracting investments through the development of the public-private partnerships.

It is shown that the Russian population is interested in individual participation in PPP projects. This can contribute to solving some of the identified problems, as well as positively impact the social mood of the population.

Keywords: Public-Private Partnership; PPP; Concession; Infrastructure; Private Financial Initiative; The United Kingdom; UK; Russia

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Державно-приватне партнерство в Великобританії та Росії: компаративний аналіз

Анотація. Державно-приватне партнерство (ДПП), засноване на взаємодії держави й бізнесу, дозволяє залучати приватні інвестиції для вирішення суспільно важливих проблем країни. У Європі вартість проектів зі спільною участю держави та бізнесу за останні 5 років становить 72 мільярди євро. Безумовним лідером у реалізації проектів державно-приватного партнерства є Великобританія.

Росія, пройшовши через «чистий» ринок в 1990-х роках, поступово повертається до моделі, при якій держава, використовуючи різні механізми й інструменти, бере активну участь у розвитку суспільної інфраструктури й економіки.

У статті показані результати компаративного аналізу ДПП в Великобританії та Росії, що дозволить врахувати досвід Великобританії для підвищення вірогідності уникнення помилкових дій та їх наслідків при використанні ДПП в Росії.

Виявлено основну причину скорочення програм державно-приватного партнерства в Великобританії, а саме: природа будь-якого бізнесу така, що його головною метою завжди буде отримання прибутку, тому проекти, що реалізуються в Великобританії через механізм ДПП, не завжди є фінансово вигідними для держави.

У російській дійсності до ризику збитковості проектів для держави додається недосконалість законодавства, яке регулює, перш за все, концесійну діяльність, що зводить нанівець саму ідею залучення інвестицій через розвиток державно-приватного партнерства.

Автором показано, що російські громадяни проявляють інтерес до індивідуальної участі в проектах ДПП. Це може посприяти вирішенню частини виявлених проблем, а також позитивно вплинути на соціальний настрій населення.

Ключові слова: державно-приватне партнерство; ДПП; концесія; інфраструктура; приватна фінансова ініціатива; Великобританія; Росія.

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Государственно-частное партнерство в Великобритании и России: компаративный анализ

Аннотация. Государственно-частное партнерство (ГЧП), основанное на взаимодействии государства и бизнеса, позволяет привлекать частные инвестиции для решения общественно важных проблем страны. В Европе стоимость проектов с совместным участием государства и бизнеса за последние 5 лет составляет 72 миллиарда евро. Безусловным лидером в реализации проектов ГЧП является Великобритания.

Россия, пройдя через «чистый» рынок в 1990-х годах, постепенно возвращается к модели, при которой государство, используя различные механизмы и инструменты, принимает активное участие в развитии общественной инфраструктуры и экономики.

В статье показаны результаты компаративного анализа ГЧП в Великобритании и России, что позволит учесть опыт Великобритании для повышения вероятности избежания нежелательных ошибок и их последствий при использовании ГЧП в России.

Выявлена основная причина сокращения программ государственно-частного партнерства в Великобритании, заключающаяся в том, что именно: природа любого бизнеса такова, что его главной целью всегда будет получение прибыли, поэтому проекты, реализуемые в Великобритании через механизм ГЧП, не всегда были финансово выгодными для государства.

В российской действительности к риску убыточности проектов для государства добавляется несовершенство законодательства, регулирующего, в первую очередь, концессионную деятельность, что сводит на нет саму идею привлечения инвестиций через развитие государственно-частного партнерства.

Автором показано, что российские граждане проявляют интерес к индивидуальному участию в проектах ГЧП. Это может способствовать решению части выявленных проблем, а также положительно повлиять на социальное настроение населения.

Ключевые слова: государственно-частное партнерство; ГЧП; концесия; инфраструктура; частная финансовая инициатива; Великобритания; Россия.

1. Introduction

Over 2014-2018 period, the United Kingdom was an undisputed leader in Europe in the implementation of PPP projects, where more than 80 projects with a total value of EUR 15.08 billion were implemented. It was closely followed by France (European Investment Bank, 2019).

Today in Russia, both at the federal and regional levels, a number of projects based on PPP are also being implemented. We consider it important to take into account the experience of leaders in the public-private partnerships. A comparative analysis of PPP in the UK and Russia will allow taking into account the experience of the UK in the field and show the prospect directions and practices for advancement of PPP initiatives in Russia as well as avoid unwanted errors and their consequences.

2. Brief Literature Review

Among the scientific works related to the development and application of public-private partnerships in the UK, it is necessary to highlight studies of various aspects of this activity (Spackman, 2002; Deakin, 2002; Aerts, Doooms & Haezendonck, 2017; de Albornoz & Soliño, 2015); a description of the experience of public and private entities in implementing PPP projects (Hellowell, 2010; Ross, 2015); methodological works (Hurk, 2016; Boardman & Hellowell, 2017), forecasting the prospects for the use of PPP in the UK (Chang, 2015).

There are also critical opinions which show that PPP, as a logical step in creating infrastructure, is associated with significant commercial and managerial risks (Klein, 1997; Agarchand & Laishram, 2017; Hodge, 2018).

In Russian researches, attention is paid to the general issues of the development of public-private partnerships (Plotnikov, 2015, Varnavsky, 2017), the methodological basis related to PPP (Merzlov, 2015; Emelyanov, 2016), and its application in the specific areas and directions (Teodorovich, 2016; Gasilov, 2017; Dmitriev, 2018).

Paying tribute to foreign and Russian researchers, it should be noted that comparative studies of the development of PPPs in the UK and Russia have not been conducted. The lack of such information allows us to formulate a scientific problem, which consists in determining the features of the development of PPPs in the UK with their subsequent verification in relation to Russian reality.

3. The Purpose of the paper is to conduct a comparative analysis of the development of PPPs in the UK and Russia and single out the lessons achieved so far. To realize this goal, we set the following tasks:

1. Compare the genesis of the development of public-private partnerships in the UK and Russia.
2. Investigate the current stage of the development of public-private partnerships in the UK and Russia.
3. Compare directions, costs, and features of the projects implemented as a part of PPP in the UK and in Russia.
4. Analyze the problems encountered in the application of PPPs.

4. Empirical Basis of the Study

- The UK Government data related to PPPs.
- Data of the Ministry of Economy and Development of Russia on the development of PPP.
- Data of the European Investment Bank regarding PPPs.
- Data of the Rosinfra's PPP Centre in Russia.
- Data of the author's studies on the attitude of the Russian population and business to the development of PPPs.

5. Results

5.1. Genesis of Public-Private Partnerships Development in the UK and Russia

The United Kingdom. In the UK, a modern institution of public-private partnership has developed over the past 28 years, and the beginning of the use of private capital to create public infrastructure was laid back in the 18th century. Already at that time concession agreements were concluded for the construction and operation of roads and bridges. Concession agreements allowed the creation or reconstruction, as well as the operation of infrastructure facilities in exchange for the right to charge a certain fee for the use of these facilities by end users. The state took a minimal part in the implementation of projects, only regulating the tariffs at which the concessionaire provided services to the population. This, for example, is confirmed by the lawyer A. Borzenko, who noted that the act of the Parliament of Great Britain dated August 1, 1836 states that «railways should be left to the private discretion of those who want to turn their capital on them» (Borzenko, 1881).

Also, as an example of the implementation of concession agreements, we should recall Charles Tyson Yerkes, who played a significant role in the development of public transport in London in the 2nd half of the 19th century. Using various financial schemes based on concession agreements, C. Yerkes electrified the District line metro line and also began construction of the Baker Street and Waterloo Railway, Charing Cross, Euston and Hampstead Railway, and the Great Northern, Piccadilly and Brompton Railway. Subsequently, Charles Yerkes became the prototype of Frank Cowperwood, the protagonist of *The Trilogy of Desire* by Theodore Dreiser (*The Financier*, *The Titan*, *The Stoic*).

In the XIX and early XX centuries, concessions were widespread for the construction of not only roads and bridges, but also railway infrastructure, water supply and sewer systems. Concessions were carried out in accordance with the English contract law, as far as in the UK there were no direct concession laws.

In the first half of the 20th century, in connection with the strengthening of the state regulation of the economy, there was a curtailment of the concession programs took place.

Russia. The beginning of the public-private partnership in Russia dates back to 1558, when Grigory Stroganov received the right to colonize the Kama region from Ivan IV the Terrible, with the permission to develop various industries, including salt and, subsequently, mining. The first concession was granted to a foreigner in 1569. It was the British man. B. A. Landau, referring to I. Lyubimenko, gives a description of the first concession granted to the British in 1569, which regulated trade, the search for iron ore, and the right to export wax abroad. At that time above-mentioned were «reserved» goods, the export of which was prohibited (Landau, 1925). Since 1632, a number of concessions have been issued for the construction of mining and ironworks.

Mining was particularly developed during the Petrine Era. At that time, the weapons industry master Nikita Demidov received a concession for the development of iron and steel mills in Siberia with the condition of delivery to the treasury at the agreed prices of their products.

In 1836, a joint stock company was created, which received a concession for the construction and further operation of the St. Petersburg - Tsarskoye Selo railway. The concession agreement was dominated by the private law principles similar to the provisions of concession agreements concluded in the UK. Further, until 1880, 53 concessions for the construction of railways were granted in Russia. Their total length was more than 23 thousand kilometres.

Also, until 1917 the largest concessions in Russia included the conduct and operation of telegraph networks in 1852 (Siemens), the conduct of an underwater telegraph line from Russia to Denmark in 1869, telephony of large cities of Russia by American company Alexander Bell and the Swedish company Ericsson in 1881. In 1910 the British-Dutch firm Royal Dutch Shell began oil production on the basis of a concession in the area of the city of Grozny.

In October 1917, all concessions were cancelled. However, over time, the new government realized the need to attract foreign investment. Indeed, «concessions made it possible to introduce foreign capital into our country, not only in money, but also, which was especially important at that time, in commodity form: in the form of machinery, equipment, semi-finished products» (Radnaev, 2015). Therefore, on November 23, 1920, the Council of People's Commissars adopted the Decree on Concessions. Over the next five years, more than 2,200 proposals for concessions were received, including from German, English, American and French investors. And 163 concession agreements were concluded. Their term was quite long; all agreements also included a condition on a possible early redemption of the enterprise from the concessionaire with reimbursement of outstanding costs and lost profits. In 1937 concessions were cancelled in the Soviet Union.

5.2. Current stage in the development of the public-private partnerships in the UK and Russia

The United Kingdom. The gradual liberalization of the economy, which began in the 1980s of the twentieth century, led to the redistribution of concessions and the emergence of a new concept of partnership between the government and the private sector - the public-private partnership. So, in 1992, the conservative government of D. Major announced the creation of a new mechanism for attracting private capital for the development of roads, utilities, electricity and gas, educational and social facilities, prisons, barracks, and judicial infrastructure. This concept is called «Private Finance Initiative», or «PFI». Commercial organizations were given the opportunity to invest in the construction and operation of public infrastructure on the terms of the return of invested funds at the expense of future gradual payments from the public budget, which should have been beneficial to both the government and private partners. Over time, it was recognized that concessions and PFI are the alternative and complementary models of the one phenomenon - the public-private partnership.

It should also be noted that, as a rule, foreign organizations are not forbidden to participate in PPP projects as contractors (subcontractors) or to exercise control over the project company. Exceptions are usually made if the project entails specific national security problems or for any entity to whom sanctions may be applied.

However, when numerous violations were revealed in the course of the audit of ongoing projects in 2009-2010, the UK government, after lengthy examinations and discussions, adopted an updated concept of PPP, called PF2 at the end of 2012 (The Government of the United Kingdom, 2013). According to the new conditions, the transparency of the processes of preparation and

implementation of projects was increased; it was planned to use co-financing of projects by the government and business (the share of the government should not exceed 49%). Those innovations led to a sharp decline in the number of new PPP-based projects in the UK. And in 2017 the UK Government, considering that the business participating in PPP projects received excessive profits, while the state budget, in turn, incurred unjustified expenses, announced that it would no longer use PF2 for new government projects. At the same time, the current PFI and PF2 contracts have not been terminated due to this announcement (The Government of the United Kingdom, 2019).

In total, since 1992, 705 projects have been launched in the UK, the implementation of which is based on the application of the principles of public-private partnership. The total cost of all projects is EUR 67 billion (The Government of the United Kingdom, 2018).

More than half of the cost of projects is made up of three areas - Hospitals and Acute Health - 25%, Schools - 21%, Roads and Highway Maintenance - 10%. Detailed data by sector and government costs of the projects are presented in Figure 1.

Project implementation is distributed unevenly across 12 territories of Great Britain. Thus, the lowest cost of projects is in Wales - EUR 1.02 billion, the highest one - in the territory of England London - EUR 9.4 billion. Detailed information is presented in Table 1.

A negative public sentiment regarding PFI and PF2 schemes was strengthened by the termination of operations due to the insolvency of Carillion plc., a key PFI contractor, in January 2018.

Despite the negative impact, the private sector continues to play a key role in the UK infrastructure investment, which confirms the government's intention to attract more than EUR 350 billion of private investments by 2028. Today, the UK government is actively promoting a new model - RAB (Regulated Asset Base) - attracting investment in infrastructure development using long-term tariff regulation. At the same time, the investor compensates his investment costs precisely upon the gradual collection of payments from infrastructure users, and not from the state

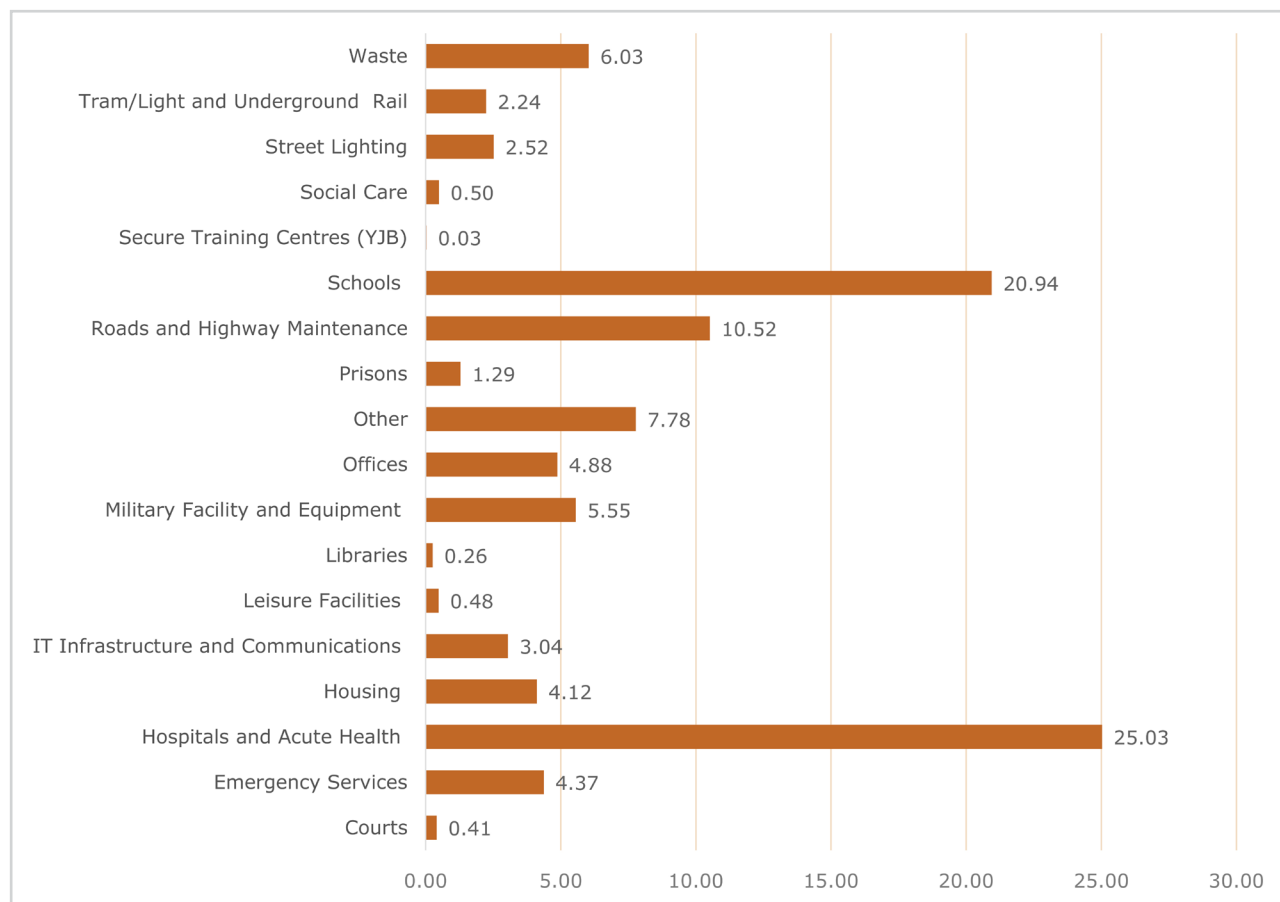


Figure 1:
**Government cost of the completed and ongoing PFI and PF2 projects
 in the UK as a percentage of the total project cost (1992-2019)**

Source: Compiled by the author based on data by The Government of the United Kingdom (2019, May)

Table 1:
Government cost and location of completed and ongoing PFI and PF2 projects in the UK for the period of 1992-2019 (in EUR million)

Territory of implementation of PPP projects	Cost (EUR million)	% of the total cost of the projects
National/More than one region	8 853.39	13.27
England East	3 945.47	5.91
England East Midlands	3 019.89	4.52
England London	9 363.63	14.04
England North East	2 777.34	4.16
England North West	6 297.64	9.44
England South East	7 175.73	10.75
England South West	3 646.66	5.47
England West Midlands	6 054.52	9.07
England Yorkshire and the Humber	5 740.61	8.61
Northern Ireland	2 027.26	3.04
Scotland	6 767.28	10.14
Wales	1 021.53	1.53
Outside the UK	20.00	0.02

Source: Compiled by the author based on data by The Government of the United Kingdom (2019, May)

budget. However, there is a number of unresolved issues concerning, for example, hospitals, schools, public buildings, for the use of which the consumer payment is usually not provided. Moreover, according to PPP schemes, projects related to defence, judicial and prison infrastructure are also implemented, where it is also impossible to charge fees for services. Now, in the economic and political community of Great Britain there is an active discussion about possible updated options for PPP, which only confirms the importance and necessity of cooperation between the business and government.

Russia. The law on concession (The State Duma, 2005) in the Russian Federation was adopted in 2005. Further, in 2015, the law on public-private partnerships (The State Duma, 2015) was adopted. The purpose of both, the concession and PPP, according to these laws, is to attract investment in the economy of the Russian Federation. Nevertheless, there are several important differences in the laws, which primarily relate to the concessionaires and private partners. So, only a Russian legal entity that is not controlled by the federal, regional or municipal authorities can act as a private partner; and a concessionaire can be either an individual entrepreneur or a Russian or foreign legal entity.

There are certain differences in the types of activities that a concession and a PPP schemes apply to.

Both the concession and PPP can be applied in the following areas: transport infrastructure (except for roads); production, transmission and distribution of electrical energy; health care; educational, cultural, sports, recreation and tourism facilities; social service facilities; facilities focused on solid municipal waste management; facilities of production, processing and storage of agricultural products; computer programs, databases and related infrastructure.

Exclusively concession applies to the following areas: roads; airport infrastructure; heating, hot and cold water supply, power supply, gas supply; lighting and improvement of areas; metro and other public transport; infrastructure for warehousing, storage and repair of property of the Armed Forces; objects of social services for citizens.

Exclusively PPP applies to the following areas: private roads and highway maintenance; public transport, with the exception of metro; underwater and underground technical structures, communication objects; reclamation systems; objects of hunting infrastructure; communication objects for the production of industrial products and other activities in the industry.

As noted above, foreign investors can only act within the framework of a concession agreement, which, as a rule, does not imply the transfer or creation of ownership.

Today in modern Russia, more than 4 thousand PPP projects are being implemented with a total value of government costs EUR 69,976.6 million, which roughly corresponds to the volume of implemented projects in the UK. Most of them are based on concession agreement.

The focus of projects is divided into 8 main areas as presented in Figure 2.

It can be seen from Figure 2 that more than half of the cost of all projects relates to the direction «Roads and transport infrastructure», and special attention is paid to the public utilities sector, including heat supply, water supply and sanitation, gas supply. Considerable attention has been

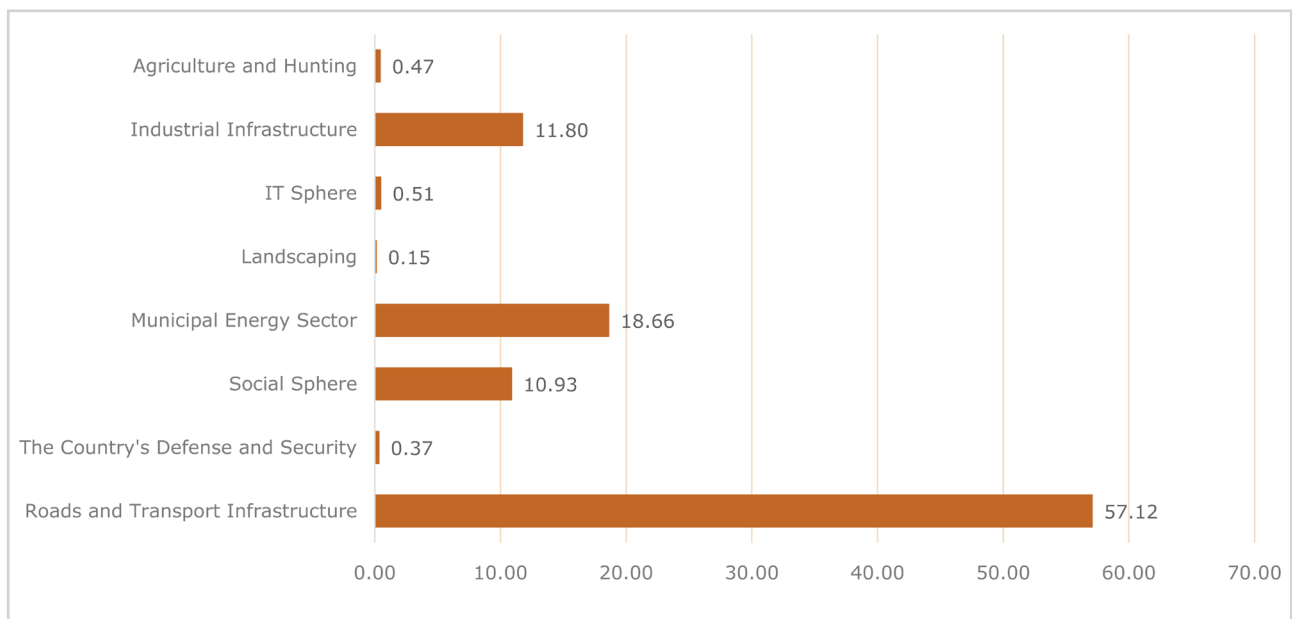


Figure 2:

The government cost of the Russian PPP projects as a percentage of the total cost of the projects (2005-2019)

Source: Compiled by the author based on data by Rosinfra (2019, October)

given by the government to the social sphere, which includes such areas as housing, healthcare, the creation of social and cultural facilities and fitness centres.

At the same time, the projects are unevenly distributed throughout Russia. Comparison of the number of residents in the federal district and the government share of the total cost of ongoing projects has shown the greatest discrepancy in the South (district population is 16,454,550 people, or 11.2% of the total population of Russia) and the North Caucasus (district population is 9,866,748 people, or 6.7% of the total population of Russia) districts (Table 2).

There is a certain difference in the areas and directions of PPP projects in the UK and Russia.

In Russia, public-private partnerships are not used in the formation of the structure of the judicial and penitentiary systems. At the same time, projects related to the aviation, rail and sea transport, cooperation in the field of agriculture, cooperation in the development of heavy, light and food industries are not implemented in the UK. Perhaps, some of these areas are included in the «Other» group in statistics. Also, when compiling the summary table, we have combined the Russian direction «objects of physical education and sports» with the direction «leisure facilities». More detailed comparative data are presented in Table 3.

5.3. Analysis of problems arising from the application of PPP

The United Kingdom. In the process of implementing projects based on the principle of PPP, a number of problems have been identified that have arisen in the UK. We have grouped them by the following directions:

1. The preparatory periods for launching projects were unreasonably delayed in time and very expensive, which significantly increased the final cost of the projects.

Table 2:

The government cost and location of PPP projects in Russia for 2005-2019

PPP scope	Cost (EUR million)	% of the total cost of projects
Central Federal District	28 810.99	41.17
Northwestern Federal District	9 135.70	13.06
Volga Federal District	7 041.08	10.06
Ural Federal District	9 620.67	13.75
Siberian Federal District	10 315.91	14.74
Far Eastern Federal District	1 781.27	2.55
North Caucasus Federal District	198.72	0.28
Southern Federal District	3 072.28	4.39

Source: Compiled by the author based on data by Rosinfra (2019, October)

Table 3:
**Comparison of the government cost of PPP projects in the UK and Russia as of October 2019
(in EUR million)**

PPP scope	UK	Russia
Agriculture	0.00	329.94
Air Transport and Infrastructure	0.00	2 647.92
Courts	273.20	0.00
Emergency Services	2 917.40	0.00
Hospitals and Acute Health	16 698.59	1 851.56
Housing	2 748,33	151.92
Improvement of Public Spaces	0.00	55.97
Industry	0.00	8 259.28
IT Infrastructure and Communications	2 031.12	354.16
Leisure Facilities	320.70	4 157.25
Libraries	172.58	0.00
Military Facility and Equipment	3 705.51	256.56
Municipal Energy Sector	0.00	6 900.90
Offices	3 252.37	0.00
Other	5 190.00	0.00
Prisons	861.47	0.00
Railway Transport and Infrastructure	0.00	8 647.87
Roads and Highway Maintenance	7 016.61	26 798.90
Schools	13 971.91	1 281.35
Sea Transport and Infrastructure	0.00	1 321.55
Secure Training Centres (YJB)	22.23	0.00
Social Care	330.53	203.44
Street Lighting	1 680.35	27.32
Tram/Light and Underground Rail	1 492.10	554.63
Waste	4 025.97	6 153.38

Source: Compiled by the author, data by The Government of the UK (2019, May) & Rosinfra (2019, October)

2. The contracts, especially during the operation of the facilities being created, did not have sufficient flexibility, which made it difficult for the government to make changes in the course of their implementation aimed at improving customer service.
3. The activities of private partners were not transparent enough, primarily in terms of costs and revenues.
4. When applying the PFI concept, all risks were delegated to the private partners, which led to the higher risk premiums, increased the cost of projects, and, consequently, the cost of budget funds.
5. Sometimes, the government unjustifiably used PPPs without applying other traditional schemes, which did not provide the necessary effect of budget savings and led to overrating.

Russia. In Russia, the problems that arise during the implementation of PPP projects have not yet been formally voiced, but it can be assumed that the discussed above British problems are relevant for Russia as well.

In addition, the following characteristic features were identified in the course of a series of economic research and sociological surveys conducted by the author in one of the regions of Russia regarding the use of PPP in infrastructure development (Podgorny, 2019):

1. The majority of the population does not have information on ongoing PPP projects both in the country and in the region of residence.
2. There is no accessible and understandable information in the media about the implemented and ongoing PPP projects, which may lead to a distortion of real facts with the aim of manipulating public opinion.
3. There is a low awareness of business entities about the possibility of participation in the projects based on PPP.
4. The cases of formal (mock) use of PPPs have been identified, which is expressed in the creation of legal entities by the regional authorities that further act as concessionaires. In such cases, there is no real attraction of private funds in the infrastructure development, but the «transfer of money from one pocket to another».
5. More than half of the respondents consider the public-private partnerships useful, and more than 30% of the total number of respondents express the opinion that PPP mechanism should

be available, individually or through institutional investors, as investment tool for the entire population. This confirms the conclusions of other researchers (Soskin, 2015), as well as our conclusions obtained in 2017-2018 when conducting economic and sociological research in 5 regions of Russia (Podgorny, 2018) that a significant part of the population in the former Soviet countries is a potential participant in the development of national economies through various investment models when the government creates favourable conditions and supports private initiative.

6. Conclusion

Our analysis has shown that PPP mechanism in the UK and Russia is based on a private legal basis. The use of this form of attracting the necessary investments has been initiated by the concession agreements in both cases. With the same monetary volumes, public-private cooperation in Russia is somewhat wider than in the UK. This type of cooperation between the state and business in Russia extends not only to infrastructure, but is also used to develop industry, agriculture, air, water and rail transport.

When implementing PPPs in Russia, it is necessary to take into account the problems encountered in the UK and take measures to prevent them. The main problem is that the nature of any business is such that its main goal will always be profit. This goal can be explicit or latent with the declaration of the social orientation of the implemented projects. This has become a major factor in curtailing both PFI and PF2 programs in the UK.

In Russian reality, this is supplemented by the imperfection of the legislation regulations, first of all, concession activity, which negates the very idea of attracting investments through the development of public-private partnerships.

As the results of the regional Russian studies show, the population shows interest in individual participation in PPP projects. This can contribute to solving some of the problems identified, as well as positively affect the social mood of the population and the creation of a more massive layer of the private investors, rehabilitating the idea declared during the Russian privatization, with the aim of creating a mass owner.

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