



## Development of Institution of Public-Private Partnership: German and Russian Practices

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### Abstract

A institution of public-private partnership is a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies. Institution of public-private partnership has started to found in Germany since 1998 according to the institutional providing legislative basis for organization of steady interaction between private and state sectors. Public-private partnership formation in Germany took place at two stages.

Derivative development of institution of public-private partnership aims at achieving greater social and economic efficiency than at its importing to another economic and institutional sphere. Borrowing of Institution of public-private partnership from foreign countries has been proceeding in Russia since 2005.

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### Introduction

First real examples of partnership between government and business appeared in the XVI-XVIII centuries in Western Europe and in the other countries of the world this happened at the end of the XIX century (Abdrakhmanov A. I., 2012). Owing to the state-private cooperation it was possible to implement large-scale projects at a state level at the turn of the XIX-XX centuries in many countries including Russia such as railway construction.

### Historical Background

Institution of public-private partnership started in Great Britain at the beginning of the 1980s and proved its efficiency during that period. About 600 similar projects were implemented in Britain in the 1990s. Holding and intensive development of rule-making activity encouraged rapid spreading of principles of state-private cooperation in this country which was coordinated by governing body of European Union. Since 1990 and in the middle of the 2000s European Union regulations have appeared gradually where rules and regulations about giving contracts to private companies in the services sector as well as in the state monopoly spheres and trade areas like electric power, gas and railway communication were stated.

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## Institution of Public–Private Partnership in Germany

Institution of public–private partnership has started to found in Germany since 1998 according to the institutional providing legislative basis for organization of steady interaction between private and state sectors.

One of these classic examples of optimal combination of public and private interests is an implemented project of the reconstruction of the big German airport in Frankfurt on the Main with capital formation by stock emission (Mochalnikov V. N., 2012), 29% of which were sold at stock exchange whose share holders became the land of Gessen (32,1%), Frankfurt (20,5) and the government (18,4%). The organization which was formed is a private shareholder of the other German airports and at the same time works under the control of public investors. Successful work completion encouraged making decisions by its sponsors about continuation of the work which had already started in projects about airport reconstruction in Dusseldorf and Hamburg.

Public–private partnership is an institutionally organized mutually beneficial relations between state and private entrepreneurial structures which provided consolidation of economic resources and risk distribution and benefits at achieving joint specifies aims. Appearing of public–private partnership institution set conditions for creating and wide application of mechanism of private capital involvement to finance infrastructure sectors which are traditionally financed by the state budget. Public–private partnership is used when a “private individuals can carry out government tasks as good as and maybe better than the government”. (paragraph 7 of the federal budget regulations).

## Spheres of Public–Private Partnership in Germany

Germany uses such spheres of public–private partnership:

- social infrastructure (education, housing, public health);
- regional rail service;
- motorways;
- water supply;
- solid domestic waste and waste waters recycling;
- penitentiary system.

## Public–Private Partnership Formation in Germany Took Place at Two Stages.

The first one includes making formal rules and institutional providing at different levels (federal, territorial, local) elimination of law barriers. And with it, state control is kept in cooperation with members of private business. There were appointed legal forms and cooperation between state and private firms (concession, leasing, joint enterprises, renting) and complex distribution of risk.

The second stage is creating institutional structure (Partnerschaften Deutschland, 2010). First of all, a joint-stock company is created which carries out extension work and consults public authorities and takes an active part in projects of public–private partnership. Land groups and cooperative association of public–private partnership act as independent and public participants who assess social and economic efficiency of models public–private partnership for a certain project. At the federal level Ministry of Finance Partnerschaften Deutschland develops and carries out the policy of support and development of public–private partnership; at the regional level local Ministry of Finance of land works with these projects; at municipal level municipal authorities work with problems of public–private partnership. Investment market for objects of infrastructure is founded; guaranteed stock of projects is formed.

## These are some features of realization of public–private partnership projects in Germany:

- cooperation between government and business;
- accurate planning and arrangement of public–private partnership projects;
- long negotiation process;
- detailed agreement of public–private partnership;
- successful project realization.

Derivative development of Institution of public–private partnership aims at achieving greater social and economic efficiency than at its importing to another economic and institutional sphere.

## Institution of Public–Private Partnership in Russia

Borrowing of Institution of public–private partnership from foreign countries has been proceeding in Russia since 2005. Its import implies:

- taking into account peculiarities of economic and cultural features in Russia;
- level of entrepreneurship;
- quality of public administration;
- -specialist qualification in public authorities;
- confidence of business owners in government projects.

Nowadays Institution of public–private partnership is being formed as institutional security and legislative base is fragmentary. Institutional structure is formed gradually. Its elements are federal executive government body with public–private partnership centers, federal initiative with the participation of private sector, federal ministries without centres of public–private partnership, local centers of public–private partnership.

At the same time practice of introduction principles of public–private partnership into regional administration makes space aspect more actual. This can be proved by the processes of development in big Russian cities such as complexes in Moscow, Olympic facilities in Sochi, complexes “Sea front” and “Baltic pearl” in St Petersburg.

## Spheres for Public–Private Partnership in Russia

There are some major spheres for public–private partnership in Russian regions:

- development of industrial and transport infrastructure;
- housing and communal services;
- health services and social services;
- scientific research financing which can provide prospects for commercialization; development of innovative infrastructure.

## Risks of the Development of Public–Private Partnership

However, the development of public–private partnership at regional level is connected with risks:

- weak institutional provision;
- weak financial independence of regions from federal center;
- political domination over economic efficiency when finance decisions are taken;
- widespread corruption;
- low quality of project management;
- low level of confidence between people, business owners and authorities.

Efficiency of public–private partnership development can be reached by consolidation of national and regional institutions, reducing administrative barriers concerning small and medium size enterprises, antimonopoly actions, trustful relationship between participants, transparency of public–private partnership projects, and clear identification of priority of social and economic policy.

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