Chapter 12

Public–Private Partnership and Financing the Development of National Infrastructure: Safeguarding Public Finance Sustainability

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ABSTRACT

The chapter contains a methodology for formalized evaluation of the model of replacement of budget funds by private investment in the public infrastructure PPP projects for the purpose to ensure public finance sustainability. It can manifest itself only if the state could create appropriate conditions for private investors, including institutional players as its partners. The latter means primarily the stable formal institutional conditions for private investors, low transactional costs, attractive financial parameters, that could bring the ratio of budget and private financing of public infrastructure PPP projects to more than 1 to 1. It has become evident that accelerated development of many public infrastructure PPP projects is hampered by two factors: (1) inadequate institutional support for the design process itself and (2) absence of state-prepared acceptable financial models of public infrastructure PPP projects regarding the division of risks of infrastructure projects and delegating the proprietary rights of the state to private investors.

INTRODUCTION

In contemporary world the importance of new approaches to the adequate institutionalization of a mutually beneficial partnership between the state and private business is increasing as the pace of economic development of almost all countries over the Globe slows down and national governments show the inability to reverse this trend. This is largely due to the fact that lately there have been both quantitative and qualitative changes in the economic functions of modern states that have not received a satisfactory theoretical explanation (Ritter, 1996; Tanzi and Schuknecht, 2000).

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According to the participants of the World Economic Forum (WEF, 2017) one of the effective mechanisms for ensuring sustainable economic growth in the Globe becomes the development of various forms of public-private partnership. Politicians, scientists and practitioners agreed that by 2030, it would only be possible to achieve sustainable development goals (SDGs) in the global economy if the great potential of various forms of business cooperation between the state and private business could be realized. In fact, there was emphasized the theoretical and practical significance of the search for new and of the expansion of already existing models of cooperation between the public and private sectors in the implementation of transactions with public goods. The fundamental meaning of this partnership is to combine the advantages of organizing transactions by the state and private business in order to minimize the economic and financial losses that are typical for each of them separately.

To assess the potential of PPPs in the context of the necessity to safeguard economic and financial sustainability there turned out to be of extreme significance the scientific developments of the institutional theory, theory of transactional costs, economic theory of law and others, based on the publications of the following authors: G.M. Hodgson (1988); R. Coase (1993); O. Williamson (1996); D. North (2003); C. Menard (2003); as well as the analytical papers of the Global Infrastructure Outlook (2017, 2018), World Economic Forum (2017), McKinsey Global Institute (2017) and etc. This fundamental theoretical basis allowed the author to identify three basic forms of PPP organization (Vaslavskiy, et al., 2019) – quasi-market, hierarchical and hybrid ones. According to the author, the most promising PPP forms are hybrid organizations of partnership between the state and private business in the implementation of infrastructure projects because of their potential to accelerate economic development and to ensure the sustainability of public finance. This is due to the fact that the state is always limited in budget expenditures for capital projects, but private investors could be attracted to invest into them under the conditions favourable for the private partners under the patronage of the state. Taking into account the contribution of infrastructure to economic growth, the hybrid forms of infrastructure PPP projects can be confidently attributed to the most promising in modern conditions of fiscal consolidation and of economic growth slowdown in the Globe. The literature on the above problems presents a wide range of estimates for fiscal multipliers that could be applied to the infrastructure PPP-projects (Spilimbergo, et al., 2009; Christiano, et al., 2011; Batini, et al., 2014; Auerbach, and Gorodnichenko, 2012; Vlasov, and Deryugina, 2018), but the findings are not all certain. The author proposes a model approach to the problem of financial design of the development of the public infrastructure PPP-projects allowing to justify new financial instruments and financial institutions to ensure the national economies’ growth rates in the perspective to 2020.

To reinforce the findings, some results associated with other theoretical investigations and analytical researches are presented.

BACKGROUND

The history of PPP development in national economies is not so long, so there are many unresolved issues, both theoretical and practical: what factors predetermine the diversity of PPP forms, what principles should be considered as major ones in organizing partnerships, what determines the effectiveness of PPP funding mechanisms in different areas of the public sector, how could be possible to optimize the interests of public and private partners in diverse PPP models, including their hybrid forms, and etc. The lack of models of best national PPP practices explain the limited use of the potential of various forms of public-private partnerships in the global economy and the lack of a common understanding of their