

## Russian and Foreign Experience of Interaction Between Government and Business

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**Abstract:** The increasing complexity of socio-economic processes in the modern world leads to the need for an adequate increase in the complexity of their regulation mechanisms. There is a need to develop a partnership of governmental agencies and private businesses. It is reflected in the spread of the institute of public-private partnership (PPP). We have found out that the global experience of public-private partnerships in education is in demand in the present Russian context situation, with a difficult situation in personnel training. The existing ambitious plans of the government to accelerate the innovative development of the Russian economy are restricted by a substantial shortage of properly trained professionals. In this case the resource capabilities of the Russian state institutions of professional education are not sufficient to meet the challenges they face. Therefore it is necessary to attract business structures through the mechanism of PPP. In this case, to take account of the interests of these business structures, it is suggested that a number of specific conditions should be considered. This can increase the efficiency of PPP projects in the field of education.

**Key words:** Vocational education system • Public-private partnership • Governmental economic policy

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### INTRODUCTION

A public-private partnership (PPP) is an institute that allows, on one hand, public authorities and local self-government, institutions and enterprises of the public sector of economy, and on the other hand, representatives of the private sector to form and develop a system of mutually beneficial long-term economic and organizational relations.

Russian as well as international experience shows that public-private cooperation usually develops in those industries that are essential for economic development and have social importance for the society, but in view of the prevailing conditions are deemed insufficiently profitable for private capital because of capital-intensity, the long-term return on investment, high risks and other factors.

If these factors affect together, in order to develop such industries and economic activities the government and private business partnership strategies are used. It is carried out, for example, in the form of joint ventures with mixed public-private capital, by the implementation of socially significant joint business projects, etc. The state in terms of PPP acts as a specific subject of economic

relations and uses the private form of capital in order to achieve certain social objectives. In this sense, the state moves away from purely political and administrative functions and becomes a specific subject of the economy itself [1].

The challenges related with PPP have become especially serious in modern post-crisis conditions and first of all at the regional level, which we have previously discussed in [2]. Today, the state is objectively experiencing a need for the implementation of social projects aimed at improving the quality of life of the population (such as the development of transport systems, public utilities, health care, education, etc.), at the same time, it often experiences a shortage in the budgetary resources for their implementation. In this situation it seems logical to attract private business to this kind of initiatives.

At the same time, private-business organizations are in a difficult position today. The uncertainty of business environment caused by a protracted crisis generates uninsurable risks, which can only be avoided in cooperation with the state. Thus, today PPP acts as a form of mutually beneficial cooperation between business and government.

There are some interesting results reported by S. Rozhkova [3]. She made an attempt to identify priority areas of PPP projects implementation in countries with different socio-economic development levels. The author has randomized PPP projects for analysis from 915 PPP projects. As it can be seen from the above data (Table 1 Source: [3]), it is possible to identify a direct relationship between the socio-economic development level of a country and the PPP intensity.

Another conclusion, that can be drawn from the analysis of the data presented, is that in G7 countries PPP projects are mostly implemented in social sphere, absorbing more than half of the projects (52.3%) it takes a confident lead.

The World Bank's estimates given in a database on its Web site [4], demonstrate that in 2004-2008 more than 392 transactions involving different variations of a public-private partnership model were concluded in the world, totaling more than \$ 110 billion. If we compare these figures with the figures for the previous five years (1999-2003), we'll see that the number of transactions has increased by 60%. In value terms, the increase was more than by 3 times. The main reason for an increasing number of PPP projects, the World Bank analysts say, is higher efficiency and implementation speed of a project with the joint participation of the state and business. The effectiveness of projects implemented on PPP principles may increase by 10% in average.

The review outcomes show that PPP projects are characterized by significant industrial diversity (Table 2 Source: [5]).

Let us look at the existing national individual experience associated with the realization of public-private partnership potential in the vocational education field.

In the United States private investments are attracted to higher education through a variety of organizational forms. One of them is the endowments or resource capital funds with a wide range of intended use. For example, the size of Harvard University fund is about \$ 26 billion. The Yale University fund is more than \$ 12 billion. Endowments of Princeton and Stanford universities account for more than \$ 10 billion.

Another form of attracting investment to higher education is the funds set up by government or business, or government and business together. They provide funding for university projects primarily in two ways: by providing grants and on a contract basis.

In the first case, the attraction of investments is initiated by an educational institution that files an appropriate application. Funds evaluate it and make a

decision on the research and its financing. In the second case the contract is initiated by a fund and a university will receive funding for a project on predetermined issues on the basis of tenders.

In many states in the U.S. the regional authorities are encouraging the expansion of university partnerships with private industry, especially in the field of technology transfer. Analysis of the contemporary practices shows the variety of the forms used. Their basic structure includes target retraining and professional development of personnel according to the programs coordinated with their company; consulting services, execution of joint researches; technical assistance (formation of databases, expertise, technology audit, etc.).

In the UK the importance of PPP institution for the development of education system is demonstrated by Table 3 Source: [6].

As it is clear from the presented data education ranks the third among the implementation areas of PPP projects in the volume of funding leaving behind defense and housing sector. It is worth noting the stable growth trend in the amount of financing PPP projects in this area. Thus in 2003 it amounted to £ 373 million, in 2004 - £ 575 million, 2005 - £ 1.146 million in 2008 - £ 2.076 million. Within five years the growth rates exceeded 550%.

The development of universities and businesses integration in the UK is associated with the expansion of the functions realized by universities. They are not only the basis of training highly qualified specialists and forming scientific manpower, executors of fundamental and applied research, but also are incubators for small innovation businesses, a foundation of science and technology parks and regional innovation clusters.

When the State is promoting the integration of universities and business, it pursues a number of objectives: to diversify higher education financing sources, to develop and use its innovation potential effectively and to increase the competitiveness of the country in general and its territories in particular.

The Strategy of UK Sustainable Development assumes that an increase in country's competitiveness depends on the development of social investments, especially investments into the development of science and improvement of the vocational education of a workforce. The increase in investments into the higher education system is ensured by both the state and business. Different methods are used to stimulate investments.

Thus, in recent years the UK government has cut direct financing of the research in the private sector to focus on the financing of the joint work of universities

Table 1: Distribution of PPP projects by industries in countries with different socio-economic development levels in 2006

Branch	The countries "Group of Seven"	Other developed countries	Countries with transition economies	Developing countries	Total
Accommodation facilities	51	22	1	1	75
Airports	-	4	2	2	8
Bridges and Tunnels	13	6	2	-	21
Defense	20	1	-	-	21
Education	138	23	1	1	163
Health care	184	29	2	1	216
Innovative technologies	2	2	-	-	4
Organization of leisure time	1	2	1	-	4
Light rail metro	25	19	2	1	47
Ports	2	2	1	-	5
Prisons	2	2	1	-	5
Railways	5	11	-	1	17
Highways	92	93	23	10	218
Social housing	22	4	-	-	26
Street lighting	15	-	-	-	15
Communal facilities	1	3	-	-	4
Use of a waste	23	7	-	1	31
Water treatment facilities	12	7	-	2	21
All Others	-	2	-	-	2
Total	615	241	37	22	915

Table 2: The main sectors in which PPP programs are developed and implemented

Country	Sector
United Kingdom	Education, health service, defense
Finland	School and higher education, road concession (Shadow toll)
Ireland	Vehicles, education, water supply, recycling of waste
Italy	Hospitals, vehicles, recycling of waste
Netherlands	Water service, speed rail service
Portugal	Airports, road concession (Shadow toll)
Spain	Road concession (Real toll), regional road concession (Shadow toll)
Japan	Health service, housing sector, information technologies, transport at the regional level
Australia	Roads, hospitals, correctional institutions
Republic of South Africa	Correctional institutions, water service, health service, education

Table 3: PPP in the UK split by sectors, 1987-2008

Rank	Sector	Signed contracts, £ million	Share, %
1	Transport	16 605	25
2	Health service	14 435	22
3	Education	11 344	17
4	Defense	9 312	14
5	Housing	6 430	10
6	Other projects	7 812	12
	Total	65 938	100

with a participation of business. This approach leads to an increase in the number of research personnel of higher education institutions, who are working on a contract basis and in the number of studies carried out for commercial customers.

The expansion of the forms of cooperation between business and higher education has become a key development of the modern policy of territorial development in the UK. Faraday Communities,

associations of various organizations and institutions, including research and technology organizations, universities, professional institutes, trade associations and firms, have turned to be a successful project to establish cooperation between science and business. Their goal is to organize the interaction between science, technology and business to arrange the transfer of technology in order to improve the competitiveness of the UK industry.

An important role in financing the research conducted in universities is played by the Innovation Fund of Higher Education (IFHE). The funds allocated by this organization allow universities to open offices to coordinate their relations with businesses and transfer technologies; to make market analysis of research activities, to render consultant and educational services to enterprises; to encourage entrepreneurship and to teach students entrepreneurial skills; to provide students with jobs at enterprises and to supervise this activity.

The activity of the Governmental Fund of universities' seed investments is worth paying attention to. Its aim is to fill the financial gap that exists between university research and their possible commercial use. The use of seed fund investments by universities promotes successful transformation of research results into business projects.

In Russia, as the current situation analysis shows, the system of vocational education is unbalanced. There is a lack of qualified workers. It goes without saying that there is a certain lack of higher-level professionals (engineers, technicians), but it is less critical: professional higher educational institutions and secondary vocational schools train specialists of this kind. Although there are some problems with their attraction and retention in the industry.

As for the labour people, their training has been steadily declining. The main element here is the system of initial vocational education. During the Soviet period it was composed of vocational schools, now they have been converted mostly into lyceums or colleges. Their goal, according to the Russian legislation on education is to train skilled workers in all major areas of public benefit activities on the basis of general and secondary (complete) general education. Both the numbers of such educational institutions and that of their graduates have been steadily declining.

However, the presented data do not consider that the Federal State Statistics Service represents data for a system of primary professional education in general without combining indicators by fields of study. As we know, in post-reform years many vocational schools, in addition to their renaming, dramatically altered their graduation structure to the detriment of blue-collar professions.

As a result there is a lack of skilled workers. For example, the average age of workers employed at the industrial enterprises in Omsk is 38 years that of dismissed workers is 44. These are average figures for all

specialties and levels of training. If we look just at blue-collar professions, the figures are as follows: turners are 49 in average smiths are 50 and grinders are 55. The situation is similar in other Russian regions and municipalities. It is clear that it is hardly possible to implement the innovative programs on the refurbishment of industrial enterprises with such human resources. There is simply no workforce to execute such programs.

To overcome these obstacles it is necessary to establish effective direct links between the organizations of professional education and business. In the considered area more attention should be paid to the mechanisms of public-private partnerships so that to ensure it the resources allocated by the government are spent in those training areas that are required by the domestic industry, transport, trade, etc. The recovery of effective training in many blue-collar professions may ask for significant governmental investments into modern equipment, need additional recruitment and retention of qualified instructors, require the development of modern training aids and methodological support of learning processes, etc.

A good example of successful cooperation of the kind in the North-West Federal District, is the interaction of "Akron" company and Novgorod professional lyceum # 1 where the programs used to train chemical production equipment operators and electricians have been developed and tailored according to the requirement specifications of the employer. The employer has placed an order for such categories of workers and future specialists are guaranteed well-paid jobs [7].

Unfortunately these examples are still scarce. We believe that it can be explained by insufficiently developed institutional aspects of the interaction between education system and business, by the presence of risks for both parties of a public-private partnership that are not adequately insured in modern economic and legal conditions. Apparently there is a need for further practical studies in this area with their outcomes appropriately fixed in legal and regulatory norms both at regional and federal administrative levels.

The analysis shows that the PPP models enjoy different demand in different segments of the education market. It is determined by the fact that educational institutions (service providers) and enterprises (first of all we mean industrial companies) have different organizational and legal statuses. They assess their performance by different criteria and are guided by different targets. If business structures are more oriented onto the private interest (despite its popularization, the idea of corporate social responsibility has not been

widely adopted by Russian business), education system is mainly focused on the objectives presenting public interest.

### **CONCLUSION**

Here we are faced with the famous market failure problem that stems from the contradiction in the motivation guiding activities of the different institutions and is well-known from the neoclassical economic theory. Therefore it is necessary to find tools to align their motives, goals and interests. With advanced training, retraining and targeted training such alignment can run most efficiently. Consequently, it is this area where a public private partnership will be the most productive. In this case principles and approaches to workers' training that have been discussed above can be taken up by universities as well.

In our opinion main directions of PPP development projects involving educational institutions and industrial enterprises that are able to reveal the potential of a partnership for education innovative development to the full are as follows:

- The creation and development of public involvement institutions (supervisory, trustee, public, administrative and other boards that can be established in educational institutions);
- Empowering public involvement institutions of with extensive powers in the area of higher education administrating, organization and implementation of their interaction with the industrial and other business structures;
- The development of a system of grants and grant programs to support training courses and programs, activities, research and scientific work, projects, scholarship programs, etc., which are to be financed by private business organizations;
- Involvement of nonprofit organizations, alumni associations and other institutions of civil society in PPPs.

One of the promising development directions is a more extensive application of public-private partnership practices in the organization of additional professional education in state-owned schools in the interests of enterprises. This work should be done more strongly at regional and sectoral levels, which permits to consider specific features of particular PPP projects fully and promptly and to ensure their effectiveness and feasibility.

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