Chapter 12

Model of Socioeconomic Development Based on Market Economy and Public-Private Partnership (PPP) Mechanism:

Key Approaches and Terms for Implementation

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ABSTRACT

This chapter systematizes the main components of the socio-market model of the economy. Its basis is formed by market economy and public-private partnership as the mechanism stimulating the attraction of private investments. Using the opportunities of the market economy and PPP mechanism creates a real opportunity for the formation of a new model of socio-market economy. This model does not imply the weakening the role of the state and infringement of democracy as such, but rather strengthening of institutions and PPP mechanisms with the aim to attract private investments and improve social relations at the same time. This chapter is thus aimed at revealing the main elements of this socioeconomic model along with the theoretical, methodological, and practical aspects of its main components: the market economy and the PPP mechanisms.

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INTRODUCTION

Managing the public-private partnerships in the context of mixed economy is one of the key elements in the national model of social-market economy which is essentially based on partnerships between the state, businesses and civil society institutions.

The PPP management mechanism assumes a system of economic levers that provide incentives for attracting private investments and their further effective use in the course of infrastructure projects. These levers include legal, budgetary and off-budget sources, prices, taxes, loans, customs payments and other incentives for attracting investments. According to A. Kulman, economic mechanism operates within the framework of laws and rules adopted by the state, "forming an economic regime that includes elements of state legislation, corporate law, legal forms of combining labor and capital within enterprises, defining the scope of preferential taxation etc." (Kulman, 1993).

The nature of economic mechanism, formed for each of the development stages, does not eliminate the possibility of the impact of force majeure circumstances or other external factors; moreover, it allows adapting to new conditions. This approach assumes the use of the state system in management over the process of formation and functioning of PPP.

Under the current conditions of Russian economy, the PPP mechanism should be seen as a strategic development management tool which allows not only minimizing costs for all types of transaction costs, but also providing a system solution for attracting financial resources for the implementation of large infrastructural projects which later would ensure the reproduction process.

From the institutional perspective, public administration of PPP is considered as an optimal strategic approach to stimulating socioeconomic development that combines efficiency, flexibility, and competence of the private sector with the control possibilities, long-term prospects and social interests of the public sector (Spielman, & Grebmer, 2012). Management of public-private partnerships should be viewed as a process that forms a tolerant relationship between the subjects of market relations and civil society institutions in the process of public production, exchange and distribution, and with the aim of ensuring sustainable growth and development of economy and social relations.

Ultimately, competently organized management ensures the achievement of the planned results with the most efficient use of resources and preservation of the environment. At the same time, in the process of implementing large projects PPP management ensures the rule of law, transparency in the use of funds, responsibility, interest of all participants in achievement of final results, ensuring their rights and compensation for possible losses.

Managing large PPP projects often assume the possibility of project management application. The project structure, in its turn, assumes implementation of the infrastructural target tasks, one-man management and stronger responsibility for all related decision and actions. At the same time, according to the recommendations of the World Bank, own capital must cover at least 20-30% of the PPP project costs (Nikonov, 2017).

Such management of PPP projects requires a targeted approach and its phased implementation, which includes the definition of ultimate goals, working out the ways of its achievement, including through the provision of investments, and systematic monitoring over the project implementation.

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