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## PUBLIC-PRIVATE PARTNERSHIP AS THE BASIS FOR TERRITORIAL BUDGETS EQUILIBRIUM ACHIEVEMENT\*

*Problems of territorial budgets equilibrium under current conditions are actualized in the article which shows that the efficiency of debt policy implementation by government authorities should be estimated not so much by the level of public debt growth characteristics and debt service outgoing as by comparison of borrowings in the period considered and investments from public finance. As a result of Russian Federation regional budgets research and detailed analysis of Perm Krai budget parameters as well as modelling the options for its development in the long term conclusion has been made on the necessity of public-private partnership development as the basis for budget equilibrium achievement and an important factor of sustainable regional economy growth. Keywords: public-private partnership; territorial budgets; debt policy; investment costs; public debt.*

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## ДЕРЖАВНО-ПРИВАТНЕ ПАРТНЕРСТВО ЯК ОСНОВА ДОСЯГНЕННЯ ЗБАЛАНСОВАНOSTI ТЕРИТОРІАЛЬНИХ БЮДЖЕТІВ

*У статті актуалізовано питання збалансованості територіальних бюджетів у сучасних умовах. Продемонстровано, що ефективність проведення боргової політики територіальними органами влади має оцінюватись не стільки рівнем додатних характеристик державного боргу та розмірами платежів на їх обслуговування, скільки співставленням приросту запозичень протягом досліджуваного періоду до обсягу інвестицій сектору державних фінансів. У результаті дослідження російського досвіду формування регіональних бюджетів, детального аналізу параметрів бюджету Пермського краю, а також моделювання варіантів його розвитку на довготермінову перспективу, зроблено висновок про необхідність розвитку державно-приватного партнерства як основи у досягненні збалансованості бюджету та суттєвого фактору у стійкому розвитку регіональної економіки.*

*Ключові слова: державно-приватне партнерство; територіальні бюджети; боргова політика; інвестиційні витрати; державний борг.*

*Рис. 4. Табл. 1. Літ. 28.*

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## ГОСУДАРСТВЕННО-ЧАСТНОЕ ПАРТНЕРСТВО КАК ОСНОВА ДОСТИЖЕНИЯ СБАЛАНСИРОВАННОСТИ ТЕРРИТОРИАЛЬНЫХ БЮДЖЕТОВ

*В статье актуализированы вопросы сбалансированности территориальных бюджетов в современных условиях. Показано, что эффективность проведения долговой политики территориальными органами власти должна оцениваться не столько уровнем приростных характеристик государственного долга и размеров платежей по его обслуживанию, сколько сопоставлением прироста заимствований в течение рассматриваемого периода с объемом инвестиций сектора государственных финансов. В результате исследования российского опыта формирования региональных бюджетов, детального анализа параметров бюджета Пермского края, а также моделирования вариантов его развития на долгосрочную перспективу, были сделаны выводы о*

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*необходимости развития государственно-частного партнерства как основы достижения сбалансированности бюджета и значимого фактора устойчивого развития региональной экономики.*

*Ключевые слова:* государственно-частное партнерство; территориальные бюджеты; долговая политика; инвестиционные расходы; государственный долг.

**Problem statement.** The importance of achieving territorial budgets equilibrium based on qualitative realization of debt policy is an undisputed issue. The efficiency of such policy should be estimated not so much by the level of the national debt growth characteristics and debt service outgoing as by comparison of borrowing growth in the period considered and investment costs of the public finance sector. It is very important to foresee the long-term consequences of the given proportions in order to keep the territory's economic growth. Implementation of the national debt infrastructure function assumes to provoke economic activity of a country and to increase tax returns to territorial budgets.

It is necessary to mention that the problem of debt management actualizes both as a result of total globalization and integration of economies and the recent decade's increase in international relations imbalance. So, in order to achieve sustainable socioeconomic development of territories there is a need to ground scientifically the government bodies' efficient activities in the field of public debt management with the aim of budgets equilibration support.

**Latest research and publications analysis.** Theoretical and practical problems of national debt management and debt policy influence on economic development are presented in the works by L.N. Lykova et al. (2003), S.B. Pakhomov (2004), A.G. Siluyanov (2014), E.I. Soldatova (2007), A. Vavilov (2003) and others. Generalization of international experience concerning the creation of a system of national and territorial debts management can be found in (Dobson, 2000) or in (Zeinalov, 2005).

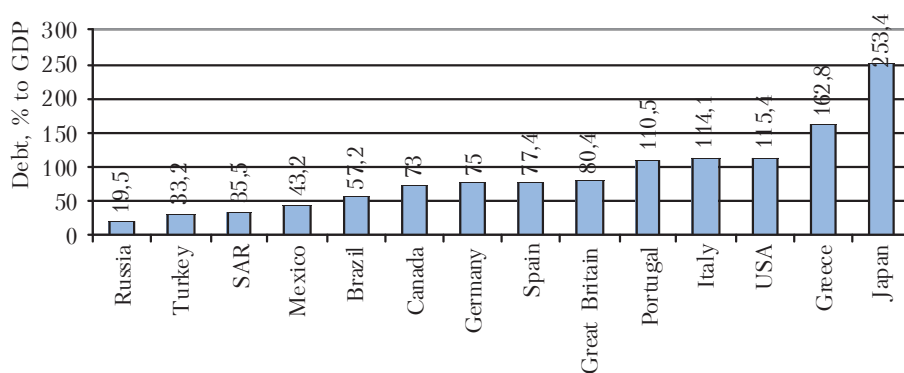
Besides, the latest studies of such key international organizations and rating agencies as International Monetary Fund, FitchRating, Moody's Investors Service, Standard&Poor's, Economic Expert Group are devoted to the assessment of national and regional credit ratings.

With that, studies devoted to the problems of debt policy do not reflect in full the research of public-private partnership institutes obtaining considerable possibilities of national debt infrastructure function realization, which in its turn can influence directly the achievement of territories' budgets balance. Thus, such authors as G.B. Kleiner (2004), M. Mesarovich et al. (1973), Y.K. Perskiy and M.I. Akmetova (2014), Y.K. Perskiy and D.N. Shults (2008) consider the mechanisms for interaction of territorial development subjects to a considerable extent. The works of such scientists as A.V. Belitskaya (2010), S.V. Berg et al. (2002), A. Bongenaar (2001), F. Calder (2003), H. Duts et al. (2006), F. Frederick and P. Burger (2001), P. Groat (2003), L.A. Izgalina (2008), S.F. Jooste and W.R. Scott (2009), V.A. Mikheev (2006), B.G. Varnavskiy (2005) and others are devoted to the problems of interaction of public-private partnership development level and economic climate in general.

Insufficient consideration of the above problems, theoretical and practical importance of their solution determined the concept and the aim of the present study.

**The main goal** of this research is to work out theoretical proposals and practical recommendations on the achievement of territorial budgets balance on the basis of public-private partnership development.

**Key research findings.** It is widely known that the problems of developed countries national debt actualized in the last years due to pronounced disbalances between national gross debts and gross domestic products. Under the globalization this process intensifies and involves more and more countries since one of the possibilities for economic growth acceleration is the mobilization of debt sources. In addition, exercised methods of fiscal incentives by governments of different countries against the background of separate waves of the global financial crisis in order to maintain their financial activity have led to sufficient increase of public debts. As a result, the paramount task of state public debt policy today is having the ability to make borrowings in the volumes necessary to solve socioeconomic problems and on acceptable conditions for a particular country. Thus, if at the beginning of 2012 national debt of developed countries reached 103.5% GDP (IMF, 2014), then by 2016 the level of debt load would increase by 8–10%. And just the fact of such an increase in developed countries is noteworthy (Figure 1).



*Figure 1. Debts of the countries in the world*  
(International Monetary Fund, the forecast for 2016, 2014)

Economic position of Russia is better than of many developing countries and in some cases it is better than of developed ones to (Ministry of Finance of RF, 2014). It should be mentioned here that today the function of economical and social processes regulation is often transferred from the central levels of government power to regional and municipal governments. Namely, administrations of local territories today are called on complex territories development support, balanced progress of industrial and public spheres. That is why in this article we analyze specific features of territory budgets formation and balancing in a number of countries. Russian Federation is analyzed in particular detail.

After the analysis of international experience in territorial debt management the following conclusions were made:

1. Classification of local territories debt issues in different countries is diversified enough but they include similar groups of debt finance sources: equity, credits, guarantees.

2. The purpose of holdings' attraction in developed countries is generally capital financing.

3. Maximum possible debt load lies in the range of 25% of territory budget revenues (Zeinalov, 2005).

According to RF Ministry of Finance, the total volume of national debt of all RF subjects increased in 2013 by 28.6% and as of January 1st 2014 it amounted to 1.7 bln RUB or 33% from the volume of budget taxes revenue and non-tax profit. In 2012 the national debt growth amounted only to 15.6%, and in 2011 – 7%. As a result low level of debt load (less than 10% of taxes revenue and non-tax profit) was marked only by 8 subjects (Nenets Autonomous area, Perm Krai, Tyumen region, Altai, Irkutsk region, St.-Petersburg, Sakhalin region and Khanty-Mansy Autonomous area – Yugra).

According to the Standard & Poor's data, only 20 of all Russian Federation subjects will be able to provide budget surplus or small indebtedness by 2015. The rest 63 regions could face the necessity to receive financial assistance from the state. Otherwise, they will be not able to service debts and will be impelled to default. The purposes of borrowing's attraction are being changed in most of the RF subjects: before the 2009 crisis a considerable part of credits was used for investment development, while after the crisis – for current expenses (Stolbova and Gaivan, 2013). This problem is aggravated by the fact that at present the volume of national debt is higher than annual budget revenues in a number of RF subjects.

All the mentioned above makes it possible to talk about less opportunities for qualitative debt issues service by regional authorities. This in turn raises the question on balancing the debt policy in a number of regions. In this research we consider the possible reasons of such situation and try to substantiate the ways low to achieve efficient balance of regional budgets using the case study the budget of Perm Krai.

According to budget legislation Russian regions have 3 main ways of borrowing: bond market, bank lending, budget lending. As of September 1st 2013 state budget lending has the largest share in the structure of national debt – 37%, almost 30% is the share of equity, about 24% is the share of bank and other lending and 10% is the state guarantees (Siluyanov, 2014).

It is necessary to mention here that debt policy is directly connected with the main budget parameters – receipts and outlays. To be more exact, it refers to the difference between them. Thus, deficit spending (excess outgoing over revenue) necessitates attracting resources of budget deficit cover, the result of which is the appearance of new debt. More than 60% of regional budgets were performing with deficit in 2013 and in 2014 the budget deficit can reach 220 bln RUB (Siluyanov, 2014). In this study we try to determine the reasons for region budget deficits growth in Russia.

Thereto the structure of regional budgets in 2000–2013 was considered (Russian Federal Board of Treasury, 2013). According to the 2013 results the total tax proceeds increased by 1.5% in nominal terms, which, considering inflation, signifies a breakdown. Key for the subjects of Federation income tax returns decreased in nominal terms too, and this decline amounted to 12%. Education spendings (their share increased from 21% in 2008 to 28% in 2013) became the key factor of growth. Housing spendings decreased from 16% to 9%.

As a result, the demand of Russian Federation subjects for loans will continue to grow. On the one hand, these circumstances put on the agenda the strong demand for observance and financial responsibility. On the other hand, this situation creates conditions for loans competitiveness at the debt market. At that bank lending and government bonded debts are advised to be compared as debt resources.

The main advantage of bank lending is quick attraction of funds and low credit costs. However, bank lending is characterized by its short-term period and high interest rates. But the basic regional problem is in the solution of those tasks which require long-term investments as far as under current regional economic conditions the realized projects will be repaid only in several years. Therefore, bonds issue gives the possibility of more flexible debt management than bank lending as they are long-term instruments. Moreover, they reduce the risk of refinancing and groups of investors become larger. This fact allows reducing rates and consequently cost of attraction and further debt service.

With respect to service cost and correspondence to the aims bond issuing has a number of preferences as compared both with bank lending and with other forms of funds attraction, namely with interbudget holdings and tax profit growth which not always could be realized.

We already have a formed, capacious enough market of public debt financing (stock) which allows attracting finance resources in a large scale and for longer periods. From 2008 to 2011 19 regions of RF entered the stock market, in 2012 – 27, in 2013 – 28; in 2014 – 39 regions are planning bond issue (Ministry of Finance of RF, 2014). 7 regions are being constant participants of stock and bank markets. They are: Karelia, Udmurtia, Volgograd, Kostroma, Tomsk, Nizhny Novgorod, and Yaroslavl Regions.

Further in our study a more detailed analysis of socioeconomic development of one of the Russian regions is carried out – namely of the Perm Krai. All possible directions of efficient debt policy pursued by the authorities were taken into consideration.

In the structure of Perm Krai economy such export-oriented industries as oil, chemical, titanite-magnesium, and pulp-and-paper predominate. 97% of all potash fertilizers produced in Russia belong to Perm Krai (Perm Regional Server, 2013). It is the leading manufacturer of air and rocket engines, oil-field equipment, facilities for digital and fiber-optic communication systems, navigation equipment and more.

In the structure of gross regional product the share of "extractive" industries and industries of "lower technological limits" is quite large. These industries provide sufficient part of the Krai revenues, mostly in the form of profit tax. Meanwhile, these industries obtain the low rate of profit reinvestment and form a small part of the total labour remuneration fund in Perm Krai. At present Perm Krai takes the tenth place among Russian largest regions exporting oil. So, its economy can be characterized as the economy of industrial type.

The econometric analysis of Perm Krai GRP and oil resources changes as well as of budget revenues performed by the author confirms direct relation of the considered parameters. So, high economic potential of the region has been formed mostly at the account of extractive industries and raw materials.

Further the analysis of the structure of Perm Krai budget spending during 2010–2014 is carried out (Ministry of Finance of Perm Krai, 2014). The analysis

concerns the correlation of current and capital (investment) spending. According to the author's design procedure, into the "current budget" we include spendings on enterprises, industrial and social infrastructure institutions maintained by budget and financing of security. "Development budget" includes spendings on realization of the territorial programs of socioeconomic development. These programs were connected with investment and innovative activity. Subventions' financing and other expenses connected with enlarged reproduction were included in the "development budget" as well (Figure 2).

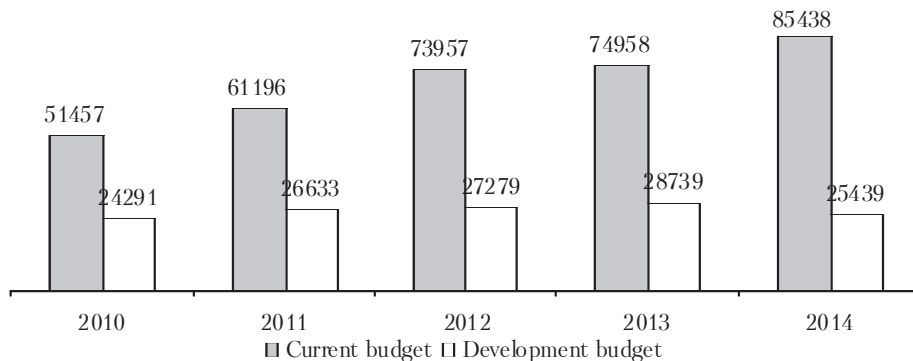


Figure 2. **Current budget and development budget of Perm Krai, mln RUB, author's construction** (Ministry of Finance of Perm Krai, 2013)

According to Figure 2, specific weight of investment component in budget spending (development budget) decreases despite the constant growth of budget expenses. At the same time current expenses (current budget) is increasing. This fact confirms Zeinalov's conclusion that "at present the task of debt regional policy is only budget balancing, i.e. the adjustment of budget revenue accounting funding sources in the form of loan proceeds with necessary expenses" (Zeinalov, 2005). Thus, loan proceeds attracted by RF subject for budget deficit financing are definitely not connected with investment budget outgoing.

In general, the reduction of development budget excludes government bodies from participation in the programs of development which require cofinancing. This leads to moral and physical decline of engineering and social infrastructure. Consequently the unbalanced system of preferences and values in the region is gradually formed, along with the rise of social diseases and crimes. All these facts lead to labour force outflows.

On the basis of the predicted by central government inflation, regulation of national debt and of Perm Krai budget parameters during the last 5 years the author has performed the modelling of debt characteristics in two variants of development: passive and active. "Statistica" software was used for this purpose.

**Passive (unfavorable) variant of development:** the variant of current growth. This option is being considered due to planned parameters of Perm Krai budget holdings for the period of 2014–2016 (Ministry of Finance of Perm Krai, 2013). Thus, "Perm Krai budget for 2014 and the planned period of 2015 and 2016" act stipulates 4 sources of financing holdings in case of budget deficit in the current year: 1 – the

attraction of budget credits from the Federal Treasury, namely two tranches, each 1 bln RUB on the period of 30 days on the 1/4 rate of RF Central Bank; 2 – drawing up business bank non-renewable credit in the amount of 1 bln RUB for the period of 56 days at 8.67% annually; 3 – banking credit covering the deficit of the regional budget in the amount of 2 bln RUB for the period of 93 days at the interest of 8.77%; 4 – bank credit covering the deficit in the amount of 9 bln 423 mln RUB for the period of 206 days with refund of a principle amount owed in 2015 at the interest of 8.78%.

So the projection was based on the assumption of invariance of the currently realized by territorial authorities' debt policy, namely, the attraction of loan proceeds as the sources of deficit covering, and current outgoing growth (Figure 3).

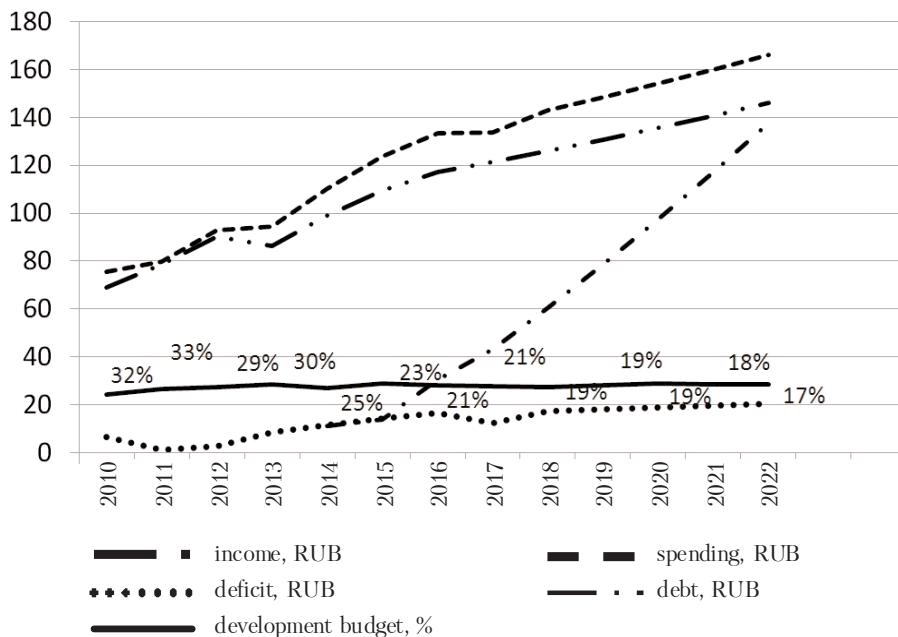


Figure 3. Model of Perm Krai budget development: passive variant, bln RUB, author's construction (Ministry of Finance of Perm Krai, 2013)

**Result:** by 2022 the national debt will reach the limiting values, the development budget will reduce up to 16.5%.

Taking into consideration great dependence of Russian economy and the federal budget from the world raw materials markets maintaining the moderate debt load has been the strategic goal of regional authorities. In fact, without the development of local infrastructure oriented on investors, it is impossible to achieve the socio-economic development. First of all, it means the enhancement of public-private partnership (PPP), which should become more active after the corresponding federal law has been adopted.

It is generally known that the mechanism of PPP allows attracting resources of the private sector to the processes of reproduction in different industries and spheres being within the state and local governments' influence. Also it makes it possible to

use business initiatives for efficient spending of budget funds (Varnavskiy, 2005). But, despite the long-term positive experience of PPP realization in developed countries the first regional legal acts on PPP appeared in Russia only in 2006. Step-by-step regional investment funds, which legally appeared only as a result of legislation change (179.2 in the RF Constitution, the end of 2012), begin working. In 2013 investment funds appeared in a number of Russian regions: Tula, Yaroslavl Regions, Yamal-Nenets Autonomous Area and others.

Investment growth by means of developing PPP assumes an active variant of regional economy development. RF Ministry of Regional Development appraised that 5.6 RUB of private capital could be attracted to every ruble of budgetary funds at some selected regional projects (Varnavskiy, 2005). Considering this, we assume that every ruble from budgetary funds directed at cofinancing of capital construction objects of national (municipal) ownership generates at least 3 RUB of regional budget inflow in the form of tax and non-tax profit of private partners (Figure 4). This assumption was used in the process of modelling.

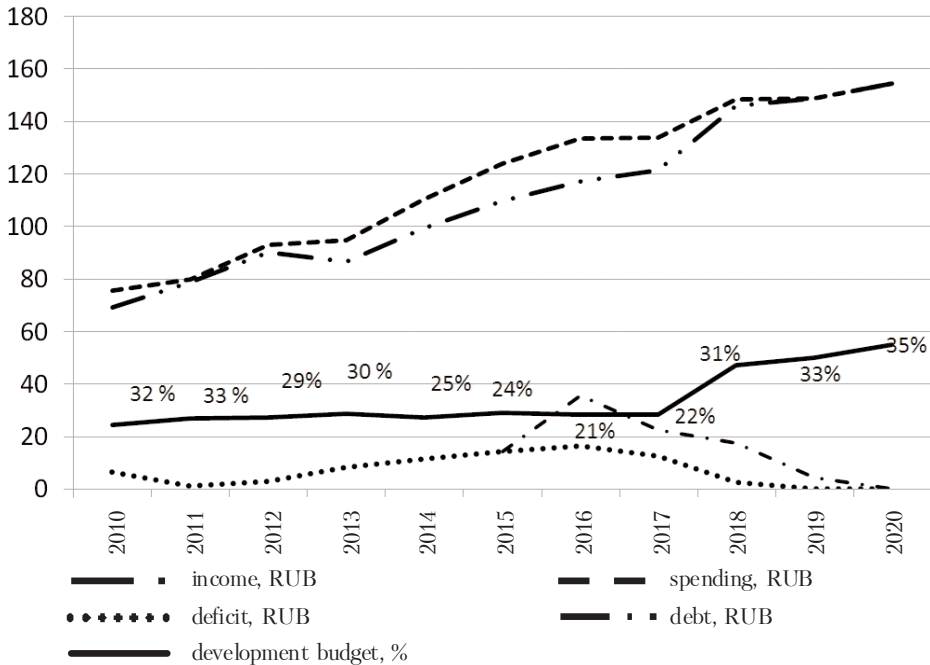


Figure 4. Active variant of development: investment financing, bln RUB, author's construction (Ministry of Finance of Perm Krai, 2013)

**Result:** by 2020 the attraction of national debt will allow reducing budget deficit, income will considerably grow, development budget growth will amount to 35%.

In our study we select the sources for financing budget deficit on the basis of loan capital diversification approach: bonds, budget credits, credits of profit making organizations. Table 1 shows the total parameters of Perm Krai budget in its active variant of development.



*Table 1. Planned parameters of Perm Krai budget in the active variant of development, bln RUB, author's calculations*

Budget parameters	2015	2016	2017	2018	2019	2020
Income	109.60	117.10	121.46	145.99	148.71	154.46
Spending	123.88	133.62	133.86	148.39	148.81	154.46
Total deficit	14.28	16.52	12.40	2.40	0.11	0.00
<b>Sources of deficit coverage</b>	<b>14.28</b>	<b>16.52</b>	<b>12.40</b>	<b>2.40</b>	<b>0.11</b>	<b>0.00</b>
1. Budget credits	0.00	0.00	0.00	0.00	0.00	0.00
<i>attracted</i>	2.00	2.00	2.00	2.00	2.00	2.00
<i>repaid</i>	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00
2. Credits of profit making organizations	9.28	11.52	7.40	2.40	4.40	-20.00
<i>attracted</i>	9.28	20.80	28.20	30.60	35.00	15.00
<i>repaid</i>		-9.28	-20.80	-28.20	-30.60	-35.00
3. Bonds	5.00	5.00	5.00	0.00	-15.00	0.00
<i>attraction</i>	5.00	5.00	5.00	0.00	-15.00	0.00
<i>retirement</i>	0.00	0.00	0.00	0.00	0.00	0.00
4. Remains	0.00	0.00	0.00	0.00	10.71	20.00
<b>Growing debt</b>	<b>14.28</b>	<b>35.80</b>	<b>22.40</b>	<b>17.40</b>	<b>4.40</b>	<b>0.00</b>

**Conclusion.** Development of public-private partnership is able to impede the unemployment growth and production decline in the regions. Realization of infrastructural projects within public-private partnership makes it possible to keep production running, to provide planning and construction organizations with orders, to increase regional and local budget funds. However, in every country the dynamics of this process depends on a national policy, trends in cooperation with business in searching economic and social consensus, community position etc. In order to provide the balance of regional budgets and sustainable development of territories in the forthcoming period it is necessary to plan deficit financing on the basis of investment planning. This would enable increasing the efficiency of investments, which at present stay beyond the limits of debt policy as this study has shown.

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