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LEGISLATIVE REGULATION OF MUNICIPAL AUTHORITIES USING PUBLIC-PRIVATE PARTNERSHIP MECHANISM

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Abstract

As a result of the research, it was found that the success in economic development can be achieved by regions which, while promoting economically significant projects, will strive to unite the efforts of the state and business structures. Taking into account the requirements of the Federal Law No. 224, a mechanism was proposed for managing investment activities at the local level, consisting of the following structural units: resources for investment activities; availability of techniques; informational; regulatory and legal; organizational management capabilities. The problem that occurred in Russian economy is that the effectiveness of the investment activities of the regions and municipalities tends to decrease under the conditions when Western countries imposed economic sanctions on Russia. The subject of the study was municipalities and private business structures of the Chechen Republic. The purpose of this research was to develop mechanisms that promote the growth of the effectiveness of the investment activities of municipalities in the interaction of government and business in the process of joint implementation of socially significant projects and programs. The following methods were used: general scientific: analysis, synthesis, methods of comparison, typology, classification; general theoretical methods: historical, comparative, structural, functional, systemic; and general humanitarian methods.

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1. Introduction

In the future, in Russia, the trend of cooperation between the state and entrepreneurs in the development of infrastructure sectors, especially those that were previously in the field of public administration, will increase. One of the main tasks of the augmentation of the efficiency of investment activity is to increase the level of attractiveness of projects using public-private partnership mechanisms, ensuring accessibility of business participation procedures in public-private partnership (PPP) for businesses, improving the legal framework as promising practices develop (Batchikova, & Glazyev, 1998). Entrepreneurs should get a real and mutually beneficial business development tool based on active government support. The problem of the constant lack of budgetary funds at all the levels of government can be solved by the creation of investment funds with the participation of business communities (Askhabov, Alikhadzhiyeva, & Askhabova, 2015; Varnavskiy, 2005). The consequences of crisis phenomena in the country's economy can be eliminated by the solution of the main task of PPP, namely the creation of a delegation mechanism to regional and local authorities of the administration to implement PPP mechanisms that are reflected in new federal law. The managers of government agencies should focus on the development of infrastructure projects in each city or locality. Regional and local authorities should learn to independently attract investors, create development programs available to all participants of the PPP process, and create effective capital raising systems. In the prevailing political conditions in Russia, PPP projects should become an effective tool for attracting investments, primarily by increasing the financial competence of the population and creating mechanisms for attracting financial resources of citizens to socially important projects.

2. Problem Statement

The problem that occurred in Russian economy is that the effectiveness of the investment activities of the regions and municipalities tends to decrease under the conditions when Western countries imposed economic sanctions on Russia that limited the access to high technologies and available financial resources. Under such conditions, the success in economic development can be achieved by regions which will put efforts to unite the efforts of the state and business structures when promoting economically significant projects. Such a partnership should be mutually beneficial, with a target for the development of society and the state as a whole. In these partnerships, the goals of government and business entities coincide, such cooperation is mutually beneficial, in connection with which the issues of interaction take on particular importance.

3. Research Questions

The subject of the study was municipalities and private business structures of the Chechen Republic. The object of research was presented by the mechanism of investment activity of the municipal authorities of the Chechen Republic.

4. Purpose of the Study

The purpose of this research was to develop mechanisms that promote the growth of the effectiveness of the investment activities of municipalities in the interaction of government and business in the process of joint implementation of socially significant projects and programs.

5. Research Methods

The theoretical and methodological basis of the study was presented by general scientific methods: analysis, synthesis, methods of comparison, typology, classification; general theoretical methods: historical, comparative, structural, functional, systemic; and general humanitarian methods: psychological, economic and social methods, traditional methods of analyzing texts and documents.

6. Findings

From January the 1st, 2016, a new federal law No. 224-FL “On public-private partnership, municipal-private partnership in the Russian Federation and amendments to certain legislative acts of the Russian Federation” (hereinafter – the Law on PPP) entered into force. In new federal law, the development of instruments of public-private, municipal-private partnership is put forward as strategic, as they can become an effective trigger for the growth of investment in the economy. In the prevailing political conditions in Russia, PPP projects should become an effective tool for attracting investments, primarily by increasing the financial competence of the population and creating mechanisms for attracting financial resources of citizens to socially important projects.

The regional and local authorities, through the use of PPP mechanisms, were able to move from the principle of direct budget financing to the model of attracting private financial resources for developing projects on the basis of risk sharing with private business.

First of all it will help in the financing of infrastructure projects, as well as in reducing public spending associated with project risks. The need to effective implementation of the priorities of socio-economic development of municipalities dictates the need to improve the mechanism for managing investment work in the local territory.

The concept of an investment management mechanism should include a set of forms, tools, methods and techniques for the formation and regulation of relations developing in the investment system in the process of the implementation of investment policy at the local level. The mechanism should include the following structural units: resources for investment activities; availability of techniques; informational unit; regulatory and legal units; organizational capabilities of management (Grover & Soloviev, 2007).

Nowadays, the dynamic socio-economic development of municipalities is impossible without the intensification of investment activities. In fact, the search for investment for the administrative territory is one of the main tasks of local authorities in the process of solving the problems of the well-being population. Local authorities have real triggers of influence on the investment climate of the territory based on the creation of modern infrastructure and the implementation of investment policies on their territory. It is necessary to note that prior to the adoption of this law, these legal relations were mainly regulated by the Law on Concession Agreements, which did not fully take into account the peculiarity and nature of public-private partnerships (Deryabina, 2008).

According to the authors, one of the most relevant tasks for the Russian economy is the task of developing measures aimed at increasing the investment activity of municipalities that can significantly improve the quality of life in cities. The requirements of the creation of a modern mechanism for attracting investment in cities are satisfied by the mechanism of public-private partnership (PPP). PPP is a process of attracting by the authorities on a contractual basis the resources of the private sector of economy in order to more effectively solve the tasks facing the public sector with partial compensation of costs for building infrastructure, sharing risks, taking mutual obligations, etc. The analysis of PPP projects in foreign countries has shown that public-private partnerships found wide application in the transport sectors (auto and railways, ports, airports, pipeline transport), in the social sphere (education, health care, tourism), in public utilities (water, gas and power supply, water purification, etc.), as well as in such areas as prisons, military facilities (Deryabina, 2008). The most widespread PPP were determined in the transport and social infrastructure. The use of institutional development mechanisms allows directing long-term investments in order to create socially significant projects.

Since the collection and dissemination of the required information on commercial terms may turn out to be low profitable, such functions should be assigned to development institutions. Working with development institutions and other promising sources of investment funds for the implementation of project systems is proposed to be created according to the listing methodology. At the first stage of the project, a long list of potential sources of financing with their description is formed. Based on a long list, an initial layout of the integral matrix is being developed - for the purposes of discussion and decision making. After discussing the long list, a short list is formed and a detailed format of the integral matrix is developed, which will be used later in the preparation of the project funding schedule.

Currently, there exists practice of 100% insurance of objects of budget construction. However, a private investor in PPP projects is also interested in the availability of insurance protection. The main part of the risks can be minimized with the help of effective means of insurance directly at the design or construction stage. These are such types of insurance as business risks, construction and installation works, mutual responsibility of designers and builders, etc. If the risk management functions are fully transferred to insurers, then the insurer may overuse, which ultimately will lead to an increase in costs for the PPP project operator. It is better to use the services of insurance brokers when building a risk management system. They can provide additional consulting services related to risk management problems, as well as provide clients with developed computer risk management systems. In order to improve risk management of PPP projects, it is reasonable to introduce scoring models, work out mechanisms for efficient management of overdue debts, take measures to reduce operational risks, work with infrastructure participants, and risk assessors together with market participants and representatives of government structures reducing the level of legal vacuum when conducting ratings), etc. (Zvorykina, 2003).

The reforms carried out in the country over the past fifteen years have significantly increased the role and importance of municipal bodies in the life of society. The center of responsibility for economic growth and social development has moved to the level of local authorities.

At the same time, it became necessary to create an effective system of management of municipalities that would be capable of conducting dynamic economic policies in local territories. Gross domestic product

of the Russian Federation for 2013-2016 increased by 30% and amounted to 92037.2 billion rubles. (Table 01).

Table 01. The main indicators of economic and social activities of the Russian Federation for 2013-2017

Indicators	2013	2014	2015	2016	2016/2013, %
Population (at the end of the year), million people	143.7	146.3	146.5	146.9	102.2
The number of unemployed thousand people	4137	3889	4264	4243	102.6
Cash income (per capita) of the population, Rub/month	25928	27767	30225	30698	118.4
Gross domestic product: total, (billion rubles)	71017	77945	80804	92037.2	129.6
Including per capita, rub.	494866	533539	551919	626530	111.5
Retail trade turnover, mln. Rub.	23685914	26356237	27526793	28317322	119.6
Investments in stock capitals, mln. Rub.	13255537	13902645	13897188	14639835	110.4
External turnover, billion US dollars	864.6	804.7	534.4	473.4	54.8
Including: Export	523.3	496.8	341.5	281.9	53.9
Import	341.3	307.9	191.6	191.6	56.1
Labor force, (thousand people)	67901	75428	76588	76636	112.9

(Russian statistics, 2017)

Investments in capital stock for the specified period also increased by 10.4% and in 2016 amounted to 1.4639835 million rubles. For the period from 2013 to 2016 the volume of external turnover decreased significantly (by 45.2%), reaching \$ 473.4 billion in 2016. At the same time, the volume of exported production decreased by 46%, while the volume of imported production decreased by 44%. Its decline is the result of Western sanctions against Russia.

The analysis of the population of the Russian Federation showed that in 2011-2017 this indicator increased by 2.8%, reaching 146804 thousand people at the beginning of 2017. At the same time, the population of the North Caucasus Federal District increased by 3.6%, with 9776 thousand people in 2017. It composes 6.7% from the Russian level. The fastest growth was observed in Ingushetia (15.9%) and in the Chechen Republic (11%). In the Karachayev-Cherkessian Republic and in North Ossetia, the population for the specified period decreased by 2.3 and 1.3%, respectively.

The total number of unemployed in 2016 reached 4,243 thousand people, which is 2.6% lower than the 2013 indicator. At the same time, the number of officially registered unemployed was only 895 thousand people. Thus, it can be stated that the global energy crisis of 2014, which led to a significant drop in world oil prices, as well as sanctions imposed by Western countries really led to a decline in Russia's economic potential. The number of enterprises and organizations of the Russian Federation in 2016 (at the end of the year) reached 4.764.483 units, which is 1.7% lower than in 2013 (Table 02). During the same period, the number of enterprises and organizations in the North Caucasus Federal District decreased by 11.4%, making in 2013 136960 units or 2.8% of the level across the whole country.

Table 02. The dynamics of the number of enterprises and organizations in the Russian Federation (at the end of the year)

	2005	2006	2007	2013	2015	2016	2016/2005, %
Russian Federation	4767260	4506607	4674896	4843393	5043553	4764483	99.9
North Caucasian Federal District	152887	135747	127120	136960	138169	131984	86.3
the Republic of Daghestan	37456	34522	29053	33558	34012	35262	94.1
the Republic of Ingushetia	8020	5984	6117	4707	5576	5240	65.3

the Kabardino-Balkarian Republic	11558	11511	11336	12677	12593	12740	110.2
the Karachayevо-Cherkessian Republic	9248	5934	6028	6946	7088	6895	74.6
the Republic of North Ossetia-Alania	14898	13011	12964	11638	11112	10476	70.3
Chechen Republic	7277	7886	8282	9836	9876	10441	143.5
the Stavropol Territory	64430	56899	53340	57598	57912	50930	79.0

(Russian statistics, 2017)

For the period of 2000-2016 in the Russian Federation, the investments in stock capital increased by 12.5 times and in 2016 amounted to 14,639.8 billion rubles. In the period from 2014 to 2018 their growth was 5.3% and this despite the declared Western economic sanctions. In the total structure of investments in stock capital of 45.2% is accounted for buildings and structures. This is a favorable trend, which indicates the renewal of stock capital. The growth of investment in stock capital is observed after 2014, except for investments in vehicles, indicating the under run of enterprises in renewing their park of vehicles. (Idilov, Abubakarova, & Idilova, 2015; Idilov, Abubakarova, & Idilova, 2017).

Table 3 analyzes investment in stock capital depending on the types of stock capital of the Russian Federation. For the period of 2000-2016, the investments in stock capital increased by 12.5 times and in 2016 amounted to 14.639.8 billion rubles.

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Table 03. The investments in stock capital by types of stock funds of the Russian Federation.

	2000	2010	2014	2015	2016	2016/2000, %	2016/2014, %
Billions of rubles							
Total	1165.2	9152.1	13902.6	13897.2	14639.8	1250.6	105.3
including:							
housing accommodation	132.0	1111.7	2014.4	2172.8	2254.3	1707.8	111.9
buildings (except residential) and facilities	502.2	3962.8	5665.3	6069.1	6618.1	1318.0	116.8
cars, equipment, vehicles	426.6	3472.7	5052.0	4375.1	4480.7	1050.3	88.7
other	104.4	604.9	1170.9	1280.2	1286.7	1232.4	109.9
<i>Percent of total</i>							
Total	100	100	100	100	100		
including:							
housing accommodation	11.3	12.2	14.5	15.6	15.4		
buildings (except residential) and facilities	43.1	43.3	40.8	43.7	45.2		
cars, equipment, vehicles	36.6	37.9	36.3	31.5	30.6		
other	9.0	6.6	8.4	9.2	8.8		

(Russian statistics, 2017)

It is necessary to establish tight control and monitoring of PPP projects in order to more efficiently use budget funds for project implementation. In accordance with the legislation of the Russian Federation, the responsibility of the executive in charge includes the provision of reports and necessary information about the project to Vnesheconombank (hereinafter VEB). The duties of the executive officer (state coordinator of the investment project) include conducting interaction with the project parties and representatives of VEB, who are provided with reports on the progress of the project. If concession agreements are implemented, then in accordance with the Federal Law "On Concession Agreements", the issues of compliance with the terms of the concession agreement are monitored by a grantor. The most important task of improving legislation in the field of PPP is to establish standards that ensure transparency in regulating the maximum possible range of PPP mechanisms without their "regulation". At the same time, federal regulation of these issues has common nature (Idilov, Abubakarova, & Idilova, 2017).

7. Conclusion

In our opinion, in regional laws it is necessary to specify the norms that are established at the federal level. In addition, it is necessary to establish mechanisms for the interaction of regional authorities and the investor, as well as to establish in the regional legislation the procedure for the use of PPP tools. Such measures will reduce the level of legal risks; eliminate legal conflicts leading to legal nihilism in the interpretation of various norms of the law.

According to the authors, the structure of regional PPP legislation should be as follows:

- 1) Law of PPP of a specific subject of the Russian Federation;
- 2) Other regulatory acts in the field of investment activities that do not contradict the basic law;
- 3) Subordinate regulatory acts of the subject of Russia, which are based on the provisions of the law for the concretization and implementation of its individual norms.

Among the main innovations of the Law on PPP it necessary to note the following: the possibility of developing a public-private partnership. It is assumed that joint partnerships will be implemented on the basis of the model of private ownership of infrastructure facilities. Any aspect other than this will be concessions. The structuring of projects in the fields of health care, culture and sports, transport, power supply, garbage processing and other partnership objects is planned.

In the Chechen Republic, there is a law of June the 20th, 2011, No. 14-RL "On the participation of the Chechen Republic in public-private partnership projects", adopted by the Parliament of the Chechen Republic. The adoption of the Law on PPP is an unconditional event for the Russian legal system and the Russian market of infrastructure facilities. The law takes into account both public and private interests.

However, the law also has disadvantages, in particular, a limited list of its areas of application, as well as the obligation of municipalities to coordinate the implementation of PPP projects with the authorities of the constituent entity of the Russian Federation and others. At the level of a number of subjects of the Federation, the laws that would regulate a public-private partnership (for example, in the Chechen Republic) were passed long before federal law.

The adoption of Law No. 224 will certainly have a positive impact on relations between the state and the private sector of economy, will allow business to be involved in solving problems related to the

preservation of cultural heritage objects and will contribute to the restoration and preservation of cultural heritage objects.

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