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**INNOVATIVE PROJECTS AND PUBLIC-PRIVATE
PARTNERSHIP PROGRAMMES FINANCING**

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Abstract

The article considers the problem of innovative projects and programs financing as one of the aspects of planning of innovative activities of public-private partnerships, which are one of the types of integrated business structures. The necessity of combining the efforts of the state and private business in the transition of the state economy to the innovative development path is substantiated. It is also noted that public-private partnership in its classic version involves financing of the project and program by private investment, and the state's contribution is made as the provision of property, property rights or various forms of state support. The article determines that the problem of attracting private investments is solved in two interrelated directions: sources and methods of financing. It is shown that the sources of financing of innovative projects and programs of the private partner and the institution financing it are internal and external funds – the list of them is given. In economic literature and research works it is noted that in Russian practice, the main methods of innovative projects and PPP programs financing are: credit financing, project financing and mixed financing. According to the author, the urgent problem of innovative projects and programmes financing is the creation and development of the domestic PPP capital market; the approaches to the system of optimal selection of funding sources are proposed.

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Keywords: Financing, innovative project and program, public-private partnership, sources and methods of financing, partnership capital market, weighted average cost of capital.



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1. Introduction

At present, the economic situation in Russia has become a favourable basis for the creation and functioning of new organizational forms of management. The objective prerequisites for such a situation were a number of problems that domestic companies faced. Among them was the lack of investment resources, qualified personnel and a clear system of managerial accounting and strategic planning; low competitiveness with foreign companies, sanctions, etc. In the conditions when Western sanctions took place, import substitution (Simachev, Kuzyk, & Zudin, 2016) aimed at implementing the Federal Law of the Russian Federation “On Industrial Policy in the Russian Federation” with the aim of transferring the state economy to the innovative type of development has become an urgent problem for Russian companies (Federal Law of the Russian Federation “On Industrial Policy in the Russian Federation”, 2014).

Thus, the real situation is that without the merger of production and financial capital and thereby the concentration of investment resources, it is more and more difficult for the companies to withstand the demands of constantly increasing competition. Therefore, the tendency towards the consolidation of economic entities and their natural selection with the aim of adapting to new conditions in a market economy is objectively developing. (Ponomarev & Dezhina, 2016).

An important role in solving this problem should be played by the consolidation of efforts of the public and private businesses. The creation of public-private partnerships is a form of such consolidation. Combining state assets with investment, managerial, motivational and other resources of the private sector makes it possible to achieve a synergistic effect and increase the efficiency of use of the integrated business structure (IBS) potential, especially, when implementing large-scale innovative investment projects. (Bazhutkina, Kasatov, & Naugolnova, 2018). Due to its financial, economic, and production potential, large IBS is the most appropriate form of public-private partnership (hereinafter referred to as partnership), which makes it possible to implement innovative investment projects of national importance. With the adoption of the Federal Law “On Public-Private Partnerships, Municipal-Private Partnerships in the Russian Federation and Amendments to Certain Legislative Acts of the Russian Federation” (2015), this interaction received a legal basis.

2. Problem Statement

The problem of innovative projects and programmes financing occupies an important place in the planning of innovative activities of public-private partnerships as one of the types of integrated business structures. This is due to the fact that financing is an indispensable element of the technical and economic feasibility of innovative solutions. The peculiarity of such decisions lies in the fact that they should be implemented within the limits of a public-private partnership.

3. Research Questions

To solve the problem of innovative projects and PPP programmes financing, it is necessary to solve the following tasks:

- to provide uninterrupted financing of innovative activities;
- to define financial tools for the participants of PPP when financing innovative projects;

- to consider the formation and development of capital market inside PPP, i.e. the transfer of the patterns and principles of the market functioning to its inner activities;

- to determine the contents of the system of financing of innovative projects and programmes on the PPP capital market.

The provision of uninterrupted financing of innovative activities is associated with increased economic efficiency and financial sustainability of both innovative projects and the partnerships in which they are implemented.

The financial support of business entities in accordance with the Federal Law “On Industrial Policy in the Russian Federation” is provided in the form of subsidies from budgets of various levels (2014, Article 10), and it can also be provided by state funds for industrial development (2014, Article 11). As far as public-private partnerships are concerned, the specifics of financing are described in the Federal Law “On Public-Private Partnerships, Municipal-Private Partnerships in the Russian Federation and Amendments to Certain Legislative Acts of the Russian Federation”. In accordance with this law, the participants (subjects) of public-private partnership are (2015, Article 3):

- public partner – public legal entities (state or local authorities)
- private partner – non-state business entities;
- financier – legal entity or an association of two or more legal entities lending funds for a private partner under a joint-venture agreement without official formation of a legal entity.

The basis of public-private partnership (PPP) is the concept of attracting private investment in the economy for the implementation of innovative projects in both social and industrial sectors. In accordance with Russian law, the following entities involved in financing innovative projects and programmes should be identified as PPPs: a public partner, a private partner and financial organizations that lends funds to a private partner on a return, repayable and urgent basis.

It should also be noted that PPP entities financing an innovative project or programme have different goals. If it is important for a public partner to satisfy the state interest, to fulfill the tasks that are the function of the state, the private partner and financial organizations want to provide a certain level of return on invested capital.

The public-private partnership in the classic version involves financing of projects and programmes through private investment, and the state's contribution is the provision of property, property rights or various forms of state support.

The problem of attracting private investments is solved in two interrelated directions: sources and methods of financing (Ivasenko & Nikonova, 2009). Sources of financing of innovative projects and PPP programmes of a private partner and the financing organization are (Blank, 2008; Turygin, 2018):

Internal funds: retained earnings, depreciation, funds from the sale of surplus assets.

External funds in relation to the private partner and the organization financing it:

- borrowed funds:
- long-term bank loans;
- bond issue;
- funds of budgets of various levels provided on a return basis;
- leasing.

Attracted funds:

- issue of preferred shares and common shares;
- contributions of external domestic and foreign investors to the share capital.

The main methods of long-term financing of innovative projects and PPP programmes are: self-financing, corporatization, leasing, credit financing, project financing and mixed financing. The analysis of the economic literature and thesis research has shown that in Russian practice the main methods of financing of innovative projects and PPP programmes are: credit financing, project financing and mixed financing (Petyukov, 2017; Tomashevskiy, 2012).

Credit financing, in which a private partner attracts borrowed funds through a financing organization for an existing business and invests them in a project. Such financing expresses the targeted provision of funds to borrowers for the implementation of projects ensuring the achievement of specific goals of loan recipients. The sources of repayment of loans are the entire economic and financial activities of the borrower, including the income generated by the project. It is important to note that long-term bank loans increase borrowers' responsibility for the rational use of financial resources due to the fact that they are urgent, return and repayable. The specific terms for granting a long-term loan and the time for its repayment are determined in the agreement between the borrower and the bank. The following features are characteristic to bank projects crediting:

- lack of a clear division of risk between the lender and the borrower. The latter is responsible for all project risks;
- the creditor (bank) has the right of full compensation of all the obligations of the borrower;
- the bank-creditor is not involved in the distribution of profit of the borrowing company;
- the rights and responsibilities of the parties in the credit transaction are governed by the credit agreement concluded between equal partners - the bank and the borrowing company.

Project financing. A prerequisite for the project financing system is the organization of a joint project company by participants of a public-private partnership. The project company is a structure legally separated from other organizations participating in the project. Project financing can attract resources for the implementation of large-scale projects. The source for the return of the attracted funds is the cash flow generated by the project itself. Fixed assets created during the project implementation act as collateral. According to its characteristics, project financing is most appropriate for the public-private partnership system.

Mixed financing is carried out with the use of various sources for financing of innovative projects and programmes. This creates the need to optimize the structure of sources of attracted resources, because, firstly, funding sources are unequal and, secondly, they can reduce the level of financial stability of public-private partnerships. Initially, the cost of each of the attracted sources of financing is determined, and then the weighted average cost of capital indicator is calculated. In the process of the study of technical and economic feasibility of the project, it is possible to achieve such a financing structure in which this indicator becomes the lowest.

In the economic literature, it is noted that the urgent problem nowadays is the formation and development of the domestic PPP capital market, i.e. transferring the laws and principles of the market functioning to the internal activities of partnerships, especially in conditions of Western sanctions

restrictions. Aniskin, Privalov, Popov, and Budarov (2002), write the following: "The internal capital market arises in the ICS when cash flows do not automatically return to their sources, but are subjected to internal competition" (p. 76).

Therefore, the author thinks that the urgent problem of financing of innovative activities of public-private partnerships as integrated business structures is the formation and development of domestic capital market, which makes it possible to choose the most optimal sources of financing, to reduce transaction costs, to diversify capital structure, to obtain a synergistic effect, as well as to minimize risks and thereby increase the effectiveness of innovation activities of partnerships.

Thus, the creation and development of domestic PPP capital market involves the following approaches to the formation of financing sources for innovative projects and programmes.

1. Internal sources that form the partnership internal capital:

- own funds of the public partner;
- own funds of the private partner;
- borrowed and attracted funds of the private partner and the financing organization;
- the funds of the centralized investment fund and R&D funds of the PPP.

2. External sources - sources of capital market external to PPP:

- borrowed and attracted funds of different financial and non-financial organizations.

4. Purpose of the Study

The purpose of the study is to develop measures aimed at: firstly, the formation of a financial support system for innovative projects and programmes within the framework of public-private partnerships as integrated business structures; secondly, the choice of sources and methods of financing and their effective use; thirdly, the creation and development of the domestic capital market of partnerships.

5. Research Methods

Methods of strategic and innovative analysis, techniques and tools of economic, design and logical analysis were used in the research. The theoretical basis of the study was formed by the works of domestic and foreign authors in the field of financial management, project management, government regulation, management, infrastructure modernization and other areas related to the implementation of public-private partnership projects.

The information basis was formed by the federal laws of the Russian Federation, regulatory legal acts of the Russian Federation, materials of the Federal State Statistics Service of the Russian Federation, financial and economic publications of Russia, the Internet, publications of periodicals, scientific publications of domestic and foreign researchers, presented in the form of articles, monographs and theses and the materials of international scientific conferences on the creation and development of public-private partnerships.

6. Findings

The research develops the basic principles of the theoretical and practical foundations of financing of innovative projects and programmes of public-private partnership with the use of various sources and methods to implement the provisions of the Federal Law “On Industrial Policy of the Russian Federation” (2014) on the transition of the state economy to an innovative type of development. The results of the research make it possible for us to expand the theoretical and methodological basis for the formation of a financial support system for innovative projects and programmes of public-private partnerships. They can be used by federal bodies of state power and bodies of state power of the entities of the Russian Federation within the framework of the PPP development policy in order to improve the mechanism of financial interaction between the state and business.

7. Conclusion

The active use of the functions of state regulation in combination with the use of private sector capital is associated with the process of recovery of the country's economy from the crisis, which is determined by the Russian Legislation on the basis of the planned course of innovative development of the national economy. Both directions involve the use of PPPs as such projects require a large amount of investment in the economy and cannot be implemented only at the expense of the budget.

That is why the basis of public-private partnerships is the concept of attracting private investments in the economy for the implementation of innovative projects in both social and industrial sectors. In accordance with the Russian Legislation, the following entities participate in financing of innovative projects and programmes within the framework of PPPs: a private partner, a public partner, and financial organizations that lend funds to a private partner on a repayable, return and urgent basis.

The problem of private investment is solved in two interrelated areas: sources and methods of financing, which are described in detail in the study. In the economic literature and dissertation studies, it is noted that the main methods of financing innovative projects and PPP programs are: credit financing, project financing and mixed financing.

To improve the efficiency of financing of innovative activities of public-private partnerships it is important to create and develop domestic capital market, which makes it possible to choose the most optimal sources of financing, to reduce transaction costs, to diversify the capital structure, to get a synergistic effect and to minimize risks. The study proposes a system of financial support for innovative activities of public-private partnerships for the creation and functioning of the capital market.

Thus, the problems of financing of innovative activities of PPPs considered in the study and the directions of their solving allow creating of the necessary conditions for their effective implementation in specific innovative projects and programmes of public-private partnerships and eventually to reduce the gap between the requirements of the state and the interests of the private business.

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