

## **The Strategic Nature of Public-Private Project in Solving the Problems of Small and Medium-Sized Cities in Russia**

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**Abstract:** The study presents the characteristics of the current problems of small and medium-sized cities in Russia, relating to the changes in the sectoral structure of the economy in old cities, the emergence of new towns and villages targeting new activities, new economy. Such processes become possible owing to the partnership of public and private investors in large-scale, long-term production projects. The study analyzes the practice of a specific project implementation on the construction of mining and processing complex for the production of potash manure in one of the regions of Russia, reveals its natural resource, economic, social, technological and ecological conditions. It characterizes the groups of stakeholders, their socio-economic interests in partnership; discloses the approaches to determining the effectiveness of public-private partnership from the position of the region and the local community, the role of the projects on modernizing the territory and improving the quality of life of the population.

**Key words:** Public-private partnership, small and medium-sized cities, stakeholder, transport infrastructure, social infrastructure

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### **INTRODUCTION**

Concentration of about 50% of Russia's population in small and medium-sized cities (Anonymous, 2010) determines their importance in the social and economic life of the state. Their social function is to provide conditions for normal life and reproduction of urban community owing to its social and cultural distinctness and economic to reproduce the material and financial elements of the potential of the country in general. The last decades show a great number of cities functioning problems which necessitates finding new lines and purposes of business of regional and municipal authorities, new strategic sectors and development tools.

Small and medium-sized cities are as a rule, historically established, stable territory units that make up a frame of the taxonomic structure of the country and the basis of the viability and integrity of the state. With significant scattering values of the population size, territory size, industrial structure, degree of localization of production and other parameters, for the most part they have population in the range of 30,100 thousand people and are the largest industrial centers, transport nodal points, logistics and service centers as well as health, educational and cultural centers for a large peripheral part of the regions of Russia.

Special problems in modern conditions are: changes in the sectoral structure of the economy in old cities; emergence of new towns and villages oriented towards new activities, new economy. These processes often are

due to the implementation of large-scale infrastructure and production projects based on the public-private or municipal-private partnership. Such projects are connected with applying new economic solutions as they require significant investments and circumspect management strategies for changes. On the other hand, they do engender complex social issues allowing for traditions, values, competences and susceptibility of both local and migratory society, so-called autochthones and allochthones to ongoing changes. All these together create positive and negative effects in the local economy and cannot be ignored in the management strategies.

### **MATERIALS AND METHODS**

**Problem statement:** Dwell first of all upon the need to generate a specific strategy of social development concerning not only the staff, production to be built up but also in relation to the local society of the territory. Since, the project involves local and other regional (so-called autochthones and allochthones) human resources, it is necessary to distinguish the strategies of social development of these groups. Autochthones are indigenous inhabitants, born or become native to a particular territory or formed their culture or accepted it from generations and reproduced. They tend to preserve traditional economic structures and relationships, reject new industries and activities causing resistance. Consequently, social development strategy in relation to the local population must take into account managing

changes and overcoming resistance. Thereagainst, newly arrived staff allochthones is a bearer of some missing or unique competencies, new patterns of behavior and other trends. Having come to the region from without, they bring their accumulated culture of managing, adapting and implementing it to the space of today. This includes corporate culture and management culture and the culture of life and leisure and consumer behavior. Therefore, the strategies of social development for them are oriented towards adapting and strengthening human resource capacity, forming human capital of the company and renovated territory (Inshakov, 2008).

As a result of the interaction of these social groups in the region where the project is offered and realized, there occurs an internal and external interchange of artifacts and patterns of life of autochthones and allochthones which changes the "genetic codes" of their activities, generating innovation as "cultural mutations", having them rooted in new routines and creating new products (Inshakov, 2007).

In the historical process of industrialization of Russia in the twentieth century, the emergence and development of new towns was accompanied by backlog of social functions due to the dichotomy of "urbanization ruralization" coming into existence. The adaptation of the autochthonous part, i.e., indigenous population of the area, was often hampered by the fact that they had to develop such activities that contradicted their historically established lifestyle and qualifications. It was mainly urbanization of peasants by birth, for whose account the new industrialized productions were created. Allochthones (the arrived), on the contrary were more trained professionally but with a different subculture that needed time to be assimilated with the local one. Most often they were the townspeople who were moving to build national economy (even think of the image of Davydov having become common in the novel "Virgin Soil Upturned" by Sholokhov and forced to master new way and style of life (for example, rural labor be self-sufficient).

As a result, there formed a new type of hybrid culture with no manifest local features, local distinctiveness, uniqueness. New cities gained appearance of "sleeping" areas with large industrial complexes, industrial plants with minimum social infrastructure, not focused on the expanded reproduction of the population which prevented the population from taking roots, increased susceptibility to migration and outflow to more favorable regions.

Gradually, underfunding social functions of new cities was leading to the decrease in economic effectiveness as well, as the results of activity are directly dependent on how much the city will be attractive to the inhabitants. In particular, now in the era of information

technology, high-tech industry, global communications, servitization such asymmetry is not conducive to the transition to an innovative economy.

Cities do not have sufficient resources of their own to solve local issues. Finances of local government are heavily dependent on transfers from the budgets of higher levels (federal and regional). Revenue of municipal budgets include relative own, i.e., tax and non-tax proceeds and gratuitous revenue inter-budgetary transfers. According to the studies Belkina (2015) until 2005, the main share of revenue municipal budgets accounted for the quasi-own and accounted for more than half of the local budgets. However, since 2005, after amending the fiscal legislation, there have been significant changes. So, the tax revenues of local budgets accounted for 73.3% in 1993 and in 2013 only 39%.

Reduced revenue base led to a decline in placement of funds into fixed capital. Given that  $> \frac{3}{4}$  of the costs of local budgets fall at the sectors of socio-cultural sphere and housing and communal services, this trend has become the most dangerous to the social functions of the cities.

The most acute social problems of the cities are: low income of the most of the population, poor state of the housing facilities and housing shortage, high level of environmental pollution and other ecological load on the territory, low level of satisfaction of the needs in health, education and culture. Solving such problems is possible only in the very remote prospect but it is in principle impossible at the expense of the resources of the very municipalities and cities. Way out of the situation is possible due to the interaction with all the stakeholders interested in the development of a particular territory. Necessary are the management tools that respond flexibly to changing market conditions, the emergence of new technologies and products, the development of needs of various segments. Such an instrument can be a public-private partnership where bodies of power and administration at different levels (federal, regional, municipal) may act as a public partner.

## RESULTS AND DISCUSSION

**Research and practice analysis:** Dwell on the two related aspects of an effective solution of the problems of small cities, especially in such complex field such as social infrastructure, depending on the legal organizational and administrative support of the projects.

First of all, note the new opportunities opened up in connection with the federal law of July 13 entering into force on January 1, 2016, 2015 No. 224-FZ "On public-private partnership, municipal-private partnership in the Russian Federation and amending certain legislative acts of the Russian Federation" (News Agency, 2016). The adoption of this law with an improved concession

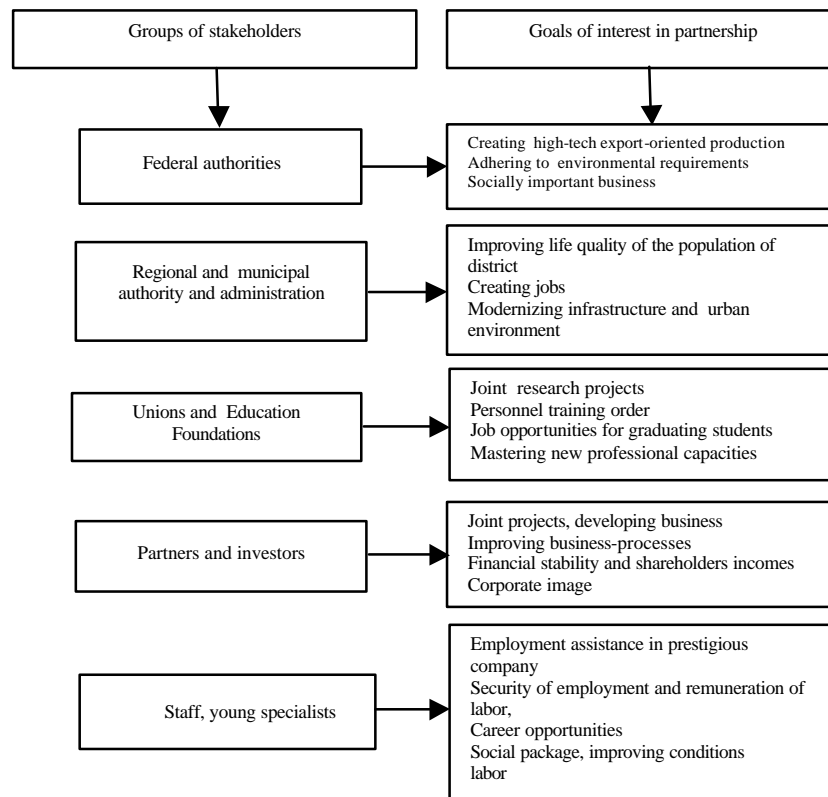


Fig. 1: Interest of stakeholders in partnership

legislation creates effective tools of attracting the private sector to developing public infrastructure. An innovation stipulated by law on the PPP, the possibility of private ownership of the public infrastructure, allows the use of innovative, efficient and balanced models of the PPP in the Russian legal practice, taking into account, on the one hand, the public interest, on the other hand the business need for various mechanisms of state support. With the aim of ensuring the practical realization of the PPP law, the regulation of the processes of initiation, development, evaluation, adoption of the decision on implementation, designation of a private partner for the project of the public-private partnership, the project of municipal-private partnership has been introduced. The list of public infrastructure which may be the object of public-private partnership agreement, has been defined. This list encompasses practically each of the industries: from social, communal and transport infrastructure to energy and land-reclamation systems. At that, it stipulates that the investor can apply for the creation of an object on his own initiative without waiting for suggestions from the public partner.

The Law on the PPP also provides for the possibility of co-financing the projects from budget resources. Moreover, the legislator guarantees standing rules of the game for the entire period of the agreement and provides for the possibility of revising the terms of the agreement

in the event of changes in macroeconomic conditions and legislation that concern directly the project (taxes, benefits and so on). Thus, federal law is supposed to be not just a framework document that defines a conceptual basis and common rules but a tool for solving infrastructural problems in Russia and, primarily its regions (Lomovneva and Gerasimenko, 2015).

Secondly, note the organizational aspects of the projects for creation of new infrastructure. Two stages are distinguished in the PPP project: “cost-based stage” during which public and private parties invest money in infrastructure objects (and other objects related to the functions of the public sector); “profitable stage” during which the infrastructure objects work and form the return of investment.

The presence of “profitable stage” is a key distinction of the PPP projects from the government contractual work. The source of income on the PPP project can be earnings from rendering services to private individuals and proceeds from the budget (The Russian Federation, 2015). However, in addition to the income from investment per se, it is necessary to add on achievement of goals of each of the stakeholder groups not relating to gaining profitability to its effects of the project realization (Fig.1).

As a typical example of the public-private partnership, consider the project on development of abraum salts and construction of ore-dressing and processing enterprise for the production of potassium chloride in Kotel'nikov district of the Volgograd region which was started in 2005. It is a question concerning unique Gremyachinsk deposit: the depth of occurrence is up to 1200 m; It contains >1.5 billion tons of sylvinit ore enriched with a basic useful component potassium chloride, sylvite; the area of potential deposits is 96.9 km<sup>2</sup>. The "EuroChem" group is investing 200 billion rubles in the construction. After commissioning, the Gremyachinsk OPE will produce >two million tonnes of potash fertilizer per year which would contribute significantly to meeting the requirement of agricultural commodity producers of the country in high-quality potash fertilizers. An essential part of the produced potassium chloride will be delivered to own enterprises of the JSC "EuroChem" for the production of complex nitrogen-potassic-phosphorus fertilizers, the remaining part will be brought to the domestic and foreign markets. In 2020, the company will reach its first stage potential output 2.3 million tons per year. in 2024, the enterprise will produce >6 million tons of the finished products. But with the first stage launching, the company "EuroChem" will become the first in Russia and the fourth in the world to produce the whole spectrum of mineral fertilizers (Gerrard, 2001).

Having come to the fore in the industry, the company is oriented towards gaining innovative advantages of current technologies. This project provides a set of innovative technical and technological solutions, is a knowledge-intensive and highly effective but at the same time it contains a large number of the risks of technological, environmental, financial and as it turned out, social character. All this has formed a complex system of partnership between business and government bodies of the federal, regional and municipal levels, on each of which not only the profitability of future production and its competitiveness depend but the development of the territory, quality of life, investment and migration attractiveness of the region, the future of the town of Kotel'nikov and its adjacent rural settlements.

A strategic environmental analysis of the project allows you to juxtapose the risks and the effects of its realization and choose an appropriate strategic profile.

#### **SWOT the analysis of enterprise construction project Strengths:**

- heavy ore reserves (estimated at 3.2 billion tons, the 5th place in the world) and the potential capacity of about 7.7 million tons per year
- High content of active substance (in average, 39.5% of KCl)

- Proximity of the Gremyachinsk deposit to the Black Sea ports and availability of existing transport infrastructure· expenses leadership, low cost with regard to the outlay on transportation to the key markets
- Home transshipment terminal in the port of Tuapse (the Krasnodar territory)
- Experience of co-operation with major players in the market of potash projects in Russia and abroad

#### **Weaknesses:**

- Long terms of project realization and running at full production capacity
- Scantiness of its own experience in potash mining and the need of engaging subcontractors for designing and constructing mines and production facilities, leading to higher costs
- Want for qualified personnel in the local labor market, attraction of the experts of another town and the foreign specialists, training costs
- Lack of social infrastructure, the remoteness of the production space from residential areas, cost on beautification

#### **Opportunities:**

- Unsaturated world markets of potash fertilizers, firm demand
- Availability of innovation technologies for construction of mines and ore concentration, allowing to reduce the cost of a tonne of production

#### **Threats:**

- Worsening of price state of the world markets, a long period of low prices, a decrease in sale return
- A large number of the reported projects on the creation of new ones and expansion of existing capacities in the sector, including in Russia, the risks of increased competition among manufacturers of fertilizers
- Possible protests of the local population, the negative public opinion and counteraction of "the green"

The matrix of pair correlations of the factors of strengths and weaknesses of the project and opportunities-threats of the external environment shows that the feasibility of a partnership between business and government is determined in this case, above all, by long-term projects and high dependence on the state of the world markets of chemical fertilizers. These two factors require distinguishing risks project parameters change between private and public partners and co-financing. At the same time, the attractiveness and effectiveness of the project for both parties is determined by the opportunities of sector growth tangible in the external environment,

reinforced with the company's technological decisions on increasing the volume of production and sales, obtaining the effects of scaling of the results. These two factors (the rate of growth of the industry, innovative technologies) will be providing the serial production of fertilizers at the appropriate cost reduction for a long time and therefore, a flexible price policy at the world and domestic market as well. It is innovation of the companies a private partner will form and retain competitive advantages of high order.

The project management system and innovative nature of the company from the very beginnings of the project realization had an effect on the policy in the field of current technologies, personnel, development of the construction site and social infrastructure and so forth. So, for example, special drilling technologies using freezing watered rocks have been applied. Around the area of shaft sinking, an ice sheet ensuring safety at the operation of the shafts and the mine on the whole is created.

To minimize environmental risks, the scientists and engineers have applied new research solutions and the best international experience. An underground mining is used which allows the ore to be raised to the earth surface and the waste rock in the future to be returned to the depths. All developed space of the mine will again be filled with waste rock under the ground which allows to reduce deformation of mining and land subsidence, reduce the amount of waste stockpiled on the surface. Not >200 hec have been allotted for storing wastes for the entire life cycle of the enterprise. Besides, on the entire plant site there has been removed fertile topsoil which has been stored to be further used in the improvement of the industrial site and land reclaiming.

The unique is a storehouse of the finished products as well, a total area of which is 40000 m<sup>2</sup>, the roof is made of wooden arched ceilings and wood, absorbing salt, gets just stronger with time.

The project provides the construction of an extensive rail network which will serve not only the enterprise and its traffic flows but also provide reliable passenger communication with the regional center and major transport highways. A new station "VolgoKally", the wagon and locomotive depot, two bridges across the federal railways are being built.

A special role in the partnership project realization is the investment of capital of the "EuroChem" group into social sphere of the territory. It makes up 20 billion rubles, of which >2 billion rubles into transport infrastructure, about 95% the federal budget subsidies.

According to the forecasts with the launching of the enterprise the population of Kotel'nikov will grow from 16000-30000. With regard to it the project provides for the comfortable housing construction and modern infrastructure. One of the new housing development

projects "Vostochny" with the housing stock of >600 apartments has been already realized. A new hotel complex, dormitories, sports center, restaurant, covered parking lot have been set up. Here live >300 families of the workers of the enterprise. A favorable mortgage program for employees is in force which is subsidized by the enterprise. Another residential complex "The Oak Grove" is a unique example for a public-private partnership. The provision of all engineering services has been funded from the federal budget and the development of housing and infrastructure (kindergartens, schools, a district hospital, an outpatients' clinic) is financed by the "EuroChem-VolgoKally" group. Thus, for the entire district center of Kotel'nikovo these neighborhoods will become points of social and cultural growth and modernization of the urban environment. The residents not only of a new village but the whole neighborhood center will be provided with the necessary engineering infrastructure (new groundwater supply system of the town of Kotel'nikovo new treatment facilities, reconstructed municipal sewage lines). The territory development program provides for the construction of a new Kotel'nikovo auto-road OPE, passing the federal highway and railway crossings with the improved road safety and traffic throughput capacity.

The management of the "EuroChem" company implements a multiple-aspect program of work with the public oriented to different groups of stakeholders of the project. The local population of the Kotel'nikovo district, public organizations, municipal authorities are of particular difficulty. Being categorically disaffected with the development of the field at the initiation stage of the project, the public hearings and the commencement of construction works (protests, pickets, media publications), being concerned about the grave environmental consequences, the ousting of native people from the lived-in areas, the influx of a large number of migrants from other regions and so on, the local inhabitants were gradually changing their standpoints. To overcome dissatisfaction and improve the social climate, the management company implements special PR-program, familiarizes citizens with the work and the project features, arranges excursions, popularizes the current technology, conducts explanatory works in schools, actively cooperates with higher schools in the region.

Thus, as a result of realization of a large-scale project of public-private partnership, the Gremyachinsk OPE will become trademark of the Volgograd region, because it forms a new industrial complex based on the innovative technologies of construction and operation allowing for integrated processing of raw materials and generating production with high added value. Besides technical and technological uniqueness, the enterprise will be a major ratepayer of the Volgograd region, its rate revenues will

form a significant part of the budget. Only with the launch of the first stage enterprise there will be working >3 000 people in the main production and almost 200 jobs will be created in the cross occupations. All this will have an impact on the business climate in the region on the whole, it will be a promising territory with a new quality of life.

### CONCLUSION

The analysis of the theoretical assumptions of functioning of the local socio-economic systems that are concentrated within the boundaries of small and medium-sized cities and agglomerations reveals a tendency of their role in ensuring the integrity of the state and the preserving a socio-cultural identity of the regions the so-called old cities, generating significant technogenic, social and environmental risks, uncompetitive and unattractive investment risks as well as the new risks oriented toward new activities and new economy are among them. The resulting competition between them for the skilled labor and flow of funds requires special strategies of management of the regions of the country, one of which is a public-private partnership that enables to fully solve the development issues with consideration for the features of a particular society. Such projects generate many economic benefits through creating jobs, increasing the value added, supplementing the budgets of different levels. They modernize socio-cultural and infrastructural environment of the territory, increase the production of public goods and services, improve the quality of life. On the other hand, large-scale projects give rise to complex social issues related to violation of the traditions, blurring values of the local population not always susceptible of the occurring changes. All this creates positive and negative effects in the local economy, accounts should be taken in the management strategies.

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