



Public Private Partnership in Social Sphere: Models Review

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ABSTRACT

Growing social pressure on economy is a global trend nowadays due to constant increase of elderly population not accompanied by respective world economy growth. One of ways to respond to global challenges became new model of social and infrastructure investments called Public Private Partnership (PPP). In this article authors analyze specifics of PPPs in social sphere and reasons why they came up to the world’s agenda. Such areas as health protection, sports, education, culture, utilities are treated as social. Main goal of majority of partnerships is social as well and due to this such projects have low income rates and high risks associated. Nevertheless, in the article models of effective PPPs are illustrated and analyzed in depth. The most promising models out of all options are selected and conclusion for the need of special tax regulation for the PPP projects is made.

Keywords: Problem of Elderly Population, Effective Models of Social Investments, Public Private Partnership

JEL Classifications: H51, H53, H54, M14, M21

1. INTRODUCTION

In the article authors provided a brief review of the existing (and developing) Public-Private Partnerships (PPP) in the social sector. Topic is on top of the agenda due to increase of social pressure on the economy and due to this the need to find the new ways of handling the growing demand for social services. In past years a lot of PPPs were created in healthcare and education spheres resulting in number of case studies and experience received. But worth to mention that not all areas are well covered e.g., area of social support (social security) which does not provide such opportunities for business as the basic social services or social insurance do. For this areas authors recommend using project financing, lifecycle contract (LCC) (Figure 1) and the forfeiting models which look promising from business point of view. Other model of interaction is by the non-profit organizations (NPOs). They usually possess thorough knowledge regarding local networks and environment. This makes such companies attractive partners for PPP. In particular, interacting with them is especially relevant in areas with low prospects for business because such organizations usually don’t have profit gain as their primary goal.

Currently, there is a significant worldwide increase of social pressure on the economy. There are four main factors causing this increase:

1. Falling fertility rate (as a result of the active involvement of women in professional practice);
2. Reduction of the mortality rate (due to the improvement of quality of life, development of medical technology and healthier lifestyle);
3. Aging of the “baby boom” generation (sharp rise in birth rate after the WWII);
4. Slow growth of the world’s economy that undermines the financial stability of the social programs.

Thus, it can be suggested that the number of elderly people will significantly increase within the next 10 years and that the growth potential will remain the same for subsequent decades.

In this situation, a state will not be able to handle the growing demand for social services and be able to provide the necessary level of social security without attracting private investments.

This is why in recent years the issues related to the possible attraction of businesses to the social sphere as a part of PPP has become especially relevant.

There are many various definitions for the concept of the PPP. Its general interpretation suggests that a PPP refers to the range of possible interrelations between public and private organizations within the context of infrastructure and other services (Alshawi, 2009).

2. SPECIFIC FEATURES OF PPP IN THE SOCIAL SPHERE

The analysis of the PPP implementation experience in countries at different stages of social and economic development have shown that such partnerships have been successfully applied in transport (roads, railways, airports, seaports, pipelines) and social (healthcare, education, entertainment, tourism) infrastructure, housing and public utilities (water supply, electricity supply, water treatment, gas supply) and other spheres (penitentiary system, military defense, military facilities) (Jütting, 1999).

It should be noted that the transport infrastructure has the largest amount of PPP, with social infrastructure running a close second.

As a rule, in developed countries, the road construction and reconstruction sector takes the first position in the number of the PPP implementation cases, followed far behind by healthcare, education and accommodation facilities (“Health and Economic Analysis for an Evaluation of the PPPs in Health Care Delivery across Europe”, 2014; Mitchell, 2016).

In developing countries as well as countries in transition, transport infrastructure, namely road, airports, railways, etc., construction and reconstruction, also takes the leading position in PPP investments attraction.

The most common sectors for the application of the PPP mechanisms in the social sphere worldwide are:

- Healthcare (construction, reconstruction, and management of hospitals, clinics and other objects);
- Sports (construction and reconstruction of stadiums and other sports facilities);
- Education (school construction, universities and dormitories reconstruction, provision of modern equipment for schools, and universities);
- Culture (monuments restoration, construction, and reconstruction of museum complexes and cemeteries);
- Judicial system (construction and reconstruction of court buildings and jails);
- Housing and public utilities (water treatment, garbage recycling, electricity and heating supply, water supply, road and street lighting support by the private sector, energy saving projects).

As a result, there is a growing tendency of applying PPP in infrastructure projects, related to the basic social services because

this sector represents a real market with calculated risks and capacities (which are determined on the basis of demand and supply) (Khasanov, 2013). For this reason, basic social services attract the private sector both in developed and developing countries and they are, and will remain, the subject of the PPP.

The area of social support (social security) does not provide the same opportunities for business as basic social services or social insurance does, both in developed and developing countries. This is why governmental social project incentives are actively applied here. Nevertheless, there is still an opportunity for the PPP business: They can transfer (deliver to customers) benefits, in cash or in kind (Chung and Meisner, 2011).

There is far less experience in other spheres of social security, such as education, social insurance or social support. As a matter of practice, the difficulty of implementing PPP projects in the social sphere lies in their specifics (Shevchuk, 2013):

1. The social goal that reflects the substance and the main function/task of the social sphere sector or a specific institution takes the leading position.
The social goal is the goal of the public partner while the economic goal is the goal of the private partner. These goals must be clearly separated and non-conflicting terms must be introduced in a partnership agreement.
2. Low project profitability level and high risks.
Low profitability level of the social sphere is a serious obstacle for the PPP. The private sector may be not interested in providing such services. In this regard, academics and experts discuss targeted approaches of the PPP to the needs of these groups. Such approaches allow determining the necessary level of involvement and correct incentives for the private sector and help to balance financial and social risks for all concerned parties.
If we consider the international experience, we will see that in order to get businessmen interested, the business profit rate in the social services sphere must be no <20%. The non-government sector represents a significant share in social services. For instance, in France it is 50%.
International practice is aware of a model where the government pays a so-called concession grantor payment to a private partner for all obviously unprofitable projects (such as, for example, schools and care homes). This is a specific untaxable kind of payment. A private partner (in case it fulfills its commitments, which is, building a facility and putting it into operation) doesn't need to fear that it will not have any return on its investment or any profit because the concession grantor payment is a protected clause of the budget.
3. The projects are of a local nature and implemented at the local government level. Municipal administration initiates the PPP.
4. Careful selection of the government control indicators is subject to the complexity of the object of the partnership and the need for overseeing and monitoring the implementation of the social goal.
5. The necessity to consider additional opportunities for an investor in gaining profits during the operation of the partnership object is determined by the difficulties of profit generation and relatively low investment attractiveness of

the social sphere objects. This is why the PPP social projects usually provide benefits and government guarantees.

3. PROSPECTIVE PLANS FOR PPP IN THE SOCIAL SPHERE

3.1. Model 1: Concession Agreement

This agreement presumes that a private partner undertakes, at its own expense, to construct and/or reconstruct a real estate object specified in this agreement the right of ownership of which belongs or will belong to a government and to maintain and operate the object of the agreement. The government undertakes to provide the private partner with rights of ownership and use of the object of the concession agreement for performing the above-mentioned activity, for the period determined by this agreement (Figure 2).

The main features of a concession agreement are:

- A region announces a tender for the right of making a concession agreement for the design, construction/reconstruction/modernization and operation of a residence for the elderly with a European level of service quality;
- The concession agreement term is no <20 years;
- The object of the concession agreement belongs to the concessor under the property right;
- The concessionary operates the object of the concession agreement under the rights of ownership and use.

The concession agreement determines the value of the service. The financial model of the service value is calculated for the entire term of the concession agreement.

Priority areas for the use of concession agreements in the social sphere:

- Construction of new facilities for eliminating the growing queue issue;
- Replacement of the existing dilapidated/substandard facilities;
- Tackling the problem of deficit of budget funds intended for investment in socially significant facilities development by means of attracting private investments (“Comparative study of frameworks to protect the long term interests of pension funds investing in PPPs”, 2012);
- Transferring the weight of the socially significant facilities maintenance, including the necessity to raise social workers’ salary, to a private business.

This type of agreement is most commonly used for the construction of hospitals and care homes.

3.2. Model 2: LCC

One of the most promising forms of PPP in the social sphere is, in our opinion, the LCC.

LCC is one of the contractual forms of PPP used in foreign countries. The “LCC” term is a word for word translation for the term they use in Scandinavia. In some European countries, this type of contract is defined as design-build-finance-maintain and is

one of the concession types. In France, they are called “partnership contracts.”

In this study, the LCC is defined as a contractual form of PPP according to which a public partner makes an agreement with a private partner for the facility design, construction and operation for the period of the object’s life cycle and makes a project payment in equal shares after the facility is put into operation and under a condition of maintaining the facility in accordance with the specified performance requirements by the private partner.

In other words, a private partner constructs a facility at its own expense and using its own materials and operates it during the entire estimated service life (life cycle) providing management, maintenance, and service support. A public partner makes project payments from the moment of putting the facility into operation using the budget funds of the corresponding level. Thus, project payments to the public partner may include private partner’s services of the provision the facilities for use (provision of a commercial building for educational facilities accommodation) or medical, social and educational services provided at such a facility.

This form has significant advantages. The conditions of implementing the LCC presume that a contractor receives funds only after the facility is put into operation. It is also possible to complement the standard LCC conditions with the conditions of freezing the public partner payments in cases when a facility cannot be used for its intended purpose and the imposition of fines against a private partner for the poor consumer appeal of the facility. Using the conditions of the punitive sanctions in the LCC allows for the carrying out of scheduled facility maintenance measures with minimal losses for customers. An example is performing maintenance during a period when there is no teaching and learning activity because a private partner is threatened by penalty for the lack of access to a facility.

The LCC has the following advantages for the government:

- Social utility;
- Faulty construction risk minimization;
- Absence of gap between the private partner’s liability for design and construction;
- Contractual payment is provided only in case a facility is maintained in accordance with functional parameters;
- Contractual payment by installment;
- Absence of unpredictable future expenses for the infrastructure maintenance.

The LCC has the following advantages for private partners:

- Opportunity for receiving a large government contract for design-construction-operation;
- Freedom of choosing among project and technical solutions;
- Opportunity of attracting investments with favorable conditions;
- Absence of demand risks;
- Opportunity to decrease construction and operation expenses due to high design quality and advanced technologies implementation.

3.3. Model 3: Project Financing

This model is mostly used in the social sphere for the construction of socially significant facilities (Germany has the most wide-ranging experience in this area).

In developing countries with weak corporate legislation and bankruptcy laws, project financing acts as a protection tool for investors when implementing large projects by means of creating an independent contractual and organizational structure.

There are four groups of persons participating in PF:

1. A project company founded by private investors internationally known as a special purpose vehicle. It is directly engaged in project implementation from the beginning to the end;
2. Government body - PPP project participant;
3. Private investors (sponsors and institutional investors) participating in this ad hoc project company's capital. Potential contractors usually act as sponsors - including construction companies, technical services and maintenance companies;
4. Creditors, most frequently represented by banks and national institutions (in foreign countries these are various public offices like the Institute for Health).

The special feature of project financing is that when granting a loan to a private project company, a bank pays attention, first of all, not to estimating its financial condition but to the value of the cash flows potentially generated by the project that needs financing. Without doubt, when granting a loan, a bank will demand to present a backing in the form of the project company assets acquired, mostly with sponsor financing. Therefore, a sponsor that has become a project company shareholder has to possess technical expertise and financial solvency, indirectly acting as a warrantor of the project completion which will apply a part of its cash flow for covering the credit repayment. Credit backing is proportional to the project's risk level.

Project financing is attractive for the social sphere objects first of all due to the mechanism of project funding without a corresponding mortgage security which is typical for social projects (Wachsmuth, 2013). On the other hand, a sponsor who holds company assets takes part in project management transferring vast administrative experience to the commercially unattractive social sphere.

Example: Jo Richardson community school (Figure 3).

- This is an excellent example of infrastructure project implementation.
- The same principles will work for hospitals, care homes or jails.

Jo Richardson community school is a secondary school and center for the local community built under the Private Finance Initiative (PFI) program. This was the first school built in Barking and Dagenham, one of the poorest London areas, in 40 years. The school now accommodates 1300 students aged from 11 to 18. A total of 80% of them come from poor families. One project usually governs the construction of a group of schools (20 or more).

Construction of the community school sets two main objectives:

1. Introducing innovative teaching approaches... both in general and professional education;

2. ...and creating cultural, leisure, sports and educational resources for the local community:
 - Adult learning center/campus;
 - Child center;
 - Health center;
 - Library;
 - Sports and leisure grounds;
 - Theatre and concert halls;
 - Cafe.

Local authorities spent 18 months on drafting the project documentation.

The project was intended to provide:

- Efficient use of space;
- Personnel management;
- Safety;
- Availability.

Project tender included: Provision of information and collecting applications - contractors; use of project samples; use of project quality data during selection; selection of the most economically advantageous offer.

Public authorities (Barking and Dagenham Council) are responsible for:

- Providing educational services to students;
- Providing enhanced services to the local community (adult learning, social integration, healthcare, leisure) and common area management;
- Support services (reception, cleaning, meals, etc.) and;
- Maintenance quality control.

Private partner's role includes:

- Design and construction (Bouygues);
- Financing (BNP Paribas, DEXIA Group, NIB, Barclays Equity);
- Maintenance (Ecovert);
- Building structure material;
- Mechanical and electrical units;
- Territory;
- Utilities;
- Healthcare and security;
- Amortization fund management;
- Technical support services.

Project risk allocation:

- Design and construction risks for the project company
- In case construction is not completed as scheduled or exceeds initial budget, payments will not be transferred and profit will be lost
- Building contractor pays compensation penalty
- The majority of the operations risk is the project company's responsibility
- Large operating expenses, maintenance, depreciation expenses and payment installments reduce profits
- Some risks/payment installments may be transferred to maintenance service ordering customer (by agreement) or facilities maintenance subcontractor

- Macroeconomic risks may be divided: High-interest rates reduce profit (in case they are not fixed or compensated), payment mechanism may make allowance for operating expenses inflation.

Insurance covers force-majeure circumstances (acts of God).

3.4. Model 4: Forfeiting Model

The forfeiting model represents a scheme where the private contractor sells its financial obligations to a bank under a condition of absence of any objections on the part of a public authority-participant of the PPP project. Project financing, by contrast, involves a connection between cash flow generated by a project and the volume of financing provided (Figure 4).

Disputes regarding the most acceptable form of financing continue worldwide to this day.

There are three basic groups participating in forfeiting model implementation within the framework of PPP:

1. Project company;
2. Public authority-project participant;
3. Lenders.

The forfeiting model is about the partial sale of public authority obligations for project work payments by a project company to a lending bank. The bank receives only that part of the financial obligations of a public authority which arises from a construction contract signed previously between a project company-contractor and a public authority-participant of the PPP project.

After the successful completion and acceptance of the project, the bank becomes a public authority's lender. The latter must pay the bank all debt service expenses the amount of which will be equal to a part of the basic single payment for the building works under the contract. The single payment that arises from the operation agreement between a project company and a public authority will be excluded from the procedure: It must be paid directly by a public partner-participant of the PPP project to a private partner-contractor.

After the completed project is accepted by a public partner, it announces a so-called legally relevant waiver of objection regarding the sale of its financial obligations before the project company to the bank. Accordingly, the public authority must pay the bank for the building works performed by the project company-contractor even if they were performed improperly.

This waiver of objection is the main advantage of the forfeiting model. Being aware of this waiver that will follow the completion of the project under the forfeiting model, a bank, when granting a loan, estimates the creditworthiness of the private project company only for a short period of project financing. Further creditworthiness of the private project company does not concern the bank. Knowing the further project implementation scheme, taking into account the high reliability of the public authorities, wherein banks usually don't even require any loan security. In fact, a bank may grant a loan to a project company on the terms applied when financing the local government authorities.

The basic risks that a public authority incurs in the case of a forfeiting model are:

- Poor performance of the company-contractor obligations under a financed project construction/operation contract (nonobservance of the contract terms, low current productivity during work performance).
- Total non-performance of obligations which implies the project company's incapacity.

In applying the project financing model, the decrease in the amount of payments under a contract is practically unlimited while the forfeiting model legally establishes that the decrease of these single payments of the principal sum is possible only within the amount not covered under the waiver of objection, that is, *de facto*, payments under the operation contract ("Private initiative in concessions: International experience and establishment prospects", 2015).

Due to the high risks and low profitability inherent for the social sphere projects, these projects are highly unattractive for private investments due to a poor risk/profitability ratio. In cases where the government helps hedging risks by means of the government guarantee and the application of the forfeiting scheme sets familiar and transparent mechanism of risk transfers, social projects may become attractive for business in terms of risks.

Each one of the existing forms of PPP, when implemented in the Russian social sphere, has its advantages and disadvantages. The latter are attributed to existing gaps in the current law.

In the unsteady economic environment and impossibility of massive budget investments, a LCC and project financing are the schemes that may become efficient in terms of social infrastructure development (Figure 5).

Example: The West German Proton Therapy Centre.

- Location - Essen, Germany
- Sponsor - Universitätsklinikum Essen
- Project term - 15 years, excluding construction period
- Financing method - PPP
- Construction period - 4 years
- Net cost - 115 million Euros.

3.4.1. Short project description

The West German Proton Therapy Center project was the first healthcare system project implemented in Germany in PPP format and it is still the biggest and the only project of this type.

The project includes development, design and construction of the facility that provides proton therapy treatment at the Essen University Hospital.

Within the framework of PPP, a private partner will be responsible for the facility design, construction and financing, as well as for non-medical services, including the facility and equipment maintenance, cleaning, ensuring property safety and waste disposal. The medical part of the services is provided by the Essen University Hospital through a non-commercial subsidiary

company which ensures the hospital's control over the key service that it provides.

3.4.2. *Project's history and stages*

Essen University Hospital is a modern hospital with a training facility in Essen, Westphalia, West Germany.

The Essen University Hospital is intended to provide its patients with the most technically advanced cancer treatment technologies. Proton treatment is a relatively new form of radiation therapy developed to make the tumor treatment more efficient.

Nevertheless, the proton treatment technology is exceptionally expensive and the hospital would not be able to ensure supply of the required equipment without the outside financing. PPP, being a relatively new scheme for Germany at the moment, was chosen as the optimal option for the project implementation and in January 2005, the Hospital initiated a tender for private participants interested in the project.

Despite the high risks, especially in terms of technical implementation, the tender was completed in <18 months and the project financing stage was finished in June 2006.

3.4.3. *Project cost and funding sources*

The initial funding requirement was determined at the level of 136 million Euro, 7 million being provided by the shareholders and the remaining 129 million by the outside funding sources which formed the 95:5 ratio.

The credit leveraging is high, compared to the typical standards of PPP. This was achieved both by means of the project's high reliability and using "bridge financing." This form of funding is a cross between long-term bank lending and contributions to share capital. It implies higher risks than bank lending does and is subject to repayment after the banks loans are covered, but before the contributions to share capital are made. Higher risks are usually associated with higher interest payments. Nevertheless, this tool may be used to increase the credit leveraging.

This project was the first PPP project that was funded through bonded loans and not through bank lending. In funding PPP projects, bonds are used as an alternative to lending and when implementing large projects in a suitable market situation may ensure funding with lower costs than in the case of lending.

Shareholders' funds in the amount of 7 million Euros were invested in equity capital in the form of shares with a total cost of 50 thousand Euros allocated in proportion 50/50 between the project company owners and in the form of subordinated loan for the remaining amount.

The Essen University Hospital makes payments for the use of the facility on the basis of availability, that is, a private partner receives payment while the equipment is available. Thus, funding comes to the private partner regardless of the demand and the Essen University Hospital takes the risk of a decline in demand upon itself.

3.4.4. *Project structure*

This project's private partner is the STRIBA group which incorporates Strabag and IBA (Ion Beam Applications). Strabag carried out the construction and design works, IBA provided the equipment.

To ensure the signing of the construction contract by the Essen University Hospital, a special company was founded, though all its obligations were transferred to Strabag, IBA and their subcontractors under the subcontractor agreements for construction, equipment supply and assembly and project maintenance.

The land where the center was to be built was leased to STRIBA by the Essen University Hospital. Thus, only nominal rent is payable under a lease contract.

Upon the expiry of the 15-year period, all assets, including the facility and equipment, will be transferred to the Essen University Hospital free of charge.

For the purposes of project tax optimization, the special contracting company resells the right for the future rent payments to another special company registered in Luxembourg which finances design and construction by issuing bonds.

3.5. **Model 5: Attracting NPO**

To ensure and provide basic social services, the public sector cooperates mainly with private companies, but there is a proof of successful interaction with NPO. The advantages of attracting NPOs to the PPP schemes are as follows:

- NPOs possess local wide area networks and knowledge;
- NPO's interest in gaining profit is not as great as that of the private companies;
- There is no conflict of goals during the project implementation;
- Suitable NPOs have a significant potential in certain sectors.

The education-related project with the participation of the FyA organization may represent a clear example of a successful partnership between the public education sector and NPO. FyA is a non-governmental organization controlled by the Society of Jesus of the Roman Catholic Church encompassing pre-school, elementary and secondary education, as well as professional education in the poorest countries of Latin America and Spain. Fey Alegria trains teachers, administers school and government construction, maintains facilities and pays teacher salaries. The program was first initiated in Venezuela in 1955 and has spread to over 14 countries since then. The main mission of this program is providing quality education to the poor and giving them the opportunity to complete at least the basic course of education.

Another example is a pilot scheme of medical insurance for children in Hyderabad, India that was implemented by a NPO (the Naandi Foundation, an independent NPO) using the PPP scheme. In 2005, the Foundation implemented a complex healthcare program for poor children-public school students. It was aimed at children aged from 6 to 14. The insurance package provided the full range of services without any restrictions (Gordiyenko,

2013). Regular bonuses (120 rupees a child per year) were not withheld from funds in the possession of the families. The program was implemented in health camps where every child underwent complete medical examinations (pediatrician, dentist-orthopedist and eye specialist). About 60,000 children visited and received medical services at these camps (Kryukov, 2013). The scheme was fully administrated by the Naandi staff members and they were able to reduce costs to a minimum. For this reason, it was possible to offer a full comprehensive healthcare package.

The schemes involving NPO for implementing PPP projects are most widespread in France.

In France, NPOs providing social services account for 747 thousand people in their staff which amounts to 52% of the total staff and 45% of the added value created in the social sector. 33 thousand NPOs worked in this sphere which equals 26% of all NPOs in the country.

Because the third sector grants people access to a very important social function, government covers a significant part of its expenses, demands strict accountability and controls organizations that provide the services.

Large care homes (and NPOs providing the accommodation services) are funded either through the daily provision of funds by a social insurance system or by annual grants. At the same time, small NPOs can be entitled only to grants of symbolic amounts.

To put it simply, companies managed by the NPOs are quasi-public. The level of public funding is very high, but funds are provided only through the social insurance system or through department financing. The organizations are strictly regulated by the government processes and the requirements for record-keeping and accountability are very high (Tyukavkin, 2013). On the other hand, companies that provide small-scale social services possess a wider variety of resources and, therefore, are less dependent on the central government. As a rule, they are closely related to the local public authorities. There are also fewer control procedures.

NPOs may be eligible to apply for grants or for free of charge services provision and assistance of the local public authorities (for instance, they may be provided with premises for carrying out their activities free of charge).

3.6. Model 6: Service Provision Contract (Outsourcing)

A private partner undertakes, on behalf of the public partner, to carry out the maintenance service of the project and a public partner undertakes to accept the completed works and pay for them. For example, there are offers of individual training in software products and automated information systems use for retired and disabled people, technical and medical equipment maintenance, project development and assembly of systems of various complexity levels etc.

This scheme is efficient when implementing non-core activities of a public authority costs more than transferring them to a private business.

The most common functions to outsource are information technologies, accounting and cleaning. In separate cases, it may be considered to outsource catering in public social and medical organizations, laundry operations, facilities and equipment repair and maintenance and laboratory research.

At the present time, in most countries outsourcing in social and medical organizations is limited to a period of 1 year. However, within the framework of a PPP contract, an outsourcing contract may be agreed to for a long-term period (15-20 years). A long-term contract is most favorable to an outsourcer because, as a rule, investments in outsourceable functions are the largest during the 1st year and become cost-efficient over time. In our opinion, the main advantages of outsourcing are time saving, higher quality of outsourceable functions (services) ensured by niche specialization, the possibility of attracting outsourcer's resources when it is impossible for a budget organization to obtain credit and the release of a medical organization resources for other purposes.

3.7. Model 7: Social Service Provision Contract

This model may include a private partner's obligations of social service provision to the population, for example for a franchising contract (educational or medical franchising). A special agreement could be reached between a private partner and an educational institution under which a partner provides additional social services as assigned by the social organization. Specifically, it could include in-home social care services provided to the retired.

However, there are some features worth noting:

- First of all, private organizations interest in this kind of interaction is of an image-building nature and allows enhancing awareness and attracting population to receiving paid services, but has no direct economic benefit. This is attributable to the fact that more often than not, tariffs don't cover actual service provision expenses. When providing a high quality, free of charge medical service, a private partner hopes that a patient will purchase additional (paid) services. As a result of such interaction, a government gradually transfers the population from free of charge services to the provision of help on a paid basis.
- Second, the issue of a private organization selection within the framework of a public tender and monitoring its activity in the context of ensuring the required level of service quality is not properly elaborated. Third, the interaction is usually limited by a year-long service provision contract and, in fact, allows closing a problem in the near term, but doesn't solve it in the long run.

3.8. Model 8: Property Lease Agreement

A private partner obtains property for a specific period on a rental basis. The private partner can, at their own expense and in agreement with a lessor, introduce improvements and has a right to claim compensation for such improvement costs from a public partner. For example, a private partner carried out construction of a social facility at its own expense and obtained a part of the completed project for use.

Figure 1: Lifecycle contract scheme

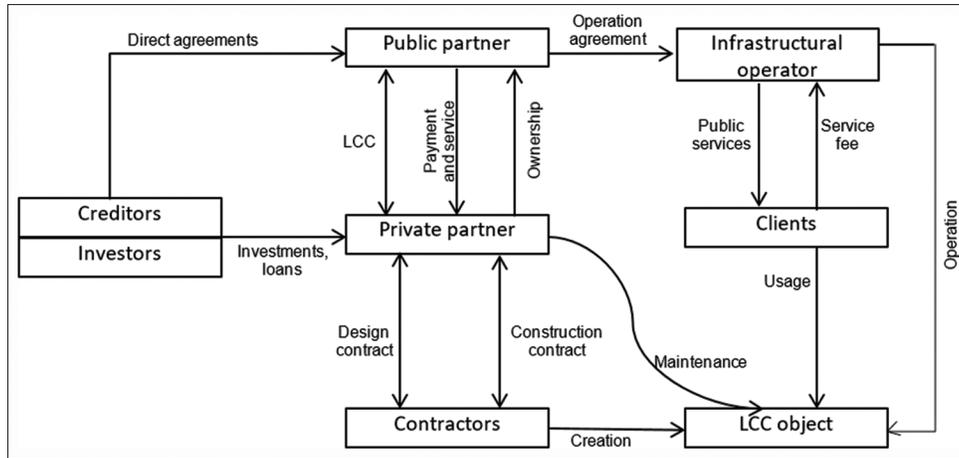


Figure 2: Concession agreement for creating new care homes

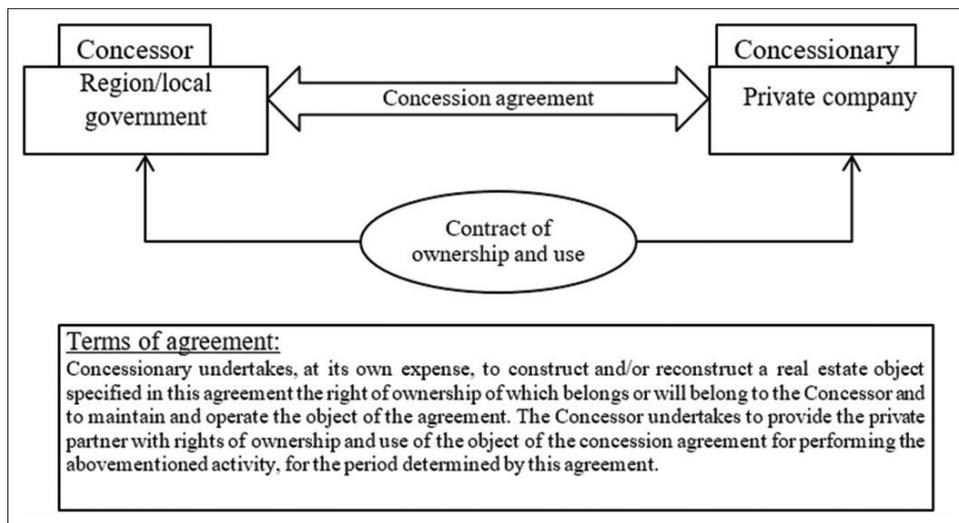
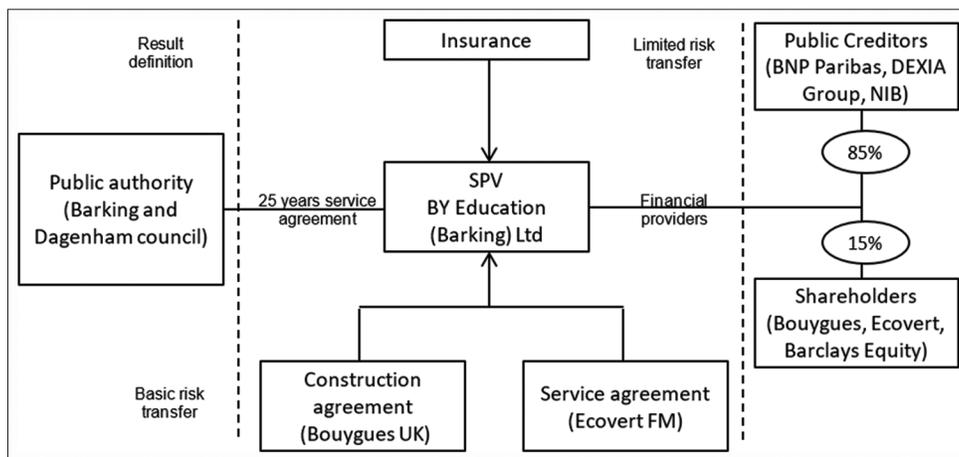


Figure 3: General scheme of the Jo Richardson community school project implementation



Depending on the circumstances, there may be the following leasable facilities: Unoccupied or vacated (for some administrative and technical purposes) premises of public medical organizations; temporarily unused equipment that belongs to a public organization; equipment unused due to purchase of the more modernized and fully equipped premises. On the other hand, a

private medical organization may experience an excess of space and equipment as well. In this case, government may act as a lessor. But, unlike in the first case, in this case the lease may be not only short-term but also medium-term or long-term. A real estate trust management agreement is one of the types of lease relations. A public partner transfers property to a private partner

Figure 4: Forfeiting model scheme

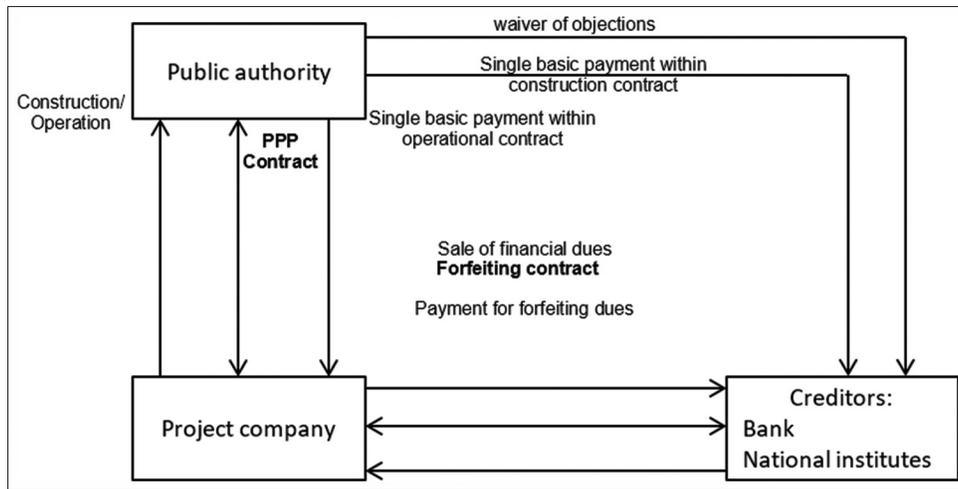
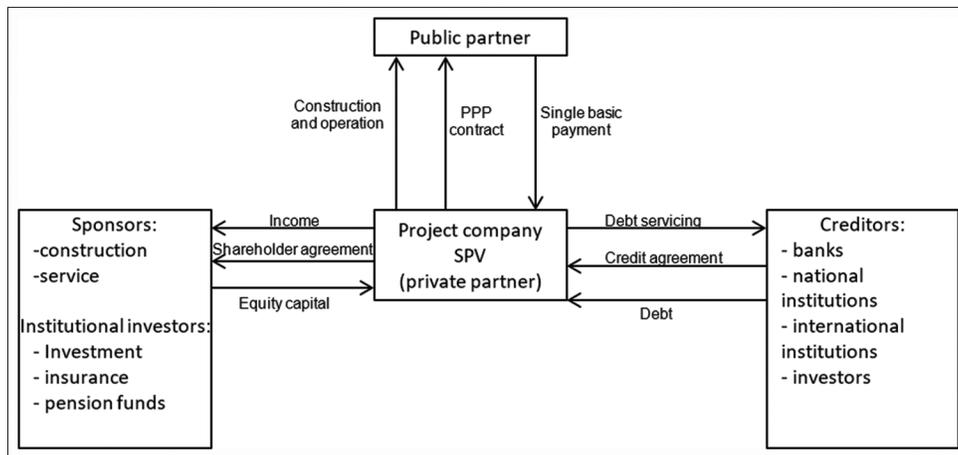


Figure 5: Project financing scheme



for trust management and the private partner undertakes to manage this property on behalf of the public partner or a person specified by it (beneficiary).

A study conducted by the marketing company Cegedim Strategic Data in 2014 detected 30-40% hidden profitability in regional Russian clinics. This is the money that government simply loses. "Ambulatory practice experience. A clinic made an order for vaccines above quota and had to dispose of 50% of them. A private clinic would be more careful while making orders." This is not just a Russian problem. According to the UN projection, 21% of the world's population will be older than 60 by 2050. For reference, in 2000 it was 10%. It's not surprising that even the most developed countries are challenged by the weight of healthcare expenses. For example, British National Health Service is being criticized for the overpopulated hospitals, long queues for surgeries and shortage of medical personnel. However, the British, as early as in 1992, developed the "PFI" allowing businesses to finance and manage facilities in spheres that used to be a State monopoly, in particular, public utility services and healthcare. During the following 20 years, about 130 hospitals were built in the UK using private funds. Of course, not all the projects were successful. For example, Paddington Hospital valued at £300 million was to be opened in 2006. Subsequently, the cost has nearly tripled and the

construction deadline shifted to 2013. On the other hand, British government saved massive funds by engaging private capital in healthcare. Investors also received a guarantee that their funds will be returned, even though it is in the long run. In UK contracts between public authorities and private companies are usually signed for 30 years. Every year, the government allocates a certain amount to businessmen in case they provide proper quality medical services to the population. According to surveys, over 90% of Englishmen are satisfied with service in privately managed clinics. Many developed countries, such as Germany, Switzerland and Australia have adopted the British experience.

4. SUMMARY AND PERSPECTIVES

1. A brief review of the existing (and developing) PPP in the social sector shows the following picture. Many partnerships were created in the area of basic social services such as healthcare and education. As a result, a sufficient number of case studies, experience and recommendations dedicated to this sector already exists.
2. In the context of opportunities for business activity and attraction of the private sector, the social security sector shows a complex picture:

- The basic social services sector (infrastructure projects) represents a real market with estimated risks and capacities (determined depending on demand and supply). For this reason, basic social services attract the private sector both in developed and developing countries, and they exist and will remain.
 - The area of social support (social security) does not provide such opportunities for business as the basic social services or social insurance do, both in developed and developing countries. This is why governmental social projects incentives are actively applied here. Nevertheless, there is still an opportunity for the PPP business: They can transfer (deliver to customers) benefits, in cash or in kind.
3. Successful partnerships in the area of social security may also be created by the NPO. As a rule, they possess thorough knowledge regarding local networks and environment, for example, about local needs, demand and supply. This makes such companies attractive partners for PPP. In particular, interacting with them is especially relevant in areas with low prospects for business because such organizations usually don't have profit gain as their primary goal.
 4. Within the framework of the existing partnerships, the public sector continues to bear responsibility for social rights and public welfare. In our opinion, it is the public sector that must be responsible and develop quality specifications for the provided social services.
 5. We believe that the most promising models in the social sphere are project financing, LCC and the forfeiting model.
 6. Using bonds in schemes as an alternative to lending while financing social PPP and implementing large projects in the suitable market situation may ensure funding with lower costs than in the case of lending. The government often acts as a guarantor for such bonds which allows them to mitigate project risks.
 7. There is a need for special tax regulations for the PPP projects. First of all, this would exclude an unreasonable rise in the project's cost that makes small and medium sized towns unavailable for concessions.

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