



## Economic Theory

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# Public-private partnership as an institution contributing to the integration of the economy of the Donetsk People's Republic into the economy of the Russian Federation: methodological aspect

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**Subject.** With the entry of the Donetsk People's Republic (DPR) into the Russian Federation, it has become highly important to study the mechanisms of interaction and interpenetration of the two economies contributing to the formation of a single state. To implement this task, it is of paramount importance to adjust institutions, including the institution of public-private partnership (PPP).

**Objectives.** To study the system of relations of public-private partnership and to find a model of public-private partnership which will fit the current state of the production forces in the DPR and contribute to the corresponding integration process.

**Methodology.** The core principles of economic theory that address issues related to public-private partnership, the development of PPP relations, its forms, and models serve as the theoretical and methodological foundation of this study. The study is based on the dialectical method, which made it possible to identify inconsistencies within the public-private partnership system and suggest solutions to resolve them. This will ensure the integration of the DPR economy into the economy of the Russian Federation. The results of the study were substantiated by means of the retrospective analysis of the practice of public-private partnership relations in the Russian Federation, the DPR, and in foreign countries. Such analysis allowed validating the most effective mechanisms and models of PPP appropriate for the current circumstances in the DPR and the Russian Federation, encompassing the context of the special military operation.

**Results and discussion.** As a result of the study, it was concluded that there are different methodological approaches to defining PPP. Scientists and practitioners tend to use a pragmatic approach and characterise PPP in the context of specific projects, which allows them to implement its specific models and mechanisms. On the other hand, a lack of thorough analysis of socio-economic relations within PPPs makes it difficult to search for an effective model of relations between the state and business. Therefore, the authors studied the subject within a socio-economic approach. This made it possible to develop a concept of public-private partnership relations which will fit the current circumstances, challenges, and threats (in which the economy of the DPR is functioning) and contribute to the integration of the economy of the DPR into the economy of the Russian Federation.

**Key words:** investments, models, mechanisms, concession.

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## Introduction

The study of institutions within economic theory started at the end of the 19th century, however, the potential of this area of knowledge got to be actively used in the post-Soviet space only on the threshold of the end of the 20th and beginning of the 21st centuries. Nevertheless, using various kinds of institutions to enhance the socio-economic development even for such a short period of time proved to be effective (Romashchenko, Gersonskaya, 2021, 2023). This fully applies to the institution of PPP.

For the Donetsk People's Republic, modern transformations have been caused, on the one hand, by its formation as an independent (but not recognised by the UN) state (which existed from May 2014 to September 2022), and, on the other hand, by its entry into the Russian Federation (in September 2022) and a special military operation (SMO) conducted on its territory. For Russia, the transformations are associated with international sanctions over the SMO, which significantly affected the structural, investment, and social processes in the country. Consequently, both parties are interested in the development of public-private partnership relations, especially considering their extensive practical experience: before the merge, many models and forms of PPP were actively developed both in the Donetsk Region as part of Ukraine and in the Russian Federation. This can be proved by works of scientists who investigated various aspects of the theory and practice of public-private partnership relations.

Among Russian scientists, the most popular publications dedicated to the problem of public-private partnership included works by V. G. Varnavsky (2009, 2011, 2012), V. P. Cherdantsev (2022), and other scientists. The research conducted by the team of scientists from the “National Centre of the Development of PPP” is also of interest<sup>1</sup>. These works study a wide range

of issues related to PPP: conceptual approaches to its definition; global practices for the institutional provision of PPP; legislative framework, models and mechanisms of partnership depending on industries and territories, and their economic and social efficiency. Having studied the international practice of PPP, Russian scientists focused on its use to stimulate infrastructure investments. The proposal of scientists to use investment infrastructure loans is of particular interest, as well as the Smart City infrastructure development project<sup>2</sup>. The proposals of Russian scientists have already been put into action in the DPR to restore war-ravaged Mariupol and to restore roads in Donetsk and other settlements in the region. Three federal state-owned companies and 15 companies from 11 regions of the Russian Federation are involved in the restoration of Mariupol. However, it is still important to attract regional and municipal investments in the DPR.

Donetsk scientists, V. V. Trubchanin, N. V. Shemyakina, A. A. Ponomarenko (2023), L. I. Dmytrychenko (2014; 2020), B. V. Melus (2021), V. E. Savkin (2022), L. I. Tarash (2018; 2013), I. P. Petrova, and others, also made a significant contribution to the development of the theory and practice of public-private partnership, which can be proved by relevant publications, including in journals abroad. These scientists understood the significance of PPPs and participated in the development of the draft DPR Law “On Public-Private and Municipal-Private Partnership”. During the pre-war period, scientists focused on the mechanisms of attracting private capital to form municipal-private partnership projects in the DPR. They also worked towards improving the investment incentive system, i. e. attracting private funds through fiscal, credit, and customs preferences and risk insurance. They substantiated the need to create a special purpose fund to

<sup>1</sup> Draft national report on attracting private investment in the infrastructure development and the application of public-private partnership mechanisms in the Russian Federation. URL: <https://t.ly/2uh3R>

<sup>2</sup> Review of the practice of applying public-private partnership mechanisms to create the infrastructure of “smart cities”. URL: <https://t.ly/-Rzs7>

support public-private partnerships, which would guarantee the equal responsibility of the state and business under unforeseen events, as well as compensation for costs and the possibility of obtaining certain profits (Dmytrychenko, 2020. P. 118–119). As a result of cooperation between scientists and state bodies, the “Investment Portal of the Donetsk People’s Republic” was created in December 2015. So far, over 109 thousand projects have been registered on the portal, 52 thousand (47.7 %) of which are proposals by private companies<sup>3</sup>.

A great contribution to the theoretical substantiation and introduction of PPPs was made by Donetsk scientists from the Institute of Economic Studies (Trubchanin et al., 2023. C. 72–86; Polovyan, Lepa, 2017. P. 49–53; Tarash, 2018. P. 168–172; Tarash, Petrova, 2013. P. 72–86). The Institute started the research in the pre-war period and continues to actively search for effective models and mechanisms of public-private partnership under current conditions. What is more, the scientists emphasise the need to implement large-scale projects in the DPR industry based on effective public-private partnership. We would like to emphasise that considering that the production structure of the DPR economy, transport system, utility facilities, etc. have been destroyed and the difficult conditions for functioning of small businesses, the main challenge remains to be the need to accumulate domestic and attract external investment resources. This issue requires a comprehensive approach, which is largely provided for by the possibilities of public-private partnership.

### Research methods

To solve the problem of integrating the DPR economy into the economic space of Russia by means of PPP, it is necessary to have a clear understanding of what this system of relations is. To do so, it is necessary to use a number of general philosophical and economic research methods. Historical method made it possible to trace the evolution of the category “public-private

partnership”, and the evolution of its models and mechanisms. It was been established that the modern theory of PPP is based on a functional, pragmatic approach that considers the organisational and legal forms of PPP and is aimed at achieving a certain social effect. However, there are other approaches: political-economic, social, investment, and reproduction. In our opinion, a political-economic approach is the most methodologically correct and comprehensive approach since PPP is a system of industrial relations. This view is supported by many scientists, including V. G. Varnavsky (2009, 2011, 2012), who considered PPP from two sides: as a system of relations between the state and private business, and as a jointly implemented specific project.

Despite a variety of its models and forms, PPP can be determined using the methods of abstraction, analysis, and synthesis. What is more, the definition of the studied subject allows determining its institutional elements and functions.

A functional approach to the study of PPP based on its organisational and legal forms allows the active and effective use of this system of relations in practice. Although PPP projects are implemented in more than 100 countries of the world, only 20 countries (including Russia) have laws which ensure the stability of these relations even despite sanctions over SMO. This is confirmed by the empirical data by the Russian Centre of PPP. The market for public-private partnership projects expanded: 65 projects for a total amount of more than 234 billion roubles were completed between January and August 2022 (this does not include utility projects with a total investment of under 100 million); the number of projects remained almost the same as compared to the previous year, but their scale increased significantly (the volume of investments amounted to 240 billion roubles, which was almost twice as much as in 2021); the volume of investments by private partners remained almost the same and amounted to 139 billion roubles as compared to 134 billion roubles in 2021<sup>4</sup>. It should be noted that the developed regulatory framework for PPP

<sup>3</sup> Investment projects in the “Donetsk People’s Republic” region. URL: <https://t.ly/syGXp>

<sup>4</sup> PPP projects appear unharmed by the crisis. Infrastructure monitoring. URL: <https://t.ly/m74dP>

in the DPR is focused on Russian legislation, consequently, it can be concluded that it is necessary to use partnership relations with the purpose of integrating the economy of the Republic into the economy of the Russian Federation.

Importantly, according to the Constitution of the Donetsk People's Republic (Article 5), private, state, municipal, and other forms of property are equally recognised and protected<sup>5</sup>. According to Article 2, clause 2.1 of the Law of Donetsk People's Republic of 11.08.2017 No. 188-IHC "On Public-Private and Municipal-Private Partnership", this form of relations between the state and private business is focused on creating conditions for effective interaction of partners for the sustainable socio-economic development of the Donetsk People's Republic.

### Results

When choosing the model of the development of the DPR as a subject of the Russian Federation, it is necessary, first of all, to analyse its state, to explore possible channels of its integration, to identify the common features of the spheres and types of production, to find common ground between the DPR and the Russian Federation.

To do this, let us consider the state and potential of the resources of the Republic. The proclamation of the DPR in May 2014 brought some system-wide institutional changes in the economic, social, demographic, and political organisation of the Donetsk Region. As an integral part of Ukraine, the Donetsk Region had powerful fuel and energy, metallurgy, machine-building, chemical, food, and other branches of the economy (more than 3,000 industrial enterprises). What is more, the region fully supplied itself with agricultural products. The share of the Donetsk Region in the processing industry of Ukraine was 19.7 %, and in industrial production a total of 18.5 %. The population of the region was over 4 million people.

There were 95 mines in the *coal industry*, of which 47 were non-state-owned, and their total

production capacity was 38 million tonnes of coal per year. *Ferrous metallurgy* of the region was represented by three iron and steel enterprises (Yenakiieve Iron and Steel Works, Donetsk Metallurgical Plant, and Makiivka Metallurgical Plant) and five pipe production enterprises (including the largest in Europe, Khartsyzsk Pipe Plant, which produced large-diameter pipes for gas and oil pipelines, strategic plant); there were also seven by-product coke plants. There are deposits of non-ferrous metals (chromium, copper, nickel, molybdenum, and titanium) in the region. Lead, copper, and mercury were also mined (the mercury deposit in Nikitovka is the largest in Europe). There were 23 *chemical industry* enterprises that produced mineral fertilisers, ammonia, polystyrene, acids, household chemicals, and pharmaceutical products. *The machine-building complex* consisted of 152 enterprises that produced equipment for the coal and metallurgical industries, the railway, construction, and agriculture. They also produced machines, household appliances, etc. *The food industry* consisted of 104 enterprises specialising in the production of meat, dairy, bakery, confectionery, fruit and vegetable, alcoholic beverages, and beer products. There were enterprises for the *production of non-production commodities*: furniture, household appliances, kitchenware, textile, clothing, and footwear. There were 561 *agricultural* enterprises and 1,500 farms in the region (Polovyan, Lepa, 2017. P. 8–10).

As a result of hostilities during the first stages of the formation of the Republic, the consequences of COVID-19, and the special military operation (SMO), only five state-owned coal enterprises are now operating in the coal mining industry of the DPR (Donetsk Coal Energy Company, Makeevugol, Torezanratsit, The Komsomolets of Donbas coal mine, and Zasyadko Mine), which includes 16 mines (of which only 10 mines are currently operating). In addition, 60 private mines and 133 small associations are engaged in coal mining in the Republic. Coal exports are only 2 million tonnes and mainly to Turkey, and through it to the countries of the Middle East and Africa. Enterprises of other sectors of the Donetsk economy are in a similar situation. Despite having

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<sup>5</sup> The Constitution of the Donetsk People's Republic of 14.05.2014. URL: <https://t.ly/0XuNB> ; The Constitution of the Donetsk People's Republic of 27.09.2022. URL <https://t.ly/nNPfs>



the production potential, they either do not work at their full capacity or do not work at all.

With the proclamation of the DPR and the beginning of the confrontation and artillery shelling in August 2014, the Khartsyzsk Pipe Plant was deenergised and stopped working. And although in October it still continued to produce products, in February 2015, as a result of ceased railway communication, the plant again stopped working for an indefinite period. The number of employees had to be reduced almost by half, down to 1.5 thousand people. In an effort to retain qualified personnel, the plant management, with the support of the Republic's leadership, paid workers 2/3 of their salaries, using them to maintain the physical condition of the plant.

The access of the Donetsk Region to the sea was also important. The Mariupol seaport provided for almost 9 million tonnes of cargo turnover. After 2014, this resource was lost (in 2022, the Mariupol port was again functioning within the framework of the DPR).

As for the personnel potential of the Republic, as of 01.11.2023, its population was only 2.1 million people (i. e. it had almost halved), of which 23.2 % were elderly people over 60 years old; and 55 % were young people and adults; almost 56 % of the population were women; 21 % of the population had higher education or were in the process of obtaining higher education; 38.4 % of the population had secondary vocational education; 59.6 % of the population were officially employed; 5.8 % were unemployed<sup>6</sup>. Interestingly, these indicators are almost similar to those of the Russian Federation: older people over 60 years old make up 23.2 % of the country's population; young people and adults 55 %; almost 56 % of the population are women. There are some insignificant differences in the level of education: 25.6 % of Russian citizens have higher education or are in the process of obtaining higher education; and 36.1 % have secondary vocational education. Official employment is 59.6 % of the population; unemployed make up 5.8 %<sup>7</sup>.

<sup>6</sup> State Statistics Service of the Donetsk People's Republic. URL: <http://gosstat-dnr.ru>

<sup>7</sup> Federal State Statistics Service of the Russian Federation. URL: <https://rosstat.gov.ru>

Given the similarity of the sectoral focus of the Donetsk People's Republic and the Russian Federation, the resource potential of the DPR, and many years of continuous experience of using PPP in Russia, it can be concluded that the economy of the DPR and the Russian Federation have a lot in common, which makes it possible to integrate the economy of the Republic into the economy of the Russian Federation. But to do so, it is necessary to increase the investment activity of the DPR. One of the most effective mechanisms for attracting investment resources is a public-private partnership.

What is the main idea of this system of relations; what are its models that are most suitable for the current conditions of the DPR; in which sectors of the economy can PPP be most effectively used? To answer these questions, we will focus on some methodological aspects of the analysis of public-private partnership which give reason to conclude that PPP is a promising mechanism for integrating the state and private business of the DPR within the Russian Federation.

First of all, let us consider the essential characteristics of public-private partnership by studying different approaches to the definition of PPP. The conducted analysis showed that the distinction between legal, financial, microeconomic, institutional, and theoretical and methodological approaches is arbitrary (it matters only when analysing the essence of the studied category). The socio-economic approach appears to be more accurate since it combines all of the above:

- the methodological approach makes it possible to identify the specifics of PPP.
- the financial approach determines the targets (accumulation of financial resources and distribution of profits).
- the microeconomic approach reflects the interests of the parties to the PPP relations, including the distribution of risks.
- the macroeconomic approach shows the interests of the partners and all members of society aimed at providing public goods.
- the legal approach provides the regulatory framework for a project's implementation.

However, the study goes beyond a mere analysis of individual aspects of the studied

phenomenon. The synthesis of all approaches made it possible to characterise a public-private partnership as an economic category. We consider PPP as an economic category that reflects a wide range of socio-economic relations, not only between partners implementing the project, but also between partners, on the one hand, and project stakeholders, on the other hand. In this sense, public-private partnership makes it possible to significantly expand the scope of integration processes.

Our concept of public-private partnership as a system of socio-economic relations is based, on the one hand, on combining financial, labour, intellectual, and other resources in order to implement socially significant projects, and on the other hand, on the separation of ownership relations, incomes, and risks. Partners are interested in both aspects. The pooling of resources makes it possible to implement projects which otherwise would be impossible. And the reservation of property, separation of income and the distribution of risks are the most important factors of participating in the project.

We consider it necessary to focus on such an aspect of PPP as ensuring the replenishment of the state budget and to use this aspect to activate its functions (which also strengthens the integration processes in the DPR and the Russian Federation). This is natural, since all project participants receive income that is subject to taxes paid to the federal, regional (subjects of the federation), municipal, and local budgets. This aspect of PPP has been characteristic of the relations between the state and private business throughout the history of their development, since ancient times, and its civilised forms are present in the modern society. The following so-called protoforms (early forms of partnership between the state and individuals) can be used as examples (Brailovsky, 2014. P. 9–31):

– *tax-farming*, assignment by the state of the right to collect tax and other fees and charges to a third party for a certain period and under certain conditions (it was common in Babylon as early as the 6th century BC, and later in Ancient Greece and Ancient Rome).

– *privateering* as a form of relations between the state and the owners of private vessels (originated in Aragon in the 13th century and existed until the middle of the 19th century). Private owners of ships were issued patents for operations against enemy merchant ships and ships of neutral countries which were carrying goods for the enemy. Within this form of economic relations, the state used financial means, ships, and infrastructure to maintain, construct, and repair ships; and private partners used financial means and ships. (Privateering has been generally believed to have played an important role in the formation of Great Britain as a leading maritime nation).

– *mercenaryism*, using private mercenary armies in an armed conflict or hostilities (however, volunteer soldiers do not fall into the category of mercenaries). This form of relations between the state and private individuals has been known since ancient times. The services of mercenary armies were used in Mesopotamia as early as the 3rd millennium BC. Some nations and states even specialised in the supply of mercenaries, which was confirmed by the ancient Greek philosopher Xenophon in his military memoirs “Anabasis”. Mercenary armies were also used during the Middle Ages, especially during the Hundred Years' War and in conflicts between Italian city-states. In the Middle Ages, mercenary armies were also used in Ukraine. For example, Crimean Tatars fought either on the side of the Ukrainians against the Poles, or on the opposite side. Ukrainian Cossacks also fought throughout Europe. A detachment of Cossacks led by Bogdan Khmelnytsky took part in religious wars in France. Currently, there are about 90 private military groups operating in Africa, according to various estimates. This type of relationship is most common in countries engulfed in civil wars (Varnavsky, 2012. P. 36). Today, some states which do not have sufficient funds to maintain and support their own armies, use private armies to ensure their national defence. This kind of PPP is also relevant for modern Russia under the conditions of SMO (for example, PMC Wagner).

– *concession*, appeared as a protoform and has undergone a number of stages in its development: 1) its emergence in the 13–15th centuries in Spain

and Italy during the development of mineral resources by states; 2) development in Europe and the United States in the 17th century as a form of assignment of rights to certain types of economic activity to non-state, including foreign, companies on certain conditions; 3) concession in the industrial period as the consolidation of hidden or half-hidden privileges by contract; and 4) concession as an open contract without privileges. (In its modern version, concession is one of the most popular PPP models). Concessions *emerged as a legal and regulatory form of contractual relations between the state and private companies in order to attract investment in the development of the national economy*. As a rule, they granted non-state investors with the right to use state and municipal property (including natural resources) on a fixed-term and repayable basis and the right to carry out activities monopolised by the state.

Concession agreements were made in Russia. The first period associated with the use of concession agreements in Russia was from the late 1850s to the early 1880s. Then, the main scope of concessions was the construction of railways, i. e. they helped to solve problems of developing transport infrastructure. However, in the early 1880s, due to embezzlement and bribery, concession relations were terminated and the construction continued at the expense of the state treasury. Importantly, during this period the state made its first attempts to attract foreign capital to the implementation of joint public-private projects. The second period of concession relations in Russia began after the end of the First World War and the Civil War. The reasons behind these relations were the same, a lack of investment resources. The scope of concessions was in the mining and processing industries, agriculture, and trade. The practice of concessions, including the practice of attracting foreign investors, proved to be successful. However, in the late 1920s, the concessions in Russia were curtailed for ideological reasons. And only due to their positive effects around the world (since the 1960s), concessions have received a “third wind” in Russia and today are one of the actively developing models of public-private partnership. Federal Law No. 115-FZ of 21.07.2005 “On Concession

Agreements” is the main existing document that regulates these agreements. In the DPR, the draft law of the Donetsk People's Republic No. 1204-D “On Concession Agreements” was approved by the Supreme Court of the Donetsk People's Republic in March 2022. This law is very important in the context of the integration of the DPR into the economic space of Russia. On the one hand, the popularity of PPP as a whole and its concession model, has decreased, however, on the other hand, it has still remained important under the current conditions in the DPR and Russia.

As for the indicators of the development of the PPP concession model in Russia, despite the consequences of COVID, sanctions, and SMO, in 2022, there were concluded concession agreements for a total amount of 825 billion roubles, which amounted to 0.5 % of GDP (against 1.7 trillion roubles or 1.6 % of GDP in 2019). Private investment in concessions amounted to 520 billion roubles (63 %)<sup>8</sup>. (For comparison, in developed countries, investment in the concession model ranges from 6.6 % of GDP in the UK, to 6.9 % in Australia and New Zealand, and to 8.1 % in Canada)<sup>9</sup>. According to the Ministry of Economic Development of the Russian Federation, 213 billion roubles was invested in education projects (an increase of 5.5 times against 2021), 173 billion roubles was invested in public transport (an increase of 6.2 times), and 159 billion roubles was invested in road infrastructure (2 times). A key driver of growth is launching projects aimed to create, reconstruct, and operate electric land-based public transport in the regions. Thanks to this programme alone, concessions for the total amount of 140 billion roubles were concluded in 2022, which is more than in 2021. In education, investment increased by almost 175 billion roubles as compared to 2021. As we can see, Russia and the DPR have common interests in the development of the PPP system, which will accelerate the integration processes.

Donetsk researchers, in particular scientists from the Donetsk Institute for Economic Resear-

<sup>8</sup> Ministry of Economic Development of the Russian Federation. Statistics. URL: <https://www.economy.gov.ru/stat/year>

<sup>9</sup> National PPP Centre. Infrastructure projects: Results of 2019. URL: [https://t.ly/HX4\\_s](https://t.ly/HX4_s)

ch, consider PPP as a tool to ensure the industrial development of the DPR aimed at implementing large-scale projects, creating, modernising, and reconstructing industrial facilities in the Republic and as a financial and organisational foundation for increasing the investment activity of the industrial sector (Trubchanin et al., 2023). Of course, we should also remember about the principle of materialism: the development of resources and facilities is the core for expanded reproduction with all the ensuing results. However, in our opinion, PPP is not only an institution ensuring the development of large enterprises and industries, but also an institution ensuring integrated socio-economic development of states and territories, in particular, of the Donetsk People's Republic. It is impossible to restore and develop the industrial complex of the DPR without communication, which is provided by the transport sector and logistics. In turn, the development of the nonmaterial sphere and the service economy is dependent on the development of the production sphere and transport. Therefore, in our opinion, restoration of the Khartsyzsk Pipe Plant offers great opportunities in terms of PPP development. Its production capacity allows producing 1.6 million tonnes of pipes per year, including 200 thousand pipes with one longitudinal weld, up to 12 m long, and 450–600 thousand pipes with anti-corrosion coating. Pipes produced by this unique enterprise have been used to construct gas pipelines (“Druzhba”, “Urengoy – Pomary – Uzhgorod”, “Yamal – Europe”, “Egypt – Jordan” and many others); oil pipelines (“Volga Region oil – Western border”, “Ust-Balyk – Ufa – Kurgan – Almetyevsk”, “Nizhnevartovsk – Kurgan – Kuibyshev”, “Tengiz – Guryev – Astrakhan – Grozny”, Eastern Siberia – Pacific Ocean oil pipeline “Transneft”, “Vankor project “Rosneft”, and others), and water pipelines (“Guandu – Reduc” (Brazil); “Don – Donbas”). Today, the plant is gradually “coming back to life”. In February 2023, the plant began to produce pipes for the Don – DPR water supply system. Thirty km of pipes (2,540 pieces) have been produced.

The DPR is situated conveniently in terms of transport. The seaport in Mariupol is one of the five largest ports in Ukraine and the deepest on the Azov coast. Through the Volga-Don Canal, the

Mariinsk Canal System, and the White Sea-Baltic Canal, the port is connected to the Caspian, Baltic, and White Seas, and through the Kerch Strait to the Black Sea and beyond. The port is appropriate for vessels up to 240 m long. It provides year-round navigation, 18 berths, its cargo handling capacity is 17 million tonnes per year. In April 2022, it came under the control of the DPR and was included in the Register of Russian Sea Ports. Since May 2023, 16 thousand tonnes of grain crops have been shipped through this port. The port's capacity can be increased by 4 times. At the beginning of the 2000s (2007), 17.5 million tonnes of cargo was shipped through the port, including 8.5 million tonnes of metal. At that time, this was more than the port of Novorossiysk could handle. After the restoration of the Illich Steel and Iron Works, the port will be able to boost its activities even further.

According to international practices, PPP proves to be effective in the area of housing and communal construction and in the area of transport. Given the serious destruction in these areas in the DPR, as well as the experience of restoring roads and residential buildings (especially in Mariupol) with the help of Russian investments, it is necessary to intensify public-private partnerships in these areas.

Hence the practical significance of our study: under the conditions of limited investment resources of the Donetsk People's Republic, the problem of finding effective mechanisms for using the combined capabilities of the state and private business is associated with the restoration and development of the state within the Russian Federation. We would like to emphasise that by the end of 2022, the development of the most promising areas for the integration of the DPR into the Russian economy, i. e. agriculture (+6.6 %), construction (+5 %), and mining (+0.4 %), was the most representative<sup>10</sup>.

## Results and discussion

Public-private partnership has never been considered by other scientists *as a mechanism for integrating the economy of the DPR into the economy of the Russian Federation*. This question

<sup>10</sup> Federal State Statistics Service of the Russian Federation. URL: <https://rosstat.gov.ru/folder/313/document/198546>



was raised by the authors of the article for the first time. The study of methodological aspects of the problem of public-private partnership; the analysis of PPP as a system of socio-economic relations and as a mechanism for attracting investments; and the systematisation of practical mechanisms and models for implementing these relations in various spheres of economic activity in global economy, in the economy of the Russian Federation, and the DPR proved that it was right to choose PPP not only as a mechanism for attracting investments, but also as an instrument for the development of economic systems and, as a consequence, for the integration of the economy of the Republic into the economy of the Russian Federation. We would like to emphasise that the integration process will be more active and successful if the interests of the parties, the structure of production, the resource and regulatory framework for the achievement of goals are taken into account. It is also important to consider the peculiarities of the socio-economic state of the subjects of the integration.

Our conclusions about the need to take into account the regional characteristics of the state, the current state of its productive forces, the availability of resources, and the needs and possibilities of using PPP to implement national social projects are in line with the proposals of scientists from the Faculty of Economics of the Higher School of Economics S. V. Brovchak, A. A. Smirnova, I. A. Zotova, A. R. Mingazova, and A. D. Golovko (2022), which were substantiated within the framework of the topic "Empirical studies of the financial model of the social economy" (2021–2022).

The conclusions about the need to use PPP to restore the industrial potential of the Republic (and in general to implement the recovery model of the DPR economy) agree with the provisions set forth by scientists from the Donetsk Institute for Economic Research V. V. Trubchanin, N. V. Shemyakina, and A. A. Ponomarenko (2023).

The idea of recognising PPP as an instrument of state management of the transformation of economic systems towards innovative economic development is in line with the point of view of I. N. Makarov, V. I. Titova, and Yu. V. Sukhina

(2021), scientists from the Financial University under the Government of the Russian Federation and the Russian Academy of Russian Presidential Academy of National Economy and Public Administration.

The authors' recommendations regarding the need to use public-private partnership relations to provide financial resources for the military-innovative sphere correspond to the views of scientists from the 46th Central Research Institute of the Ministry of Defence of the Russian Federation (Gorgola et al., 2020).

The authors' concept about the effectiveness of PPP models and the areas of their practical application was developed under the influence of studies by K. V. Prokhorov, T. I. Makarenkov (2020), R. I. Mingazov (2023), A. V. Rubtsov, V. V. Levshin, L. N. Khramova, and others (2020).

The data of analytical reports of InfraOne (an infrastructure company specialising in the organisation, analytical support, financing, and management of infrastructure projects and concession transactions) and the views of many scientists support our understanding of the PPP concession model as being the most effective in solving the current problems in the DPR, especially in the field of housing and communal construction, transport infrastructure, and telecommunications<sup>11</sup>.

Our study made it possible to determine similarities and differences between the problems experienced by the Russian Federation and the DPR in terms of adapting the DPR to the conditions of the Russian Federation and integration of the Republic into the economic space of the Russian Federation (Table).

## Conclusions

Theoretical studies of various aspects of public-private partnership, the practice of using this institute abroad and in the Russian Federation prove that it is effective to use the system of relations between the state and private business

<sup>11</sup> Infrastructure investments: what was happening in the concession and PPP market during the first half of the year? URL: <https://t.ly/bGEj2>

*Similarities and differences between the problems experienced by the RF and the DPR in terms of adapting the DPR to the conditions of the RF and integration of its economy into the economic space of the Russian Federation*

Similarities	Differences	
	Russian Federation	DPR
Dynamics of structural processes due to war, SMO, and sanctions	Relatively stable economic growth	A shattered economy that needs to be rebuilt
Similar industrial focus of economies	Functional sectoral and territorial industrial complex	Availability of resources to restore the functions of the industrial complex
Almost the same demographic trends/need for labour forces and personnel with a special vocational education	The loss of professional personnel who have moved overseas, male conscripts who have perished on the front line, ageing employees, the need to stimulate the birth rate	The outflow of the population since 2014 due to hostilities and the SMO, casualties among civilians, the need for an influx of personnel
The need for infrastructure development	The need for infrastructure development is due to the scale of production and territory	Despite a smaller territory as compared to the Russian Federation, there is still the need for infrastructure development due to massive destruction and the need to restore production
Growing demand for investment resources	Possibilities to accumulate and use investments due to internal production resources	Highly restrained budget, the need to attract external investors
Development of the financial system of a single state	Developed system of banks	Only one Russian bank (PSB) has been introduced and is operating in the DPR so far
Practice of using PPP relations	Functional public-private partnerships, an increasing number of projects and investments	The practice of using public-private partnerships is being restored, possible interactions of the Russian Federation and Russian private businesses with the relevant subjects of the DPR
Similarity of the nearly entire existing regulatory framework	The Federal Law "On Public-Private Partnership, Municipal-Private Partnership in the Russian Federation" is in force	The law of the DPR "On Public-Private and Municipal-Private Partnership in the DPR" is in force
Mutual interest in using the resources of the Russian Federation and the DPR to develop public-private partnership relations as a mechanism for mutual integration of the economies of the Russian Federation and the DPR		

aimed at the development of economic systems and based on attracting investment resources. What is more, such an approach allows for the interests of both partner parties. The role of the state is not only to allocate budget, but also to engage private businesses, to pool resources, and to distribute risks between public and private partners implementing socially significant investment projects. The state acts both as an equal partner and a representative of the integral

interest of the country's population. Private businesses fulfil the interest of generating income, ensuring employment, and developing a positive social image.

In Russia, PPP has been widely used both at the level of the state as a whole and at the level of the subjects of the federation. The practice of PPP is getting more widespread in municipalities. However, in the Donetsk People's Republic the situation is very different (and this is despite the

fact that the PPP law was one of the first to be adopted in the Republic). Both levels are important for the conditions of the DPR, given that public-private partnership ensures the integration process both within the regions and on the scale of the state as a whole. And with the possibility of attracting foreign investment (both public and private) PPP can be considered to be a mechanism for interstate integration.

Therefore, it can be argued that one of the main forms of PPP is a concession and that for the current state of the economy of the DPR (and Russia under sanctions), this is the key form of PPP. What is more, in the context of investment hunger in the DPR and the investment deficit in the infrastructure of the Russian Federation and the need to solve common problems related to the infrastructure restoration/development, concessions should be widely used as an instrument of integration of the Republic into the economic space of the Russian Federation.

Taking into account the fact that the Russian market of PPP projects is unbalanced (there is a predominance of large investment projects), the fact that the share of concession agreements (relative to the corresponding indicators in developed countries) in Russia's GDP is low (within 1.6 % of GDP), and the fact that concessions are used to implement infrastructure projects at

the municipal level, we propose to intensify the study of concession relations within the strategy for the development of PPP as a mechanism for the integration of the DPR into the socio-economic space of the Russian Federation. What is more, it is important to study in detail the peculiarities of the state of the Russian and Donetsk economies, to identify "common ground" for the intensification of investment and, thus, integration processes.

Our further research will be aimed at finding effective institutional mechanisms for the development of public-private partnership relations, including those based on concession agreements. To solve the raised problem, it is important to improve the tax policy of the state, including policies ensuring the viability of small and medium-sized businesses as potential "co-investors" of the state. We find it advantageous to attract foreign investment from Russia-friendly states and states with a similar status to the DPR (for example, South Ossetia) interested in the development of transport infrastructure and other infrastructure projects.

### Conflict of interest

The authors declare the absence of obvious and potential conflicts of interest related to the publication of this article.

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## Экономическая теория

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# Государственно-частное партнерство как институт интеграции экономики Донецкой Народной Республики в экономику Российской Федерации: методологический аспект

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**Предмет.** Вхождение Донецкой Народной Республики (ДНР) в состав Российской Федерации актуализирует исследование механизмов взаимодействия и взаимопроникновения двух экономик как основы формирования единого государства. В реализации этой задачи первостепенное значение имеет адаптация институтов, в том числе института государственно-частного партнерства (ГЧП).

**Цель.** Исследование системы отношений государственно-частного партнерства в аспекте поиска его модели, адекватной современному состоянию производительных сил ДНР и обеспечивающей соответствующий интеграционный процесс.

**Методология и методы исследования.** Теоретико-методологической основой исследования являются фундаментальные положения экономической теории, посвященные анализу проблем государственно-частного партнерства, генезиса отношений ГЧП, его форм и моделей. Исследование основано на диалектическом методе познания, позволившем выявить противоречия в системе отношений государственно-частного партнерства и предложить механизмы их разрешения, обеспечивающие интеграцию экономики ДНР в экономику Российской Федерации. Существенную роль в обосновании результатов исследования сыграл ретроспективный анализ практики использования отношений государственно-частного партнерства в Российской Федерации, ДНР и зарубежных странах, позволивший обосновать механизмы и формы ГЧП, адекватные реалиям ДНР и РФ, в том числе в условиях проведения специальной военной операции.

**Результаты и обсуждение.** Результатом исследования является вывод о различии методологических подходов к определению ГЧП, к пониманию его сущности и содержания. Ученые и практические работники зачастую используют прагматический подход, характеризуя ГЧП с позиций осуществления конкретных проектов, что позволяет реализовывать его определенные модели и механизмы. С другой стороны, слабо выраженный анализ социально-экономических отношений ГЧП затрудняет поиск эффективной модели отношений государства и бизнеса. В связи с этим авторы рассмотрели исследуемый предмет на основе социально-экономического подхода, обеспечившего формирование адекватной современным условиям, вызовам и угрозам (в которых функционирует экономика ДНР) концепции развития отношений государственно-частного партнерства как института интеграции экономики ДНР в экономику Российской Федерации.

**Ключевые слова:** инвестиции, модели, механизмы, концессия.

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