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# Peculiarities and prospects of interaction between government and business in the agricultural sector

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**Abstract.** The relevance of the research topic is determined by the advantages of interaction between government and business in the agricultural sector: on the one hand, the resources provided and the flexibility of the business, and on the other hand, the potential to influence decision – making for social and economic development. In addition, the ability of the authorities to act as an upholder of social justice. This research aims to identify areas for the development of interaction between government and business through the spectacle of satisfying the interests of both parties. This is the reason for the research tasks: to analyze the definitions, to evaluate the key interaction models of government and business; to reveal the most acute issues of interaction between government and business and possible potentialities for its improvement. Public-private partnerships in the agricultural sector provide a variety of potential benefits arising from the combination of operational and economic performance specific to the private sector, with the role of the government sector as an enabling environment and a regulator ensuring that social interests are accounted. For all types of public-private partnership, the efficiency improvement is the main advantage determining the prospects of its development in the agricultural sector.

## 1. Introduction

With limited public resources and expertise, innovative partnerships engaging business, government, and civil society are progressively being promoted as a mechanism to increase performance and stimulate growth in the agricultural and food sectors all over the world. These initiatives, generally called as public-private partnerships (PPPs), are widespread in sectors such as infrastructure, health, and education, but their use in the agricultural sector is newish [1,2].

Current economic situation has identified the shortcomings of various management aspects of economic systems, from the level of a small enterprise to the global economy. In addition, among the key issues to be addressed and which have become particularly relevant, deficiencies in the field of relations and interaction between government agencies and business structures have been identified [3]. They include, above all, those where the solution is aimed at providing sustainable development of Russia within the conditions of economic turbulence, namely, the agricultural sector [4]. Today, the partnership between the government and business in the field of agriculture, among other things, is in the process of being formed. Remarkably, in order to implement the status of a legal, democratic state at the agrarian level, it is supposed to develop effective mechanisms for compliance with certain guidelines, which provide an opportunity to enhance the performance function of government bodies, as well as their interaction with business [5].



## 2. Research methods

A complex of complementary general research methods (induction and deduction, classification, scientific evidence, logical and comparative methods of analysis) as well as specific cognition methods (summaries and groupings, tabular and graphical) was applied in the research process).

This article examines and systematizes publications indexed in SCOPUS and Web of Science databases, thereby to make a theoretical review, determine the main topic and issue of the research. The analysis of international studies of the interaction of government and business is conducted.

## 3. Results

The study of modern issues of interaction between government and business shall be preceded by a brief description of the definitions, which enables us to better represent the object and subject of this research.

The whole nature of the implementation mechanism of interaction between government and business is a mutually profitable relationship.

The distinctive feature of the interaction mechanism between government and business is that the authorities in this case act not only as a management entity, but also be involved in the relationship themselves. For this reason, they must inevitably be subject to the control of the mutual nature of other participants in such interaction. However, the amount of control performed may vary. As an example, for a certain project, its interaction participants can receive any information at all stages of the project. In addition to monitoring the mechanism of interaction between government and business, consulting is applied to reach the results of the optimal interaction [6].

Current mechanisms of interaction between business and government bodies can involve such models as ideally theoretical, national, regulatory, real institutional, conventional models, "public order" model, etc. [7, c.286].

A large number of significant issues have long been resolved by the government with the participation of corporations and private investors. The practice of this kind has been developed in the Russian Federation based on the previously gained experience of other countries. The interaction between government and business in solving important social and economic issues based on public-private partnership now offers an opportunity to solve many acute and important government tasks.

The interaction process between government authorities and businesses all over the world is carried out in the following forms [8, p.43]: public-private partnership (PPP); special economic zones (SEZ); joint ventures, for example, joint-stock companies where the government acts as shareholders; social partnership; public procurement system.

Let us consider such a concept as special economic zones.

Special economic zone (SEZ) is understood as the territory of the Russian Federation, where there is a special rule for business activity. SEZs can be of the following types: technological and innovative; industrial and production; port; tourist and leisure [9].

Residents of such zones have the following advantages:

- guarantees are provided for the protection of investors' rights at the legislative level;
- special administrative regulations;
- special customs regulations;
- special tax regulations.

Social partnership is central to the interaction between government and business [10].

A governmental body may act as a shareholder on an equal basis, for example, with private investors. However, the special feature of this form is that the state is involved in the production and investment activities of the joint-stock company.

Let us consider public procurement as a form of interaction between government and business.

Public procurement is the process of purchasing goods or services using budgetary funds to meet public needs. The public procurement system is progressively improving under the influence of constantly changing environmental conditions.

Let us consider the most common form today – PPP, which is a key form of interaction between government bodies and business structures in the agricultural sector. According to the definition given by N. V. Sedova and D. V. Almyashkin, "public-private partnership (PPP) is a set of forms of medium - and long - term interaction between the government and business to solve socially significant tasks on mutually beneficial terms"[12, p.436].

A. S. Troshin considers that "public-private partnership is an interaction vector between government bodies and economic entities for the purpose of ensuring socially significant interests"[13, p.273].

A conclusion based on the presented definitions may be the following: the common feature of all the definitions discussed is that the main characteristic feature of public-private partnership. It consists in the interaction between the government bodies, business, and society. In this article, we are going to focus on the application of the definition that public-private partnership can be determined as the interaction of government bodies with economic entities for the purpose of ensuring economic development in the vector of enhancing competitive positions and focusing on ensuring socially significant interests.

The most critical goal of PPP is to develop infrastructure via socially significant projects implementation.

The objectives of public-private partnership on the basis of the formulated goal are defined as follows[14, p.213]:

- commitment to improving the efficiency and effectiveness of the industry (sector) that PPP interaction vector is focused on;

- commitment to ensuring the social and economic development of the country;

- supporting the country's competitive position in the global market, etc. [15].

PPP project implementation is performed on the basis of the PPP agreement that was concluded. In this regard, the question of choosing a counterparty (or a private partner) is especially relevant, because:

- such project implementation is financed from the budget;

- there is a possibility of transferring ownership of the object, which will be established as a result of PPP presence [16].

Moreover, the conclusion of such an agreement for an economic entity allows for the creation of an additional "channel" for the sale of its own goods (works, services). For an entrepreneur, participation in a PPP project itself is a pledge of its development in the long term, and this provides an ability to raise investments and implement innovative developments in a faster and more efficient way, while this contributes to the establishment of certain advantages over competing companies. This is precisely why Article 4, paragraph 2, of the PPP Law presents the concept of ensuring competition as one of the most important principles of PPP existence. For example, this principle is based on the provisions of Article 8 and Article 34 of the Constitution of the Russian Federation, which guarantee competition support[17].

As one of the mechanisms for ensuring competition, the so-called mandatory rule is used. In accordance with this rule, the conclusion of a PPP agreement is made through tenders in the form of a competition, according to the results of which the person who is best able to provide the effective implementation of a PPP project is determined. Only in cases of an exceptional nature, which are stipulated in Part 2 of Article 19 of the PPP Law, the conclusion of such an agreement is available without the above-mentioned competition.

Tenders should make the competition stronger, which will give the opportunity to choose the best economic entity to perform a certain type of tasks. For this reason, it can be observed that the use of the institution of tender at the time of the conclusion of the PPP agreement acts as one of the tools to ensure competition.

Moreover, the choice and form of tenders is particularly critical for ensuring competition. PPP Law specifies that the establishment of a private partner is made only according to the competition results. The competition, in accordance with the provisions of article 447 of the civil code, is a form of trading

where as the winner admit the person who, according to the conclusion of the tender committee, prescribed in advance by the organizer of this type of trading, were offered the best conditions.

An intention to participate in the PPP project is based on the advantages for both the business and the public partner. The private partner gets to manage or use exclusive state assets, a guaranteed return on investment with minimal risk of non-return, improves the reputation of the implementation of socially significant projects, increases the number of new customers, consumers and sales markets. In addition to the main goal of solving social and economic issues, the public partner achieves secondary goals. He lowers the burden on the budget by reducing or completely removing the costs of maintaining state property and increasing the receipts of additional payments to the budget, applies modern management and production techniques, and uses best business practices to increase the efficiency of the state apparatus[18, p.125].

The initiative to form a PPP in the Russian practice is on the part of the public partner. As mentioned above, at the legislative level, it is established that the conclusion of PPP agreements should be conducted through a competitive selection procedure among potential private partners. The question arises of a informative description of the external environment in which competition for the right to implement a PPP project appears. The competition level for the right to implement a particular project defines the efforts that the private partner will make to reach the victory in the competitive admission.

Practically, public-private partnerships in the agricultural sector (agro-PPPs) may include both formal (contractual) and informal (joint) arrangements, and have generally preferred simpler and less complete contractual terms, such as memorandums of understanding, over traditional PPPs for infrastructure. Examples indicate that a single contract can only be entered into between a public partner and a leading private partner, or between multiple partners. In addition to the main document that forms the partnership, the parties usually conclude a number of bilateral agreements.

These include agreements between the company and farmers on a contract for cultivation of crops; confidentiality agreements; agreements related to the ownership of intellectual property rights (IP) /licensing agreements; and financial services contracts. These types of bilateral agreements were common to all agro-PPP typologies and were used along with the main partnership agreement to implement project activities[19].

In the case of small-scale farmers, many partnerships have shown a positive impact on net income by improving market access, increasing performance, improving product quality, or reducing costs through the introduction of new technologies, increasing capacity, and creating new and complementary services in the farm employment process. As well as achieving the social and economic objectives related to the projects, the overall benefits of engaging in PPPs for public sector partners included strengthening public sector institutions and developing skills in project design and management. On the company level, the benefits were shown in the form of raised sales and market share, and / or greater availability of raw materials.

PPP mechanism is designed to deal with affordability by pooling funds from various sources to overcome the limited funding available in the public sector. Research results indicate that the pooling of public and private funds occurs through PPP projects, which range from small initiatives worth less than \$ 20,000 for innovative projects to multimillion dollar projects for the creation and management of market-oriented infrastructure. Achieving this goal can be structured in different ways to meet the specific purpose of the PPP, and may include equity investments, contributions in kind, related grants, and concessions to the private sector. Nevertheless, it is possible to make some comprehensive conclusions regarding the shares of total investments made by public and private partners, owing to the poor practice of not valuing contributions in kind and the limited disclosure of financial information by both parties[19].

The table 1 presents a comparison of PPP in the agricultural sector and traditional PPP.

**Table 1.** A comparison of PPP in the agricultural sector and traditional PPP[19].

Description	Traditional PPP	PPP in the agricultural sector
Investment scale, cost and risk allocation, and revenue estimation	Usual investments are in the amount of 8-9 million US dollars. The public partner shall make contributions in kind or in cash. The private partner must contribute. The private partner covers the investment from the revenue / user fees associated with the project. The private partner usually bears all commercial risks.	Smaller scale of investment (minimum mobilized investment of US \$ 100,000). There are no requirements for financial investments in the partnership's share capital - contributions in kind (often without evaluation) may be sufficient). Private income is not necessarily assessed. Risks may or may not be shared between private and public partners.
Partners	A government agency and one or more private companies.	This may also involve small and medium-sized enterprises, farmers, and other community groups working on joint initiatives with certain government agencies (donors and / or international technical agencies) and agriculture companies. Multi stakeholder partnership.
Formalized agreements	A formal contractual agreement between one major public partner and at least one major private partner. More advanced contract terms are preferred.	It may include informal or formal arrangements. Simpler methods are used. It is common to use ancillary contracts, such as contract agreements.
Accepted leadership and management processes.	Provisional feasibility studies and justifications performed before the selection of partners and contract negotiations are carried out. For selecting partners from the private sector, a clear bidding process was applied.	Feasibility studies performed to assess the potential for economic, social and environmental impacts usually involve an analysis of the value chain. Advertised biddings are welcome, but offers from the private sector are available, especially in relation to innovative projects.

The conducted survey of companies in the field of medium and small enterprises to identify the most significant barriers in the interaction of government and business has allowed us to make such conclusions about the issues of such interaction [15]:

- about 80% of respondents remarked that the biggest challenge for businesses while interacting with the authorities is in the field of oversight bodies when carrying out inspections. it is about excessive requirements and long deadlines, and in addition, it is about overregulation during the progressing of administrative procedures (for example, obtaining a license to conduct certain types of business);

- about 90% of the respondents indicated that they do not have enough information concerning the measures taken to government support;

- about 20% of the respondents faced a corruption element in this field when interacting with the authorities.

On the basis of the conducted research of Russian and foreign experience, it is essential to identify the existing challenges of interaction between government and business and to determine its prospects.

The concept of social and economic development of the Russian Federation until 2020 indicated the need to solve the interaction problem between government and business [20]. The following solutions to this issue were proposed:

- development of new forms of raising private capital for the implementation of research and technology programs (this refers to foresight projects and technology platforms);

- establishment of priorities in technological development on the basis of such institutions;

- establishment of small and medium-sized technology companies, startups, including those that are focused on demand response of large corporations (according to the American model));

–project financial support in the scope of the debt obligations issue(it is the project or infrastructure bonds), which are 100% or partially guaranteed by the government; other types of methods of indirect public financial support (this refers to tax credits, subsidizing interest rates on loans that are attracted, and so on).

Consequently, the interaction between government and business has to move from direct financial support to support of various initiatives.

The development of PPP for the implementation of highly significant strategic tasks, support for small and medium-sized business entities, and the creation of educational platforms (this refers to business incubators, educational centers) were in the role of actual mechanisms of interaction between government and business) [22,23].

#### 4. Conclusion

In the framework of the unstable economic situation in modern Russia, there is a tendency for closer cooperation between the government and business for solving joint challenges in the agricultural sector with the use of PPP, which combines the resources of the public and private sectors and thus helps to effectively solve the social and economic issues of rural areas.

There are many obstacles on this way, including:

- legal framework imperfection in this field;
- social and economic as well as political turmoil in the country;
- the lack of an effective system of long-term planning and so on.

Public partners and policy makers require a clear understanding of the reasons for prioritizing PPPs over other public sector support mechanisms, and need to be able to determine the project types where PPPs will be most efficient in addressing market failures in a sustained manner. Potential PPP projects have to show value for money and, perfectly, should bring public benefits exceeding those that could be achieved through alternative implementation methods, such as direct public financing, outsourcing, or privatization. Partnerships need to focus on funding from both partners to achieve common goals having a high potential for social and economic by-effects. Moreover, there has to be the potential to achieve scale in the long term by learning from PPP implementation and, thus, creating an enabling environment that will promote future private sector participation and industry increase, without continued government meddling.

Despite positive shifts in the transformation from dominant and competitive interaction models between government bodies and business entities to a model of cooperation on mutually beneficial terms, this process cannot be considered as a complete one. It is essential to create an inclusive and free dialogue between business and government for accounting for the interests of agriculture and the rural population by making the necessary adjustments to the PPP regulatory mechanisms.

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