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Modern Tools for Sustainable Development of Territories. Special Topic: Project Management in the Regions of Russia

PUBLIC-PRIVATE PARTNERSHIP PROJECTS: EXPERIENCE AND PROSPECTS FOR DEVELOPMENT

G. A. Koroleva (a)*, A. V. Titov (b)

*Corresponding author

(a) P.G. Demidov Yaroslavl State University, st. Sovetskaya, d. 14, Yaroslavl, Russia, gotik@inbox.ru

(b) P.G. Demidov Yaroslavl State University, st. Sovetskaya, d. 14, Yaroslavl, Russia, liris005@mail.ru

Abstract

The formation of the regional economy involves significant financial investments in the industries which determine the most significant economic growth and socio-economic infrastructure. In both Russian and international practice, considerable experience has been gained in implementing projects in the framework of public-private partnerships. Attempts to develop cooperation between public and private capital in the process of implementing projects and programs of paramount importance for the development of territories have been made in different countries. The authors consider the mechanism of interaction between government bodies and private investors in the UK, USA, France. Creating its own mechanism of public-private partnership, Russia should take into account not only the experience accumulated earlier, but also the peculiarities of Russian business practice. The experience of implementing projects in the framework of public-private partnerships is considered by the authors on the example of the Yaroslavl region, where an attempt was made to create a territory of priority development. The first results already obtained allow us to draw some conclusions about the problems of formation of such territories. The provision of tax incentives for private investors, as a rule, does not outweigh the risks that accompany investing in long-term projects. The authors made an attempt to identify measures to enhance the interest of potential investors in participating in projects and programs that determine the development of individual territories and the country's economy as a whole.

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1. Introduction

The growth of the modern Russian economy at the macro level largely depends on the investment and innovation activity of the regions. Regional development can be accelerated through the introduction of modern technology. The latter requires significant financial resources, the source of which can be both domestic and foreign capital. Attempts to attract free capital to the real sector of the Russian economy have been made repeatedly. Not all of them were successful.

The success of regions in attracting investment is largely determined by their ability to single out the most significant segments of the regional economy and create key projects that set the pace of development of the industry or territory. But the choice of priorities is not always determined by regional interests. The state must ensure the balanced development of all territories. The imbalance in the pace of development can lead to a significant gap in the potential of the latter and to an industry imbalance. Therefore, the selection of development directions and individual programs should be dictated by the strategic goals of the state and individual regions.

When implementing development programs and individual projects, regions experience a number of difficulties: lack of financial resources, underdeveloped regional infrastructure, poor awareness of potential investors about the region's capabilities, etc. All of the above complicates the process of investing in regional economies (Kalina, 2014).

Due to the lack of public funds, including for providing economic infrastructure, the state is forced to attract business to financing. However, the private sector is always profit-oriented, so it is reluctant to invest financial resources in unprofitable sectors (for example, water supply). In this regard, public-private partnership (hereinafter – PPP) can act as a mechanism for the interaction of financial and real sectors of the economy in order to strategically attract private capital in certain sectors or segments of the economy (Berezin, 2016).

Public-private partnerships are defined differently by different authors. Theoretical and practical aspects of the interaction of the state and business in the economic sphere occupy significant positions in both foreign and domestic studies. Among foreign researchers, the works of Randolph Kant (as cited in Zyck & Kent, 2014), Aziz (2012), Berezin, Sergi and Gorodnova (2018), Santoro, Ferraris and Tardivo (2017) and others. Various economic aspects of PPPs were considered in the works of domestic researchers: Fadyushin (2019), Krykanov (2017), Starikova (2017) and others.

The authors believe that PPP is an organizational and institutional alliance between the state and business, an instrument for implementing state programs, within the framework of which socially significant projects of various levels are implemented in a wide range of areas of activity: from the development of strategically important industries and research and development (R&D) before providing public services.

It is important to understand that this kind of interaction, as a rule, is temporary, as it is created for a certain period, pursuing the goals of implementing a specific project. The specified interaction ceases after the completion of the project.

2. Problem Statement

In Russia, this form of interaction between the state and private capital is still under development and has a number of problematic issues requiring regulatory regulation. The organizational, legal and financial aspects of the implementation of specific investment projects and regional development programs based on the interaction of public and private capital require elaboration.

3. Research Questions

With the interaction of the state and private capital, business interest in a stable socio-economic situation in the country increases. At the same time, the use of financial resources of private investors in industries that determine the development of territories under the general patronage of the state allows creating conditions for balanced and sustainable development. At the same time, the state is faced with the task of maximizing business interest in such projects.

4. Purpose of the Study

The main objective of the study is to identify problems and trends in the development of public-private partnerships, to identify factors that affect the effectiveness of ongoing projects.

5. Research Methods

The object of the research is the accumulated experience in the field of public-private partnership in international and Russian practice; projects and programs implemented as part of this interaction.

The subject of the research is the real mechanism of interaction between state and commercial structures in the implementation of projects and programs aimed at the stable and balanced development of industries and territories.

The study was based on regulatory acts that determine the mechanism and framework for interaction between the state and private capital in the implementation of priority projects in international and Russian practices, the restrictive conditions for such interaction, the financing mechanism and statistical data on projects implemented in various regions and their effectiveness.

6. Findings

Based on the analysis of scientific works and current practice, it should be noted that two main models of public-private partnership are mainly used: French and Anglo-American. French companies occupy leading positions among foreign firms that use the public-private partnerships mechanism (Starikova, 2017). This model has several features. At its core is a concession agreement. The concessionaire for the implementation of the project receives the necessary property and equipment from state and municipal authorities. It can only be used for work related to the implementation of the project. This property is not subject to privatization. The concessionaire takes care of the development of the concession and the implementation of specific measures necessary to create or to modernize infrastructure

facilities and their operation. In this model, a single tender is formed to conclude a contract for all types of jobs (services). Initiation of the project rests with private capital.

In the Anglo-American model, when choosing a private partner, three separate competitions (tenders) are held: for the designing, construction, maintenance (or management) of an object (Dixon, Pottinger, & Jordan, 2005). Thus, several companies can be involved in the project at the same time, which theoretically increases the possible volume of attracted private investments. But this option also involves increased risks associated with the instability of the market situation. At the same time, it is possible to attract specialized companies to carry out the work.

Over the past two decades, there has been a mixed trend in the global market for PPP projects. In countries where the interaction between the state and business structures is most developed and infrastructure plans are well developed (UK, Spain), the number of PPP projects launched annually in the period 2014-2018 is almost halved compared to the period 2010-2014. It is worth noting that the average cost of PPP transactions increased by about 13-18%. In countries with developing economies, projects implemented jointly by public and private capital are becoming more and more on the market. But their average cost and implementation period is reduced. A striking example of this trend is India. In the period under review, the number of PPP projects increased by more than 2 times, while their cost decreased by 15% (Krykanov, 2017). This is understandable from the perspective of risk management: in the face of increasing instability, priority is given to projects with the shortest possible implementation time and relatively low cost.

In countries characterized by a high level of development of public-private partnerships (Canada, Australia, France), both the number of transactions concluded annually and their average cost increase.

In the Russian Federation, the concession mechanism at the beginning of the 21st century had high hopes not only as a tool for accumulating financial resources for infrastructure sectors, but also as a mechanism for attracting foreign investment into the country. It should be noted that the set goals were not fully achieved. Russia needs investments aimed at developing the economic and social spheres, characterized by a long investment period and contributing to the attraction of modern technologies. Investments in infrastructure are becoming increasingly important. According to various estimates, the required amount of investment is up to 1 trillion US dollars. Budget funds will not be enough to implement projects for this amount. But attracting free domestic capital has a number of difficulties too. Over the past decades, free capital has been accumulated, as a rule, in the financial sector. Banks seek to earn money mainly on short and medium-term operations. Long-term investments in the real sector are relatively rare. Objectively, one can speak of the need to increase the influx of private foreign investment (Vavilina, Kirillova, & Malinovskaya, 2019).

This requires creation of an effective project management system implemented on the basis of public and private capital. In the Russian Federation at the moment it is only beginning to take shape. There are often no specific criteria for the choice of territories for the implementation of projects. Considering the possibility of creating and implementing a project, potential investors resort to assessing the investment attractiveness of the region. And not only the main indicators of investment attractiveness play a great role in this, but also the success of previously launched projects. If the project is successfully implemented, the image and investment climate of the region will improve. However, when the project is

prematurely curtailed, the reverse process occurs – the loss of attractiveness of the region. Investors analyze the problems encountered in the implementation of “minimized”, inefficient projects, in detail. In foreign practice the construction of a hospital in Paddington (UK) can serve as an example of a negative experience. According to the financial and economic justification, the cost of the project was to reach 300 million pounds. It was planned to complete in 2006, however, in the process, the price increased to 894 million pounds, and the completion date was extended to 2013. Planning errors have led investors to abandon further interactions with government agencies (Dedkova, Gudkov, & Bykova, 2018).

When attracting foreign capital to public-private partnership projects, the state uses various tools. Creating an enabling environment to attract the flow of financial resources helps accelerate the development of sectoral infrastructure in the economic and social spheres. On the other hand, the formation of preferential conditions for foreign companies creates non-market competitive advantages that put domestic investors in unequal conditions.

One of the consequences of the implementation of PPP projects is the possibility of accelerated regional development due to attracted foreign capital. This can take advantage of certain regions of the country that do not have enough of their own investment resources. There is a risk of an excessive increase in the presence of foreign capital in the region’s economy, which under certain conditions may increase threats to national security.

The issues of economic security of Russia in recent years have become of paramount importance due to the aggravation of the geopolitical situation and sanctions from a group of countries. As a result, there is a drop in the GDP of the Russian economy (about 4%), a drop in the purchasing power of the ruble and more. All this led to the outflow of foreign capital from the country, and, above all, to a reduction in direct investment. In accordance with the data of the World Investment Report No. 22 of January 20, 2016. (UNCTAD), in 2015, foreign direct investment in Russia decreased by 92% (Table 01). The 2018 report says that foreign direct investment is down 23% to \$ 1.43 trillion.

Table 01. Net import (minus) / export (plus) of capital by the private sector (according to the balance of payments of the Russian Federation)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
\$, Billion	23.1	13.6	7.0	0.3	8.6	0.3	-44.0	-88.0	134.0	57.5
	2010	2011	2012	2013	2014	2015	2016	2017	2018	
\$, Billion	30.8	81.4	53.9	60.3	152.0	57.1	18.5	25.2	67.5	

In 2015, Russia was not included in the trust rating of foreign direct investors, which is annually compiled by the World Business Policy Council. However, according to data published in July 2018 by the World Bank, Russia ranks 17th in the ranking of countries and territories in terms of foreign direct investment. Currently, the Russian Foreign Direct Investment Fund (RDIF), established in 2011, is the largest catalyst for foreign direct investment. Over the past 6 years, the fund has attracted about 1.5 trillion rubles of investments in Russia, having implemented more than 70 projects in 95% of Russian regions.

There are problems in the legal regulation of foreign investors. The regulation of the investment process carried out by residents of other states in the Russian Federation is mainly point-based. We are

talking about international treaties of the Russian Federation with foreign countries, such as agreements on the promotion of investment protection, tax agreements and more. The main legislative act in this area is Federal Law No. 160-FZ of July 9, 1999. "On foreign investments in the Russian Federation". It creates for foreign investors equal investment conditions with Russian. They are provided with full protection of interests and rights. At the same time, regions can create their own legislative and regulatory acts in the field of investment. But this is not done often. Despite the established equality of conditions for Russian and foreign investors, there are a number of rules that impede foreign investment in practice. So, the Federal Law of July 13, 2015 No. 224-FZ "On Public-Private Partnerships, Municipal-Private Partnerships, in the Russian Federation and Amending Certain Legislative Acts of the Russian Federation" (Federal Law, 2015) stipulates that only a Russian company (legal entity) can be a private partner. In other words, the participation of foreign persons in PPP projects is not directly permitted. But this law does not prohibit the participation of subsidiaries of foreign investors established in the Russian Federation in accordance with Russian law. Participation is also possible through an entrepreneurial association with Russian legal entities (consortia, holdings, etc.). This is actively used by foreign companies.

A significant number of PPP projects with the participation of foreign capital have been implemented in the field of transport infrastructure. The most striking examples are: the high-speed road M-11 "Moscow-St. Petersburg" (sections 15-58 km, 543-684 km); reconstruction of the Pulkovo airport in St. Petersburg; construction and operation of the Western High-Speed Diameter highway, etc.

The creation of increased interest of potential investors in ongoing projects can be facilitated by the provision of milder tax and control regimes. One of such mechanisms is the creation of the territory of advanced social and economic development (TOSED). The special regime for TOSED implies a set of rules that establish preferential conditions for doing business. The creation and development of infrastructure at TOSED is the basis of public-private partnership. It is implemented at the expense of the federal, regional and local budgets.

An essential prerequisite for the creation of a new type of zones of special development at that time was a series of failures regarding the development of special economic zones and their failure to achieve planned performance indicators. This was especially true for zones created earlier in the Far East (Medvedeva, Kabanova, Rogach, Ryabova, & Frolova, 2018).

At present, certain experience has been gained in the creation and functioning of such territories. Consider the results of the example of the Yaroslavl region, where three TOSEDs were created: "Tutaev", "Gavrilov-yam", and "Rostov". Each is formed on the basis of the economy of the regional centers of the region.

The main benefits provided to project participants are related to taxation of activities. The grace period ranges from 3 to 5 years. Of course, the provision of a preferential treatment allows to increase the efficiency of activities during the implementation of projects. But, comparing the terms of implementation and the duration of the grace period, one can note the insufficient duration of the latter.

In the Yaroslavl region in the framework of PPP at the beginning of 2018 the following organizations were active: "SaarGummiRusland", "Zavod PSM" in Tutaev, Rostov Optical and Mechanical Plant PJSC in Rostov, GMAT Agat JSC in Gavrilov-Yam. At the moment, projects totaling

7.8 billion rubles are being implemented. The preliminary results of the activity of the territories of priority development in the Yaroslavl region, in general, should be called satisfactory. At the same time, there are a number of problems in the implementation of projects: most of the anchor residents of the existing APD (areas of priority development) are domestic companies.

- On the one hand, they are well aware of the specifics of activities in their region, and on the other hand, the advantages of cooperation with foreign companies are not fully utilized;
- it is necessary to elaborate in more detail the concept of forming a territory of priority development to attract investors;
- to introduce the most advanced technologies in the practice of managing the APD that can become an effective innovative and economic lever;
- clear criteria for the effectiveness of the APD should be introduced. Most of the projects implemented on the territory of the APD are effective only during the investment phase of implementation;
- create a more favorable investment climate in the territories of priority development, prepare and provide investors with relevant projects, programs, business plans, as well as a more advanced system of institutional mechanisms for regulating and implementing investment activities, including on the basis of PPP;
- in our opinion, the attractiveness of projects can be increased by providing production sites for the implementation of projects with the ability to connect to the main city communications.

7. Conclusion

At present, the development of institutions for the interaction of business and state power, the improvement of PPP mechanisms, which will create the necessary conditions for the influx of both domestic and foreign investments into the economic and social spheres of the country, into programs that determine the development of regions, is becoming urgent. This will reduce the burden on budgets of different levels during the implementation of projects that form the infrastructure of the regions.

The implementation of public and public services, the use of available resources in the investment mechanism for the development of territories, raising capital for solving state problems, contribute to creating conditions for attracting private investors to the regions.

Despite the existing problems and issues that have not yet been resolved regarding the creation and strategic management of TOSED, the development of precisely these “growth points” in the regions of the Russian Federation seems to be the most promising for ensuring accelerated innovative and socio-economic development. Taking into account the contradictions that arise, finding a balance and creating an effective system for resolving them should become the basis for achieving high efficiency in the implementation of PPP projects in areas of priority social and economic development.

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