

From Supremacy to Trust and Long-term vision

Opportunities and dynamics of any country's economy including all its sectors are dependent on investment policies, their pitch and stability. They also depend on the rational selection of priorities for economic development that channel investment flows into fixed assets (buildings and equipment), human capital (the knowledge and skills that move and develop the assets) and the normative-regulatory environment that facilitates the best combination of these driving factors.

Our journal time and again points out peculiar features of the current Russian economic policies when the market and purely economic preferences of agents determine historic and technological conditions as well as other features of investment objects. This conclusion is nothing new and springs from a well-known 'Coase theorem' – externalities produce best allocation of economic factors provided that transaction costs are negligible and ownership rights are clearly defined.

At the same time there are numerous barriers caused by historic, technological, spatial factors and peculiarities. Geopolitics also brings its share of extortions as well as targets and tasks the state sets at this or that period of time. And so, we come across various forms of public interference in the economic life.

The public sector intervenes both as a direct participant through investment in some projects and as a law-setting mega regulator. The disadvantages of the first role are obvious, namely: low rates of economic growth due to economically irrational decisions and a general lack of long-term sustainable development policy. The advantage is accumulation of colossal investment resources and their prompt delivery to resolve an urgent problem. However, sustained economic development, search for and generation of novel approaches and solutions that ensure stable economic progress requires participation of private entrepreneurs.

This is the reason why the modern state seeks cooperation with private business, especially when confronted with major challenges.

This lays the foundation for shaping and improving approaches within the scope of public-private partnership.

At the same time, it would be wrong to consider PPP only as a form for implementing merely infrastructure or socially significant projects. PPP in the present day economy not only bridges gaps of investment project financing but also introduces the atmosphere that seeks and selects more appropriate economic solutions and facilitates the cross flow of unique knowledge and skills possessed by numerous economic agents. One must remember F. Hayek who said that every day, every hour and every minute dozens of millions heads produce a great variety of ideas and perspectives that generate new approaches. PPP cannot be reduced to resolving just financial problems of implementing some projects. That is why it is not acceptable to consider predominantly only those approaches and ideas for PPP that arise from public bodies that regulate economic processes. Business is an equally legitimate and rightful participant in seeking and implementing solutions. This is the first reason why PPP based on supremacy of public over private is not acceptable. It is necessary to pass on to dialogue, trust and long-term vision.

Effective public-private partnership is not a form of one-sided dominance of public over business. It is a form of reciprocal duties for both parties. Business is responsible for conditions of project implementation, the state is responsible not only for a part of co-investment it provides but also for the terms that are determined on a preliminary stage of project structuring.

The Russian practice of PPP has displayed a considerable idiosyncrasy over the last thirty years (papers by A.I. Kovalenko; A. V. Kashin and V.A. Markelov).

An efficient PPP is a civil rights contract between two parties – the public and the investor. The most popular form is that of concession. First concessions after 1917 were implemented in the Soviet Russia in 1920 with this period lasting till 1927–1928. Those concessions were quite successful. One of such successful concessionaries was A. Hammer, the American billionaire who later became the owner of a large oil company ‘Occidental Petroleum’.

Resorting to modified concessions after 1991 sprang from a special fiscal treatment that was introduced – a production sharing agreement – as our Tyumen colleagues confirm (L.A. Tolstolyesov, N.N. Yumanova, E.A. Shmidt). At that time, neither public, nor

business had sufficient funds and it was extremely urgent to attract foreign investment into energy and resource projects. Production sharing agreements have been successfully implemented in Sakhalin oblast. Unfortunately, they did not deliver their full potential, although some approaches were put to good use. In those agreements, public was not just investor but the guarantor of unalterable terms of investment for a long time.

At the initial stage, in the 1990-s and 2000-s the approach to contractual relations was dictated by a lack of investment resources in the country. Later on, the Russian business following the slowdown in implementation of projects based on concession and production sharing agreements managed to find its way to investment resources – most of those for energy and fuel sector were raised as debt on external markets.

The current situation is radically new. The public has at its disposal considerable finance in the Fund of national wealth and in the budget system. This year and next year budgets have proficits. This became possible due to changes in taxation that have accumulated most revenues at the federal level.

This justified the conclusion (in the paper by V.I. Nefedkin and O.P. Fadeeva) about the main driver of PPP project demand being not the private business but the federal and regional power structures mindful of development of public infrastructure and norms of social services provision to the public. All the more so, because the regional level itself does not have sufficient finance (even such affluent regions as Tyumen oblast).

At the same time, in the 1990-s Tyumen and Sakhalin oblasts had considerable financial resources for implementing social projects (Article 72 of the RF constitution). Now, for major infrastructure and social projects (heating, housing, utilities) it is necessary to apply to the federal center for necessary investment resources. The regional, and even more so, municipal levels have less than sufficient funds and there is much pressure to initiate such projects.

Despite the trend of growing role of PPP in implementing socially significant projects or those with a long payback period, their share is not high. Mostly, PPP is implemented in cases of major projects, although their share of the total number is not high – about 6%, while in terms of value they represent over 90% of investment resources earmarked for the purpose. It is clear that the federal center is

investing a major share of PPP funds in implementation of country-wide or strategic projects related to infrastructure, which is in poor shape and requires renovation.

Is there a future for a PPP model which gets most of its funding from the federal level? We do not think it has much of a future. Such may be the case only for giant and landmark projects. More socially significant are local projects that usually have a high degree of singularity. Their implementation may not be possible without broader rights and authority of the regional level and, consequently, financial opportunities as well as higher trust in business in terms of developing and implementing such projects.

Contractual relations between the public sector and business may concern not just socially-sensitive and infrastructure projects but also the area of education, science, new knowledge, skills and technologies. One such case is mentioned in the paper (by V.I. Nefedkin and O.P. Fadeeva) – a non classical PPP in the Novosibirsk Academtechnopark that engaged in manufacture of state-of-the-art scientific equipment. An example of what might produce trust is a school construction project in a remote part of Tomsk oblast. The project was implemented on its own by a private investor (farmer). Later on the investor and the regional authorities managed to settle issues of compensating additional expenditures that cropped up in the project.

Investment into science and education is the most crucial and meaningful thrust of the modern economic policy. The future of PPP is transition from Supremacy through Dialogue to Trust and Long-term vision.

The PPP model built on supremacy alone corresponds neither to the current economic situation, nor to challenges facing our society.

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