Public-private partnership – protected mechanism of foreign investments attraction in the Russian economy

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5th Russian-Swedish Investment Forum «Innovation and investment: the key to modern technology»

Agreement on cooperation in the field of PPP with the Ministry of Economic Development of the Russian Federation dated by the 30th of Jan. 2015.
Government infrastructure financing in Russia

...The instrument of public-private partnership needs to be involved for complex arrangement of the new centers of economic growth. Public-private partnership is extremely necessary for harmonious spatial, territorial development of all country...

President of Russia Vladimir Putin

Financing of government procurements

- Bln. Rubles
- 2012 2013 2014 2015
- 6 500 6 000 5 500 5 000 4 500 4 000 3 500 3 000
- Bln. USD
- 2012 2013 2014 2015
- 200 160 120 80 40 0
PUBLIC-PRIVATE PARTNERSHIP

INTEREST OF THE PRIVATE INVESTOR

- Realization of long-term projects with the benefit of a stable market
- Administrative and political assistance in the implementation of PPP projects, risk-sharing with the executive authorities

- Guarantees provided by the executive branch of the government of the minimal profitability, partial or full refund in case of the failure of the project
- Commitment to the standards and criteria of high operational performance

- Utilization of personal experience and professional expertise in achieving objectives set by municipalities

CHALLENGES TO LOCAL AND CENTRAL GOVERNMENTS

- Insufficiency of budget funds and widening of budget deficit
- Lack of up-to-date technologies, equipment, machinery, etc
- Insufficiency of budget funds and widening of budget deficit
- Insufficient qualifications of some employees of state-funded organizations
- Lack of effective incentives for employees to improve quality of their work

Disparity between the level and rate of development of public infrastructure on one hand, and consumer demand and overall economic growth on the other
At the moment, there are about 500 PPP projects underway in Russia.

According to the World Bank

According to the Ministry of Economic Development

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Legislative regulation of PPP in Russia

### Law 1 level

**The conclusion of PPP agreements**


**The conclusion of concession agreements**

FZ of 21.07.2005 r. № 115-FZ «On concession agreements»

**The conclusion of state contracts**

FZ of 05.04.2013 г. № 44-FZ «On the contract system in state…»

**Sectoral legislation on PPPs**

FZ of 17.07.2009 г. № 145-FZ «On State Company 'Russian Highways'»

**Financing of PPP projects from the budget**


**Legislation on public development institutions**

FZ of 17.05.2007 г. № 82-FZ «On Bank for Development»

### Law 2 level

**Regional laws on public-private partnership**

taken in 71 subject of the Russian Federation and are designed to enhance Federal legislation in the area of PPP

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Classification of PPP models in Russia

PPP MODELS

CONCESSION

FZ-115 "On concession agreements"

NOT CONCESSION

LIFE CYCLE CONTRACTS


FZ-115 "On concession agreements"

COMPREHENSIVE INVESTMENT PROJECT

FZ-39 "On investment activity in the Russian Federation implemented in the form of capital investment"


BUILD-OPERATE-LEASE-TRANSFER


The Civil Code of the Russian Federation

MANAGEMENT AND LEASE CONTRACTS


The Civil Code of the Russian Federation

INVESTMENT AGREEMENT

223-FZ "Procurement of Goods, Works and Services by Certain Categories of Legal Entities"

The Civil Code of the Russian Federation

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Protection of private investment in PPP in Russia

...If adopted normative legal acts of the Russian Federation, lead to deterioration of the Private investors in such a way that the investor is largely deprived of what was entitled to expect at the conclusion of the PPP Agreement. Public partner is obliged to take measures to ensure the return on investment of Private investors in the amount of not less than the volume originally defined the PPP agreement...

Art. 20 FZ-115 «On concession agreements»

Measures taken by the Public partner to preserve the guarantee for Private investors

- size of a payment of the Public partner in the agreement on PPP,
- term of the PPP Agreement with the consent of the private investor,
- size assumed by the Public partner the costs of establishing and (or) reconstruction of the object of the PPP Agreement,
- provision of additional state guarantees to Private investors.
Examples of successful PPP projects in Russia

**Aquatic sports health complex**  
**Rostov region**  
Total investments: $137.5 mln (30.2% - public, 69.8% - private)  
Project terms: 2015-2035 yrs  
Project calls for the construction of 30 objects of aquatic sports intended for infrastructure development in the sphere of physical culture and sports.

**Sterlitamak-Kaga-Magnitogorsk highway**  
**Republic of Bashkortostan**  
Total investments: $1.1 bln (55.6% - public, 44.4% - private)  
Project terms: 2015-2036 yrs  
Project includes the construction and reconstruction of the road longer than 170 km with toll-based operation.

**Sewage treatment facilities**  
**Moscow region**  
Total investments: $21.2 mln (100% - private)  
Project terms: 2014-2039 yrs  
Project calls for the construction of the urban sewage treatment facilities of the total biological treatment in the city Staraya Kupavna.
Failed PPP projects

«Neva Water» project, St. Petersburg
The Government of St. Petersburg (represented by GU «Agency for Strategic Investments») announced a tender for the construction, renovation and operation of real and personal property forming part of the Northern Waterworks. The project was to utilize a two-stage water purification technology and to be based on PPP schemes. The tender was held in compliance with the law of the participation of St. Petersburg in public-private partnership. In June 2011, all four bids submitted for the tender successfully passed pre-selection procedures. However, on 27.12.2012 the organizers of the tender chose not to enter into a PPP agreement with the only participant in the tender.

Water supply development program, Krasnodar region
In March 2010, a concession agreement was signed between the Government of the Krasnodar region and LLC «Yugvodokanal». The agreement concerned water supply and sanitation facilities in the area of five cities (including Novorossiysk, Yeysk, Gelendzhik) and 140 settlements with the total population of about 1 million. Under the terms of the development program in 2010-2039, LLC «Yugvodokanal» was supposed to attract investments amounting to 7,38 bn rub. Because LLC «Yugvodokanal» has been steadily evading the fulfillment of the conditions of the agreement (due to the lack of funding), the agreement is now in the process of termination.

Execution of road maintenance works in the Kirov region
In July 2012 the Department of Highway and Transportation Kirov Region signed a PPP agreement with budgetary institution "Vyatka roads" for the execution of road works on the public roads of the Kirov regional or inter-municipal significance. The competition was held in accordance with the Law of the Kirov region from 04.06.2010 № 529-ZO "On the participation of the Kirov region in PPP projects". Federal Antimonopoly Service found that in determining the contractor has violated several provisions of the Department №94-FZ, №135-FZ, and appealed to the Court of Arbitration, in which the Department was unable to overturn the decision of FAS.
Main reasons for revision and termination of PPP projects

- Lack of experience in producing quality projects
- Inefficient interactions between the authorities and private investors
- Failure of many PPP projects to meet the requirements of the financial institutions
- Incorrect assessment of the effective demand (setting of non-optimal tariffs)
- Ineffective information policy concerning future realization of the PPP project
- Poor preparation of tender documentation, arbitrary choice of a private investor
- Lack of competition among potential private investors in some industries

All problems are concentrated on feasibility study
Comparison of agreements – public procurement vs PPP

Labor costs on preparation of the project before signing of the agreement:
- Pre-feasibility study
- Feasibility study
- Competitive bidding process
- The financial settlement

Schedule of expenses budgetary means (for PMA):
- Building
- Operation
  - Financing at the expense of the budget
  - Financing at the expense of the investor

Public procurement vs PPP:
- $ Public procurement
- $ PPP

Time, month:
- 0
- 2
- 4
- 6
- 8
- 10
- 12

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Life cycle of PPP projects

Pre-feasibility study
- Determination and analysis of the aggregated financial, technical, organizational and legislative frameworks. Evaluation of social effects from project realization
- Development of the PPP project concept

Feasibility study
- Organizational, legal, economic and technical feasibility study
- Elaboration of investment memorandum
- Development of regulatory legal and non-regulatory legal enactments

Competitive bidding process
- Conduction and arrangement of competition procedures
- Preliminary selection of participant offers. Competition. The selection criteria
- Estimation and selection of the best tender proposal
- Execution of an agreement on public private partnership or a concession agreement with a successful bidder

The financial settlement
- A comprehensive evaluation of the project by the creditors
- The conclusion of the credit agreements and the insurance contracts
- Financial closure of PPP project

Project implementation
- Engineering, construction and introduction into service of a PPP installation object
- PPP project management. Maintenance, repair and overhaul works. Monitoring
- The transfer of assets and responsibilities or conduction of a re-tender

Completion
- Transfer of the leased property to the owner. Signage of act of acceptance of the conducted works and full settlement between the parties
Conclusion

The successful implementation of PPP projects largely depends on the quality of tender documentation preparation concerning selection of private partners, developing the criteria for the private partners selection and concession or investment agreements, making out a balanced relationship between public and private partners. Therefore, the involvement of professional consultants to carry out this kind of work is the key to effective and mutually beneficial partnership.

Due to the lack of budget funding and in order to achieve budgetary savings, many executive authorities perform operations on exploring the pre-investment stage of PPP project on their own, that contributes to negative experiences – which according to the World Bank can reach up to 30%. This situation leads to the necessity of updating of the feasibility study and other documents, to the holding of new tender procedures to search for a new private investor, to increase the life of the project and the cost of its preparation.
TRANSPROEKT Group – the investment consulting group specializing on the investment consultation of bodies of the public and municipal administration (OGMU), private investors and financial institutions directed on the guaranteed attraction of necessary volume of the budgetary, private and loan financing in projects of the public-private partnership (PPP) in the territory of Russia and the CIS countries.

Answering needs of our Customers for the complex solution of tasks of preparation and implementation of "turnkey" investment projects, the TRANSPROEKT Group independently renders all necessary range of the consulting services in legal, economic and technical aspects which are in common revealing weak places and defining optimum ways of their elimination, supporting balance of interests of the state, investors and banks for many years. The result of work the TRANSPROEKT Group is extremely concrete - coordination of optimum financing terms of the project, signing of obligations long-term agreements, achievement of the declared indicators.

Being a consultant for the municipal legislative institutions, TRANSPROEKT Group has prepared and successfully implemented dozens of large scale infrastructure projects in the Russian Federation and CIS countries over the past 10 years with over $50 bln of private investment. We have been consistently ensuring maximum effectiveness of the different PPP models.
The largest PPP projects under TRANSPROEKT Group consultancy

- Integrated development of Murmansk sea port, Murmansk region
- Integrated development of Novorossiysk sea port, Krasnodar region
- Integrated development project with the fee-based operation of M-4 "Don" highway, Moscow – Tula – Voronezh - Rostov and Krasnodar regions
- Reconstruction of the M-8 road "Kholmogory" on the section from Moscow to Pushkin, Moscow – Yaroslavl - Vologda - Arkhangelsk regions
- Reconstruction of a runway at Tolmachevo international airport, Novosibirsk region
- Construction of Dmitrov interregional multimodal logistics center, Moscow region
- Construction of a multimodal logistics center at the Efremov airfield, Tula region
- Construction of Sviyazhsky multimodal logistics center, the Republic of Tatarstan
- Construction of a dry cargo area seaport "Taman", Krasnodar region
- Construction of public roads of regional significance in the Republic of Bashkortostan "Sterlitamak - Kaga - Magnitogorsk", Republic of Tatarstan
- Construction of railway parks and development of the railway station "Novorossiysk" North Caucasus railway, Krasnodar region
- Construction of a bridge over the Volga River near the Podnovje village, Nizhny Novgorod region
- Construction of underground facilities in Novosibirsk extension of Dzerzhinskaya line from Novosibirsk metro station "Golden Field" to the station "Volochaevskaya", Novosibirsk region
- Construction of a bridge over the Chusovaya river on the Perm-Bereznyaki highway, Perm region
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