

# Concession development as a tool to attract investment into the region's economy

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**Abstract** — Concession development under public-private joint investment projects can help ensure the region's sustainability and competitiveness. These projects can enhance the financing of infrastructure industries under budgetary constraints. However, the current regulatory, organizational, financial, and other measures do not let to fully unleash the potential of the concession as a tool to attract investment into the region's economy. The aim of the research is to elaborate the practical guidelines for the concession development that will ensure sustainability and competitiveness of the region (based on the example of the Volgograd region). In this research, we used systematic, economic and statistical analysis and the dialectical method. This article provides an analysis of the statistical data on modern practices of the concession implementation. Future perspectives and requirements for the successful implementation of concessions are provided on the basis of the SWOT-analysis. We have concluded that in order to ensure high-quality results of the implementation of the concession agreements in the region it is necessary to improve the legislative framework on the regulation of the concession activities; to provide legal protection for private investors and creditors; to improve the competence of the staff of both the State structures as well as private investors on concession issues; to provide diversity and availability of the sources for concession projects funding; etc.

**Keywords**—concession, government, private business, region's economy, concession agreement

## I. INTRODUCTION

Nowadays the underfunding of the infrastructure industries interferes with the economic progress and the welfare gains. This suggests that there is a great risk for long-term global development. Taking into account that by 2040, global infrastructure investments will be \$79 tn, while the actual needs will be \$97 tn, average global infrastructure investments should grow by 23% annually. Meanwhile, three-quarters of the global gap in the infrastructure investments are

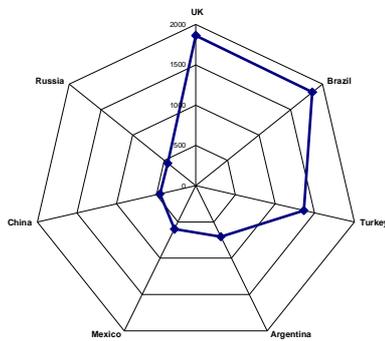
concentrated in the automotive and energy sectors, while the telecommunications, railway, waterworks, ports, and airports account for one-quarter. In order to ensure sustainable global infrastructure, it is necessary to develop new approaches to the public-private partnership which will be based on the enhanced information exchange on the critical risks to the infrastructure development. These new approaches should also ensure close coordination on the development of the crucial infrastructure networks in planning, and so on [1].

The Ministry of the Economic Development of the Russian Federation estimates that for 2019, the funding gap for the infrastructure investment is 1,6 tn rub. In terms of sectors, the substantial volume of the budget expenditure is required for the development of transport (950 bln rub), energy utilities (300 bln rub), and social (200 bln rub) infrastructure. It is also important to mention that the inhabitants are the infrastructure end user, but the investment volume per capita attracted to the public-private projects is significantly lower in Russia compared to a number of developed countries (Fig. 1) [2].

Meanwhile, it is necessary to implement public-private partnership mechanisms in order to meet the investment demand:

- launching the efficient mechanisms of public financial support and/or increasing the volume of government financing in order to provide aid for investment projects;
- improving the legislation in terms of public-private partnership in order to remove 'barriers' and/or simplifying the launching procedure for investment projects in the corresponding sectors;
- updating the corresponding government planning documents; one of the aims of this step is to change the priorities in the infrastructure development and mechanisms used for this purpose;

- changing approaches to the development management of the corresponding sector infrastructure in terms of the organizational subordination, institutions, selection procedure and investment projects initiation, etc.



The UK, Brazil, Turkey, Argentina, Mexico, China, Russia

Fig.1. Comparison between capital expenditure per capita in the public-private projects (USD, 2016 constant prices)

Source: made by the authors according to [2].

Nowadays concession is one of the widespread types of public-private partnership. The main reasons for that concern the fact that concession granting and realization help:

- solve the main issues in the social and economic development of the municipality, region, and country with the help of the investor's funding;
- preserve purposiveness and ensure efficient management of the property of the public authorities and local government;
- attract private investments without loss of control over public service systems and objects;
- increase income and decrease expenditures of the federal, regional, and local budget;
- activate entrepreneurship and reduce unemployment;
- provide the community with better services.

These days concession agreements are widely used in construction (reconstruction) of housing and utility infrastructure, transport infrastructure, health care, education, cultural, and sports facilities. The current state of affairs proves that concession agreements are an effective tool for attracting private investments into the economy at every level.

At the same time, the analysis of the public-private partnership realization in terms of the modern Russian realia has helped identify a number of barriers. These barriers are legislative, organizational, financial and economic. Also, these barriers hinder the development of the concession implementation. Consequently, it is necessary to create a range of measures that will help use concessions as a tool for attracting investment into the region's economy. In this way, concessions will help increase the competitiveness and

sustainability of the country's social and economic development.

Belitskaya A.V. [3], Bik S.I. [4], Varnavskiy V.G. [5], Kondratieva U.D. [6], Talapina A.A. [7] have contributed a lot to the research on public-private partnership and concession in particular. However, the analysis of the development of this subject area proves that there is no unified approach to the implementation of the concession models for public-private partnership. It implies that there is no substantial investment attraction into the region's economy and, consequently, there cannot be efficient development of infrastructure industries.

Therefore, the relevance of the subject matter and its underdevelopment have determined the aim (to develop practical recommendations on the implementation of concessions as a tool to attract investment into the economy and to increase competitiveness and sustainability of the region (based on the example of the Volgograd region) and objectives (to conduct an analysis of the statistical data and the SWOT-analysis of concession, and determine the future perspectives and requirements for the successful implementation of concessions) of the research. The aim and objectives have determined the structure of the study.

The results of the research can be used by public authorities when implementing concessions as a tool to attract investment into the region's economy.

## II. MATERIALS AND METHODS (MODEL)

The methodological framework of the study is based on modern authors' theoretical and applied research on the development issues of public-private partnership and concession in particular as well as the information found in the periodical press and on the Internet. In this research, we used systematic, economic and statistical analysis and the dialectical method that was realized through general scientific methods and techniques (observation, synthesis, comparison, grouping, consolidation of theory and practice).

The SWOT-analysis was conducted in order to analyze factors hindering concessions in private investment attraction. This method enabled us to determine strengths and weaknesses, opportunities and threats for the public and private partners as well as for the region's economy.

## III. RESULTS AND DISCUSSION

A. The analysis of the statistical data (the data which characterize the tendencies of the concession development in Russia) that we have conducted [8] has helped draw the following conclusions:

- concession agreements add up to more than 80% of the public-private partnership projects that have gone through the commercial closure stage;
- there is a stable positive tendency for concession procurement since 2012 (Fig. 2);

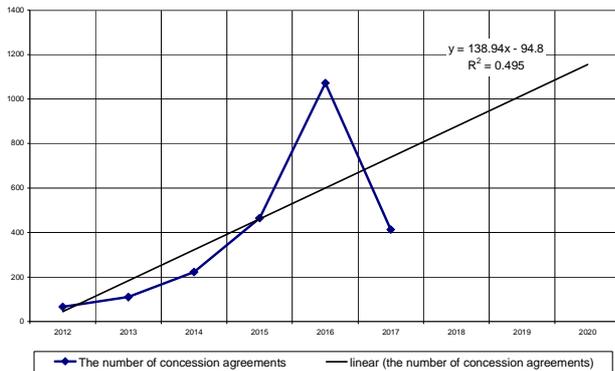


Fig. 2. The number of concession agreements over the years

Source: made by the authors according to [8].

- the average period is 11 years;
- the amount of private investments in concession agreements is more than 619 bln rub;
- the apportionment of concession agreements according to the investment capacity is uneven (large-scale concession projects (more than 1 bln rub) account for more than 85% of the private investment, while small-scale concession projects (less than 100 mln rub) account for 17,5 bln rub (the latter are mainly municipal agreements in housing and utilities));
- the energy utilities sector at the municipal level outperforms other sectors according to the quantity and amount of private investment in terms of concession agreements (Table 1).

TABLE I. CONCESSION AGREEMENTS ACCORDING TO THE SPHERES AND AUTHORITY LEVEL

Spheres	Municipal level		Regional level		Federal level	
	Quantity	Amount of private investment, mln rub	Quantity	Amount of private investment, mln rub	Quantity	Amount of private investment, mln rub
Social	94	4 511	49	25 198	2	3 077
Transport	15	5 813	15	147 406	6	134 541
Information systems	2	61	8	10 450	1	28 900
Power utilities	2256	237 709	34	18 891	-	-
Beautification and related infrastructure	13	2 501	-	-	-	-
Agricultural	1	5	-	-	-	-
Total	2381	250 601	106	201 945	9	166 518

Source: made by the authors according to [8].

According to the data, provided by National PPP Center, in 2017-2018, the Volgograd region had the 3rd place in the Southern Federal District and 34th place in the Russian Federation according to the level of public-private partnership development.

In 2018 in the Volgograd region, there were 11 public-private partnership projects in the form of concession. The analysis of these projects helped draw the following conclusions:

- the power utilities sphere accounts for more than 60% of the total quantity of concession agreements, social sphere accounts for 10%, and beautification and engineering infrastructure account for approximately 10%;
- approximately 20% of the total quantity of concession agreements are granted at the regional level, while 80% - at the municipal level;
- the minimum period for concession agreement realization is 10 years, the maximum period is 39 years;
- the minimum amount of private investment is 12 600 000 rub, the maximum – 58 029 390 000 rub.

These days the Volgograd region has reached the average figures in the majority of factors of the institutional and legislative environment level to ensure concession development. Despite the fact that there are specialists who have the qualification to work with concessions and that there is specialized information resource in concession sphere, there is no interdepartmental body responsible for the consideration of the initiated concession projects and policy elaboration in concession development.

All in all, we can draw the following conclusion: on the one hand, concessions are a tool to attract investment into the economy which is necessary for the efficient performance of the infrastructure industries; on the other hand, they are a means for public-private partnership that contributes to the competitive and sustainable development of the region and the country.

B. We have used the SWOT-analysis in order to analyze the factors hindering the concession potential as a tool to attract investment into the region's economy (based on the example of the Volgograd region). The SWOT-analysis helps define strengths and weaknesses, opportunities and threats for the public and private partners as well as for the region's economy (Table 2).

**TABLE II. SWOT-ANALYSIS OF CONCESSIONS AS A TOOL TO ATTRACT INVESTMENT INTO THE REGION'S ECONOMY**

<b>Strengths</b>		<b>Weaknesses</b>	
<i>For the public partner</i>	<i>For the private partner</i>	<i>For the public partner</i>	<i>For the private partner</i>
- increased transparency of the business relations with the private partner; - quick management decisions connected with investment projects realization; - implementing efficient management techniques and organizational techniques for production and technological processes in the infrastructural industries; - risk transfer to the private partner	- establishing long-term legal business relations with the government; - accessibility of the country's limited resources	- underdevelopment of strategic development programs of infrastructural industries; - the existence of flaws in the concession legislation; - lack of the qualified managerial staff who specialize in concession agreements	- high wear rates and technological backwardness of the fixed capital in the infrastructure industries; - infrastructure objects have long payback periods and return on investment
<b>Regional economy</b>		<b>Regional economy</b>	
- using unique resources in the infrastructure industries; - experience in the infrastructure industries functioning		- inadequate experience in concession projects realization; - the gap between global and regional product market development in the infrastructure industries	
<b>Opportunities</b>		<b>Threats</b>	
<i>For the public partner</i>	<i>For the private partner</i>	<i>For the public partner</i>	<i>For the private partner</i>
- construction (reconstruction, modernization) of the infrastructure objects using private investment; - optimization of budget expenditures; - additional income to the budget	- stable long-term income; - generating the positive public image of a company performing socially important projects	- risks of private partners' failure to fulfill obligations and inefficient use of government resources; - 'gray' business entities	- risks of public partners' failure to fulfill obligations and existence of administrative barriers; - schedule slippage in investment project realization
<b>Regional economy</b>		<b>Regional economy</b>	
- attracting private investment into the development of infrastructure industries; - job creation in the region; - availability, diversification, and increased quality of infrastructure industries production; - developing import substitution in the infrastructure industries; - development of the sustainable investment mechanism for the infrastructure industries; - creating new perspectives for the regional economy		- macroeconomic, political, and social risks; - instability of the infrastructure industries management system; - stricter requirements on infrastructure industries performance	

Source: made by the authors.

C. The SWOT-analysis has helped identify a substantial number of weaknesses and threats caused by the legislative (the existence of flaws in the concession legislation; inadequacy of the legal protection of private investors and creditors; etc.), organizational (lack of competence of the staff of both the State structures as well as private investors; low quality or absence of territorial planning documents on concession granting; etc.), and financial and economic barriers (limited budget and private investor capital; strong requirements to the guarantees; etc.).

However, not only are barriers legislative, organizational, and financial and economic but so are the perspectives of the concession activities:

- the elaboration of the regional policy for concession development; the government guarantees on the possible return on the investment as well as the guarantees on the determination of the terms of the project participation; the elaboration of the tax law provision which will control the taxation of concession transactions;
- long-term functioning of the platforms for experience-sharing on concession projects realization; the elaboration of practical recommendations (templates) on standard concession projects that have been successfully implemented; staff training and retraining;
- the improvement of investment conditions and availability of funding for concession projects (loans; bonds; financial resources of unit investment funds, pension funds, insurance companies, etc.); increasing the number of the budget funding mechanisms (State guarantees; public loans; special purpose grants); increasing the efficiency and effectiveness of budget expenditures on concession projects funding [9].

It is also crucial to improve regional methods for concession projects management on infrastructure objects renovation which implies that it is necessary to determine the effective concession instruments which will meet the parameters of industry projects and peculiarities of regional development; the development of a regional management model which will combine the advantages of the portfolio and project approaches; the maintenance of the full cycle of government support on infrastructure objects renovation.

In order to achieve the highest results on applying the aforementioned measures, it is important to implement a complex approach to risk allocation between the public and private investors as well as to the effective maintenance of the government support for the concession projects. Concession projects are long-term, consequently, they provide the private sector with a unique opportunity of steady development. Nevertheless, in order to decide on the realization of such

long-term investment, concession activity in the region and in the country should be trustworthy.

Based on the experience of foreign countries and with the account of the modern Russian realia, we can determine a number of perspectives for concession development as a tool to attract investment into the region's economy:

- the creation of specialized financial institutions that will support infrastructure investment;
- the development of infrastructure planning, infrastructure export, and digitalization mechanisms;
- the expansion of the practice of charges on availability as a tool to return on private investment.

In our opinion, nowadays in the Russian regions concession implementation processes are adapting to the transformation of economic relations. Thus, in order to ensure future development of concessions, it is necessary to decrease (eliminate) the negative effects of the weaknesses and threats and provide effective government support.

#### IV. CONCLUSION

A. The conducted analysis of the statistical data on concession development in Russia has helped draw the following conclusions: the concession agreements are the most widespread form of public-private partnership with a steady positive tendency since 2012; the apportionment of concession agreements according to the investment capacity is uneven; according to the quantity and amount of private investment, the power utilities sphere has the leading role (at the municipal level).

In 2018 in the Volgograd region, which in 2017-2018 had 34<sup>th</sup> place in Russia according to the level of the development of public-private partnership, there were 11 public-private partnership projects in the form of concession with the majority allocated in the power utilities sphere; the minimum period for concession agreement realization and the minimum amount of private investment are 10 years and 12 600 000 rub, respectively, while the maximum period and amount are 39 years and 58 029 390 000 rub, respectively.

B. Having conducted the SWOT-analysis, we concluded that in order to attract investment to the region's economy and to ensure the region's competitiveness and sustainability, it is necessary to decrease (eliminate) the determined weaknesses and threats.

C. In our opinion, in order to ensure high-quality results of concession implementation, it is necessary to implement a set of legislative, organizational, financial and economic measures: to elaborate the regional policy for concession development; to ensure long-term functioning of the platforms for experience-sharing on concession projects realization; to provide staff training and retraining; to improve investment conditions and availability of funding for concession projects; to increase the number of the budget funding mechanisms. It is also important to improve the regional methods for concession projects management.

We believe that the perspectives of concession agreements as a tool to attract investment into the region's economy are the development of infrastructure planning, infrastructure export, and digitalization mechanisms; the creation of specialized financial institutions that will support infrastructure investment; the expansion of the practice of charges on availability as a tool to return on private investment.

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