

Perspective trends in financing of housing-and-communal services

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Abstract. The article is devoted to the matters of public-and-private partnerships in the field of housing-and-communal services. The author recognizes, that sustainable urban development requires effective funding with the leading role of municipal finances. At the same time, financing of housing-and-communal sector through the municipal budget only would be too burdensome, while the use of the public-and-private partnership scheme has proved to be the good solution of this problem. However, there is no definite answer: whether the housing-and-communal sector is the most developed zone of public-and-private partnership or, on the contrary, it is an obscure and ineffective zone. The author analyzes the Russian experience of use of the public-and-private partnership scheme in the field of housing-and-communal services and reveals the main problems, which prevent the attraction of the private capital to this sphere. Such rather new trends as so called "box decisions" and "pool" securitization of infrastructure projects are considered in the article. According to the author, the use of these options could contribute to the development of housing-and-communal sector and the city infrastructure as well as the urban development as whole.

1 Introduction

Housing-and-communal services represent a dynamically developing branch, which essential directions of activity are:

- Maintenance and repair of the city roads;
- Gardening and improvement of the urban areas;
- Organization of water use and protection of water facilities ;
- Maintenance and repair of engineering structures;
- Organization of neutralization and processing of industrial and consumption waste;
- Operation of housing;
- Organization of self-government in the apartment houses;
- Social support of the population;
- Other measures.

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Financing of these measures assumes serious burden for the municipal budget, and that makes the matter of the use of the scheme of public-and-private partnership and concession agreements (as a type of it) relevant.

International experience proves the success of the use of the public-and-private partnership mechanism for the creation of new facilities and for the maintenance of the existing city infrastructure and municipal economy as well. The problem of formation of public-and-private partnership, and also the problems of managing the projects of public-and-private partnership were considered by Russian and foreign scientists: Kovalyov V.V., Uhlanov V. A., Krylov T. A., Osobenkov O.M., Shchegortsov M.V., Sharp U., Alexander G., Bailey J., I. A., Zapatrin I., Ignatyuk N.A., Igonin L.L., Yanchuk M.B., Matrayeva L. V., Yerokhin S. G., Belyak A. V., Konov A. A., Borschevsky G.A., Veselova N. Yu., Ishchenko O. V., Shishkina N.A., Lukin V.K., Zakharova E. N., Zedina Yu. A., Yeskomb E. R., Merzlov I. Yu., Bagautdinova N. G., Bagratuni K. Yu., Prokhorov V. V., Ragulina Yu. V., Sabirova Z. E., Filippov A. Item, Akimova O. E., Gafurova G.T., Lepeshkina S. V., Makhovikova G.A., Morozova I. A., Okolnishnikova I. Yu., Rybasova M. V., Khodyrev A. A., Gorokhov A. A., Zaynasheva Z. G., Ignatyuk N.A., Kabashkin V. A., Kolosov A. S., Moshkova L. E., Kanamgotov A. E., Kalinin I. A., Frolov A. V., Kadyrov I. Sh., Pitanov V. A., Kozlova E. V., Abdrakhmanov A. I., Mamontova Yu. P., Merkulova M. E., Potekhina E. V., Sazonov V. E., Zdanevich U. A., Ryazanova E.Yu., etc.

Still there is no definite answer whether the housing-and-communal sector is the most "developed" zone of public-and-private partnership or on the contrary it is the most obscure and ineffective zone.

The author analyzes the Russian experience of the use of the scheme of public-and-private partnership in the field of housing-and-communal services and the most perspective trends.

2 State-of-the-Art

Most of the concession agreements, concluded in Russia, belong to the municipal sphere: according to official figures, there are about 2 thousand such projects in different extent of development. However, it does not mean at all, that the projects in housing sector are more attractive and more favorable, than the projects in other branches of the economy.

The greater quantity of municipal concessions has been caused by the fight against inefficient state property. In 2011 it has been decided to transfer 80% of all the state unitary enterprises and municipal unitary enterprises, working in housing-and-communal sector, to the private subjects. Last year the plans have extended to all the enterprises (about 4 thousand enterprises). In 2018 the programme is supposed to be complete [1].

In order to make the process of attraction of the private capital go fast, since 2017 investors have been allowed to transfer the enterprises with debts (certainly, if they agree to extinguish these debts). The Ministry of Construction suggested to protect the property of the inefficient municipal and state unitary enterprises from unfair players considerably: the amount of payment, which the private operator is ready to pay for the right to operate an asset, can become the main criterion of the choice of a such operator instead of the tariff for services.

2012 notices on concession competitions were submitted in 2017, 1924 notices belonged to the housing-and-communal sector (Fig. 1).

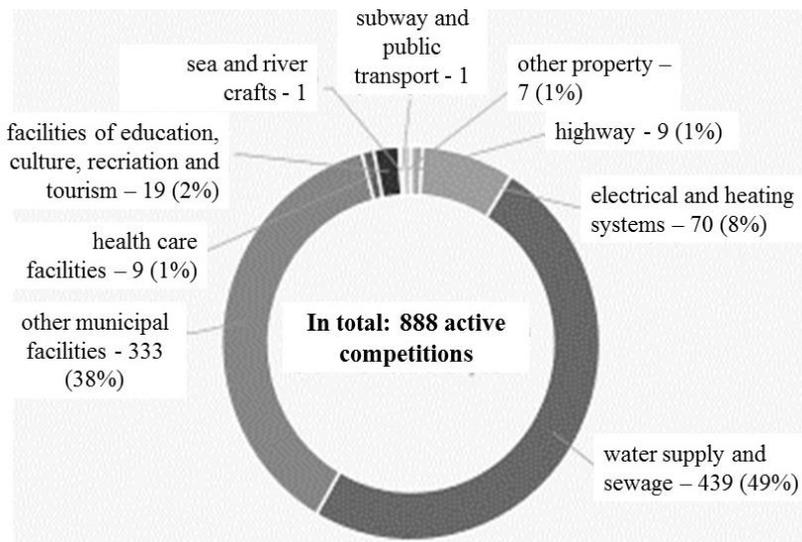


Fig. 1. Branch structure of competitions with contract term more than 5 years

** All the competitions, taking place, competitions for the last half a year, competitions in process of carrying out and competitions with the only participant

Only 1388 municipal competitions (among 1924 competitions) had the active status (the agreements were signed, or the private operator were being still chosen of (Fig. 2). But the term of the agreement is less than 5 years for nearly 40% of these competitions, therefore such projects are hardly to be full concessions.

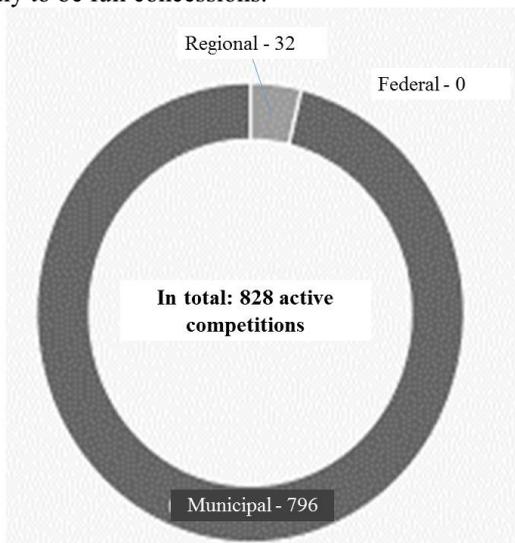


Fig. 2. Level of municipal concessions with contract term more than 5 years

** All the competitions, taking place, competitions for the last half a year, competitions in process of carrying out and competitions with the only participant

At the same the author has to note that the projects with the concession term less than 3 years are considered to be likely a hidden (or even obvious) preparation for privatization [2, 3].

The rest 828 competitions are supposed to have term more than five years. 96% of the projects have the municipal mandate. It should be also taken into account, that these data are not exhaustive and can contain mistakes, but regarding the general trend they are right.

According to the Ministry of Construction, in housing-and-communal services nearly 1.5 thousand concessions, which make up 190 billion rubles are working (data for February, 2017). And 580 projects (making 62.4 billion rubles) have been concluded in 2016. It is expected, that in 2017-2018 the quantity of municipal concessions will continue to grow, but the quality of the projects will probably remain the same.

More than 60% of investments in "municipal" concessions are the share of 6 projects, which are the largest [4, 5]. All of them are presented in Table 1. Other nearly 1500 thousand projects make up about 73 billion rubles, that is the average size of the agreement in housing-and-communal services makes up 50 million rubles. This sector is not interesting for the skilled investors, and all the projects, potentially attractive for them, do not exceed 20-30 items.

3 Results

In spite of the fact that the market considers housing-and-communal services to be a separate class of infrastructure facilities (and that is not absolutely justified according to the author's opinion), the regularities, influencing the interest of private players, are the same. The majors assess the volume of the project first of all (Table 1), and then they assess how the project is difficult qualitatively.

Table 1. Examples of large projects in the municipal sphere [1]

Capital expenses, billion rubles	Private investor' share	Agreement term, years	Agreement form	Project status	Investor
Project: System of water supply in Volgograd					
58	100%	30	Concession	Maintenance	"Water supply concession"
Project: Heating system in Volgograd					
29.6	100%	30	Concession	Maintenance	"Heat supply concession"
Project: Centralized system of cold water supply and sewage in Saratov					
18	100%	27	Concession	Investment	"Water supply concession. Saratov"
Project: System of municipal infrastructure of water supply, sewage and sewage water treatment in Perm					
3.6	100%	41	Concession	Maintenance	"New city infrastructure of Prikamye"
Project: Water facility to Voronezh					
2.8	100%	30	Concession	Maintenance	RVK-Voronezh (a part of Rosvodokanal group, Alfa Group)
Project: Construction of boiler rooms in Primorsky Krai					
5	100%	30	Concession	Agreement	"PPK. Heat"
Project: Facilities of heat supply of the Tikhvin municipal district of the Leningrad Region					
3	100%	15	Concession	Maintenance	"Heat energy Gazprom"

According to both parameters the municipal sphere strongly falls short of the lower bound: the projects, worth 1 billion rubles are rarities, but the volume more than 3 billion rubles is necessary to involve leaders of the market. The low quality of the concessions structuring in housing-and-communal services is also connected with the fact that generally they are prepared by municipalities which have less experience in public-and-private partnership, than the regional authorities have, and the budgets for the projects development are also very limited.

According to the author, the qualified investors will come to the branch, only when the public party gets to learn to put the same facilities in pools. As for regional operators of housing-and-communal services will appear, only if the quality of the organization of concessions becomes much better. Otherwise the market is threatened by bankruptcies of the inexperienced players and courts. The Ministry of Construction, Housing and Facilities, which is responsible for the municipal sphere comprehends these trends and even offers tools which will make the market of housing-and-communal services more attractive. For example, the Ministry plans to allow the creation of inter-municipal concessions in order to increase their scale.

Besides, the Ministry tries to discover new sources of the capital for housing-and-communal services, having expanded the possibilities of the non-state pension funds in the field of financing of municipal projects. According the existing rules funds can invest up to 10% of their investments in housing-and-communal sector, but that is possible only in the cities with the population more than one million people. The Ministry of Construction, Housing and Utilities is going to ask the Central Bank to include the cities with the population more than 250 thousand people in this category.

If these offers are realized, it will undoubtedly expand the opportunities for financing of housing-and-communal services. However, according to the author, the flow of qualitatively structured projects, which will be attractive for majors will have appeared in the branch by the end of 2018. It is possible to assume very confidently, that the qualified investors will still participate in the projects of housing-and-communal services incidentally in the next one or two years [6, 7, 8].

4 Discussion

Some experts consider that one more way to attract the private capital to housing-and-communal services is the use of so-called "box decisions" for standard "municipal" concessions [9, 10].

The launch of such products is being discussed by several large banks, for example, Sberbank and Russian Capital Bank. But, according to the author, such decisions is a direct alternative to integration of projects in pools, which are interesting for the qualified investors.

A "box" credit decision assumes that the investor signs concession with the region or municipality, in which certain parameters are put, and the bank grants a credit on the security of the exclusive right under this agreement. According to this scheme Sberbank plans to provide financing for 15 years under 12-14% per annum . Further the state is ready to subsidize this rate to 5%.

The product, developed Russian Capital Bank assumes credits to the concessionaires, who have got support of Housing-and-communal services Fund. The maximum term is 7 years (with a 2-year grace period), at the same time the bank is ready to enclose to 50% of capital, while 10% of investments have to be the own means of the borrower.

Such standard forms of projects support are good for involvement of stable local players. In this sense they can contribute to the development of the market. But the idea of standard concession rather disputable, as the main feature of such agreements that

parameters every time are adjusted to the project according to its features. The author believes that until the end of 2017 banks and investors will test "box" decisions, but the tool will hardly become so mass, as its creators suppose. Probably, the lack of the projects, which are correctly structured under such credits will be the poor moment again [11, 12].

Involvement of local investors in housing-and-communal services is only one possible strategy, and it is reasonable rather for the cities and settlements with the population less than 250 thousand people. Interest in the municipal sphere of the large cities and densely populated areas can also demonstrated by skilled players of the infrastructure market, particularly by financial institutions. That confirms the example of the interest of non-state pension funds of the Gazfond group to such concessions (they finance heating systems and water -supply systems in Volgograd). There are other projects organized in the branch according the same logic (projects on heat supply of the Tikhvin district in the Leningrad Region and the project of construction of boiler rooms in Primorsky Krai).

Integration of uniform small facilities in the municipal sphere (with the cost of 300-500 million rubles, etc.) in pools is one of the ways to attract the qualified investors and to provide a considerable stream of money to the branch at once. Most likely, the preparation of the project according to such a scheme will take more time and will leave and it will be more expensive. But in the long term, if the project is organized correctly, the risks of default will be significantly lower, than in the case with the choice of several local players for each object [13, 14]. According to the author, the trend on integration of projects will continue to develop in housing-and-communal services along with "box decisions", and in many cases pools of the projects "per one customer" will be a smaller problem for the regional authorities.

It is worth meaning that one more trend, which in fact is the alternative to the "box decisions", advanced by some large banks was outlined in the market. "Box decisions" in fact represent a tipologization and standardization of small and similar projects with the purpose of semi-automatic financing. At the same time local business generally acts as the concessionaire for such projects [15].

Securitization of projects in pools also solves another problem (their integration to such scale, which will be attractive for large financial sponsors and private investors). Thus, if on one legal entity will conclude many small similar concessions, then in total they can "punch" the lower threshold of interest of large players with 3-7 billion rubles.

At the same time securitization of projects in pools has certainly to happen within one type of infrastructure: for example, regional highways or housing-and-communal services concessions for several municipalities within one region. To do such projects with application of model of corporate public-and-private partnership or without such a model is already the matter of modeling in each particular case.

5 Conclusion

Concession agreements in the housing-and-communal sphere are the most widespread. However, in fact they have rather short term and the involvement of the large qualified private investors face some problems. The main problem is the small scale of these projects while the large qualified investors are attracted by large projects. Besides there is the need to increase in quality of concessions.

"Box" solutions and combination of projects in pools are proposed. Besides the possibility to attract new types of investors, for example the non-state pension funds is considered.

Both "box decisions", and "pool" securitization of projects are the new trends in the market: the first "pilot" projects are just being structured. And despite their seeming opposition to each other, in the authors opinion, each of the schemes has the right for

existence, and they do not compete strongly. According to all features, there is a chance that the first successful pilot projects of these formats will appear the near future.

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