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**INVESTMENT ACTIVITY OF NATURAL MONOPOLIES OF
SARATOV REGION: PROBLEMS AND SOLUTIONS**

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Abstract

The sustainable development of all of the spheres of economy requires rapid paces of development of natural monopolies. If at the federal level, natural monopolies are discussed as the main income sources for budget, they are often a structure-forming factor for the regional economies. The Government of the Russian Federation developed a series of measures within the framework of the program of socio-economic development of the country, which are oriented to the development of investment activity of natural monopolies. The analysis of documents of strategic planning of the Russian Federation entities showed that there is a difference between federal and regional strategies of development, while the mechanism of formation and further correcting of strategic plans accumulates such difference with time. For the correction of such situation, it is necessary to make the amendments to the Federal law “On the Strategic Planning in the Russian Federation”, oriented to the organization of the system of state planning and management of implementation of natural monopolies projects in regions, stimulation of participation of the private sector of economy in investments. The article analyzes the main problems of investment activity of entities of natural monopolies in the context of the economic development of Saratov region. The restrictions preventing the effective implementation of the investment potential of natural monopolies have been identified and considered, and measures aimed at attracting financial resources for the provision of investment programs have been proposed.

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Keywords: Investment; natural monopolies; innovation; Saratov region; tariff regulation; investment contract.



1. Introduction

Natural monopolies have a significant impact on the economy of any country in contemporary economic conditions. Modern society just cannot live without a power system, water and gas supply, lines of communication, etc. Stability of these systems is largely a cornerstone of socio-economic development and security of countries. With that, the practice shows that the sustainable development of all of the spheres of economy requires a rapid pace of development of natural monopolies.

In Russia the significance of natural monopolies is especially notable at the regional level, while at the federal level, natural monopolies are discussed as the main income sources for budget. For the regional economies, they are often a structure-forming factor. The monopolies are largely providing necessary conditions for economy growth in the region and its social development and stimulating competitiveness of the regional economy. The investment programs, which are realized by the natural monopolies, have a special significance for regions, because such programs not only create additional jobs, increase investment attractiveness and improve business environment, but also smooth imbalances in the development of territories.

The Government of the Russian Federation developed a series of measures within the framework of the program of socio-economic development of the country, which are oriented towards the development of investment activity of natural monopolies. With that, in our view, these issues have to be considered in the context of their influence on the regional development in the light of the general strategy of spatial development of the state. The newness of this paper is determined by the need to research the problems of investment activity of natural monopolies in order to ensure the sustainable development of the region. Monopoly companies have a significant economic potential. It can affect the overall effectiveness of regional development. However, the current economic situation shows the necessity to develop legal mechanisms and institutions that cover key aspects of investment activity of natural monopoly entities and enable the effective and well-timed implementation of investment programs.

The purpose of the study is to develop measures in order to increase the investment activity of natural monopolies as one of the factors of sustainable region development, outlined in the Strategy for Social and Economic Development of Saratov Region until 2030. The aims of this paper are to identify problems that arise in the practice of investment programs implementation by natural monopolies, to analyze the existing legal regulation of regional investment activities.

2. Problem Statement

The possibility of realization of investment project fully depends on the adequacy and timeliness of its financing. However, at the present time many of natural monopolies have significant problems in financing of their development.

Investment activity of natural monopolies has a significant feature – companies are forced to maintain a balance between two opposite purposes of commerce (gaining profit) and social (activity, valuable to the socium). This is why in some cases their investment projects could be low-income or even unprofitable (in direct financial expression), but with that they are compensated from the viewpoint of the solution of significant state and social tasks. This peculiarity makes some part of investment projects of natural monopolies less attractive for private capital. Herewith their development traditionally exists

primarily within the framework of governmental financing (including the regional budgets). However, at the present time, the Government of the Russian Federation already proclaimed the planned lowering of the governmental budget investments. For example, while in 2011-2015 the aggregate investments were on average 3.6 % of GDP. In 2018-2020 this number will lower to 2.5 %.

Many of natural monopolies significantly lack for personal assets for today, which could be explained from the viewpoint of limitation of their competitive pricing. Currently, the Government of the Russian Federation is purposefully following a policy of restraining the tariff growth. In fact, the government on behalf of the Federal tariff service for today tries to solve two tasks, opposite in nature – against the background of the price restraint for services of natural monopolies to provide the profitability and payback of their investments. The main motive for tariff restraint is the intention of the bank of Russia to achieve the targeted level of inflation of 4 % by 2019. The main condition for this is the common growth of prices in economy, which will be not higher than this level.

The attraction of loaned funds for the implementation of investment projects is not possible for many entities of natural monopolies for today. Now many companies still have a significant loan debt burden and are characterized by inadequately high predisposition to percentage risk. The further growth of the debt burden (even for moderate rates) threatens them with significant growth of the debt servicing costs. In this case, insufficient indexes of profitability of companies and their unstable financial position force the creditors to demand additional guarantees in conditions of high market risks. We can observe the most complex situation in electric power industry, where the coefficient of percentage coverage (which is determined as a ratio of profit up to the residue of percentages and taxes to the sum of percentages payable for using of loaned funds) equals on average 1.6, while the statutory value is not less than 3. Many companies also have a significant number of guarantees and vouchers, which is also taken into account by financial institutes from the negative view point during assessment of financial risk of the company and determination of its creditworthiness.

It is obviously that in such conditions, to realize widespread investment programs of the development of natural monopolies, use of principally other ways of financing is necessary. The economy of Saratov region is characterized by a significant influence of natural monopolies. The main structure-forming factor creates conditions for the economic growth of the region, and increases its competitiveness. For that reason, the prospects of socio-economic region development are determined by the opportunities for implementing major investment projects of natural monopolies.

3. Research Questions

In recent years a number of large-scale investment projects have been approved in the sphere of energy supply, industry, transport. However, the implementation of natural monopolies investment projects directly depends on the adequacy and opportuneness of their financial provision. Currently, a number of enterprises in the region face significant difficulties in financing of their development. In this regard, the strategy of socio-economic development of the region considers the narrowing of investment programs of natural monopolies as one of the main threats (Decree of the Government of the Saratov Region, 2014).

4. Purpose of the Study

Natural monopolies are the basis of Russian economy. That is determined by its technological characteristics, specific properties and strategic importance for the national and international market. The legal literature properly shows that the effectiveness of natural monopolies investment activities has a direct impact on the functioning of economic sectors (Decree of the Government of the RF, 2008). In this regard, the “Concept of Long-Term Social and Economic Development of the Russian Federation” provides activation of territorial development by stimulating the investment activity of regional natural monopolies (Decree of the Government of the RF, 2014).

In the summer of 2016, the Government of the Russian Federation endorsed and presented the bill on the legal regulation of the investment activity of entities of natural monopolies for the State Duma. This bill is oriented towards filling the gaps in the issues of forming and control of investment programs and establishing the rules for their technological and pricing audit. However, the series of problems exist in these spheres, which could dramatically reduce the investment efficiency for regional economics.

For example, the main condition, necessary for the efficiency of investments, is the integratedness of the investment programs of natural monopolies into state plans of strategic development. However, the analysis of the documents of strategic planning of the entities of the Russian Federation showed that there is the difference between federal and regional strategies of development, while the mechanism of formation and further correcting of strategic plans accumulates such difference with time. Thus, the series of regions just did not coordinate the development programs with investment programs of the existing natural monopolies. We could note that nowadays the regions actually are not motivated for real long-term development strategies. Additionally, there is no operative feedback, because changing of the demands of regional development cannot operatively find its reflection in federal programs, and they, in turn - in the investment programs of natural monopolies.

For the correction of such situation, it is necessary to make the amendments to the Federal law “On the Strategic Planning in the Russian Federation”, oriented towards the organization of the system of state planning and management of implementation of natural monopolies projects in regions, stimulation of the participation of the private sector of the economy in investments. In terms of legislation, we recommend establishing the duty of mutual coordination of investment programs of natural monopolies and federal and regional development programs. Hence, the formation of investment programs of natural monopolies should be carried out taking into account investment programs of related companies.

5. Research Methods

The research is based on federal and regional legal acts analysis, statistic information, books and scientific articles that deal with the research topic. The methodological basis of this paper is general and particular scientific methods of objective reality cognition that include analysis, synthesis, induction, a formal-legal method, as well as other methods of scientific cognition.

6. Findings

A significant obstacle on the way to effective investment development growth in natural monopolies is a decrease in financial resources. That is due to the reduction of profits in the gross domestic product

structure and to deceleration in the Russian economy that is determined by growth of costs and a rise in the cost of borrowing. As a result, there is a lack of innovative activity of regional enterprises. Regional monopolies do not have the opportunity to update the technological base, introduce innovations and move to a new level of development because of the shortage of material resources.

The bulk of innovations is aimed to maintain the achieved level of technological development. There is not enough ground-breaking innovations brought into use. However, innovations are the basis of dynamic and qualitative growth in economy, because they influence the change in its structural characteristics and determine the competitiveness of the region (Decree of the Government of the Saratov Region, 2015). A number of branches in the economy are characterized by a high degree of depreciation of fixed assets and a lag in the development of the engineering infrastructure. In the field of housing and utility services, there is an unsatisfactory technical condition of water supply systems and heating networks. 45.8 percent of the water supply network and 11.9 percent of the heating networks need to be replaced (Decree of the Government of the Saratov Region, 2016).

There is a balance problem between current and strategic objectives when implementing investment activities of natural monopolies. One of the potential sources of investment projects financing is the establishment of tariffs. The investment program of the enterprise "Water Supply Concessions - Saratov" for the period up to 2010 supposes the investment of financial resources in the amount of 6.26 billion rubles in the reconstruction of water supply and water removal, a sewage pumping station. At the same time, it is planned that the tariff for water supply will increase by 2020 by almost 29%, for water removal - by 27% (Russian Ministry of Finances, 2016).

In Saratov region, the government, as well as the Inter-Branch Council of Consumers on the activities of natural monopolies entities under the governor of Saratov region, does the main work in order to ensure proper implementation of investment programs that are included in a list of state-regulated prices (tariffs) and in discussion of the results of their implementation (Federal Law, 2015). On the other hand, the territorial bodies of the Federal Antimonopoly Service of Russia carry out tariff regulation and control the correctness of setting tariffs by natural monopolies, that is, an administrative and preventive measure (Federal Law, 2014). in the field of antimonopoly regulation.

In the field of energy supply of industrial consumers, there is practice of establishing two-component tariffs and cross subsidizing. However, this is an obstacle to further development of infrastructure branches, since it is impossible to constantly solve the problems of investment at the expense of industrial consumers (GazpromBank, 2015). In addition, the Russian Federation Government is currently pursuing a policy of maintaining tariff growth in the electricity sector. According to the RF Government Plan for 2018, it is planned to develop mechanisms for attracting investments in modernization of energy facilities in conjunction with the executive authorities of the subjects, paying special attention to the necessity to ensure the fact that the growth of tariffs for electricity is kept at a level no higher than inflation (Kibalov & Kin, 2016). However, even such increase in tariffs is negatively perceived by the citizens. In this regard, the Russian Federation Government will try to further restrain the natural monopolies tariffs growth.

Thus, the implementation of large-scale investment programs for the development of natural monopolies in the region requires the use of fundamentally different methods of financing. In conditions when the level of tariffs on natural monopolies products does not exceed costs, the role of the state in the

investment process is strengthened (Korbtsov, 2009). The stimulation of the development of natural monopolies was traditionally carried out mainly within the framework of budgetary financing. However nowadays, state budget investments have been reduced. The forecasted dynamics of state budget investments for the period until 2020 implies a reduction in their total amount to 2.5% of GDP. The amount of budget financing of investment programs for the period of 2011-2015 was 3.6% (Kremlin, 2015).

In this regard, a strategically important factor in stimulating of the investment activity of natural monopolies is an appeal to the global practice of using the mechanisms of public and private partnership. According to the Russian Federation Government regulation, the minimum level for the development of public and private partnerships by regions should be 64% until 2018 (Order of the Government, 2014). At the same time, Saratov region is only 35th in terms of the development of public and private partnership for the period of 2016-2017 among the constituent entities of the Russian Federation with an indicator of 43.2% (Pavlov et al., 2016). In order to achieve the development target, it is necessary to intensify the work in that direction. In programs of investment development of enterprises of the region, such forms and methods of partnership are indicated as providing methodological assistance, consultations, methodological support of projects, the formation of a positive public opinion, and assistance in attracting regional enterprises and organizations to carry out works at various stages of the investment project (RosInfra, 2014).

The normalization of the investment conditions in the region can be significantly affected by the improvement of the legislative process quality at the both federal and regional levels. Thus, there is no mention of the possibility of public and private partnership in the Program for Support of Investment Projects Implemented on the Territory of the Russian Federation on the Basis of Project Financing (Savenko, 2009). Further, the law "On public and private partnership" (Sokolov, 2010) does not use such concept as "project financing". With regard to such form of cooperation as conclusion of a special investment contract, federal and regional legislation does not provide inclusion of natural monopoly entities in its participants. The draft of the Federal Law "On Special Investment Contracts and Amendments to Certain Legislative Acts of the Russian Federation", which provides measures of stimulation of investment activities of natural monopoly entities under special investment contracts, is not currently submitted to the State Duma.

7. Conclusion

Natural monopolies have a significant impact on the dynamics of the socio-economic development of the region. There is a stable relationship between the investment activity of natural monopoly entities and the current economic situation. The main problem that prevents effective and well-timed implementation of natural monopolies investment programs is the lack of financial resources. In modern conditions, close cooperation between the entities of natural monopolies and the state is required. There is improvement in the investment conditions and attraction of material resources for investment in the framework of tariff regulation, budget financing, development of public and private partnership mechanisms.

We can note the lack of coordination of actions and intersection of zones of responsibility of regional powers, sector ministries and federal regulating services (tariff service, antimonopoly service, etc.). Thus,

even tasks, solved by one of the regulating authorities, can contradict each other. The high social significance of the investment projects of natural monopolies requires the maximum possible satisfaction and compliance of the balance of interests of all key stakeholders – federal power, a region, business, and consumers. From this viewpoint, improvement of mechanisms of the regulation in investment activity of natural monopolies within the framework of the regional system of management is an important line of activity. With that, it is important that the created regulating mechanisms should cover the personal responsibility for the results of the decisions made.

One of the possible ways of appropriate control of the efficiency of investment programs, realized by natural monopolies, is the creation of the system of public control (the control with participation of consumers) in regions. For this, the Government of the Russian Federation adopted the relevant concept and road map. Within the framework of its realization, the integrated portal of governmental services has been added with the special section, dedicated to the public discussion of investment programs of natural monopolies. Moreover, under the auspices of the Open Government, the entities are creating councils on the activity of natural monopolies. As of today, 8 federal and 63 regional councils have been created. With participation of these councils, the investment programs and projects of governmental companies are considered and adopted (Russian Railways, Rosmorport, Gazprom, Rosseti, Transneft, Russian Post, Rostelekom).

In case if this experience is positive, its proliferation to all of investment programs of all of the entities of natural monopolies and also their subsidiary and affiliate companies is necessary. The regional public councils have to work at all stages of preparation and realization of investment programs:

- development and discussion of regional and sectoral strategic documents;
- preliminary examination of investment projects, formation and realization of investment programs of natural monopolies;
- decision making in the sphere of tariff regulation, taking into account the interests of consumers;
- control of the efficiency of realization of investment programs of natural monopolies.

The global practice, providing financing of investment projects of natural monopolies, is using mechanisms of public-private partnership. Hence, the practice shows that mechanisms of public-private partnership are most efficient in the field of financing of projects, which have regional and trans-regional significance and are linked to the elevation of competitiveness of key branches of industry. They are energy, petroleum, chemical sectors, projects of the development of an extractive base and improvement of the efficiency of using sources, projects, oriented towards restructuration of economy or risk-related regions and cities.

The Government of the Russian Federation makes efforts for stimulating of public-private partnership in regions. For example, in April, 2014, there was publication of the Decree, which established the level of development of public-private partnership in entities of the Russian Federation taken into account during assessment of the activity efficiency of highest officials. The ranking of regions by the development level of public-private partnership has been carried out since 2013 by the initiative of the Center and the Chamber of Commerce and Industry to stimulate the entities of the Russian Federation to use more actively the mechanisms of public-private partnership.

The index “Level of Development of Public-Private Partnership” is calculated during the formation of ranking, used in the definition of current indexes of the efficiency of activity of highest officials in the entities of the Russian Federation. It is also the part of the National Ranking of Investment Environment in the entities of the Russian Federation, formed by the Agency of Strategic Initiatives. The ranking is an additional indicator in choosing of a public partner for realization of investment programs.

During the assessment of the level of public-private partnership, three factors are valuable: the legal provision of the sphere of public-private partnership, including the sustainable growth of PPP-projects and their support, as well as the level of institutional environment, estimated according to the launch of complex programs for creating conditions for the development of public-private partnership and formation of professional project teams, particularly as a result of organization and preparation of the staff qualification improvement in the sphere of public-private partnership.

The key problem of the development of private-public partnership is the lack of coordination of the regional legal base with the requirements of the Federal law “On the Public-Private Partnership in the Russian Federation”. Herewith, the analysis shows that among 85 entities of the Russian Federation, 64 regions still have no list of objects with planned public-private partnership contracts, and 13 regions just do not realize any events for the development of a legal base in the sphere of public-private partnership. It is obvious that the activation of work in this field is necessary for achievement of the targeted index of public-private partnership.

The concept of long-term socio-economic development of the Russian Federation supposes foundation of the network of regional clusters, realizing the competitive potential of territories. The main purposes of this concept are activation of territorial development and stimulating of the improvement in activity efficiency of these natural monopolies.

In conditions of severe external economic and political leverage, the simplest measure to provide the regional development is intensification of investment activity of natural monopolies. Certainly the monopoly companies, which have a significant economic potential (industrial, investment, innovative, etc.) by means of involvement of other regional enterprises in its investment programs, can stimulate the origin of the efficient cluster ecosystem, also being the core of the cluster. Such approach allows one to significantly reduce the risks, and also to increase the common effectiveness of the regional development.

However, this development way will be efficient only in case of creation of governmental mechanisms and institutes, which are covering as minimum two key aspects of the investment activity of natural monopolies: managerial – covering organizational and control mechanisms, providing the realization of investment programs for benefit of the regional development; and financial – reflecting the mechanisms, used by natural monopolies for financing of their investment programs at the regional level.

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