

Financial challenges for BRICS

Executive Summary

1. Public Private Partnership helps to find optimal solution to the formation of financial relations within BRICS membership. PPP able to provide users with quality services for the minimal price. Development of the partnership needs to consider other world exposure in this field.

Key notes:

Economic environment, financing, business, development.

Russia has chosen the route towards internationalisation, economic integration and modernisation. Priority is given to development of economic relations within BRICS countries. In its turn, optimal partnership between business and state is reached when it is supported by the government bodies.

In its essence PPP is a platform where state and private investors come together to find mutually beneficial resolution to financial problems. It is important to note that PPP does not favour types of privatisations with the transfer of assets from the state to private investors. For the government – aim is to solve social and economic problems, for the business- aim is profit maximisation. Previous practice in USA, Japan and other European countries shown that obligation and risks are divided during state- private business interaction. Each project would have a individually structured implementation schedule. Essential business model for PPP is a partnership where projects are only implemented with the involvement from both sides. Practice has shown that state-private business partnerships have social direction with the valued outcome. As a result, PPP is beneficial for all parties involved in the project. For the state- additional opportunity for economic modernisation, and for the business- development.

History of PPP can be broken down into the following stages :

1. Auto sourcing, where state asks privately owned institutions to find a solution to the problem for the specified fee. Scale of this relationship is shifted towards area of operations.
2. Project design, implementation, construction. In this type of relationship, emphasis is placed on co-operation. At the entrance level- cooperation of financial resources from private businesses, including subsidies, and at the final stage - full implementation.
3. Full government- private entity relationship, based on individual contracts between the state and the private institution, process of co-manufacturing, and co-implementation of specially designed projects, etc.

These types of integration between governments and private entities should be used under two-party and multiple-parties relationship of BRICS countries. This will aid modernisation of these countries, development of international relations and business entities. However, it is necessary to have political will, share of responsibilities, transparency of transactions, clarity of goals, problems and their resolution.

Based on prior experience, the most widely acceptable type of PPP is formation of jointfunds covering finance, insurance and tax; growth, reconstruction, development of resources, support during project implementation and servicing of clients. This type of co-operation have a concessional base- where government gives right to private entity right to use and develop country's resources and assets. In USA, concessions covering big development projects are given over 99 year period.

Special contractual relationship between states and private institution facilitate fast achievement of desired result.

The best example of this PPP co-operation can be found in EEC, where projects in different industries such as transportation, energy, education, health, defence and regional development have been successfully implemented. Interesting to note also experience from USA, Europe and Japan in the following projects implemented on municipal, national, regional and global levels. These cover but not limited to environmental projects (recycling, water sanitation plants), construction of motorways and railways, airports, bridges, development of the infrastructure, construction of housing, energy efficiency, R&D projects etc.

Other interesting know how comes from the Philippines, where government decided to work together with national and international enterprises when implementing large infrastructure development projects. Subsidies were given by ChMB- JP Morgan, USA. 147 government and private bodies were involved in the implementation of this project.

It is important to note the importance of state-private partnership in regional and small town developments, when government gives grants/ exemptions towards taxation and insurance, which creates favourable conditions for co-operation between business entities.

Special part is played by PPP during the implementation of R&D projects. In this case all parties investigate realistic project delivery, and by using their wide professional knowledge develop and introduce new products and services. However, risk is not disregarded when searching for the solution.

As a whole, government role is to provide favourable conditions for strategy application including growth of creativity, innovation, transformation in financial, technological, social and other areas connected with research and development.

British experts concluded that innovative PPP forms its administrative procedures during project's application, depending on specific business needs. Project team members should develop and maintain business contact and accept risks depending on their expertise and involvement in the project.

Agreement by state institutions given to small and medium size enterprises to provide services becomes a facilitator in taking part in PPP.

Stages of PPP formation include the following:

- Goal setting
- Analysis of project's specifics
- Development of roles and responsibilities, terms and conditions
- Adaptation of goals in accordance different project areas
- Establishing of common objectives for new / follow on period
- improvement of new rules, terms and conditions connected with new roles and responsibilities where necessary
- Organisation and modernisation of financing taking into consideration tax policies, subsidies, guarantees, donations, structured finance with possible involvement of external / foreign investors

PPP provides quality services to all users / members for a minimal compensation and concessions available from the state. This co-operation schedule is applied to rubbish removal by the municipality of Chicago, USA and to hospital use in Birmingham, UK. PPP's work in practice can be seen in planning, construction and maintenance of San Diego University, California, USA. This project has been "working" for the past 40 years. The cost of this project is 38 billion USD. Construction of the site, technical support, café and library was provided by private entities. Municipality provided tax exemptions during construction and operational stage of university until loan settlement. According to agreement, project expenses were split : 10% - state, 90% - private entities. As a result of PPP social needs were covered by private financing, therefore, reducing budgetary burden and unemployment. Project participants emphasise the necessity of having a result driven team especially in socially important area.

Important lesson of PPP – meticulous choice of partners and open discussion of problems and solutions, which will guard members from unnecessary risks.

Currently BRIC countries have large economic problems, resolution of which need to involve prior world experience. Role of state institutions within BRIC countries in development of markets, capital and services, stimulation of social responsibility of the business, support of less advantageous SMEs, development of standard practices, support of innovation.

In order to develop national economy of the member countries it is necessary to improve regulatory system towards specific forms of financing, costing of tangible and technical resources, prevention of fraud, breaking terms and conditions of the contract, assistance towards distribution and trade of national produce, reducing credit liability, creation of efficient tax system, business controls, supporting PPP business administration base. Special attention should be given to strengthening of universal regulations which stimulate development of innovation- expensive but forthcoming segment of economy that is constantly in demand.

Experts from the International Monetary Fund note that in its essence, positive development tendencies in national economies connected with toughening of government regulations and harmonisation of bank systems within BRIC countries.

Process of restructuring of world economy to overcome consequences of world financial crisis is currently in motion. Effective solution of difficulties within BRIC countries is possible with co-operation between state and business.

Past experience has shown that during transformation period important role is played by the government, which is in our opinion due to the following:

1. State can support development of important environmental, infrastructural, social and educational issues. Successful outcome in all of the above is vital to all stakeholders. This way government can compensate market shortfalls, including desire of the business towards quick, vast profits. Apart from that, during whirlwind market development, interstate initiatives positively influence supply and demand and through pricing policy regulating growth of economy
2. Activity of market players connected with desire for self-sufficiency and achievement of quick results. Each business, industry, region aspires to satisfy their own interests and is governed by “selfish” microstructural demands. Effective interstate relations among BRIC countries in the area of finance are able to provide distribution of productive co-existence of micro and macroeconomics placing an emphasis on partnership with private enterprises.
3. Development of world financial markets distorts macroeconomic relations, which demand rational interstate involvement. World financial market experience has shown that involvement does not mean interference with economy but need to standardise co-operation of countries with the involvement of state institutions, which in its turn able to create favourable conditions for development of national economy in BRICS countries and strengthening role of these countries in the world economy.
4. Fundamental goals of BRICS countries in finance area are:
 - Growth of countries economy, increase in production, science, modernisation of supply and demand structure
 - Stabilising finance and economy, including pricing and employment
 - Bringing social responsibility and fair competition to financial institutions

Under current conditions governments select effective management of macro economy and development of their national economy, compatibility of financing standards, support of competitiveness and standard of living. In its turn, expansion of financial relations between countries requires adherence to the following rules :

- Democratic approach towards restructuring
- Provision of interstate administration and legal support
- Stimulation of co-operation between state and private entities

In this case, special attention must be given to interstate co-operation and development of economy and finance by providing concessions for financing, guaranties, insurance of export

financing, realisation / distribution of Russian goods and services, intellectual resources, transparency of management and supporting mechanisms of state- private entity partnership.

Government institutions of different countries under current development of world economy use global experience, which has proven the necessity of having central controls with regards to pricing, quality of goods and services, management of interest, etc.

Historically, creation of new standard in economic relations is connected with strengthening of co-operation between the state and its corporations. State is responsible for financial, economic and social positioning of the country, using wide selection of resources and technologies available, such as budgets, tax, monetary policy, legal system, etc. This type of government involvement in economy must be considered when selecting optimal solution to current issues and future developments on national and international levels.

Implementation of effective fiscal policy is able to stimulate international economic relationships. Necessary conditions of this policy could be :

- encouragement of implementation of strategically important development programmes
- rational tax policy
- support of international co-operation programmes for state-private entity partnerships

Experience of countries, including Russia, that have overcome consequences of financial crisis has shown that it is not the possibility of reforms that is important, but the way they are going to be implemented within industrial and international co-operation. Economic interest is the basis of strong mutually beneficial international relations, recognition of which depends on political will of the government.

Government support of BRICS countries towards development of state- private financing will fully encourage optimal growth and development of national economy and strengthen these countries presence in the world economy.