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# The mechanism of public-private partnerships in attracting investment in agriculture

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**Abstract.** Investment combined with innovation is an essential condition for the growth and development of the socio-economic system. In essence, investments are defined as long-term capital investments in the economy in order to ensure sustainable rates of expanded reproduction. Investments are characterized by the fact that they are always limited, and here it is important to correctly determine the priorities that can maximize the final result. These indisputable priorities include the agro-industrial complex, ensuring the food security of the country. The purpose of the article is determined taking into account the emerging tensions with investment resources of the state, in connection with which it is proposed to intensify the attraction of private investments in the agro-industrial complex, using the experience of economic levers and incentives already approved in the country, aimed at attracting private investments in special economic zones and priority development areas. The analysis of the effectiveness of the special economic zones, including their questioning, conducted by the author and combined with the study of the foreign experience of China and other countries, led to the conclusion about the effectiveness of using the public-private partnership mechanism to attract private investment. The system of economic levers and incentives for attracting investment is proposed in the article.

## 1. Introduction

The reform of the Russian economy, accompanied by privatization and the emergence of large private enterprises, led to a change in the structure of investments in fixed assets. Redistribution of investment flows in favor of the extractive industries and fuel and energy complex led to their priority development and stagnation of non-primary sectors of the economy, including agriculture. If in 1990 the share of state investment in the fixed capital of agriculture was 15.9%. Then, since 1995 and for decades until 2017, it did not exceed 4%. It should be noted that from 2010 to 2014, there was some growth in investment in agriculture, reaching 319.8 billion rubles in total. But then the recession begins, the volume of investments amounted in 2016 to 242 billion rubles, and it was 225.3 billion rubles in 2017 (in current prices, excluding inflation) [1, 2].

The most important indicator that really reflects the state of the investment process is the rate of investment (as the ratio of the sum of investments to GDP). In Russia, for the last decade, it was within 20% (17% in 2016). The calculation for agriculture showed that on average over the last decade it did not exceed 10%.

The low investment rate prevailing in the Russian economy over the past two decades and not exceeding 20% could not but affect the rates of socio-economic growth, rational structuring,



modernization of the production base, and productivity growth on this basis. For the growth of labor productivity and the creation of a competitive economy, more substantial growth of investments, including private ones, is needed in modernization and structuring of production. According to the government's forecast, Russia needed to bring the investment rate to at least 25% of GDP [3] by 2015, and then to 30%. As the experience of developed countries shows, at the stage of economic recovery and its transfer to post-industrial development, their investment rate reached 40-50% (in particular, in China).

Agriculture is the most under-funded industry with a weak material and technical base, with destroyed amelioration and agricultural engineering, with poorly available (because of prices) mineral fertilizers. In agriculture, there are low wages, irregular working hours, poor rural infrastructure, and the emerging problem of skilled labor resources.

Reducing the share of investment in agriculture and their physical volume in comparable prices jeopardizes the country's food security. Although the natural factor periodically gives us a high yield of sugar beet, potato, and grain in 2017, but it is too risky to count on the mercy of nature for a fundamental solution to the problem of obtaining sustainable total crop fees. It is necessary to create a material and technical base, taking into account the latest achievements of science and technology. At the same time, sanctions and anti-sanctions imposed on Russia should be taken into account. It is also necessary to take into account that over the years of reforming in Russia, most of the reclamation systems have failed, there is a shortage of agricultural equipment, mineral fertilizers, selection has been launched, and there is a load on overload. Agriculture goes to monospecialization. And in conditions of low technical equipment, lack of crop rotation, low rate of application of mineral fertilizers and changing climatic conditions, the law of diminishing fertility inevitably works.

The attitude to the financing of agriculture in the Russian government is extremely short-sighted, based on a liberal model of development in the expectation that large agricultural holdings will solve all the problems. And this, along with a tight budget, limits state participation in agricultural support. In a democratic Russia, the state should do what no one does at all [4], i.e. supporting the neglected (including through his fault) agriculture in order to increase the production and consumption of food. And in this respect, the EU experience is instructive. In the mechanism of ensuring the protectionism of agriculture in the EU countries, the most important role belongs to a special fund created back in 1962, the so-called Single Orientation and Guarantee Fund, which accumulates up to 50% of the EU budget. Through the guarantee section, there are direct subsidies for agricultural production, support for domestic prices, export subsidies, and more. Over the years of operation of this fund, the EU countries have achieved a complete self-sufficiency in all major food products, including grain, meat and milk, and have become major exporters of agricultural products.

The situation with insufficient investment security of sustainable development of the Russian economy at the expense of the budget is so serious that in his electoral article "About our economic tasks" Prime Minister V. Putin noted that "the main source of creating new industries, new jobs is private investments" [5]. A real tool for attracting private investment in the reproduction process can be a wide development of forms and models of public-private partnership (PPP). PPPs allow, on the basis of a symbiosis of interests of the state, business, and civil society, to solve socially significant tasks of both a social and an economic level. At the same time, the state provides a development strategy, the formation of an institutional environment, respect for the interests of PPP partners, creates legal guarantees for attracting private investment. According to the Ministry of Agriculture, as a result of the opportunities opened up in connection with the sanctions, private capital shows investment activity, but in order to attract private investment, it is necessary to insure risks, incentives in the form of tax benefits and customs duties, preferential credit system. The problem of investment security of agriculture is extremely acute – it is, in fact, the key problem of solving the issue of import substitution and food security in general.

Analysis of the current situation with the investment and innovation process in Russia, and in particular in agriculture, allows us to conclude that market structures, due to personal diverse interests, are not interested in activating their activities in ensuring food security, the main thing for them is

profit. The state is responsible for the food supply of the population, and only it has real leverage to attract private capital to solve this major social problem, by launching the PPP mechanism.

The investment policy of the state should provide for a system of measures to attract investment in the economic and social sphere and create conditions for their effective use. This can be achieved by improving the budget and legal systems, tax and credit incentives for attracting investment and developing innovations, through active depreciation policies and creating conditions for attracting private investment through competent work on the use of the PPP mechanism.

It should be noted that the government is taking serious steps to encourage private investment in economic development. First of all, we note that an institutional framework has been created for using the PPP mechanism.

## 2. Legal Aspects

On January 1, 2016, the Law 224-FL “On Public-Private, Municipal-Private Partnership in the Russian Federation and Amendments to Certain Legislative Acts of the Russian Federation” was enacted. In the Federal Law 224, changes have been made related to the expansion of the objects of the agreement, including objects related to agricultural production, production, processing and storage of agricultural products. The same changes were made in the Federal Law No. 115 “On Concession Agreements”. This opens up broad opportunities for private investment, which is so necessary for the agro-industrial production and the implementation of various projects in such areas as: land reclamation, dairy and greenhouse complexes, and a number of other industries. In addition, the list of objects subject to both FL-224 and FL-115 includes almost all types of processing of agricultural products and storage facilities, including wholesale distribution centers. This should take into account a number of burdens associated with the legislation on agriculture, and the need to approve the list of objects by the Russian government.

Successful use of both PPP projects and concession agreements requires appropriate government support in the form of co-financing of relevant infrastructure projects in agriculture and other industries. “A deterrent to the creation of sectoral public infrastructure objects is the impossibility of federal support for relevant regional projects implemented under 115-FL or 224-FL (unlike projects using the state order mechanism). In this regard, it is necessary to allow the provision of interbudgetary transfers from the budget of the Russian Federation to regional budgets for the creation of objects of concession agreements and agreements on PPP in priority sectors” [6].

## 3. Tax Aspects

The tax aspect of attracting private investment includes a system of tax incentives that are fairly well developed in special economic zones (SEZ) and territories of advanced socio-economic development (TASED). Moreover, the legislation provides guarantees for the SEZ against changes in legislation on taxes and fees. The Law on Tax Relief in TASED was adopted 10 years after the introduction of the Law on the Special Economic Zones. These laws have much in common, but there are significant differences.

**Table 1.** Tax preferences for the SEZ and TASED in Russia [7].

Indicators	TASED	SEZ	Russia
Income tax *	0-5%	0-12,5%	20%
Property tax	0	0%	2,2%
Land tax	0	0%	1,5%
Insurance premiums	7,6%	14% **	30%

\* From 2017, to the federal budget – 3%, regional – 12.5%.

\*\* Applies to residents engaged in technology and innovation activities and residents of the tourism cluster.

As an addition to the table, we note:

1. Zero rates have been established for the first five years on income tax (the next 5 years up to 5%, and further from 10%), on land and on property, as well as on import and export customs duties;
2. Free receipt of land, preferential rental rates (0.4% of the base rate), and use of the existing infrastructure;
3. An expedited procedure for the exporter's VAT refund is established and a zero percent VAT is set on imports of products for processing;
4. For the first 10 years, insurance premiums are set at 7.6% instead of 30%, then the coefficient 1 is applied.

Significant differences between TASED and SEZ in the established rates for insurance payments. Residents of TASED pay lower insurance premium rates in the amount of 7.6%, of which 6% goes to the Pension Fund of the Russian Federation, 1.5% – to the Social Insurance Fund, and 0.1% – to the Federal Mandatory Medical Insurance Fund. Benefits are valid for 10 years from the month following the month of obtaining resident status. But only those insurers who have registered with TASED can take advantage of reduced tariffs.

The functioning system of incentives and benefits, adopted in Russia for economic zones and territories of priority development, has many burdens and its use for various areas of the agro-industrial complex, taking into account the changed ownership structure, requires the development of special by-laws that take into account industry specifics. In the agrarian sector, the creation of clustered food chains is fundamental; it helps to attract investors but requires a clear testing of incentives and taxes.

#### 4. Conclusion

In general, we note that attracting private investment is a complex problem, the solution of which is connected not only with tax and customs privileges but also budget support both with investments and guarantees, political stability, availability of qualified personnel, creation of conditions for the demand for products and simplification of administrative procedures.

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