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Public-Private Partnerships (PPPs) in Russia

1.1. Overview: What is a Public-Private Partnership (PPP) in Russia?

Under Russian PPP law, a public-private partnership is a long-term agreement between a public and a private partner. In this model, a private investor serves as the key financial and operational partner, responsible for the construction and upgrading of public infrastructure. The mechanism is based on pooling resources and sharing risks to ensure the successful delivery and operation of the facilities with high public importance.

1.2. Investment Market: Are PPPs a relevant mechanism for investment in Russia?

Yes. The implementation of infrastructure PPP projects is central to Russia's national development strategy, with planned investments exceeding RUB 54 trillion (approx. USD 684 billion). This volume comprises over RUB 24 trillion (approx. USD 304 billion) in public funding and over RUB 30 trillion (approx. USD 380 billion) from private capital markets.

The strategy relies on a **co-financing model** across key sectors:

- **Transport Infrastructure:** Road construction remains primarily **state-led**, with RUB 9.3 trillion (approx. USD 118 billion) in public funding, complemented by RUB 640 billion (approx. USD 8.1 billion) from private sources;

- **Housing and Utilities:** The **upgrading** of utility systems is projected to attract RUB 12.2 trillion (approx. USD 154 billion) from private investors, supported by RUB 900 billion (approx. USD 11.4 billion) in state budgetary support.

To facilitate these inflows, Russia has expanded the list of **eligible PPP** assets to include space infrastructure, industrial production complexes, and the restoration of cultural heritage sites.

1.3. Legal Framework: What laws govern PPPs and Concessions in Russia?

The legal framework for PPPs in Russia comprises the Constitution, the Civil Code, the Budget Code, and two key federal laws:

- Federal Law No. 224-FZ on Public-Private Partnerships, Municipal-Private Partnerships (the **"PPP Act"**); and

- Federal Law No. 115-FZ on Concession Agreements (the **"Concessions Act"**).

Together, these Acts provide the **statutory foundation** for infrastructure projects. Their provisions are mandatory and serve as the primary source for interpreting contractual agreements between **public partners** and private investors. The Concessions Act governs concession agreements (typically for utilities and transport), while the PPP Act applies to public-private and municipal-private partnerships (often for industrial and social infrastructure).

1.4. Key Differences between the PPP Act and the Concessions Act

Criteria	PPP Act (224-FZ)	Concessions Act (115-FZ)
1. Ownership of the Asset	**Private ownership is possible.** The private partner holds the title to the asset during the agreement term. **Critical Restriction:** The PPP Act cannot be used for assets that are legally restricted from private ownership (*res extra commercium*), such as: • **Existing runways, taxiways, and navigation equipment;** • **Cultural heritage objects** (monuments); • **Certain seaport infrastructure** (restricted to federal ownership); • **State melioration systems.**	**Public ownership only.** The public partner retains the title at all times. The private partner is granted rights of **possession and use** for the term of the agreement.
2. Transfer at Expiry	**Transfer or Retention.** The asset is typically transferred to the Public Partner at the end of the term. However, the agreement may allow the Private Partner to retain ownership.	**Mandatory Return.** The rights of possession and use automatically revert to the Public Partner upon expiration.
3. Joint Ventures with State Entities	**Limited.** A Joint Venture controlled by a Russian state entity **cannot** act as the private partner as state-controlled entities, as well as state/municipal unitary enterprises, are prohibited from acting as the private partner.	**Flexible.** A Joint Venture with a Russian state entity (e.g., a state bank) **can** act as the private partner as only state/municipal unitary enterprises and budgetary institutions are prohibited, but other, i.e. commercial state-controlled entities may participate.
4. Eligible Asset Classes (Key Examples)	**Specific to PPP Act:** • **Private Roads:** Private automobile roads; • **Industrial Production:** Factories and industrial complexes.	**Specific to Concessions Act:** • **Municipal Utilities:** Heat supply, centralized water supply, and sewerage systems; • **Heritage:** Unused cultural heritage objects in unsatisfactory condition; • **Restricted Assets:** Infrastructure restricted from private ownership.

1.5. Do the PPP Act and the Concessions Act allow foreign entities to enter into PPP and concession agreements?

Under both the PPP Act and the Concessions Act, **foreign entities** (and Russian entities controlled by them) are **prohibited from entering** into agreements if the project involves:

- **Public Transport:** infrastructure and vehicles for public passenger transport (e.g., trams, trolleybuses, railways);

Note: the **metro** *is fully excluded from the scope of both Acts and cannot be the subject of a PPP or Concession agreement;*

- **IT Infrastructure:** software, databases, state information systems, and data centers.

Specific Prohibition under the Concessions Act:

- **Defense Sector:** The Concessions Act explicitly prohibits foreign investment in facilities for the storage, maintenance, and repair of military equipment (which are available as objects only under the Concessions Act, not the PPP Act).

Restricted Strategic Sectors (Governmental Clearance Required):

For other sectors, foreign investment is permitted but requires prior approval from the Government Commission under the **Strategic Investments Law (57-FZ)** if the project involves strategic activities. Relevant examples include:

- **Space Infrastructure:** space activity is explicitly defined as a strategic activity;

Note: the State Corporation **Roscosmos** *is empowered to act as the public partner for space-related concessions;*

- **Nuclear Energy:** The placement, construction, and operation of nuclear installations are strategic activities;

Note: the State Corporation **Rosatom** *is empowered to act as the public partner for nuclear concessions;*

- **Airports:** airfield operators are typically deemed strategic entities because they perform activities ensuring **transport security** for airfields;

- **Seaports:** seaport operators are strategic if they hold a **dominant position** (natural monopoly) in providing services in ports.

1.6. Procurement Procedures: How to enter into a PPP project?

Russian legislation provides flexible entry routes for investors. There are three primary ways to conclude a PPP or Concession agreement:

1. **Public Tender (Solicited Proposal):** The standard mechanism where the public partner initiates the project and selects the investor through a competitive bidding process.

2. **Unsolicited Proposal (Private Initiative):** A market-led mechanism where a private investor submits a proposal to the public partner. This follows a procedure similar to a **«Swiss Challenge»**:

o **Evaluation (Pre-qualification):** The public partner evaluates the proposal.

▪ *For PPPs (224-FZ):* a mandatory **Efficiency Evaluation** is conducted. For projects with a value exceeding **3 billion RUB**, the state development corporation **VEB.RF** must conduct a mandatory assessment of the **justification of risk allocation**. For subsidized regions, a positive conclusion from VEB.RF is a strict prerequisite for launching the project.

▪ *For Concessions (115-FZ):* currently, no formal comparative advantage test is required. However, draft legislation plans to extend the **mandatory VEB.RF risk assessment** to concession agreements exceeding **3 billion RUB** in value.

o **Market Test (45-Day Rule):** If approved, the proposal is published online.

o **No Competition:** If no other investors express interest within **45 days**, the agreement is concluded directly with the initiator **without a tender**.

o **Competition:** If competing bids are received, the process transitions to a standard competitive tender (where the initiator participates on equal terms).

3. **Direct Decree (Strategic Projects - Concessions Only):** Under the **Concessions Act**, an agreement may be concluded **without a tender** by a direct resolution of the Russian Government. This «exclusive track» is increasingly replacing standard tenders for strategic infrastructure and can be implemented in two forms:

o **Specific Investor (Direct Appointment):** The Government issues a resolution instructing the public partner to conclude the agreement with a specific, named private investor.

▪ **Sector Trends:** *This* method is dominant in the **Transport** sector (High-Speed Rail, Regional Airports, Ports) and the **Defense/Security** sector (Military Logistics, IT Systems).

▪ **Examples:** *Moscow–St. Petersburg High-Speed Railway (VSM), Gorno-Altaysk Airport, Lavna Coal Terminal, Platon toll system.*

o **Approved List (Programmatic Approach):** The Government issues a list of potential concessionaires with whom public partners (often regions) are authorized to conclude agreements without tenders. This «conveyor belt» approach is used to scale federal programs rapidly.

▪ **Sector Trends:** This method is standard for mass **Social Infrastructure** projects.

▪ **Examples:** The «ProShkola» program (Schools), the creation of world-class University Campuses, and the «Circular Economy» waste management program.

1.7. Land Allocation: How is the project site provided?

Generally, obtaining rights to public land in Russia requires a separate public auction. However, the PPP and Concession frameworks provide a **critical exemption:**

- **Direct Allocation:** The private partner is granted the land plot required for the project **without a separate tender**. The conclusion of the PPP or Concession agreement serves as the sole legal basis for the land grant.

- **Lease Agreement:** This is formalized through a separate Land Lease Agreement entered into with the public partner.

- **Term & Subordination:** The lease is strictly **subordinated** to the main project agreement. Its term cannot exceed the duration of the PPP/ Concession agreement, and if the main agreement is terminated, the land lease terminates automatically.

Note: This «one-window» approach for land allocation is a major advantage of the PPP regime compared to general investment projects.

1.8. How is a PPP project financed?

In Russian PPPs, project costs are shared between the public and private partners through a payment mechanism specified in the agreement.

The private partner is responsible for securing the necessary financing, typically achieved through a combination of **equity investment** from shareholders and **debt financing** from banks.

To ensure bankability, the public partner may provide financial contributions. In practice, these forms of support are often combined (e.g., a Capital Grant plus a Revenue Guarantee). The typical instruments include:

1.8.1. Capital Grant (Construction Grant).

Direct funding provided by the public partner during the construction phase. By law, this grant cannot **exceed 80%** of the project's **creation or reconstruction costs.**

- **Eligible Costs:** While the statutory term is «creation costs,» in practice (supported by court rulings), this includes not only construction works but also design, utility connections, and interest during construction (similar to **CAPEX**).

- **VAT Structuring (Mezzanine Finance):** Investors typically **exclude VAT** from the capital grant calculation to retain the right to reclaim VAT from budget. Instead, the VAT component is often funded through a separate **mezzanine loan** facility. Because this VAT is recoverable, such loans have a faster turnover and, unlike senior project debt, usually do not require a direct agreement between the lenders and the public partner.

1.8.2. Availability Payment (Public Partner's Payment).

Regular payments made by the public partner to the private partner during the operational phase to reimburse capital and operational costs (including maintenance). Generally, these are funded from the state or regional budget.

- **New Pilot Mechanism (Aerodrome Fee):** Starting from **1 March 2026**, the public partner may fund availability payment using a special aerodrome fee collected from airlines. This is currently a **pilot mechanism** specific to aviation; however, if the experience proves positive, authorities may consider extending similar specific-fee models to other industries.

1.8.3. Minimum Revenue Support (MRS).

This mechanism applies to projects that generate revenue from end-users (traffic risk). If actual revenue falls below a contractually agreed level, the public partner provides a **shortfall payment** to ensure the private partner receives the minimum guaranteed income.

1.9. Current Market Challenges and Macroeconomic Factors

While the legal framework for PPPs in Russia is robust, the current environment presents significant economic and legal hurdles for investors.

1.9.1. High Cost of Debt and the «Efficiency Trap»: with the key rate in 2025 remained high (average approx. 19.2%), the cost of private debt significantly increases project budgets.

- **The Trap:** Analytics show that when the cost of financing exceeds ~18%, the **comparative advantage** of a Concession over direct State Procurement (financed via federal bonds) often disappears. This makes authorities reluctant to approve new PPPs unless they utilize specific subsidized instruments (e.g., **VEB.RF's Project Finance Factory or DOM.RF's Infrastructure Bonds**).

1.9.2. New Legal Risk: Proof of Financing («Comfort Letters»): A growing judicial trend involves courts declaring concession agreements void because the private partner's proof of financing (typically a non-binding «Comfort Letter» from a bank) is deemed insufficient.

- **Impact:** Courts increasingly demand legally binding commitments from lenders at the bidding stage. Since banks are rarely willing to issue binding credit agreements before a concession is signed, this creates a significant «entry barrier» and legal risk for investors.

1.9.3. Enhanced Bureaucratic Scrutiny (VEB.RF Verification): For large projects (exceeding 3 billion RUB) that require federal funding or are located in subsidized regions, the procedure has become stricter.

o **Mandatory Assessment:** The state development corporation **VEB.RF** must now provide a mandatory assessment of the project's **risk allocation**. A negative opinion from VEB.RF regarding the fairness of risk distribution can block the project's launch.

1.9.4. Tightening Budget Discipline: regional governments are under strict scrutiny regarding budget deficits.

o **Strategic Prioritization:** A key trend is the shift of public funds away from smaller regional projects toward large-scale infrastructure deemed vital for **technological sovereignty** (e.g., Data Centers, UAV infrastructure, High-Speed Rail).

o **Result:** Obtaining «Minimum Revenue Support» or «Availability Payments» from federal or regional budgets is becoming increasingly difficult.

1.10. How are risks typically allocated (and regulated)?

While Russian law establishes a general principle of «fair risk distribution,» for large-scale projects, this distribution is becoming increasingly regulated.

- **For PPPs (224-FZ):** If the project value exceeds **3 billion RUB**, the allocation of risks is subject to **mandatory verification by VEB.RF**. The state corporation assesses whether the transfer of specific risks to the Public Partner is **justified** and corresponds to market standards.

- **For Concessions (115-FZ):** Currently, risk allocation is a matter of commercial negotiation between the parties. However, draft legislation is under consideration to extend the mandatory VEB.RF verification mechanism to concession agreements in the future.

Typically, risks are allocated as follows:

1.10.1. Private Partner Risks. The private partner generally bears risks associated with the «commercial and technical» success of the project:

- **Construction Risk:** Cost overruns (unless caused by inflation beyond a certain cap) and delays in commissioning.

- **Operational Risk:** Failure to meet key performance indicators (KPIs) or quality standards, which leads to deductions from the *Availability Payment*.

- **Financing Risk:** The risk of failing to achieve Financial Close.

Note on Legal Practice: Courts are increasingly strictly interpreting proof of financing. Non-binding «Comfort Letters» from banks are frequently deemed insufficient to prove financial capacity, creating a risk that the agreement could be declared void if binding credit limits are not secured early.

1.10.2. Public Partner Risks. The public partner retains risks that the private sector cannot manage or insure:

- **Political & Legal Risks:** changes in legislation (*Change in Law*), expropriation, or unjustified interference by authorities.

- **Land & Planning:** delays in providing land plots or obtaining initial town-planning permits.

- **Demand Risk (Partial):** While the state prefers to transfer demand risk (e.g., traffic volume) to the private partner, in the current high-rate environment, investors often require **Minimum Revenue Support** to make the project bankable.

1.10.3. Special Circumstances (Compensation Events / «Quasi-MRS»). This is a specific legal mechanism (unique to Russian law: Osobye obstoyatelstva) used to manage «grey area» risks.

- **Definition:** a pre-agreed, exhaustive list of events beyond the private partner's control (e.g., protests, utility failures, discovery of archaeological artifacts, epidemics, or failure of the state to build connecting infrastructure).

- **«Quasi-MRS» Role:** in practice, this mechanism is often referred to as **«Quasi-MRS.»** Investors strive to draft the list of Special Circumstances broadly to include events that negatively affect demand (e.g., «material decrease in traffic due to external factors»). If such an event occurs, it triggers financial compensation, effectively acting as a hidden revenue guarantee.

- **Consequence:** The occurrence of a Special Circumstance obliges the public partner to compensate the private partner for additional costs incurred and lost revenue, as well as to extend the project deadlines.

1.10.4. Macroeconomic Risk (Inflation & Key Rate). This is currently the most contentious area.

- **Inflation:** Usually shared. CAPEX is often indexed, but within limits.

- **Key Rate Risk:** Due to the high volatility of the Central Bank Key Rate (in range from 16.5 to 21% in year 2025), investors seek mechanisms where the Public Partner compensates for increases in the debt service cost. However, the Ministry of Finance scrutinizes these clauses heavily to prevent open-ended budget liabilities.

1.11. Investment Incentives: What benefits are available for private partners?

Beyond the core commercial structure, Russian legislation provides specific incentives to improve the financial viability of PPPs and Concessions:

1.11.1. Stabilization Clause («Grandfather Clause»)

Both the PPP Act and Concessions Act contain a statutory guarantee protecting the private partner against adverse changes in legislation.

- **Protection:** If federal or regional laws change in a way that increases the investor's costs or reduces their revenue, the public partner is obliged to compensate for these losses or amend the agreement to restore the original financial balance.

1.11.2. Tax Incentives

Regional governments often grant specific tax breaks to concessionaires and private partners, which typically include:

- **Corporate Property Tax:** Exemption or reduced rate for the newly created infrastructure.

- **Land Tax:** Reduced rates or exemptions for the project site.

- **Regional Corporate Income Tax:** A reduced rate on the regional portion of the profit tax (though availability depends on the specific region's law).

1.11.3. Infrastructure Reimbursement (SZPK)

For large-scale projects (from 200 million RUB), investors can conclude an **Agreement on the Protection and Promotion of Capital Investments (SZPK/NWPC)**.

- **The «Stabilization Shield»:** The stabilization regime under SZPK is generally considered **stronger and more comprehensive** than the standard grandfather clause found in the PPP and Concessions Acts. It guarantees the stability of not only tax conditions but also land use, urban planning, and customs regulations for a period of up to 20 years.

- **Reimbursement Mechanism:** The investor can be reimbursed for the costs of building enabling infrastructure (roads, grids) through a **tax deduction** mechanism.

- **Strategic Application:** Since reimbursement is achieved by deducting costs from taxes paid, SZPK «shines» in projects with a **high tax burden**.

- *Best Fit:* **Industrial PPPs, Toll Roads,** and commercial infrastructure where the project generates significant taxable revenue.

- *Less Effective:* **Social Infrastructure** projects funded by Availability Payments (which usually generate minimal taxable profit), as the investor may lack the sufficient tax base to utilize the deduction.