

IMPLEMENTATION OF PPP MODELS INTO UKRAINIAN ROAD DEVELOPMENT

A. Novikova,

State Road Institute, Ministry of Transport and Communications, Ukraine

anovikova@insat.org.ua

ABSTRACT

Article is devoted to international transport corridors in Ukraine. Problem of new motorway building can be decided thanks concession models, such as public private partnership. Such model has some difficult aspects of implementation.

Ukraine has now stabilized economical growth 6-7% GDP. Macro-economic reforms, initiated during the mid-nineties, started to bear fruit and resulted in continuous and substantial GDP and transport growth. The country benefits of its sixth consecutive year of economic growth starting from year 2000. The forecasted annual economic growth rate presently ranges around 5%.

Ukraine's transport system, inherited from former Soviet Union, still includes infrastructures, equipment and requirements which are not always up to EU standards. Recent developments show that significant gaps exist. Interoperability in transport at all levels will be an absolute necessity for Ukraine. Its integration in Pan European transport network is possible on condition of passing ahead transport corridors, first of all, motorways. Historically railways dominated in our country, but now road transport develops more dynamically and it needs new motorways.

Ukraine has large transit potential thanks it geographic position: 200 mln tons trade flows from Russia come to Europe through Ukraine. 3 Pan European transport corridors No 3,5,7,9 exit at Ukrainian territory (Figure 1.):

No3 (Germany- Poland- Ukraine) At Ukrainian territory: Krakivets – Lviv – Rivne – Zhytomyr - Kyiv

No5 (Italy – former Yugoslavia – Hungary – Ukraine) At Ukrainian territory: Lviv – Uzhgorod

No7 River Danube

No 9 (Finland – Russia – Belorussia – Ukraine – Moldova – Romania – Bulgaria – Greece) At Ukrainian territory: Novi Jarylovici - Chernigiv – Kyiv – Odessa/ Kuchurgan.

High level group of European Comission defines new axes into Europe. Highway missing links are through Ukraine:

Poland border – Liuboml – Kowel – Sarny – Korosten – Kyiv;

Kyiv – Kharkiv – Donetsk –Luhansk – Russian border;

Poland border – Lviv – Vinnytsia – Uman – Kirovograd – Dnipropetrovsk – Donetsk – Luhansk – Russian border.

River Dnipro.

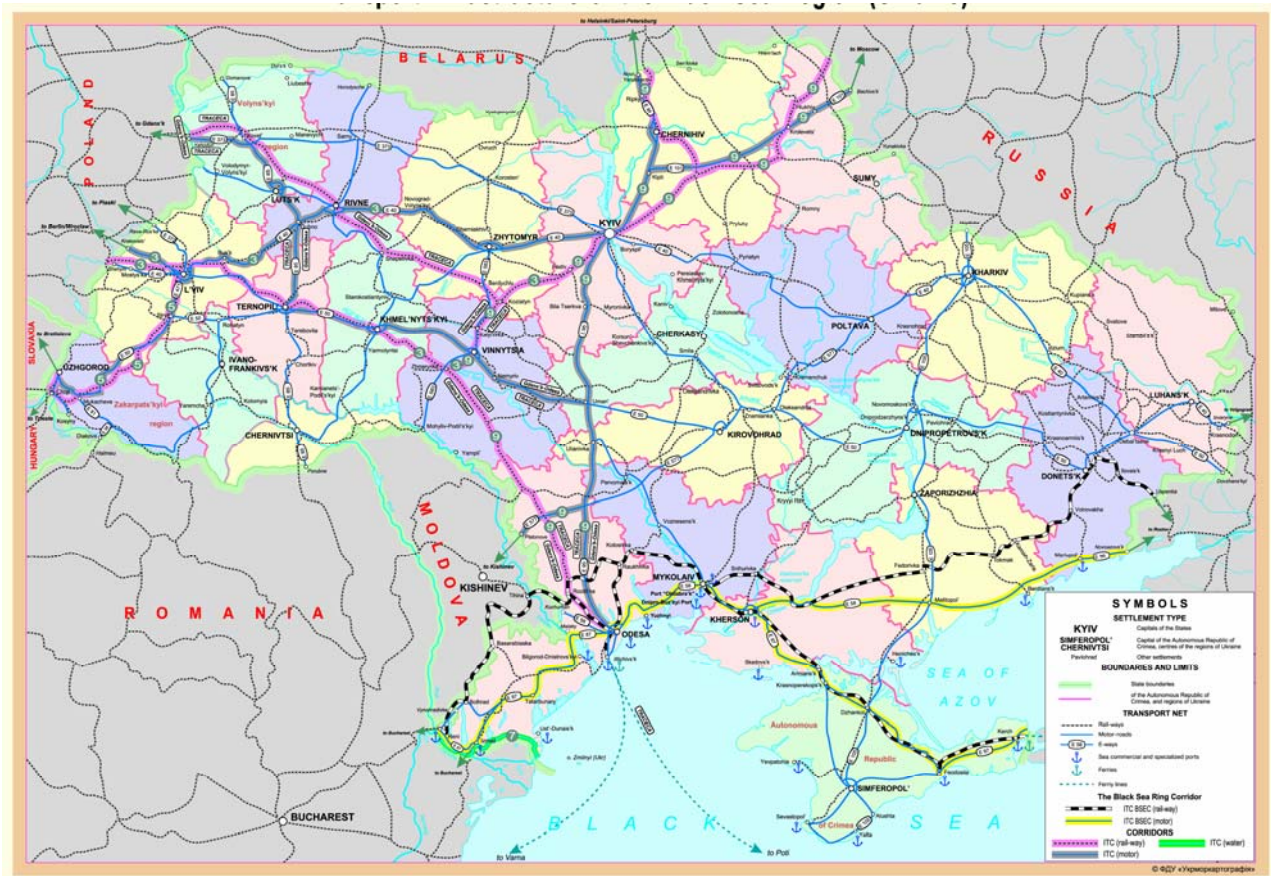


Figure1 - International Transport Corridors (Ukraine)

In order to realize these projects, Program of International Transport Corridors Development till 2010 was adopted by Ukrainian government in 2006. It was founded by the author. The main point of view is directed at motorways building. New motorways are planned to build till 2010: Lviv – Krakivets – 84.4 km; Lviv – Brody 78.8 km; Kyiv– Vinnytsia – 146 km. Reconstruction is planned to be held at roads Kyiv - Kharkov – Dovgansciy (Russian border); Kovel – Jagodin (Poland border). Overhaul repair is planned on roads Kyiv- Odessa; Kyiv – Chop (Hungarian border), Kyiv - Zhytomyr – Brodu – Stryi; Kipy - Gluhiv – Buchivsk (Russian border) .

Ukraine needs large investments for road development, first of all - for motorways. In 2006 sum of 2.6 billion euro has been invested into development of transport and communication infrastructure, that is almost 30% more than in previous year. In 2007 Road Fund is 1.2 bln euro.

However, realization of infrastructural projects is carried out mainly due to the personal funds of enterprises (57%), credits of banks under the guarantees of Government (30%) and state and local budgets (7 %). The share of foreign direct investments and of private capital is extremely insignificant - 5%

Therefore for providing of passing ahead development of transport infrastructure it is necessary to carry out the range of measures bringing private capital in subject to the conditions of leasing, concession, public private partnership.

Yet in 1999 concession agreements on building of roads Lviv - Krakivets, and in 2002 - Lviv – Brody were made. However concession building is not actually conducted due to imperfection of existing laws. Urgent measures to be taken are the improvement of legislation on questions of leasing, concession, acceptance of the Law „On public private partnership”, that will allow to carry out successfully building on the concession terms of

highways Brody– Rivne, Kyiv - Kharkov – Dovgansciy, Kyiv– Vinnytsia, Novomoscowsk – Melitopol – Simpferopol, Odessa – Reni, large circumferential road around Kyiv.

It is necessary to provide passing ahead development of highways. It will give the possibility to realize transit potential of Ukraine and high-quality transport connection between Europe and Asia. Ukraine will get high-quality highways and European Union – marketability new investment projects.

Ministry of Transport and Communication of Ukraine consistently conducts investment policy realizing the concession projects of highway building and exploitation. To mobilize concession activity in 2005 legal examination of concluded concession treaties was begun with the purpose of legislative-normative base improvement and development of public private partnership model.

Current Laws of Ukraine “On concessions” and “On concessions in building and exploitation of highways” are not efficient instruments in attraction of investments. The main reasons for that are:

- ✓ absence of state guarantees concerning coverage of investor risks in the case of no achievement of project intensity of motion on a requiring payment road;
- ✓ large terms of recoument of concession projects, that does not allow to forecast return on investments;
- ✓ absence of possibility to implement other models of compensation of investments, except for the penalty of direct fare.

To create favorable environment for investments attraction to the realization of infrastructural projects, above all things, in alteration of highways on principles of public private partnership (PPP) it is needed to develop and carry out the range of measures. These measures refer to the improvement of current concession law, development of new normative-legal acts on the question of PPP principles implementation, as well as development of investment suggestions on concrete infrastructural projects.

EBRR supported such approach by means of grant selection and bringing legal consultants for conduction of current concession legislation analysis in Ukraine and its concordance to international legal practice in this sphere.

The main aim of improvement of current law is to touch the settlement of such basic questions:

- State guarantees concerning participation in projects
- Distribution of risks between the state and private investors.

And, above all things, in these normative-legal acts should be laid out the procedure of holding competitions clear, transparent and clear for investors (tenders).

The analysis of the proper legislation introduction in the European countries shows that the preparation of legislative acts concerning the implementation of public private partnership principles needs to be supported by the detailed work of proceeding and weighting the optimally balanced interests and risks, which depend on both sides the states and investors, that can become the mortgage of successful realization of projects.

The basic problems related to PPP introduction are:

- Absence of investment projects study. 95% of offered projects are majorly political, which results in lobbying of interests by certain political structures.
- Absence of stable political will. Attitude towards PPP changes in conduction with the government changes causes absence of permanent support from the state authorities.
- Absence of adequate legislative base.

Consequently, the presence of political will and adequate legislative-normative base are those terms, which are necessary for the effective realization of investment projects in each country. Now the legislation on PPP is created in Ukraine.