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Public-private partnership in renewing region infrastructure: foreign experience and investments.

Государственно-частное партнерство в обновлении инфраструктуры региона: зарубежный опыт и инвестиции.

Державно-приватне партнерство в оновленні інфраструктури регіону: зарубіжний досвід та інвестиції.

Summary: The article is devoted to theoretical foundations, characteristics, analysis, formation of public-private partnership, learning foreign experience of successful examples of investment in different types of infrastructure, and the opportunity of implementing PPP in sphere of particular region.

Key words: Public-private partnership, regional infrastructure, cooperation, partnership programs.

Public-private partnership today is very important for effective market economy development; it attracts private sector resources to finance infrastructure projects with the state participation, providing public services. Public-private partnership primarily is used as a tool for development and investment in various types of infrastructure.

It is of a great importance for further social and economic development of Ukraine to use private capital with support of government in renewing region

infrastructure. Experience of USA and European countries shows excellent examples of effective cooperation between private capital and the state. Ukraine has to take into account global economic trends, the ability of critical foreign borrowing mechanisms, tools and technology to achieve public policy objectives.

Published research on this Topic: Public-private partnership: analysis of world experience and implementation in Ukraine (Pavlova A.); State administration and social partnership (Didenko N.); Public-private partnership as instrument of Ukraine economic governance, labor market and labor potential of industry development (Naumov D.); Partnership between state and private sector (Varnavskiy V.), Vakulenko V., Berdanova O., Sych N., Tkachuk A. Foreign publications and scientists: William D. Eggers, Saad Rafi, Ben Sorensen "Partnering to renew public infrastructure", Peter Samuel, Marian Leonardo Lawson.

Theoretical and practical problems of formation, investment support and development of public-private partnership on regional level are still aside scientists and research subjects.

The aim of the article is to analyze foreign experience of public-private partnership and to show the possibility of implementation it in region infrastructure.

The importance of using an effective mechanism of public-private partnership in creating infrastructure are evident, - roads, airports, public transit, sewage and water infrastructure, electrical utilities, schools, bridges, civic arenas, hospitals and a whole host of other critical components of modern day in Ukraine need renewing, placing great demands on government regulation in all levels.

But, first and foremost, it is very important to create an environment to realize whole potential, that is to stimulate private sector involvement, ensure necessary procedural, legal, and policy elements.

Also it is of a great importance of the state to attract foreign investment in Ukraine. It should be oriented on improving innovation and investing climate of the country in all levels of cooperation and includes: legal regulation of business,

industry attractiveness in forming partnership structures, public policy in developing large enterprises and their associations, infrastructure support of innovations, etc.

Realization of state policy in supporting the potential of international partnership in Ukraine must be coordinated on national, regional and local levels of governance. International investors pay a great attention to economical, political and social surroundings of the country in order to avoid potential risks.

Practice of modern cooperation with foreign partners show the existing of some political, regulation, legislation, organization and even psychological and social barriers in creating partnerships in all levels of governance.

Particular attention should be paid to legal support. It should create favorable conditions for business cooperation, government and science.

That is why it is very important to carry out the deregulation reform that will reduce time and financial costs on company's registration.

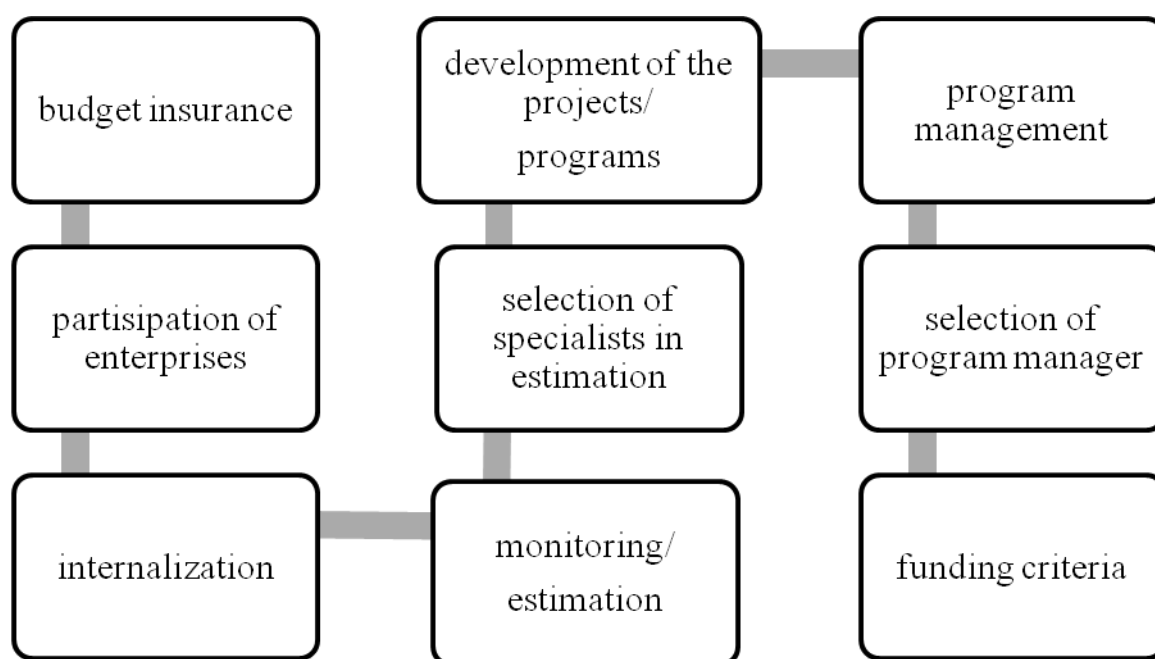
Special attention must be paid to regulation bases of public-private partnerships of national economy. It should be noticed that different forms of private-public partnerships in research and development spheres were created in order to encourage technological development of enterprises on the national level in many countries of EU, USA and Canada. Public-private partnerships have many advantages for infrastructure: helps attract additional resources and technology, prevents corruption, optimize risks. Public-private partnerships are widely used in Europe to create infrastructure. In Portugal, for example, regional airports and roads were constructed, in Finland - central roads were built, in France - speed highways were created and water infrastructure renewed.

Realization of public-private partnership includes State technological and development programs, State science and innovation programs, National cluster programs in order to accumulate public funds in particular technological spheres (exp.: nanotechnologies and biomaterials) and sectors of economy, depending on national innovation priorities and companies. There are many spin-offs projects in EU and in the world that expand their business area and commercial usage of

innovation activity. However, the implementation of such programs in Europe and Ukraine has considerable differences in budget ensuring, financial criteria, etc.

That is why an effective implementation of public-private partnership programs in Ukraine has to be carried in compliance with certain criteria [see figure 1].

Figure 1. The criteria of PPP programs (projects) implementation



Source: “Innovation in Ukraine” and project Innopolicy

In EU, for example, decisions of projects financing depends on the level of internalization of project proposals whereas in Ukraine science and development programs are rare.

Government policy in this area should be implemented through the application of organization, information and financial support, which includes development of strategic programs, the sources of science funding forming and the optimal level of state ownership definition.

Analysis of international experience in public-private partnership structured the interaction between state and business on three vectors:

1. Functional vector – development of public-private partnership in spheres that affect enterprises access to production factors and markets;

2. Industry vector – public-private partnerships in particular spheres on mixed ownership bases, public and private companies cooperation, sectoral arrangement;

3. Regional-municipal vector – a public-private partnership development of individual local industrial segments, regional labor markets, territorial and municipal infrastructure, etc.

Regional-municipal vector is the best in renewing regions infrastructure of Ukraine.

The partnership of government and business on all levels of cooperation should be based on principles that help to achieve an agreement between them. The basic principles include the following (Basic principles according to UNDP) [2]:

- perspicuity –providing a complete information to investors, concessionaires, stakeholders;
- competitiveness – creating equal conditions to all potential private partners;
- accountability – responsibility of all partners to the public and mutual obligations that set out in contract;
- legitimacy – building partnerships in a permitted form to applicable law and other regulations;
- clarity and predictability – clarity in formulating partnership terms, their performing without significant changes;
- reflect the specificities –taking into account specific needs of particular region (territory, community), industry, social and economic life;
- economical and financial stability – taking into account level of service consumption in partnership and positive consequences on the economy;
- flexibility – ensuring rapid response on changes in environment in which partnership operates;
- equality – ensuring access to services for socially vulnerable population, particularly the poor;

- social inclusion – creating conditions for involvement of various social groups in partnership implementation [4, 9].

Implementation of public–private partnerships involve the drawing up of partnership agreements which include mutual responsibilities, reciprocity of benefit, clearly defined expectations, accountability, certain level of mutual trust and respect, shared understanding of partners’ respective strengths. The development and life cycle of public–private partnerships involve the following steps [6, 7]:

- I. Identification and design of partnership opportunities;
- II. Technical review of partnership proposal, including assessment and choice of partnership participants;
- III. Approval process, including consultation with constituents, legal and financial review;
- IV. Conclusion of partnership agreement;
- V. Implementation of partnership programme/project/activity;
- VI. Regular partnership monitoring and evaluation;
- VII. Impact assessment;
- VIII. Reporting of partnership activities [7].

Taking into account benefits and perspectives of public private partnership in renewing regional infrastructure, we offer a general depiction of private-public partnership project in creating tourist territory in Ternopil region [see table 1].

Table 1.

A general depiction of private-public partnership project in creating tourism territory in Ternopil region

Characteristic of the project	Description of the characteristic
Sphere	Tourism
Partnership model	Potentially possible models: <ul style="list-style-type: none"> - Operator model – clear division of responsibilities between public and private sectors, customer

	<p>(state) control, private funding, public - ownership of private partnership object, private management project;</p> <ul style="list-style-type: none"> - Cooperation model – project is implemented by joint company between public and private partner funding, the ownership and management are carried out together in determined proportions (set in the contract); - Model of concession – construction, reconstruction performing, rental property, state and private financing, rental property would remain in state ownership, profits should cover spending, project management is on a parity state and business basis.
Project participants	<p>State Partner – regional authorities; private partner – enterprises, which made a design, financing, construction of necessary facilities and project management; consortium; creditors – banks, investment funds and others; design companies.</p>
General description	<p>Regional authorities signed an agreement on cooperation bases with private investors in renewing touristic infrastructure, construction of a modern resort, modern engineering, social and cultural infrastructure and others.</p>

	<p>Private companies and regional authorities are involved in income. Design, financing, construction, operation contracts are conducted for 5-7 years. A private company must take part in the competition.</p>
Risks allocation	<p>Risk distribution is based on market standards that help to minimize time costs and legal counsel costs. State accepts all risks in permitting documents for land and others. Contractual obligations and associated risks are taken by Regional authorities. Risks are taken by participants, which have greater degree of control.</p>
Main advantages of the project	<p>An example of an effective use and implementation of commercial interest provides both economic and environmental benefits for society. Public sector benefits: private sector would have modern technology, knowledge, methods of effective management. Socio, economic, tourism and environmental benefits: domestic and foreign tourism development: ecological, historical renewing; creating jobs, building roads; additional income in state and local budgets; development of tourism programs would become an additional source of income in the</p>

	region. Advantage for business: profit, risks sharing, strong political support (assistance of government and Ministry of Culture of Ukraine, Ministry of Economic Development and Trade of Ukraine).
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Thus, the use of PPP mechanisms is one of the key areas of regional potential development, allowing more efficient use of budget funds and assets of the region. Special attention should be paid to increasing informational awareness of the PPP, which will improve the dialogue and cooperation between the public and private sectors at the national and local levels.

It is evident that this type of partnership will surely contribute to companies and state closer cooperation, potential threats and risks minimizing, attract additional resources and technology, prevent corruption, help new ideas generating, as well as their effective using in renewing region infrastructure.

That is why we have to implement this practice in Ukraine. Political and economical changes can open new spheres of cooperation, one of which is public-private partnership.

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