

SOME DEBATING POINTS OF INVESTMENT PROMOTION IN THE FORM OF PUBLIC-PRIVATE PARTNERSHIP

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Introduction. The maintenance of transport facilities as well as their development are usually capital-intensive and produce low return. Consequently, the main source of funding for the industry is the state budget. Experience of many countries, including Belarus, shows instability of cash flows from the budget for the development of the transportation sector. Such scholars as Paul A. Sorensen and Brian D. Taylor, David L. Gunn, George M. Guess, Marcus Enoch, Stephen Potter and Stephen Ison, S. A. Bystrov, A. O. Ivanova and others point out that traditional funding sources (taxes, state subsidies and service fees) do not cover the necessary costs. As a result the construction of new facilities is either frozen or delayed. Direct investment in this sector is difficult, because such projects are marginally profitable. One way to raise additional funds is collaboration between the public and the private sector in the provision of public services. It is a public-private partnership (PPP).

Public and private sectors have different objectives for collaboration. Local authorities/ relevant government departments are driven by the following reasons:

- creation / maintenance of transport facilities (within PPP it means attracting of funds and the investor's effective management)
- raising of living standards, economic development and preservation of the ecological health of the region (i.e. the protection of public interests in collaboration with private partners).

The purpose of a private partner is to make a profit. With the implementation of public-private partnership the amount of net profit obtained from the projects is not large. Therefore, a partner wants to get from the state other benefits or guarantees the use of which will bring him income. Different aims of the partners explain disagreements typical for this kind of cooperation. In this context information on possible options for building a dialogue between partners and about disagreements that may arise between the private and public sectors becomes relevant.

The outstanding issues in PPP area. Long experience with PPPs in various countries helps to reveal the main disagreements between the partners and various scenarios to overcome them. Means of their settlement and development of consensus between the partners depend on the features of economic policy of the state and application area of PPP.

Domestic and foreign officials, business representatives and researchers believe that the adoption of legislation on PPP will strengthen the position of investors and protect the public interests. However opinions differed: whether a single general law can be accepted (like in Japan, Poland) or appropriate amendments to existing legislation should be taken, as in Canada. If the law "On public-private partnership" is adopted, the partners will get an available guide to action, which will contain the basic principles, goals and objectives of the partnership, as well as information on the procedure for legal registration of the agreement. Along with that, this situation implies certain limitations for the development of mechanisms, forms, tools and institutions of the PPP and a duplication of a number of existing legislative acts. At the same time, it arises some contradictions with the existing legislation. In the second case, the peculiarities and mechanisms of functioning of the PPP will be outlined on the basis of the principles developed by the state economic policy. Amendments of a number of regulations, such as the Investment Code, the Tax Code, etc., will enable the partners to exercise their initiative.

Geoffrey S. Yarema, Michael J. Garvin, S. A. Bystrov, and other researchers, officials from various departments and local authorities demand to include the PPP project in the development plans of the region or economic sector. The basic principles of this form of investment (i.e. entrepreneurship and effective management) are suppressed in some sense. Unwillingness to consider the project not included in the plan deprives the region of a path of development which perhaps will be more effective.

In many cases it is not clear which public authorities shall be responsible for bidding, contracting with a private partner and further support of the project. The authors of numerous articles (e.g., A. O. Ivanova, E. N. Vetrov, V. U. Soldatenkov, etc.) highlight the absence of the qualified specialists in this field. Little experience or absence of any experience in the sphere of such partnership in some countries account for a

poor project management by the state, which complicates and interferes with the development of the project and its implementation. “Creation of a special coordinating agency embracing employees from different departments” [1, p. 342] or “a well considered procedure of interaction between local authorities and state offices are required to facilitate an effective collaboration of partners” [2, p. 5].

The mechanism of the selection of a PPP project is still hotly debated among scholars, government and business. Every party puts forward its point of view. On the one hand, rigid demands of the public guarantee an expected outcome of the partnership. But on the other hand, rigid demands to the development and implementation of the project reduce effectiveness of the management and initiative of the private partners. Moreover, governments tend to develop low-cost projects but afterwards such projects require high operating and maintenance expenses. Projects developed by private partners will bring a stable calculated income. It implies a return on investments. “Private partners emphasize not the facility's low rates in the tender, but its efficiency and lower cost over its useful life” [3, p. 29].

The assessment methodology of the project also remains controversial (L.V. Davydova, I.V. Ilin; E. I. Krylov, V. M. Vlasova, D. V. Chufenev). At present various analytical and auditing agencies offer some of their techniques, which are their intellectual property. However is it appropriate to use the data of private agencies in public decision-making. The most common are the following methods: PSC¹, VfM², feasibility analysis, the expected rate of return and manageability of the project [4, p. 11]. Some Russian researchers propose their own developments. Absence of quality assessment standards for projects or a single system of recommendations can distort the data, required to make management decisions; contribute to bureaucratization and inefficiency of this form of cooperation.

Several countries (Canada, Japan, India, etc.) have experience of creating PPP agencies, but still there are no answers to the following questions:

- degree of the agency's dependence on the government;
- availability of a list of necessary and sufficient set of services provided by the agency;
- identification of the government authority that is responsible to monitor the effectiveness of the agency;
- methods to assess the effectiveness of the agency and control its activities;
- types and volume of the agency's responsibilities related to development and implementation of the project.

One of the problematic aspects of the PPP is the allocation of responsibilities and risks. There are methodologies for assessment and distribution of risks, reflection of the parties' responsibilities under the agreement. On the one part, the state giving a socially important facility to a private partner with a number of other benefits which increase the attractiveness of the facility for a private investor has to bear social, economic and environmental risks that can have negative consequences for the region. On the other part, in some cases a private partner may face with a failure of the state to comply with the provisions of the agreement [5, p. 151]. As a result of natural succession of the authorities, a partner from the state's side may be reluctant to take commitments of his predecessors. Public institutions can directly or indirectly regulate the public-private relationships beyond provisions of the agreement [6, p. 1383], or refuse to comply with terms of the agreement (especially with regard to reimbursement of losses or taking on some risk) [7]. Subsequently, the private partner remains not protected.

PPP in the Republic of Belarus. Factors for the effective development of public-private partnership, according to analytical IMF data collected by using the World Bank's database about private sector participation in infrastructure [8], are:

- budget deficit or heavy national debt,
- stable macroeconomic environment and liberalization of investment;
- great market demand for the services provided by public-private partnership,
- political stability of the state,
- institutions and laws protecting the rights of investors.

1PSC – public sector comparator. Garvin, M. J. International practices in public-private partnerships: Synthesis and discussion / Michael J. Garvin // Transportation Research News. – 2001. – Number 274, May-June. – p. 11

2VfM – a value- for- money analysis. Garvin, M. J. International practices in public-private partnerships: Synthesis and discussion / Michael J. Garvin // Transportation Research News. – 2001. – Number 274, May-June. – p. 11

The Republic of Belarus matches a number of criteria [9], i.e. it has a favorable climate for the implementation of PPPs. Emerging economy of Belarus is in constant search of new forms of management. Effective implementation of public–private partnership in Western Europe, North America, Asia, in different social spheres for a sufficiently long period of time induced the state institutions to consider such forms of cooperation on the territory of the Republic of Belarus. Moreover the neighboring countries (Russia and Poland) as well as Kazakhstan, a partner in the Customs Union, have already applied such relationships.

The Republic of Belarus is situated at the crossroads of major transport routes linking the states of Western Europe with East, the Black Sea regions with the countries of the Baltic Sea. There are two trans–European transport corridors on the territory of Belarus:

- No. 2 – West–East direction (Berlin –Warsaw –Brest –Minsk –Moscow –Nizhniy Novgorod);
- No. 9 – North–South direction (Helsinki – Saint–Petersburg – Vitebsk –Mogilev – Gomel –Kiev –Kishinev –Bucharest –Dmitrovgrad –Aleksandrupolis .

The strategy of Belarus in the transit area is aimed at creating favorable conditions and more efficient use of transit and transport capacity in the country and on the international arena.

The state program "Roads of Belarus" for 2006–2015 includes a number of activities which aimed at creating conditions for development of national economy, security enforcement and defense capacity, implementation of state social policy and further enhance of business activity of the population. The financial structure of the program shows the fact that 94.2% of funds are state budget funds. Analytical data of the program fulfillment indicate that amount of funding of the road needs decreases each year. The decrease in funding reduces the amount of performed work. For example, "according to the program it is planned to repair 868.3 kilometers of roads, to perform overhaul of 104.4 kilometers of roads and reconstruct 90 kilometers of roads in Minsk region. In reality, the anticipated volume of works will amount to 14%, 12.2% and 2.5% respectively of the scheduled numbers" [10]. Moreover, "the Committee of State Control revealed numerous cases of unjustified overstatement of the volume and value of work performed, poor repair and maintenance of highways. Efforts aimed at reduction of production costs and improvement of operational performance of highways through the introduction of modern materials and technologies are insufficient" [11].

Thus, the economic attractiveness of the Republic of Belarus, including its transport sector for investors and the need to attract funding in the economy, particularly in the sphere of transportation, as well as effective management at the facilities pose a prerequisite for effective application of such form of investment as public–private partnership in the Republic of Belarus. Stable loyal policy including the sphere of entrepreneurial development and investment turns out to be very helpful. It can be proved by a number of legislative acts aimed at simplification of business and encouragement of investments, as well by the draft law "On PPP". However, there are some reasons why investors are concerned to invest in Belarusian objects within PPP. The main obstacles are the lack of a clear mechanism for cooperation in the framework of public–private partnership and existing political risks.

It is believed that the statement of the law "On PPP" must remove most of the doubts. However, a significant number of aspects of law and lack of experienced specialists in the sphere of public–private partnership will postpone the development of the law for at least one year. This postponement will attract the investors' attention to various objects in other countries, which will deprive the Belarusian projects of necessary funds and slow the pace of infrastructure development. Therefore, organization of work in two directions can be a sort of a compromise: the launch of pilot projects under existing legislation; and the continuation of work on the study of international experience of PPP implementation and on the development of own legislation on the basis of best practices.

In practice it is necessary to entrust the responsibility to some authority, that will act as a representative of the state at the moment of conclusion of contracts on public–private partnership, will monitor and collect information about the project, identify possible obstacles and resolve them in private capacity with relevant departments. Employees who supervise projects should be grouped with a possibility of remote or direct co–operation. Theoretical study of experience in public–private partnership is organized in the Republic of Belarus on a high level. It only needs to be in alignment with the results of pilot projects. Thus, it will be the next step in overcoming political risks and attracting investment to the Belarusian economy.

Unsolved problems in the application of PPP in transportation. The sphere of transportation services is historically the most common for the implementation of PPP. There are a number of successful examples of PPPs in this sector in many countries. Investigations of such scientists as Marcus Enoch, Stephen Potter, Stephen Ison, Marlon G. Boarnet, E. A. Ulyanov, M. V. Kuznetsova, L. I. Pisarev and others have shown that the development of regional transport infrastructure implies social and economic changes in the adjacent regions as well. Accessibility to the territories, infrastructure development, change of land value and environmental conditions in the area lead to a certain mobility of people and industrial dispersion. Facilities one of the aims of which is to reduce traffic congestion also positively influence ecological situation in cities.

PPP projects in the sphere of transportation services have their own specific features related to the nature of activities in this area. Thus, some authors (Michael J. Garvin, George M. Guess, Iris N. Ortiz, Jeffrey N. Buxbaum and others) raise the question of regulating the private partners' income derived from user charges. Upon expiration of the agreement between the partners, the facility being transferred must be in working condition. The problem of additional costs associated with the facility due to physical wear and obsolescence is also worth discussing.

Assessment and effective implementation of options related to transport facilities are also discussed in the circles of science and business. Identification of options is mutually beneficial for the partners. Option exercise will be an additional source of income for the investors. If the state reveals the option before transfer of the project to the partner, it can increase the value of upfront payment for the facility. However, the problem is that there are no qualified specialists on both sides being able to identify and evaluate the options.

Conclusion. The European Commission has identified four main areas of impact of PPP on infrastructure [12]:

- to provide additional capital;
- to provide alternative management and implementation skills;
- to provide value added to the consumer and the public at large;
- to provide better identification of needs and optimal use of resources.

Within PPP the government and business are seen as partners that jointly realize the corresponding projects. Each partner has its own rights and responsibilities. However, the motives and goals of partners do not coincide, that is why various difficulties may appear. For effective co-operation it is necessary to predict differences of opinion on certain issues and reflect a compromise in the contract.

There are a great number of prerequisites for implementation of PPP in Belarus. On the one hand, it is the need for investment and effective management in the development of infrastructure. On the other hand, these are economic prospects and attractiveness of the investments. Belarus already has some positive experience of investing in the energy sector and telecommunication. The main obstacle is investors' fears about possibility of political risks during the implementation of a PPP project. At present, the Belarusian authorities are trying to reduce political risks.

One of the areas, where by experience of many countries the PPP has proved its effectiveness, is the sphere of transport communications. However, transport infrastructure projects, as well as projects developed in any other sector of economy, have their own peculiarities. Analysis of the cases of implementation of PPPs in this area represents different options for resolving disagreements between the partners.

Thus, the cooperation of the public and the private sectors under a PPP in the prevailing socio-economic situation is an effective compromise for the implementation of large projects. Individuality of the political, economic and social climate of countries creates some difficulties for development of a universal PPP model. Therefore, generalization of experience and identification of controversial questions and their resolution in specific situations will facilitate the work of partners and ensure performance of agreements and co-operation objectives.

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Summary

The urgent necessity of transport infrastructure development requires significant financial resources for its construction and maintenance. There are no sufficient traditional sources for these purposes. Therefore the use of innovative forms of financing implying obtaining of extra budgetary resources for the transportation sphere becomes more and more popular year after year. Public-private partnership (PPP) has many advantages over other forms of fundraising. Today it is one of the most pressing topics for discussion. But goals of partners are different. However, partnership should be beneficial for both state and private investors. At present the mechanism of PPP becomes more and more relevant for the economy of Belarus. The author of this paper defines the main disagreements between the partners which the Republic of Belarus may face in implementation of transport projects within the PPP.

Key words: financing of transport infrastructure; public-private partnership (PPP); possible disagreements between partners; Republic of Belarus.

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