State Road Administration of Ukraine

Public-Private Partnership: Development of the Road Network in the Ukraine

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Chairman

London, October 25, 2005
Road Network Characteristics of Ukraine

- 72% of freight and 82% of passenger transportation in Ukraine is realized by roads
- Total length of motorways in Ukraine is 170,000 km (16,100 of bridges)

State roads provide 80% of total amount of motor transportation
## Road Network Characteristics of Ukraine

<table>
<thead>
<tr>
<th>Class</th>
<th>Length (km)</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Roads (“Magistrals”)</td>
<td>9,316</td>
<td>5.49%</td>
</tr>
<tr>
<td>Regional Roads</td>
<td>6,891</td>
<td>4.06%</td>
</tr>
<tr>
<td><strong>Total State Roads</strong></td>
<td><strong>16,207</strong></td>
<td><strong>9.55%</strong></td>
</tr>
<tr>
<td>Local Roads</td>
<td>153,532</td>
<td>90.45%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>169,739</strong></td>
<td><strong>100%</strong></td>
</tr>
<tr>
<td>Total Roads with hard surface</td>
<td>164,633</td>
<td>97%</td>
</tr>
</tbody>
</table>
Comparison of financing of the road service in various countries in 2004, thousand USD/1 km of road

- France: 30.4
- Germany: 27.3
- Russia: 12.2
- Byelorussia: 5.4
- Ukraine: 3.1
Annual Ukrainian loses equals to 2,5-3,0 billion UAH due to the failure of use of transit capacity.
Breakdown of the Sources of Ukravtodor's revenues

1. **State budget funds**
   - general fund
   - special fund (excise duty and customs fees on fuel, vehicles and tyres)

2. **Local budget funds** (vehicle owners' tax)

3. **Other funds** (reserve fund of Cabinet of Ministers of Ukraine, subventions, transit charges, permit fees etc.)

4. **Credits** (EBRD, Deutsche Bank etc.)
Breakdown of the Sources of Ukravtodor's revenues


- State budget funds
- Local budget funds
- Other funds
- Credits

Required funds
Existing legislative base on concession

- Concession law of Ukraine
- Law of Ukraine “On the concession for construction and operation of motorways”
- Decree of the President of Ukraine “On the concession for the construction and maintenance of new motorway Lviv-Krakovets”
- 8 governments regulations of Ukraine in respect of the realization of afore said concession laws
Advantages of the PPP DBOF model for Roads & Highways

A long term off-balance sheet financing source

*If the performance risk is assumed by Private Sector - financing is marked off-balance sheet*

Correct risk allocation amongst all parties

*Each party in the project structure contributes what it can do best*

Completion of the highways to both ISO 9001/9002 and Ukrainian standards

*The private sector specialists take the risk that the road is completed to the best specification*

Value for money in terms of both the quality of construction and ongoing service

*The private sector specialists are obliged to build and maintain the road to these high standards*

Conformity to current market practices
PPP Models

Public Private Partnerships

Works & Services Contracts → Management & Maintenance Contracts → Operation & Maintenance Concessions → Build Operate Transfer Concessions → Full Privatization

Low Extent of private sector participation → High
Beginning PPP process in Ukraine

20th of August 2005 – Government of Ukraine established Work Group on dealing with drafting of legislation for the purpose of the National Motorway Network development on the terms of public-private partnership

Members of PPP WG

✓ Representatives of main Ukrainian ministries and authorities
✓ Representatives of foreign concessionaire, contractor and financial institution, including supranational organisations (World Bank, EBRD)
PPP DBOF Models

There are three types of PPP DBOF Model for roads

REAL TOLL

When the road is constructed by the Project Company and directly paid for by the users of the road

SHADOW TOLL

The Government pays the Project Company fees based on the levels of traffic

AVAILABILITY PAYMENT

Where the Government pay the Project Company a “rental” based on the costs

The suitability of each model typically depends on country-by-country specifics
AVAILABILITY  PPP DBOF model for Ukraine

Now the **model of choice** especially in newly emerged and emerging markets
This structure achieves the optimum flexibility and the finest pricing for PPP projects

Between 1990 and 2001 some 16% of the real toll road projects (in terms of value) (mainly Hungary and Mexico) were cancelled
– *because of difficulty in achieving financing or because of over-optimistic forecasts*
Countries including Hungary, Poland and the United Kingdom have had significant problems with Toll Road structures and minimum revenue/traffic guarantees
These and other countries have re-worked Real Toll Roads to the Availability Payment Model
Legal Decisions Planned to Be Adopted for the Investment Projects’ Implementation

To adopt legal decisions by The Cabinet of Ministers of Ukraine till the end of 2005:

- To adopt the resolution of The Cabinet of Ministers of Ukraine “On the rules of determination of unprofitable of concession and giving concessionaires subsidies in case of unreaching planned intensity of traffic”

- To insert amendments to the resolution of The Cabinet of Ministers of Ukraine from 05.11.03 #1731 “On approval of the order of money transferring from special fund of state budget for the financing of development and maintenance of general purpose motorways”, adding the statements on providing of subsidies from special fund of state budget in case of unreaching the planned intensity of traffic

- To insert amendments to the resolution of The Cabinet of Ministers from 04.11.2000 #1521 “On approval of concession tender organisation for the construction and maintenance of motorways
In 2005 the draft of Law “On Public-Private Partnership in the construction of automobile motorways” should be given to Supreme Council of Ukraine for legal settlement:

- state guarantee according on participation in the project
- sharing risks between state and private investors
- mutual obligations on financing, supervising and taking responsibilities for the project implementation
- possibility of expenditures’ reimbursement from the state budget without charging payments for motorways’ usage
- Possibility of use of tax benefits and subsidiaries under the project implementation
Regulative Functions of the State

✓ Taking the decision about inclusion of motorway to the listing of public-private partnership objects

✓ Providing the following undertakings:
  ➢ guarantee on minimal volume of traffic on the motorway, which is the object of public-private partnership
  ➢ guarantee on payments for motorway operational availability
  ➢ guarantee on good technical condition of road crossings
  ➢ guarantee on stable status of land
  ➢ guarantee on providing and sustaining of permissions and licenses
  ➢ guarantee on stable regulative acts
  ➢ guarantee on investors rights
  ➢ guarantee on free conversion of currency and earnings repatriation
  ➢ guarantee on compensation events
Some Cautions for Grantors in Public-Private Partnership Projects

Long payback period of projects, which makes difficult to attract suitable financing from financial organisations

✓ Only economically viable projects should be proposed, which are the projects with highest volumes of traffic and national interest

✓ All contract regulations should be based on the current legislative acts

✓ Financial loan repayment scheme should be based on mixed sources (private and state)

✓ Real-Tolls may decrease volume of traffic
Financing Strategy of Motorways Network Development and Maintenance for 2006-2010

- Attracting private investors’ capital for the construction of new motorways and reconstruction of the existing motorways on the principles of Public-Private Partnership

- Providing financing from the special budget fund (100% of legally approved sources) for development and maintenance of the existing motorways network

- Co-financing projects for reconstruction of motorways with international financial organizations
Expected Results

- Attracting of alternative sources of finance on the base of Public-Private Partnership
- Improvement of technical conditions of motorways
- Integration of Ukrainian motorways to the European transport network
- Additional creation of 100 thousand working places in road and neighborhood industries
- Improvement of use of state budget funds
Motorways Network Development on the Base of Public-Private Partnership Principles

- Projects approved by resolutions of Cabinet of Ministers
- Projects under implementation
- Investment Proposals
# List of Investment Projects

<table>
<thead>
<tr>
<th>№</th>
<th>Road</th>
<th>Category</th>
<th>Length, km</th>
<th>Cost, mln. UAH</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lviv-Krakovets</td>
<td>I</td>
<td>84,4</td>
<td>1634</td>
</tr>
<tr>
<td>2</td>
<td>Lviv-Brody</td>
<td>I</td>
<td>86</td>
<td>1500</td>
</tr>
<tr>
<td>3</td>
<td>Vinnytsya-Kyiv</td>
<td>I</td>
<td>146</td>
<td>2353</td>
</tr>
<tr>
<td>4</td>
<td>Scherbakivka-(Kyiv-Kharkov-Dovzhanskiy)</td>
<td>I</td>
<td>48,7</td>
<td>1008</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td><strong>365,1</strong></td>
<td><strong>6495</strong></td>
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</table>

## Projects approved by resolutions of Cabinet of Ministers

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<tbody>
<tr>
<td>5</td>
<td>Kyiv-Chop (Brody-Chop section)</td>
<td>I-II</td>
<td>348</td>
<td>1320</td>
</tr>
<tr>
<td>6</td>
<td>Kyiv-Odesa (Zhashkiv-Zervonoznamyanka section)</td>
<td>I</td>
<td>242</td>
<td>3900</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td><strong>590</strong></td>
<td><strong>5220</strong></td>
</tr>
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<tr>
<td>7</td>
<td>Piryatyn-Kharkov (new direction)</td>
<td>I</td>
<td>260</td>
<td>4 800</td>
</tr>
<tr>
<td>8</td>
<td>Dnipropetrovsk-Reshetilovka</td>
<td>I</td>
<td>167</td>
<td>840</td>
</tr>
<tr>
<td>9</td>
<td>Kharkov-Simferopol</td>
<td>I</td>
<td>440</td>
<td>9 200</td>
</tr>
<tr>
<td>10</td>
<td>Gvardiyske-by-road (Simferopol-Yalta)</td>
<td>I-II</td>
<td>108</td>
<td>4 800</td>
</tr>
<tr>
<td>11</td>
<td>By-Pass Kyiv</td>
<td>I</td>
<td>64</td>
<td>1 470</td>
</tr>
<tr>
<td>12</td>
<td>Dniestr estuary bridge</td>
<td>I</td>
<td>-----</td>
<td>780</td>
</tr>
<tr>
<td>13</td>
<td>Dnieper river bridge (Cherkassy)</td>
<td>I</td>
<td>-----</td>
<td>1 800</td>
</tr>
<tr>
<td>14</td>
<td>Connecting road MO5 (Kyiv-Odesa) to M-32</td>
<td>I</td>
<td>130</td>
<td>2 500</td>
</tr>
<tr>
<td></td>
<td>(Ulyanivka-Mykolayiv)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Mykolayiv-Kherson</td>
<td>I</td>
<td>50</td>
<td>660</td>
</tr>
</tbody>
</table>

Projects in the process of investment proposals development
## List of Investment Projects

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<th>Cost, mln. UAH</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>Kipti-Glukhiv-Bachivsk (Bryansk direction)</td>
<td>II</td>
<td>242</td>
<td>800</td>
</tr>
<tr>
<td>17</td>
<td>Kyiv-Kharkiv-Dovzhanskiy</td>
<td>I</td>
<td>271</td>
<td>2 040</td>
</tr>
<tr>
<td>18</td>
<td>Kyiv-Odesa (Vasilkiv-Zhashkiv and Chervonoznamyanka-Odesa sections)</td>
<td>I</td>
<td>286</td>
<td>1 500</td>
</tr>
<tr>
<td>19</td>
<td>Kyiv-Chop (Kyiv-Brody section)</td>
<td>I</td>
<td>405</td>
<td>2 700</td>
</tr>
<tr>
<td>20</td>
<td>Kyiv-Kovel’-Yagotyn (Korosten’-Yagotyn section)</td>
<td>I-II</td>
<td>320</td>
<td>600</td>
</tr>
<tr>
<td>21</td>
<td>Lviv-Kirovograd-Znamyanka (Lviv-Uman’ section)</td>
<td>I</td>
<td>490</td>
<td>1 200</td>
</tr>
<tr>
<td>22</td>
<td>Kherson-Krasnoperekopsk-Simferopol (Tsyuryupinsk-Armyansk section)</td>
<td>I</td>
<td>140</td>
<td>300</td>
</tr>
</tbody>
</table>

| TOTAL | 3 373 | 35 990 |
I'm sure glad the hole isn't in our end...
Thank you!
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