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LABORATORIUM WIEDZY Artur Borcuch

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# Public-Private Partnership as a way of developing railway transport sector (as an example of JSC "O'zbekiston temir yo'llari")

**Nargiza Shovxi qizi**
**Master degree student of Tashkent State University of Law**

**A R T I C L E I N F O.**

***Key words:*** *private financing, public-private partnership, railway transport, investment policy, infrastructure issues.*

**Annotation**

*Global experience in financing to solve infrastructure issues including transport shows several actual mechanisms to implement. Public-private has already become the most applicable and actual method for financing projects in transport sphere. Uzbekistan transport sphere, mainly, railway transport urgently needs the participation of private sector to develop and reconstruct the rolling stock.*



The financial crisis phenomenon leads to review of the state role in financing projects in a number of industries that require significant upgrading of existing infrastructure and creating new, to achieve the stability of the national economy. The strategic, economic and social significance of infrastructure objects eliminates any possibility of privatization, and existing financial restriction of the state budget does not allow an increase in operating expenses for their maintenance and to raise additional funds for their development.

Taking into consideration the conditions of economic crisis, the private business (due to their unwillingness to finance long-term risky projects) took waiting position, however, the government cannot afford it, as required to ensure the growth of national economy in all, including stressful situations. Based on the prevailing assumptions identified the need for coordination between government and business, public-private partnership.

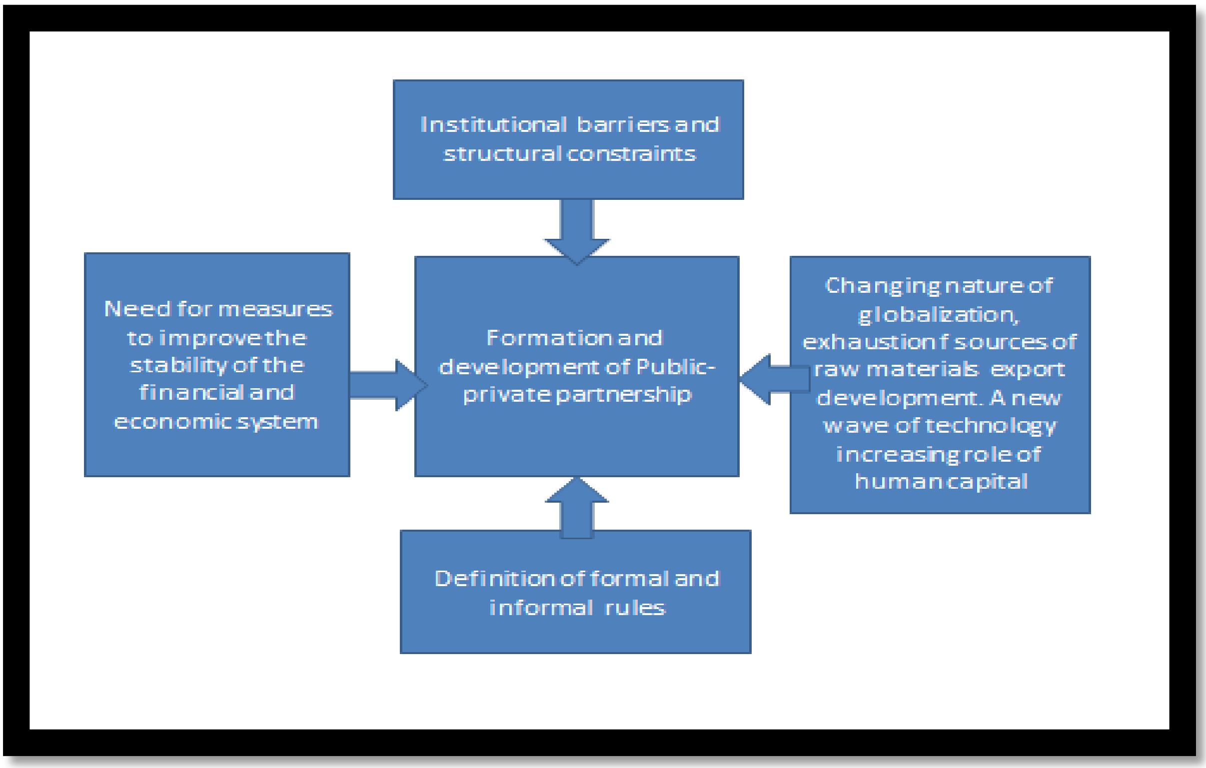
Public-Private Partnership - a way of interaction between state and private companies to achieve socio-economic goals and objectives, interesting to both parties. The principles of public-private partnership used primarily in relation to the implementation of investment projects in the capital-intensive sectors of national economy, for which development must comply with the state. However, the essence of the public-private partnership - is much wider, as well as multi-faceted co-operation itself of government and business.

Public-private partnerships between a government agency and private-sector company can be used to finance, build and operate projects, such as public transportation networks, parks and convention centers. Financing a project through a public-private partnership can allow a project to be completed sooner or make it a possibility in the first place.

Public-private partnerships have contract periods of 25 to 30 years or longer. Financing comes partly from the private sector but requires payments from the public sector and/or users over the project's lifetime. The private partner participates in designing, completing, implementing and funding the project, while the public partner focuses on defining and monitoring compliance with the objectives. Risks are distributed between the public and private partners according to the ability of each to assess, control and cope with them.

**Chart 1**

**Formation and development environment of public-private partnership**

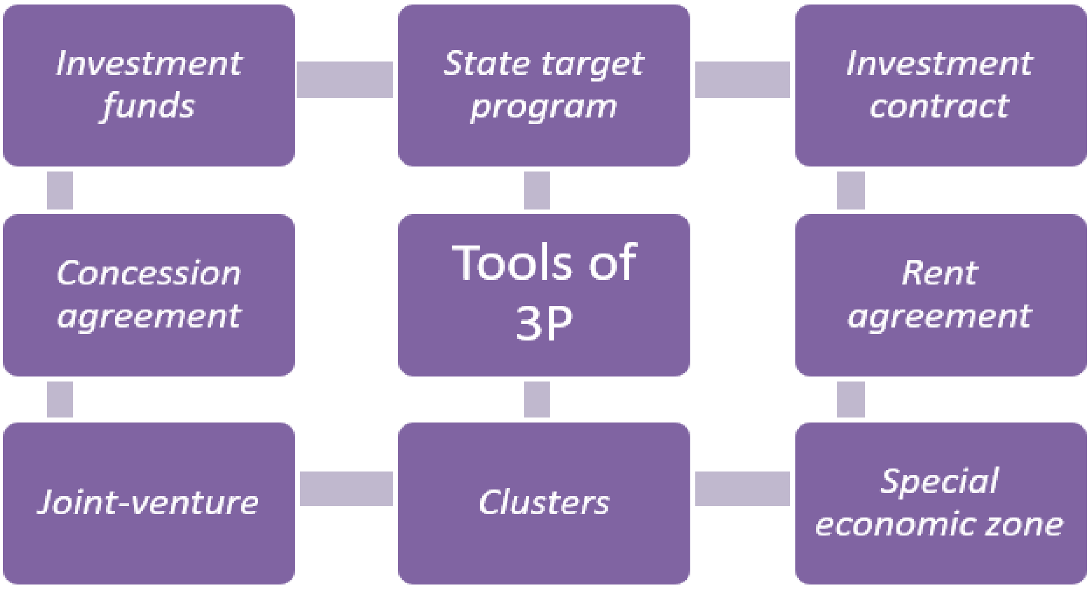



In world practice, public-private partnership - financial and legal institution with a clearly defined in law and treaty obligations of the parties and the division of risk, i.e. complex investment contract. When the public-private partnership state - party to the contract, the investor, the guarantor of successful implementation of investment project and make a profit private company. For a private company such policy is appealing, especially if there are: a clear basis for the scheme and tender partner selection, openness and transparency of financial and economic activity, project profitability, risk sharing, there is a clear mechanism for resolving disputes, the establishment of the exact limits of liability.

However, the interaction between state and private companies in the public-private partnership have higher transaction costs than in the privatization or leasing of state property. Considerable funds are spent on project proponents prepare feasibility studies, business plans, procedural matters.

**Chart 2**

**Instruments of public-private partnership**




In recent years many large infrastructure facilities abroad provided by the public-private partnership, which is based on lending to private business based on a specific project, which created assets become collateral, and the source of repayment - cash flow from the project. Guarantee is a state support for this project, because if the structure is determined by the need for nation-wide considerations, the funding should come from the state budget.

In the modern comprehension public-private partnership - is an institutional and organizational alliance between government and business in order to implement national and international, large-scale and local, but always socially significant projects in a wide range of areas - from the development of strategically important sectors of national economy, scientific research and development work to ensure that public services.

Most fully the benefits of public-private partnership can be implemented during the construction of new infrastructure projects as economic development zones of gravity to the project warrants additional tax revenue administrative territory. Financial risks of private investor minimized through the instruments of state support and budgetary commitments, and thus part of the state to influence the regulatory framework of the regional or municipal level. In this case, the investor, as the owner or tenant of business assets, has an extra motivation, since expanding its sources of funding. Thus, in order to realize this problem suggests the following instruments of public-private partnerships

It can be noted that, the lack of a unified approach of public-private partnership in the country is an obstacle to its development and it is for the following reasons:

1) failure regions, with the attractive areas for investment and facilities to prepare and economic rationale for infrastructure projects for the investor;

2) lack of qualified private companies owning relevant tools and able to invest in infrastructure facilities;

3) limitations in long-term loans to financial markets, the imperfection of the legislation, the inability to provide cost guarantees that the conflict of powers and interests of regional and municipal

authorities;

4) distrust of government and business to the contrary, and the lack of a clear policy in relation to public-private partnership.

Rail transport is in a losing position (compared with other modes of transport), as consumers have to pay for his services infrastructure component of the tariff. For example, in road transport, there is no fee for access to infrastructure, nor, especially, land tax and, therefore, the additional costs reallocated to shippers, lead to an outflow of goods and the loss of competitiveness of the infrastructure sector. The possibilities of making a market in «Uzbekistan Railways" is very limited: the rates for transportation are regulated by the state, retained restrictions on the use of the property of railways in the back, etc.

Therefore, public-private partnership institute should work primarily in the field of national economy and the lack of a scientific paradigm can be very expensive, and not only in financial terms but also in social and technological aspects. In this regard, it is mandatory introduction of PPP in rail transport, as the largest industrial production developed mainly in the eastern part of the country, which also concentrated fuel and power potential and mineral resources that are far removed from the central regions, which allocates a single set of rail transport network. Therefore, the reform of railway transport, in the first place, required the improvement of the legal framework governing public-private partnership in a market economy. Ongoing transformation initiated by factors that stimulate increased financial attractiveness of this sector of the national economy for investors, the main ones are:

• regulatory and legal maintenance of railways;

• allocation of competitive activities;

• building of the railway organization of activities and the creation of financially independent entities;

• ensuring financial transparency of all economic activities industry;

• the withdrawal of the scope of non-core rail business and objects of social and domestic purposes.

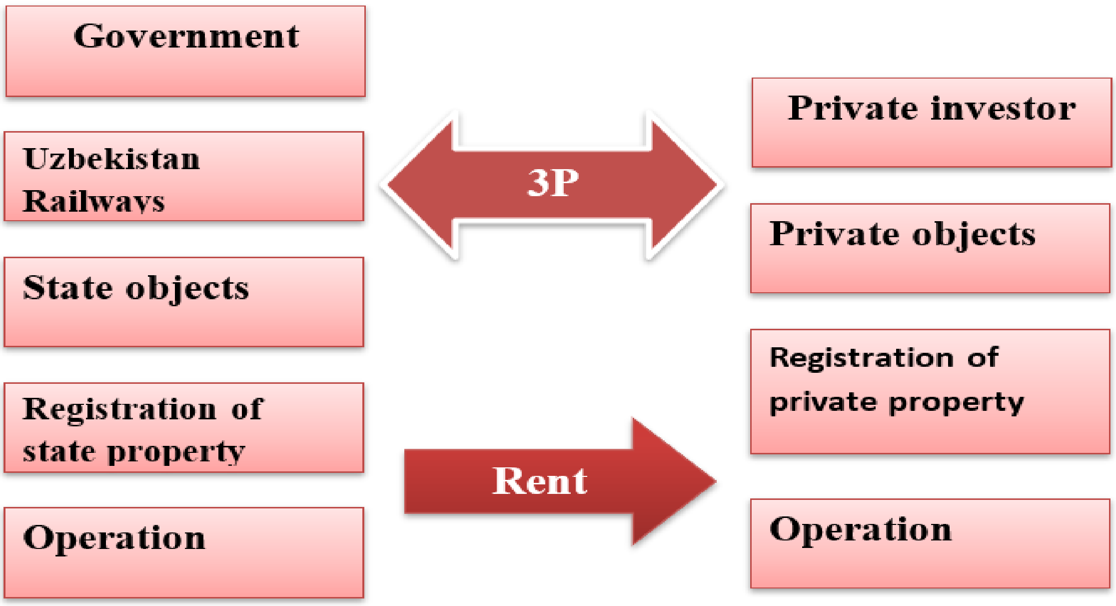
The need to attract private capital due to the fact that their own financial resources Uzbekistan Railways do not fully cover all the needs of development and reconstruction of complex fixed assets. In this case, the ability to increase these resources can only be due to higher tariffs for transportation, which means the actual costs of shifting the industry to shippers and passengers. Need to optimize the capital structure is related to the strategic program, which provides three options for development: a guaranteed, base and scenario.

However, the performance of "O'zbekiston temir yo'llari" JSC differ significantly from the projected base case company's strategic development, and this is largely due to the fact that to date has not established an effective system of financial support for long-term objectives, which does not allow for the production assets of rail transport in accordance with the requirements of the transportation process. Today, development funding provided, basically, only through their own resources "O'zbekiston temir yo'llari" JSC, however, to achieve the objectives of the strategic development of the Uzbek railways must use all possible methods of financing used in the world, because market conditions are not possible previously used emergency measures to ensure strategic resource development of rail transport.

It is necessary to seek the most effective tools for securing financial resources, including a variety of legal forms of public-private partnership. In this case, between state and corporate structures there is interaction in the form of cooperation of mutual interest. Therefore, in addition to the classical forms of integration, and create other new mechanisms of interaction that cannot be characterized only as a market, or just as hierarchical.

**Chart 3**

**Public-private partnership in railway transport**




As applied to the financing of infrastructure is of fundamental importance that, for any form of property is an object, then the most appropriate form of PPP is the project finance, where the combined interests of the private investor and the state

To implement the financing of the construction of infrastructure facilities for railway transport is possible to use the next tool of public-private partnership:

• An investor at the expense of their own and borrowed funds is financing the construction, and then operates and maintains an infrastructure facility for a lifetime.

• State and its authorized agencies shall accept and built facility to register and pay the operation and services for expense of the budget, after commissioning.

• The term public-private partnership is normative operation of infrastructure facilities in accordance with the technical and functional requirements (averagely, 20 - 25 years), which corresponds to the model concession agreements.

• Payment begins with the transfer of infrastructure facilities in operation and, therefore, delay the construction period the investor does not make sense.

• The price agreement (contract) comprises the steps of the design, construction, operation, eliminating to stop working because of delays in funding, and its determination is carried out according to market standards.

• Parties are full participants in the PPP: the subject of Republic of Uzbekistan or municipality, "O'zbekiston temir yo'llari" JSC and a private investor. public-private partnership should be well worked out in terms of the consequences of his failure to state.

Thus, the investor can apply such an interim measure, as an object in the form of collateral. The State is responsible in the form of penalties for non-performance or improper performance of obligations to comply with terms of providing land for the object of legal registration of documents and provided the necessary guarantees. In addition, termination of the public-private partnership involves compensation. For the investor shall also apply similar penalties, including when the object is set discrepancy specifications. Budget efficiency public-private partnership is achieved by ensuring that funding begins only after commissioning.

Having considered and analyzed all the investment conditions of "O'zbekiston temir yo'llari" JSC it is to boost its investment activity with the help of different offered directions. With the help of two suggested by the author ways of improving the investment activity of railway sector, particularly "O'zbekiston temir yo'llari" JSC can be implemented onto practice. The first direction is to introduce marketing management into the governance of the company in a corporative way. For so many years, several successful railway companies such as Japanese National Railway (Japan) and Deutsche Bahn AG (Germany) have been effectively using this type of management.

Using the marketing management system formalizes the concept of customer orientation in the business activities of the company as a key idea of creating value to customers and investors through satisfying their demands and in exchange capturing value from them for the benefits of other stakeholders. The typical organizational structure for marketing management of the joint-stock companies consists of the following departments:

1) Market structures and demand study department
2) Department on export and foreign client and investors' issues
3) Department of internal sales
4) Department of warranty and sales service
5) Department of brand-management, marketing and advertising.

The second way of increasing the effectiveness of investment activity in railway sector might be the system of public-private partnership. Taking into consideration the conditions of economic crisis, the private business (due to their unwillingness to finance long-term risky projects) took waiting position, however, the government cannot afford it, as required to ensure the growth of national economy in all, including stressful situations. Based on the prevailing assumptions identified the need for coordination between government and business, public-private partnership.

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