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FINANCIAL ASPECTS OF PUBLIC-PRIVATE PARTNERSHIPS PROJECTS

For many years, the public sector has traditionally financed and operated infrastructure projects using resources from taxes and various levies. However, the recent disparity between the capacity to generate resources and the demand for new facilities has forced governments to look for new funding methods and sources [3, p. 1]. There is a growing tendency in involving the private sector in providing high-standard infrastructure to meet the needs of rapid economic growth. Public-Private Partnerships (PPPs) are part of this trend.

Many countries are now contemplating Public-Private Partnerships as an arrangement between public and private sectors to finance, design, build, operate and maintain public infrastructure, community facilities and related services [3, p. 1]. In general, Public-Private Partnerships are long-term contractual agreements between the public and private sector where mutual benefits are derived [5, p.5].

The last 10 years many countries have witnessed an increasing provision of public goods by private—for-profit and not-for-profit—firms. Their involvement in PPPs arrangements can vary from designing schools, hospitals, roads, or sanitation facilities, to structuring their financing, and including construction, operation, maintenance, management, and ownership. The World Bank estimates that the private sector financed about 20 percent of infrastructure investments [1, p.3].

Public-Private Partnerships (PPPs) have become widely accepted and popular in public sector management. PPPs reduce pressure on government budgets because of using private finance for infrastructures and they also provide better value for money in the provision of public infrastructure [2, p. 150-152].

PPPs projects are financed based on expected revenues from project operations. If a project is expected to yield a large amount of revenues, sufficient debt financing from the financial market can be obtained. This is called debt financing. While debts must be paid at a pre-determined rate and within a pre-determined period, project funds from public and private sectors, typically known as equity financing, take high risks and get repaid after debt service.

The equity component is of essence in PPPs project financing and needs careful attention and a full evaluation. Debt capacity is determined by the project revenue stream and evaluated by financial institutes. Private partners are willing to invest in PPPs projects only when they anticipate a high rate of return, or a minimal internal rate of return (MIRR) from the investments. If the project is not profitable enough, no private partners will take the risk to invest. Therefore public agencies may have to give away a significant share from the total profit to attract private investments, even if equity investments may just be a small percentage of the financial gap. Third, public agencies must protect their interests and ensure that private partners do not abandon projects when private partners obtain enough profits from PPPs projects earlier than expected. Therefore, the amounts of private equity, or the allocation of private equity and public funds in PPPs deals, remain a major subject of PPPs financing [4, p.3-4].

The private sector can raise financing for PPPs investment in a variety of ways. Where services are sold to the public, the private sector can go to the market using the projected income stream from a concession (e.g., toll revenue) as collateral. Where the government is the main purchaser of services, shadow tolls paid by the government (i.e., payments related to the demand for services) or service payments by the government under operating contracts (which are based on continuity of service supply, rather than on service demand) can be used for this purpose.

The government may also make a direct contribution to project costs. This can take the form of equity (where there is profit sharing), a loan, or a subsidy (where social returns exceed private returns). The government can also guarantee private sector borrowing.

PPPs financing is often provided via special purpose vehicles (SPVs). An SPV is typically a consortium of banks and other financial institutions, set up to combine and coordinate the use of their capital and expertise. Insofar as this is their purpose, an SPV can facilitate a well-functioning PPPs [6, p.9-10].

The aim of the PPPs project is to fill the market gaps for financing infrastructure projects with a potential for generating its own revenue stream through user charges and other funding source, enhance the creditworthiness of the project and improve access to capital markets, facilitating financial close [3, p.37-38]. Some countries are able to attract more investments in the form of Public-Private Partnerships than others [1, p.3].

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