

PROSPECTS OF FINANCING OF PUBLIC-PRIVATE PARTNERSHIPS IN UKRAINE BY INTERNATIONAL ORGANIZATIONS



Tetiana Kalyta

*Senior teacher of the Department of Tax Policy,
University of the State Fiscal Service of Ukraine,
Kyiv region, Irpin, Ukraine*



Igor Ivanyuk

*PhD., Associate Professor,
Director of Malin Forestry College,
Ukraine*

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Abstract. The article reveals the main mechanisms for attracting financial resources from foreign sources to public-private partnerships in Ukraine. In particular, the authors focus on forms of funding PPP projects from international organizations, such as purpose-oriented and grant funding for PPP projects.

The article presents an analysis of the prospects of using the financial resources of international financial institutions for the implementation of PPP projects in the context of such institutions as: GSB (World Bank Group), European Bank for Reconstruction and Development (EBRD), and EIB (European Investment Bank). Researchers use the method of mathematical modeling (regressive analysis of the prediction of the volume of available and borrowed resources). The authors also examine the efficiency of borrowing finance from international organizations coming to Ukraine. The analysis shows insufficient use of financial resources in the implementation of public-private partnerships.

As a result of a predictive analysis of the aggregate available and borrowed funds of IFO resources available to finance PPP projects in 2014-2019, the authors found that both indicators are increasing and the forecast is positive, as demonstrated by both the trend line and the sliding average forecast (max) and weighted average (min). However, the dynamics of this growth is low, when comparing relative indicators, the volume of borrowing of the available financial resources of

IFOs is relatively stable and amounts to 33.1-33.9%, while the forecast for 2019 shows the possibility of reducing this indicator to 33.1 -32.7%. This may speak both about a prerequisite for economic development, using the maximum available funding, and critical issues that today do not allow the effective mobilization and use of IFO financial resources in PPP projects in Ukraine.

Keywords: *public-private partnerships; international financial organizations; purpose-oriented and grant financing; predictive analysis of available and borrowed resources.*

Introduction

Given the difficult economic situation in Ukraine, which is manifested in the growth of public debt and the consolidated budget deficit, the slight increase in real wages in the budget sphere and the reduction of long-term public financing and lending, the problem of finding financial resources for the development of public-private partnerships in the country is a topical issue.

Analysis of recent studies and publications. A number of foreign scientists – N. Andres, J. Delmon, J. Foster, B. Michael, V. Shin, R. Taylor, E. White, V. Barnavsky and Ukrainian scholars – T. Bogdan, N. Bondar, O. Vinnik, B. Vinnytsky, V. Geyets, B. Danylyshyn, V. Demishkan, O. Yegorov, T. Efimenko, I. Zapatrina, M. Kuzhelev, A. Melnyk, D. Naumov, V. Novitsky, T. Paentko, K. Pavlyuk, O. Piltayi, S. Onishko and others devoted their research to problems of formation and development of state-private partnership in the relationship of the state and private partners as well as relationship of the state and international organizations. Among the scholars studying the financial aspects of public-private partnership projects, the following should be mentioned: A. Akintoya, M. Beck, A. Bossabain, S. Gray, E. Jescombe, J. Hall.

According to the research of Ukrainian scientists, international aspect of the development of PPP mechanisms in Ukraine does not lose its relevance, even taking into account the trends in this field that are observed today, especially through the SP3ILNO platform. Therefore, it is necessary to analyze the financial potential of international organizations with a view to their further cooperation with Ukraine in the development of public-private partnerships.

Research results. According to the PPP mechanisms that have been analyzed earlier and are being used in Ukraine today, financing from foreign sources can be interpreted as:

- 1) participation of an equal international partner;
- 2) credit resources obtained from international financial institutions on a turnaround basis (with or without government guarantees);
- 3) grant funding from international financial institutions on a grant basis;
- 4) international technical assistance;
- 5) purpose-oriented financing of individual PPP projects at the expense of international financial institutions.

Grant funding and purpose-oriented financing of individual PPP projects are specific forms of financing PPP projects from international financial institutions.

Since every international financial institution has in its financial portfolio all of these financing options, we consider it appropriate to analyze the prospects of using the financial resources of international financial organizations in PPP projects in the context of their own organizations and, in some cases, in the context of PPP projects (especially if financing one PPP project is implemented by different international financial institutions and by different mechanisms).

The largest international financial institutions providing funding for PPP projects in Ukraine are the World Bank Group (International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC)) – GSB, European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), NEFCO (Nordic Environmental Finance Corporation), European Atomic Energy Community (Euratom), KfW (German State Development Bank) and others. Let us consider usage of the financial resources of GSB, EBRD, EIB for implementation of PPP projects in Ukraine.

Analyzing the projects of the World Bank Group, we can see that during the period of Ukraine's independence, GSB, through various mechanisms, launched 106 loan and grant projects worth over \$ 16 trillion, 70 of which ended with a positive result, 19 were canceled, 14 are in force and 3 are in a state of agreement before signing [10]. Of all these projects, 64 contain PPP projects as part of their funding, with grants in 25 funding programs. At the same time, of the 64 projects, 8 were

canceled in their entirety, as no PPP projects were submitted that would meet the funding requirements [10].

However, more informative is the financial part of these projects, especially the volume and efficiency of the use of funds allocated by the GBS for the implementation of specific programs and the credit conditions under which the funding was provided. According to GSB statistics, in 2018, 10 funding programs were opened for Ukraine that have in their structure PPP projects under their credit terms. The total available financial resources are \$ 1.7 billion at a rate of 1.2% to 3.6% per annum. Of the total available funding for PPP projects, only US \$ 356.7 million was used, and US \$ 282.2 million was withdrawn from available financial resources due to the lack of PPP projects requiring credit financing. According to the data, the average interest rate is 2.2% per annum. That is, 20.98% of the available resources for financing PPP projects at an average rate of 2.2% per annum, with another 16.6% of the available financing volume was withdrawn [9]. Compared to credit financing from the national banking sector, which is available to finance PPP projects, the crediting rate starts at 18% pa [3]. By 2018, the financing of the project proposal development and the preparation of the PPP project documentation was completely transferred to a private partner, which presented some element of uncertainty and financial risk, since the consideration of a single PPP project application can take up to 18 months, but from 2018 these risks have receded into the background, since after the involvement of Western NIS Enterprise Fund, all the necessary tools and expert assistance in the preparation of PPP projects are available on a royalty-free basis, so as a whole, it does not affect the cost of credit resources of international financial institutions that are available to finance PPP projects [5].

An analytical overview of the use of available GSB credit resources available to finance PPP projects is presented in Fig. 1.

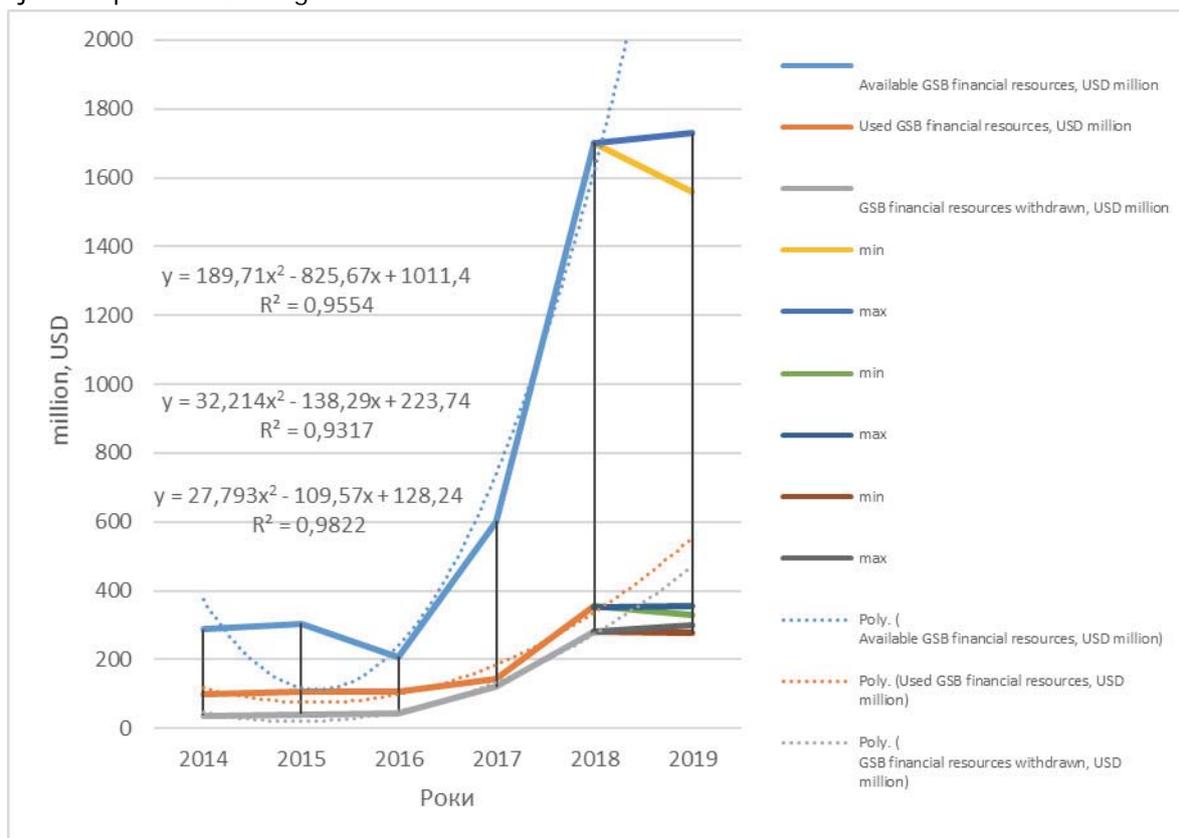


Figure 1. Predictive analysis of the amount of available and borrowed resources of the GBS available for financing PPP projects in 2014-2019, USD million

Source: Developed by the author

The advantage of GSB loan resources is that GSB does not define rigid portions of PPP financing, provided from different sources, i.e., a PPP project can be financed from 0.1% to 100% of its value, provided that a properly drawn up project application is submitted and an appropriate state guarantee is available.

The next international financial institution that provides loans to finance PPP projects is the EBRD. According to the profile of this international financial organization, it can provide PPP project financing in all forms: participation as an equal partner, loan financing, grant funding, purpose-oriented financing.

According to the particularities of financing PPP projects from the EBRD's financial resources, as a whole, it is effective given the current conditions on the financial market of Ukraine; though, according to the statistics of EBRD, of the available funding, the amount of € 483,5 million was used during 2018, of which € 15.7 million is grant funding, and € 407.7 million is funding under the Chernobyl Nuclear Safety Projects, which is provided mainly on a royalty-free basis [11].

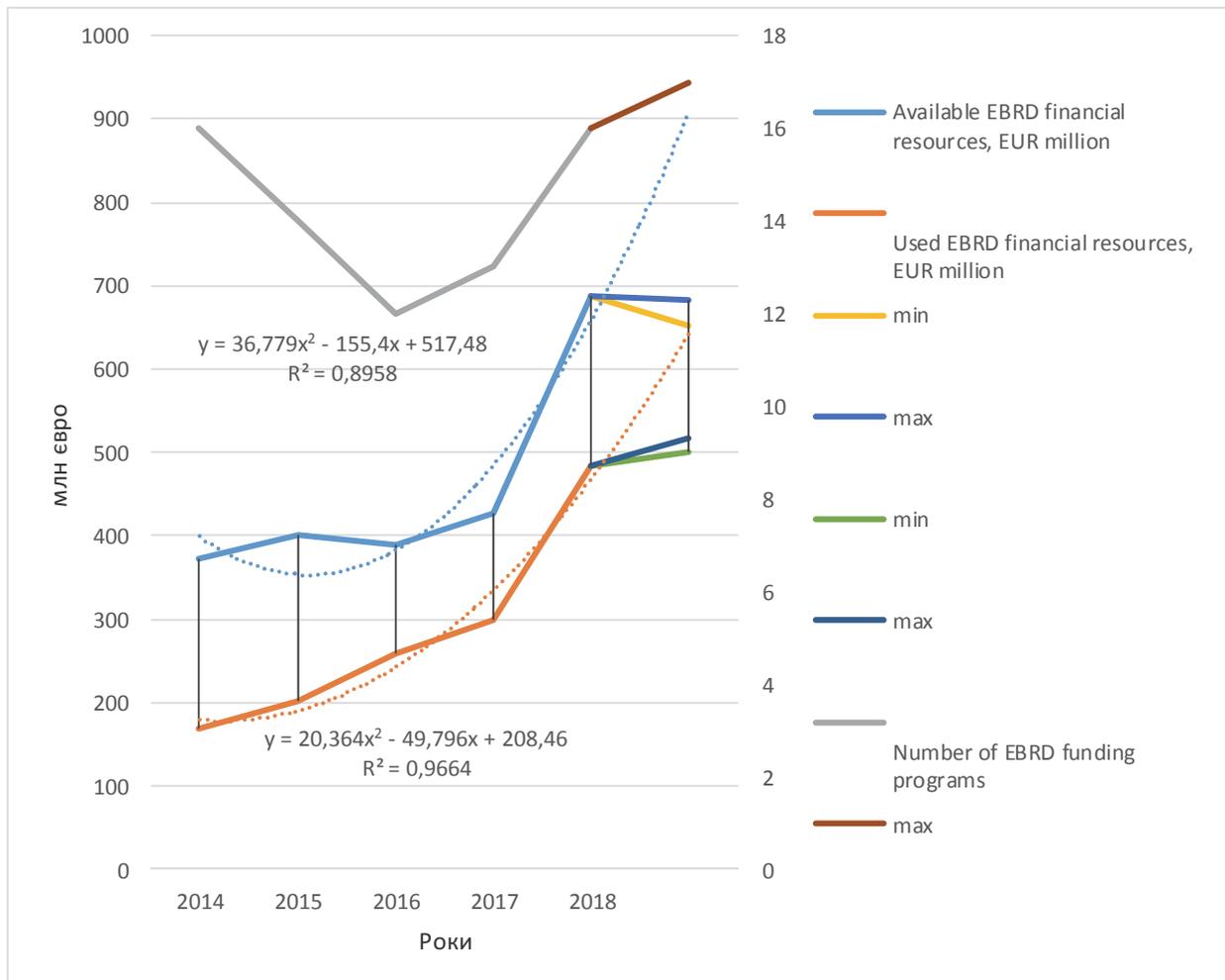


Figure 2. Predictive analysis of available and borrowed EBRD resources available to finance PPP projects in 2014-2019, EUR million
Source: Developed by the author

Related to the EBRD is the EIB, which provides purpose-oriented loans to PPP projects that have high social or environmental efficacy but have low or negative cost-effectiveness and cannot be funded through EBRD funding programs. The interest rate of the EIB's purpose-oriented loans ranges from 0.1% to 3.7% and is calculated as covering exclusively the EIB's transaction costs for servicing a specific purpose-oriented loan [12]. As of early 2019, the EIB has launched five purpose-oriented loan programs for Ukraine, which provide funding for PPP projects, totaling € 139.5 million, of which € 11.7 million has been used, including € 4 million in the form of free international technical assistance [8].

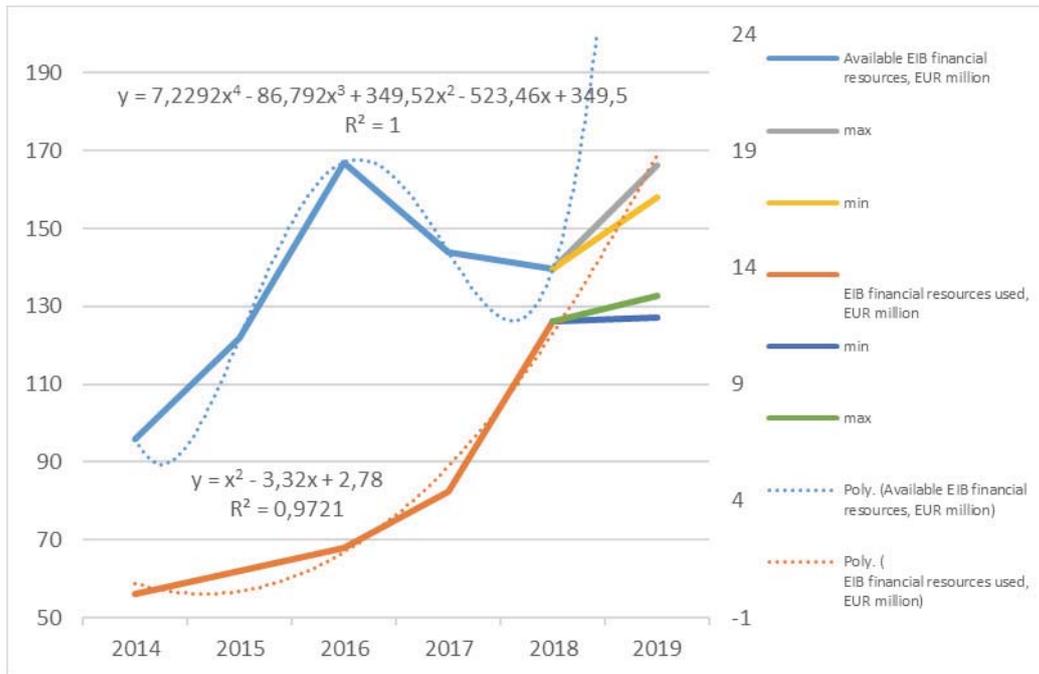


Figure 3. Predictive analysis of the volume of available and borrowed EIB resources available to finance PPP projects in 2014-2019, EUR million
Source: Developed by the author.

As can be seen from Fig. 4, despite the decline in available credit resources, the forecast based on moving averages (max) and weighted averages (min) for both indicators shows an upward trend, as demonstrated by the trend lines with high confidence. If we mutualize the available and borrowed financial (grant and credit) resources from all financial institutions, the picture will be as follows. (Fig. 4)

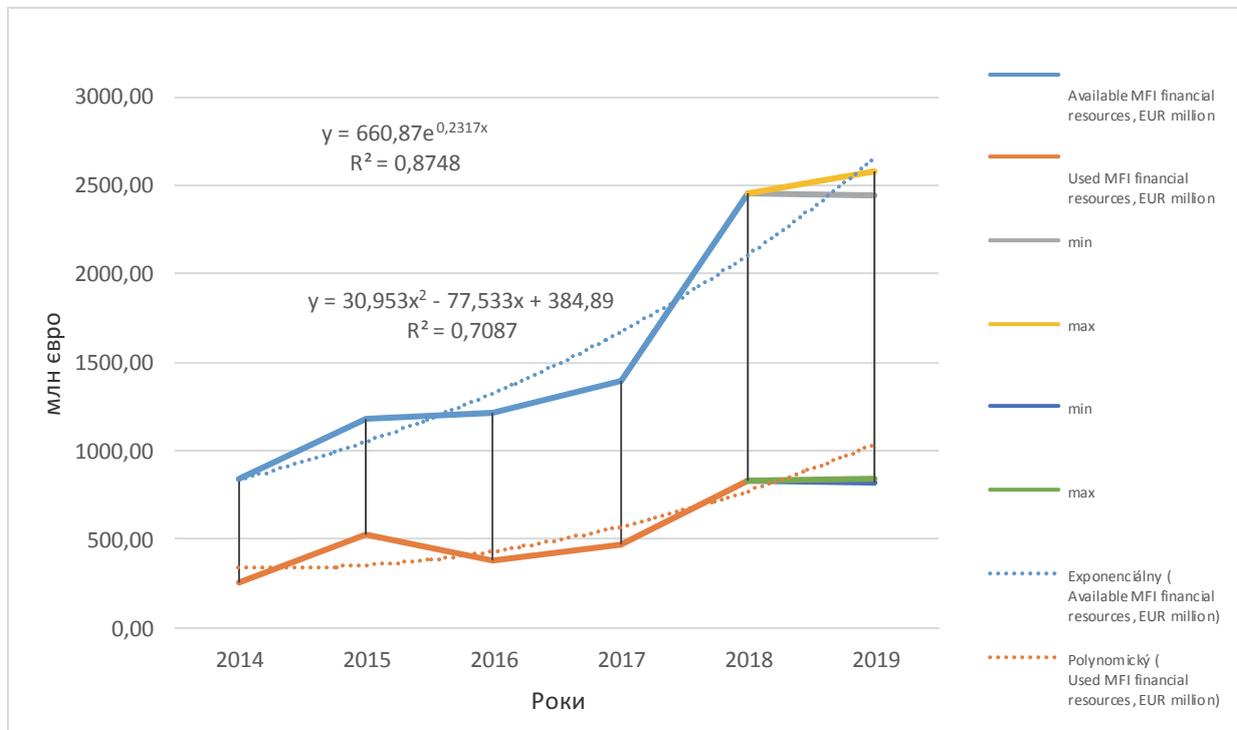


Figure 4. Predictive analysis of the aggregate existing and borrowed IFO resources available to finance PPP projects in 2014-2019, EUR million
Source: Developed by the author.

As can be seen, both indicators, namely the total available financial resources and the amount of borrowed financial resources, are increasing, and the forecast is positive, which is confirmed by both the trend line and the forecast based on sliding averages (max) and weighted averages (min). At the same time, the pace of such growth is low, but when considering relative indicators, the volume of mobilizing available financial resources of IFO is comparatively stable and is 33.1-33.9%, and moreover, the forecast for 2019 shows the possibility of reducing this indicator to 33, 1-32.7%, which demonstrates that there are both strong prerequisites for economic development using the maximum available funding and critical problems that do not allow effective involvement and use of MFIs' financial resources in PPP projects today.

Assuming that the relative values calculated by Ukrainian scientists have not undergone significant changes, as evidenced by the relatively stable volume of mobilizing IFO financial resources, in 2018, the estimated amount of additional GDP growth that can be formed by attracting IFO financial resources to PPP projects, equals US \$ 747.12 million, excluding the cumulative effect of GDP growth over previous periods.

Conclusions

An analysis of the problem of low level of involvement of available IFO financial resources in PPP projects revealed the following problems.

1. There is no regulation of the procedure for accrual and payment of customs duties and payments upon receipt of financial resources in the form of tangible assets (supply of specialized equipment, production and consumable materials, etc.), which leads to the need for urgent search for additional sources of financing for the PPP project and attracting domestic credit resources, which offset the financial efficiency of mobilizing MFO financial resources.

2. There is no legislative mechanism to obtain direct financing for PPP projects from IFOs through credit financial resources. All IFOs provide direct loan financing for PPP projects through specialized funds located in attractive financial jurisdictions to reduce transactions and the administrative costs of servicing such funds, while the SFS considers such transactions particularly suspicious and recipients of IFOs' loan resources) are subject to tax audits, which somewhat complicates their operations.

3. There is no mechanism for "special cooperation" with IFOs acting as an equal partner of the PPP, since there is no mechanism for protecting their investment interests, since in such a case the state guarantee of return mechanism for credit provided by MFIs under the PPP project does not cover them.

4. Insufficient effectiveness of the national bodies responsible for preparation, analysis, support, implementation and monitoring of PPP projects in Ukraine. These institutions are currently in the process of establishing mechanisms of activity, as they are already functioning by the end of 2019, but the effectiveness of such activity is insufficient as their funding is provided by IFO grant, which can be used for PPP own projects.

5. The problem of inconsistency of national legislation and EU framework laws in the field of PPP has not yet been resolved, so part of the available financial resources of the European IFOs remains inaccessible to Ukraine, since it is in a different legal field and financial and tax inconsistencies may arise in the use and repayment of such credit financing.

6. Lack of practical experience within Ukrainian companies in the implementation of PPP projects with the involvement of IFO financial resources under any conditions, since, in general, the PPP in Ukraine is an unpopular mechanism to stimulate the development of certain sectors of the economy.

In general, we believe that the mechanism of financing PPP projects from IFOs' financial resources is promising and can provide up to + 5% of additional GNP growth through efficient use of available IFOs' financial resources. At the same time, in order to effectively attract IFOs' financial resources, it is necessary to solve a number of critical problems that create artificial obstacles to the development of both PPPs in Ukraine as a whole and mechanisms for attracting IFIOs' financial resources to PPP projects in Ukraine.

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