

ROLE OF FINANCIAL INSTITUTIONS IN THE PUBLIC-PRIVATE PARTNERSHIPS DEVELOPMENT

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Public-Private Partnership represents institutional and organizational alliance of the state and business, consisting of financial actors interaction, legal, social and policy oriented joint public and private resources from different sources into a single complex to solve strategic socio-economic problems of country. The aim of the research is to demonstrate the importance of financial institutions in public-private partnership projects implementation. Research methodology – in order to achieve the expected results, author applied recognized methods and techniques applied as economic investigations: comparative method, statistical method, logical analysis method. The research results, expressed by knowledge through mentioned field can be applied to improve the process of attracting local and international financial institutions to ensure success in public-private partnerships projects in Republic of Moldova.

Keywords: *Public-Private Partnership, bank, financial institution.*

Parteneriatul public-privat reprezintă o alianță instituțională și organizațională a statului și reprezentanții mediului de afaceri, format din actorii financiari de interacțiune, resurse juridice, sociale și politice comune publice și private orientate din surse diferite într-un singur complex pentru a rezolva problemele socio-economice strategice ale țării. Scopul cercetării este de a demonstra importanța instituțiilor financiare în implementarea proiectelor parteneriatelor public-privat. Metodele de cercetare: în scopul de a obține rezultatele așteptate, autorul a aplicat metode și tehnici recunoscute ale investigațiilor economice: metoda comparativă, metoda statistică, metoda de analiză logică. Rezultatele cercetării, exprimate în cunoștințele în domeniul menționat, pot fi aplicate pentru a îmbunătăți procesul de atragere a instituțiilor financiare locale și internaționale pentru a asigura succesul proiectelor parteneriatelor public-privat în Republica Moldova.

Cuvinte-cheie: *Parteneriat Public-Privat, bancă, instituție financiară.*

JEL Classification: G18, G21, G23, G28, G34, G38.

Introduction. The term "Public Private Partnership" (still signed by the acronym PPP) is used in international practice towards any forms of collaboration of state authorities and private entities. Moldovan law treats PPP as a "long-term contract, concluded between the public and private partner for activities of public interest, on the capacities of each partner to distribute resources, risks and rewards" [1].

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Typically, for installation of control factors / effective management of possible risks that can be activated during the operational period of project, public entities tend to attract financial institutions in PPP projects participation in their role as financiers, which can be both autochthonous banks as international development institutions (IDI) and, in particular, development banks (eg. European Bank for Reconstruction and Development, International Finance Corporation, the Nordic Investment Bank, etc.) and/or structural funds. Contrary to export credit agencies, for international financial institutions participation the export is not mandatory.

A substantial contribution in the development of PPP in the world is brought by the Public-Private Infrastructure Advisory Facility (PPIAF) which is a multi-donor fund and provides technical assistance to governments in developing countries in support of the creation of a favorable environment environment to attract private investment, including governments consultation on the investment policy. PPIAF also supports governments to develop specific infrastructure projects to be later proposed for financing to private sector [6].

PPIAF's mission is to help poverty eliminating and urbanization achieving / sustainable development through the application of PPP mechanisms in public infrastructure. PPIAF was created in 1999 to act as a catalyst for private sector investment to increase participation in the development of emerging markets [5].

Funding awarded by PPIAF increased from 12.9 million USD in 2013 to 16.9 million in 2014, ie an increase by 30 percent. The main share of financial support to PPIAF in 2014 was focused on Sub-Saharan Africa (46.0%), followed by countries in East Asia and Pacific (15.5%), Latin America and the Caribbean (13.0%) [4].

The role of international development banks (IDB). These are the institutions that provided financial support and consulting countries with developing economies and social development goals. Highlighting IDB in a separate group is not random, because they are a separate force, which play an essential role in stimulating economic development and carrying out reforms both within a particular country, and within a region.

To promote the strategy of funding and contributions within a particular infrastructure project, conducted in the format of PPP, IDB in their work can apply together with the public partner appointed or separately entire diversity of financial instruments highlighted in the financial modeling of success project-oriented.

The international practice of PPP projects implementation demonstrates that the most effective control over possible achievement, usually attracts only financial institution, which, along with grant funding, can perform functions of consultant. In most cases, this role is fulfilled by development institutions, including international development banks.

Basic tools of IDB funding are the following [9]:

➤ Consultation on successful principles of project launch („*successful fee*” – paid by public or private partner after contract signing) on identification and structuring of PPP projects for the government of involved country and for a particular partner. Explaining government's tasks, IDB (using consultants – specialists from branch) perform due diligence of the project and estimate the interests of participants in order to determine optimal structure of the transaction. Further, bank assumes full responsibility for carrying out the transaction, from marketing strategy development to assist the evaluation of bids, determination of the winner of public tender and financing contracting.

➤ Long-term funding:

- Grant award (IDB using mainly for technical assistance, advisory services and project development);

- Loans (loans) long-term interest rates lower to the market, which are financed directly by donor governments. In this case, a requirement to the debtor of the bank is to grant third party guarantees (collateral securities of sovereign or other big banks) loans. If this assurance is not available in case of a negative financial result (risk), the likelihood of substantial losses in bank-funded projects is minimized. Last point is particularly important for situations when the bank directly assume project risks, given the economic, financial and techniques that satisfy early financing;

- Investments in equity capital;

- Leverage and applying various structured finance products;

- Attracting commercial bank lending (international banking syndicates) at a market interest rate.

To ensure financial resources for these loans IDB attract international capital markets means;

- Attracting export credit agencies;
- Providing guarantees of public and private sector commitments.

Considering that most of BID have high credit ratings, such insurance is accepted in determining project organization scheme.

Analysis of international development institutions and, in particular, development banks in the world practice of PPP projects realization, allows highlighting a number of advantages of participation in these institutions.

First, PPP projects usually occur in project financing, which is one of priority directions of IDB activity. In this connection, IDB have extensive experience and tools to conduct assistance and grant funding to PPP projects.

Secondly, they can be attracted at various stages of projects examination, in particular at early training and the competition, bid evaluation stage. In this case, IDI activity goes beyond simple supply limits of banking product in the classic sense. IDI participation at early stages allows maximal detailed examination of all aspects that can influence the value and timeliness of project and conduct monitoring throughout term of project.

At preparation and examination stage of project in most cases IDB are attracted by authorized body of the State as investment consultants.

In this context, it should be noted that often in PPP projects international development institutions are assigned dual role:

- from a hand, they exercise the functions of state consultants participating in project forming;
- from elsewhere as creditors of private partner giving him assistance in negotiations with State.

In such cases, we believe that there is a potential conflict of interest since IDB undertakes to conduct negotiations on subject of contract with all actors involved is identified until the contract. This philosophy should be avoided flawed from the start.

Thirdly, IDB are sources of cheap money for long term, which completely meet needs of PPP in terms of projects duration and, as a result, their financing structure.

And, finally, IDB have some special status, including economic and judicial immunities, tax and customs preferences, advantages, avoiding negative consequences from banking regulation amending legislation and participating countries.

All these give IDB possibility, if grant PPP projects, to cover risks that can become serious obstacles in the way ordinary banks. In addition, IDB warranties often have a higher rating to sovereign guarantees granted by participating countries.

Considering financing requirements for PPP, it can be concluded that IDB falls among financial institutions, which completely meet needs of PPP projects. But for IDB investment in PPP projects of interest under several causes, among which can be highlighted correspondence of mission, set goals and tasks of IDB and availability of financial instruments necessary for financing carrying out. However, the current trend of funding from IDI focuses on modeling bankable projects able to be financed from within.

The role of local financial institutions in PPP projects realization. An important role in strategic directions of economic policy of state achieving have local development banks. Development bank within law and statute is allowed to use profits to conduct certain measures of financial contribution or hedging. State guarantee enables these development banks' preference to undertake refinancing on capital market. Gaining the State support Development Bank should not compete with commercial banks, but to work with them on the basis of subsidiarity and division of of authority [7], [8].

For example, in Russia the core development financial institution is the State Corporation "Bank for Development and Foreign Economic Activity (Vnesheconombank)". This institution collaborates with other financial lending institutions to finance innovative projects in both common form of lending and granting guarantees and capital investments. In addition, Vnesheconombank to develop financing programs and assistance to regional and urban development projects [7].

In Moldova such a financial institution does not exist, but in our opinion, can be revived the idea of creating the Bank for Development and Investment of Moldova (BDIM), which was conceived as a legal entity joint stock company with State capital. For BDIM originally foreseen functions that can be connected to requirements of PPP projects implementing and related lending and consulting services in order to strengthen the national economy. This includes promoting investment to support small and medium enterprises development, public infrastructure development, expanding exports, privatizing state enterprises, reconstruction and renovation of dwellings, improvement of environment [2].

Given the fact that Moldovan central authorities do not have financial means to create BDIM is possible appeal to international financial institutions (eg PPIAF, EBRD, WB or IFC).

Domestic commercial banks could participate in PPP projects by crediting them. But in our opinion, in this context it may be just top financial institutions in banking rating: C.B. "Moldova-Agroindbank" J.S.C., C.B. "Moldindconbank" J.S.C. and C.B. "Victoriabank" JSC because they can mobilize sufficient financial resources for carrying out PPP program funding. They also may be associated and joint consortium to grant loans guaranteed by the State for capital investment projects which require social subsidizing by Government.

It also needs to take into account some important issues that may prevent the involvement of commercial banks in PPP financing:

- The existing legal and policy documents on PPP virtually ignores need for banks' participation in PPP implementing and basically do not foresee any incentives for it.
- PPP models requires lending in the medium (5-10 years) and long (10-25, 15-30 years) term, which creates problems banks viewfinder financial stability indicators.
- Major banks are addressing indigenous liquidation issues of failing banks, which requires a large volume of funds.
- Extremely low credibility of public-private relations and unfavorable state relations with international financial institutions, which can easily add political, economic and financial instability.

Proceeding from the above, domestic banks are not yet willing to include funding by PPP in their lending policy. Moreover, foreign banks present on the Moldovan market such as C.B. "Mobiasbanca" J.S.C. part of Société Générale which owns internationally an impressive portfolio of financing PPP projects, avoid further involvement in the financing of PPP programs established by the Government [3].

Conclusions. Financial institutions are the most important participants in the financing of PPP projects, with distinct place in creating financial model project development banks, attitude and quality of which depends on the participation of economic and financial success of PPP. At the same time, Government is solely responsible for streamlining funds-oriented public services and infrastructure development and financing PPPs own program. On the other hand, only involving financial institutions can be ensured a complex project financial modeling and risk locking solely of a pulic service in cases of premature termination of contracts, thus protecting the final consumer.

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