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Banks participating in the public-private partnership

The budgetary financing is not enough for providing the normal functioning of many socially relevant objects. These are enterprises of communal areas, roads, airports, educational establishments and others. World experience shows that objects of social and manufacturing infrastructure often and rather effectively are created and maintained by the engagement of private capital. An infrastructure is the catalyst of the economy growing in a long-term prospect, that is why development of public-private partnership is a priority for Ukraine.

However, many entrepreneurs with a desire and ability to implement such projects do not have sufficient amount of money. Therefore it is reasonable to apply a variety of credit schemes. Since banks are the leading element of financial system of Ukraine, then they should play a crucial role in financing public-private partnership.

The main functions of banks in the implementation of public-private partnership are: direct loans, the organization of emissions and debt placement, consulting, project assessment. Banks can also join in syndicates and consortia for joint credit or enter into independent agreements with the borrower credit and fund its share of the project.

World practice produced two alternative schemes of financing projects – parallel and consistent funding. In parallel financing for implementation of large-scale project loans are provided by several agencies, which allows banks to reduce credit risk and do not exceed the limits of permissible amount of the loans. Usually there is an initiator in such a banking group – a large commercial bank or international financial institution. In consistent funding scheme there is also a bank-initiator, but it is not a creditor. After making the loan agreement such bank transfers his claims to other creditors. It also receives a commission for the project evaluation, development loan agreement and for loan.

Projects of public-private partnerships have high level of risk that is why credits are limited by the size of sum or by a high enough interest rate. To involve the entire amount of money from several financial institutions, project executor must convince lenders that the project can be profitable, and loan and interest will be repaid on time. So the government or international organization can be the guarantor of the loan.

Mostly interest rate for infrastructure projects financing depends on the stage of the project cycle, namely: during construction of the facility increased rate is used, and after its entry into service – lower. Another characteristic feature of lending projects under public-private partnership is the existence of so-called grace period, i.e. the payments release until the facility begins to generate income. If an entrepreneur does not create a new object, but gets already existent and able to bring profit assets from the state, a grace period can be eliminated.

The price of bank loan except commission payments includes a percent for financing organization, bank consortium management, agent services for calculation-cashdesk by operations, guarantees of debt obligations placing etc.

Choosing the concrete mechanism of investment measures crediting depends on many criteria, namely (table 1).

Table 1 – Criteria of the credit mechanism choosing

Criteria	Content
Creditor's status	- credit directly from commercial bank; - credit, given by international financial establishment
Number of participants in credit operation	- bilateral agreement; - multilateral agreement
Loan term	- middle term; - long term
Percent type	- fixed; - floating percent
Method of loan redemption	- by one sum at the end of crediting term; - by equal stakes during the crediting term; - by the conditioned parts through the concerted intervals of time
Technique of crediting	- credit by one sum; - credit line

In modern terms, despite of expedience of banks participation in public-private partnership, there are serious enough obstacles of such collaboration, namely:

- limited financial capacity of the banking system;
- high interest rates of banks;
- experience lack of effective project financing and the necessary technology;
- underdevelopment of credit risk insurance;
- absence of formed and concerted public policy in the field of state private partnerships.

In order to attract banks to public-private partnership projects it is necessary:

- reduce investment credits rate, making it available to businesses. It is advisable to use soft loans scheme simultaneously with the introduction of the compensation mechanism of bank losses from lowering the price of credit resources;
- complete the comprehensive settlement of legal acts in public-private partnership;
- adopt policies to stimulate public deposits as a major resource for the cheap credit provision;
- develop a system of measures to strengthen the credit potential of the banking system and reduce the cost of borrowing through refinancing mechanism by the National Bank of Ukraine.

Thus, the institution of public-private partnership is able to give boost to economy and social sphere. The main thing to do in this direction – to provide clear and consistent state policy as unstable political situation is not conducive to these projects implementation.