Analysis of the Opportunity to Finance Investment Projects Through Public – Private Partnership

Cristina Dima[1], Răzvan Cătălin Dobrea[2], Cosmin Andreica[3] and Valentin Păuna[4]
[1)2)4)] The Bucharest University of Economic Studies, Bucharest, Romania.
[3)] University of Bucharest, Bucharest, Romania.
E-mail: cristina.dima@man.ase.ro; E-mail: razvan.dobrea@man.ase.ro
E-mail: cosmin_andreica20@yahoo.com; E-mail: valentin.pauna@metro.ro

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Abstract

In the current context of the transition from a classical society to a society based on a smart and sustainable economy, the integration of the needs of communities at economic, social and environmental level into complex projects is a constant concern. The implementation of complex projects in terms of volume and structure can no longer be covered at the individual level only by the institutions that require public-private partnerships, so it is practically necessary to achieve combinations between the different alternatives available.

The objective of this research is to evaluate the opportunity of financing through public-private partnership of public investment projects, highlighting the advantages and disadvantages associated.

In this paper we used the qualitative research method based on the analysis of articles in the literature and we highlighted the context of developing this source of funding and the relationships and responsibilities that can ensure good management between different categories of partners.

The results obtained from the study of the specialized literature proved that the investments made in PPP can be extremely useful and efficient tools for the sustainable development of communities, but in Romania they are insufficiently exploited compared to the classic investments financed from local and central budgets.

This topic has a high degree of novelty for Romania, where the institutions are still reluctant to identify and select a private partner, which indicates a lack of involvement.

Keywords

Public investments, sources of financing, public-private partnership, partners.

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Introduction

Public entities, considered in the past as the guarantor of stability and integrity, have today become more vulnerable and more exposed to various influences. The internal management of resources, regardless of whether they are called material, human, financial, on criteria of economy and efficiency cannot ensure the premises of a sustainable development, able to use sustainably the natural and anthropic factors, but also to capitalize on opportunities. Communities, regardless of location or size, have become key players and drivers of integrated and intelligent development processes, all of which are possible only through new resource management. We believe that it is necessary to move the focus from the use of resources, especially financial ones, in the way of attracting, diversifying and allocating them efficiently.

Attracting and allocating financial resources, how they are prioritized in relation to the challenges and opportunities of communities are processes of major theoretical and practical interest. The internationally relevant literature deals with these topics, highlighting the need for innovative approaches, scientifically based using quantitative and qualitative methods (Dabla-Norris, et al., 2011).

Public organizations have diversified their access to funding sources from the available categories, reimbursable and non-reimbursable precisely to solve certain deficits, in the current operation but especially to be able to initiate new projects (Mihai, et al., 2018).

The evaluation criteria in terms of the performance of PPPs intended to finance public investments, may take into account the relevance, effectiveness, efficiency, utility, sustainability of the effects generated, but also the added value for the community. (Filipkowska and Wegrzyn, 2019). In addition, some authors (Carrillo De Albornoz et al., 2018) consider that classical efficiency indicators, such as the internal rate of return and updated net income, cannot accurately reflect the efficiency of a PPP, and for this reason certain adjustments to the calculation methodology are needed.

The aim of the research was to highlight the need for public institutions to attract financial resources and use them in public partnerships with a positive impact on the community.

Literature review

An increasing share of public institutions have understood, however, that although each source of funding has a number of advantages and disadvantages, it can make a different contribution to increasing operational performance. Based on these considerations but also on others related to the accessibility of a source, in a certain temporal and political context, organizations have moved to a new way of covering financial needs, through the combined use of various sources (Rajaram, et al., 2014).

The public-private partnership is known globally because it responds to a wide range of needs, from social structures to infrastructure models (Reeves and Palcic, 2017).

This alternative is considered viable, at least for the following reasons: local collection of taxes and fees, although increased as a percentage of the total, is more a source of ensuring functionality and less a variant of development; phenomena such as population migration, demographic aging or the degradation of the medical and educational system have had a negative effect on the volume of public revenues; in certain geographical areas, local economies have experienced phenomena of degradation or even complete disappearance, which has also limited the receipts from the space of taxes and duties paid by economic operators; although Romania has gone through a period of economic development in the last ten years, based on the infusion of foreign capital or European funds, the level of taxes collected was not in line with needs; the banking system, had to diversify its customer categories. Public institutions, in view of the existing legislative framework, represent a new category of customers, who once entered this category, become practically captive; at international level, the need for financing of public institutions was quickly supplemented by various options, offered through the WB - World Bank, EIB – European Investment Bank, or other representative financial institutions (European Investment Bank, 2017); reimbursable financing in the system of public institutions has evolved significantly in terms of volume and in view of the fact that some authorities own capital goods and land, which can easily become the subject of viable and easily marketable guarantees. In 2010, by Law no. 178 (updated) an attempt was made to regulate the way a project is carried out in PPPs - Public-Private Partnership, mainly regarding the design, financing, construction, rehabilitation, modernization, operation, maintenance, development and transfer of a public good or service. The results generated by the application of this legislative framework were not what was expected from the perspective of interpreting some formulations differently, as well as the fact that the harmonization of PPP legislation with that of concessions and public procurement was not achieved (Ciurea, 2019).

In May 2018, GEO no. 39/2018 on the public-private partnership that brings a new vision on the actions of realization, rehabilitation and extension of a new or existing objective in the patrimony of the public partner and / or the functioning of a public service (The Government of Romania, 2018).

According to the new approaches, the study on the basis of public investment must include detailed information on project financing, economic efficiency, risk distribution for each implementation option, project support, comparison of options, alternatives for project implementation and project correlation with deficit public debt and public debt, calculated according to the methodology applicable at European Union level. This means that more than half of the revenues generated by the project company, from the use of goods or the operation of the public service that is the subject of the project, come from payments made by the public partner or other public entities also for its benefit.

Research methodology

The methodology used is qualitative and was based on the in-depth study of the scientific literature on public investment and the best financing instruments for public-private partnerships, from a temporal perspective to highlight the changes that have occurred and those that need to be implemented on time. medium and long. The obtained results prove their usefulness at the level of the entities involved in the investment phenomenon, through the prism of a better understanding and interpretation, but also from the perspective of optimizing the decision-making system.

Public-private partnerships can generate benefits for communities, being strengthened and regulated through and through public-private partnerships (PPPs). The emergence of this tool is the result of the need to ensure a level of complementarity between the technical and financial capabilities of private organizations with the interests and needs of public organizations.

According to the literature, PPP is the tool to ensure sustainable development perceived as the balanced use of necessary resources, with reference to meeting the needs of all stakeholders, this being a mandatory condition for ensuring the social and economic sustainability of communities (Filipkowska and Wegrzyn, 2019).

Smart community development, focused on increasing the quality of services for citizens, economic growth, reducing resource consumption, protecting the environment and promoting ICT solutions, can be supported through PPPs in order to generate synergistic effects for all stakeholders.

To ensure an appropriate level of guidance and regulation, the European Center of Expertise in PPPs (ECEP) has been set up at European level, whose main responsibilities are to work with EU Member States to monitor the evolution of the national and European PPP market. and the promotion of mechanisms to strengthen institutional capacity (European Court of Auditors, 2018).

In the case of certain projects, the possibility of individual implementation, usually only by the public institution, limits the performance and the probability of obtaining the expected results. (Filipkowska and Wegrzyn, 2019). Moreover, the specific durations increase significantly, and the guarantee of the continuation of the projects, especially the multiannual ones, decreases considerably, in the conditions of manifesting some political or strategic inconsistencies. Following research on the PPP approach from the point of view of partners, (De Shepper, et al., 2014) states that there are, in many cases, gaps between the expectations of stakeholders and the results obtained, which determines the failure of the project. According to the European Court of Auditors (2018) the major differences between a project financed and approached in a classic way and a project carried out in PPP consist in the management of it, the contracts made and the risks associated with the project, which ultimately are divided between partners. From the perspective of the risks of a project, the private partner usually assumes the ones related to the stages of design, obtaining financing, implementation, management and last but not least ensuring the maintenance system of the newly created or modernized infrastructure. In compensation, the public partner is responsible for taking political, strategic and regulatory risks.

Following the research conducted in the literature, we have identified a number of features that allow us to understand how a PPP works (EIB, 2017). Among the most relevant we specify that they involve a collaborative process, which often comes down to a financing system, mainly from private funds and depending on the situation, by pooling private funds with public funds. The projects are characterized by long durations, both in terms of implementation and operation (usually over 5 years), which allows the private partner to recover the investment and obtain a satisfactory profit.

The distribution and assumption of risks between partners is another feature, as mentioned above, this process being influenced by the ability of each party to identify, assess, manage and control a particular category of risks. The financing of public investments through PPP contracts can be fully supported by the financial resources allocated by the private partner or by the financial resources allocated by both the private and the public partner. The public institution frequently intervenes in the form of a purchaser of services provided by the private organization, such as infrastructure design, construction and operation, respectively other related services (design-construction-financing-maintenance-management) (European Court of Auditors, 2018). These partnerships are contractually regulated, with the detailed establishment of all activities, responsibilities and related documents. Analyzing the conceptual framework of PPP we can say that the main idea of a PPP is to transfer construction, market demand and operational risks to the private company, which bears the costs and is involved to maximize profits during the contract period (Carpintero and Petersen, 2016). Based on the research carried out on the specialized literature, in figure no.1. and figure no. 2. we have differentiated the activities and forms under the responsibility of public and private sector partners.

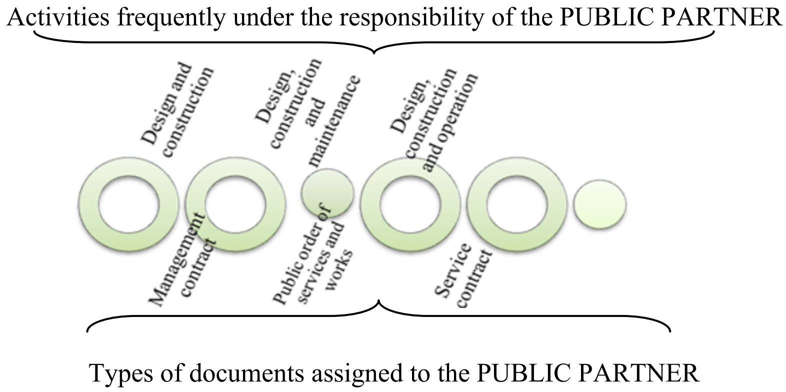

Figure no. 1. Synthesis of the main types of services and documents under the responsibility of the public partner in PPP

Source: own graphic representation adapted from Filipkowska and Wegrzyn, 2019

The public partner, most often ensures the management, management of services at community level and the collection and dissemination of related information at community level. The responsibility of the public institution also has the right to monitor the management of the provision of services as well as the observance of the corresponding quality standards.

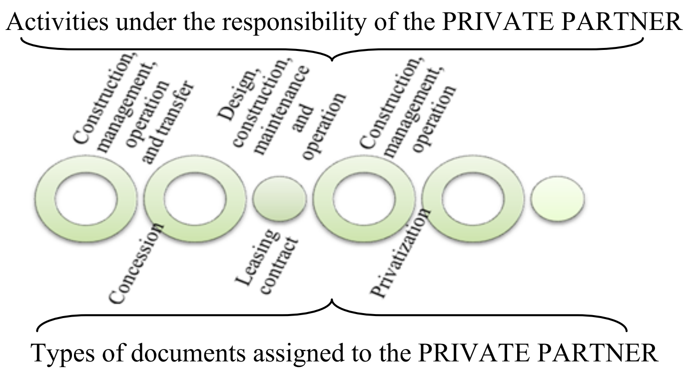

Figure no. 2. The types of contracts and forms under the responsibility of the private partner in the PPP

Source: own graphic representation adapted from Filipkowska and Wegrzyn, 2019

In the most common cases, PPP projects are initiated by the public authority through a specific tender procedure, in order to identify the private partner and define the terms of the future project agreement. The public institution is responsible for providing the infrastructure in its original state, in order to improve the operating parameters. The public partner also represents the regulatory authority, which creates the framework for implementation and operation, for which it issues operating permits and licenses.

Private partners are often included in the category of capital investors. If a larger number of private investors are involved, a joint venture structure is defined. An extremely relevant factor for project success is the examination of success factors that highlight the diversity of projects and the understanding of the importance of stakeholders (Swamy, et al., 2018). Financing investments through PPP partnerships can be provided through the commercial banking system or bond investors, interested in the return on investment. There are cases where in a classic PPP, project stakeholders can also include trade unions for the protection of human resources, the media for gathering and disseminating information and even organizations with responsibilities in the field of environmental protection. In (figure no. 3) we synthesized the main categories of stakeholders within a PPP:

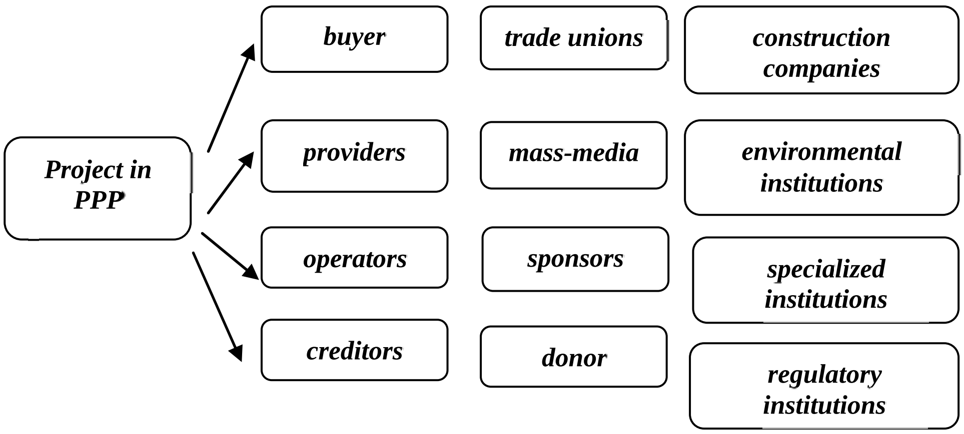

Figure no. 3. Stakeholders within a PPP
Source: own graphic representation adapted from Filipkowska and Wegrzyn, 2019

The interests of public institutions in a PPP partnership are related to monitoring the system in which the project is carried out, intervention and control in the interest of the community, achievement economic, social and environmental benefits and gains.

Private partners pursue to a greater extent the profit from construction, financing, operation and other contracted services. Unfortunately, in some situations PPPs are a complex gathering of strong but often contradictory actors depending on interest groups.

Under classical contractual conditions, throughout the life cycle of the project the responsibility is private partner, including for the management of the amounts invested. Instead, the public partner will also use the beneficiary of services created following the completion of the infrastructure, for which a conventional amount will be paid with one assent to the private partner.

The values that the public partner must pay to the private partner are determined according to the availability of the infrastructure or the degree of its use. As much (thus), the values are differentiated if the future objective is available and works in the default parameters. Regardless of the amount set, the most important factor is the qualitative one, with the obligation to comply with the quality standards for the entire duration of the project.

From a financial point of view, in the case of projects implemented in partnership, in the budget of authorizing officers financed either in full or in part of public funds and which have the quality of partner, it includes only something necessary to complete the project activities. (Ministerul Finanțelor Publice, 2019). In addition, the financial contribution of public partners to the PPP can be included as an off-balance sheet item, but subject to conditions set by the EU (European Parliament, 2013).

The European Commission's studies and audit reports have shown that the EU can support PPPs through Cohesion Fund (CF) and European Investment Bank (EIB) funding (European Court of Auditors, 2018).

Another form of financing PPP projects is the mixed one in which private resources are combined with EU funds. Thus, the public partner can support the project much easier from a financial point of view, which means a decrease in the funding contribution. However, there are also weaknesses of associating European Union funds with PPP partnerships. Due to the high level of requirements, the uncertainty regarding the mobilization of resources, the compliance with deadlines and the anticipation and the resolution of some difficulties encountered also increases.

Moreover, the main disadvantage of this form of mixed financing is the management of funds due to their inclusion in off-balance sheet format, which increases the risk of decrease the cost-benefit report, but also transparency throughout the life cycle (European Court of Auditors, 2018). Another disadvantage (drawback) of project implementation in PPPs is the administrative capacity. For such projects it is necessary training human resources within public institutions to support and implement these types of complex projects.

For the problems identified in the financing and implementation of PPPs, it is necessary an objective analysis of the causes and proposing solutions for these types of projects to be integrated in the Romanian economic context and to become real development opportunities. Regarding the purchases part, there are still difficulties in choosing the best option, and often the decisions are not properly substantiated, which leads to project delays and negotiations, which influence both the financial component and the efficacy of its implementation.

Results and discussion

The advantages of using PPP projects as a source of financing, according to the literature (Moldovan, 2017; Vertakovaa and Plotnikov, 2014; European Court of Auditors, 2018) have in mind the optimal implementation of projects, in terms of meeting deadlines and budgeting approved, the distribution of potential risks between partners, the reduction of the level of costs, the possibility to obtain more easily some facilities in terms of attracting additional resources for a certain area. Also relevant are issues such as providing lifelong maintenance services for projects as opposed to those traditionally funded and implemented, combining public and private sector experience for more efficient project management and evaluation; reducing construction costs and improving quality by (harnessing) capitalizing on the innovative potential of the private sector and stimulating research efforts - development, innovation and sustainable development.

The disadvantages of using projects as a source of financing in PPPs (European Court of Auditors, 2018) are primarily related to ensuring transparency and to differentiated responsibility for the provision of services, when a private partner is involved in the partnership to comply with the same obligations as the public partner.

Another disadvantage of long-term partnerships is the cost implications. They can increase significantly if the project is financed by the private partner through a private loan, with the risk of increasing final costs. In the case of high standards imposed by the tender documentation and very long association periods, the number of interested private partners is small, or there is a risk of creating competitive advantages for only some of the economic partners. Relevant statistics published at European level show that for Greece, the average duration of PPP projects is around 4 years, and the cost increase is around 60%, in the case of motorway infrastructures (European Court of Auditors, 2018).

Conclusions

The interest of the European institutions is manifested in the implementation of policies and methodologies for the implementation of PPPs and, certainly, in the field of promoting those legislative regulations that support this type of intervention, so that it becomes an effective tool for development. Statistically, the EU PPP market is dominated by priority countries such as Greece, France, Spain and Portugal, which have developed interventions amounting to around 90% of the total market in the period 1990-2016 (European Court of Auditors, 2018).

European practice has shown that investments in PPPs, if properly implemented, can be useful and effective tools for community development in areas such as education, health, services and road infrastructure.

In conclusion, we believe that there is a need to change the approach to investment through PPPs, in terms of modern values and principles, adaptable to economic, social and environmental needs, and the administration to be able to manage public investment projects in an objective way, transparent and a priority for the well-being of society.

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