***B.S. Shuliuk, Ph.D. in Economics, Associate Professor of S. Yurii Finance Department,***
*Ternopil National Economic University*
*Ternopil, Ukraine*

# FINANCIAL PARTNERSHIP OF THE GOVERNMENT AND BUSINESS AS MEANS OF INTENSIFICATION OF UKRAINIAN INVESTMENT ACTIVITY

A necessary condition for sustainable social and economic development of Ukraine is the interaction of government bodies and business. Necessity to intensify such cooperation is caused by constant budget deficit, a different level of regions' supply, the lack of investment resources for making huge financial contributions in order to upgrade and expand infrastructure. This will allow to invest in infrastructure projects, to support strategic industries and implement socially important priorities.

During 2004-2014 Ukrainian Government cooperated actively with businesses concerning investment of projects in the following areas: energy economics, communications, transportation, water supply and sanitation (Table 1). According to the World Bank the largest number of contracts was concluded in the communication industry in the amount of 9.523 million US dollars and the least attractive was transportation industry.

*Table 1*

**The dynamics of financing of public-private partnership in Ukraine during 2004-2014***

*million US dollars*

| Year | Economic sector | | | |
|---|---|---|---|---|
| | **Energy Economics** | **Communications** | **Transportation** | **Water Supply and Sanitation** |
| 2004 | – | 738 | – | – |
| 2005 | – | 1407 | – | 100 |
| 2006 | 4 | 865 | – | – |
| 2007 | 83 | 1346 | – | – |
| 2008 | 100 | 1364 | – | 102 |
| 2009 | 121 | 934 | 130 | – |
| 2010 | 89 | 413 | – | – |
| 2011 | 998 | 1819 | – | – |
| 2012 | 725 | 440 | – | – |
| 2013 | – | 185 | – | – |
| 2014 | 2 | 12 | – | 202 |
| Всього | 2122 | 9523 | 130 | 404 |

** Prepared by the author based on the source [1].*

Despite the fact that Ukraine carried out the implementation of infrastructure projects based on public-private partnership, we stand behind other countries in the development of such partnership. Particularly Ukraine stands behind China, India, Brazil, Mexico, Argentina, Turkey, Chile, Colombia, Thailand, etc.

The effectiveness of partnerships depends on balance between the participants' interests. For that to happen, the Government must take the investor as an equal partner and provide security of investments. The Government requiring the private partner fulfills all obligations under the agreement, has also to ensure their full performance.

At the same time, the main risks and obstacles for successful investment of public-private partnership projects in Ukraine are the following: the failure to meet financial obligations on long-term projects by private partners that caused by failure to return on investments due to economically unjustified costs; delayed placement into service or mismatch between criteria of subject of the contract; the absence of tax and customs privileges in domestic legislation to run public-private partnership projects that does not stimulate investment activity; incomplete implementation of projects due to the changes in budget priorities and review of special-purpose and budget programs; failure of the Government to refund losses to private partner caused by mismatches between demand for goods/services and planned indices.

In our country public-private partnership functions under imperfect legal environment, mistrust of the Government to the private sector, political instability that does not stimulate involvement of private partners to investment support of Ukrainian economic sectors. Therefore, an important factor in the partnership development is support and a high level of guarantees from the Government to the private sector. Since participation of both partners in public-private partnership projects accompanied by some risks, it is particularly relevant to assess project risks and their distribution depending on the functions that will get parties (Table 2).

*Table 2*

**Evaluation of the investment project effectiveness taking into account the interests of participants of public-private partnership** [2, p. 299]

| Stage of the project | Type of efficiency | Indicator of efficiency |
|---|---|---|
| The efficiency of the project in general | Social efficiency | Gross national product, employment and income level of population, participation in the international division of labor. |
| | Commercial efficiency | Net present value, internal rate of return, payback period, the need for additional funding, the cost of capital assets. |
| The efficiency of participation in the project | Efficiency for the participants | |
| | Regional, sectoral efficiency | Competitiveness of enterprises, growth in incomes of compatible enterprises, international integration, environmental safety. |
| | Budget efficiency | Budget revenue of different levels in the form of taxes, excises, revenues from licensing, contests and tenders. |

As shown in the Table 2, to determine whether an investment project is in the interests of partnership participants, it is necessary to define indicators of project efficiency in general and also for individual participants.

Therefore, before taking a decision on the implementation of any project by means of concluding of cooperation agreement between the Government and the private partner, it is necessary to carry out financial and economic analysis concerning feasibility of such cooperation in the context of budget efficiency. However, in the current economic situation characterized by budget deficit at all levels of governance, involvement of private capital is one of the best schemes of infrastructure projects financing. In such circumstances, it is reasonable to create a favorable organizational and economic, managerial and investment environment that determines the success of the development and implementation of public-private partnership projects, particularly it is:

1) removal of duplication of government bodies' functions by clear determination of the functions in preparing and implementation of investment projects. For this to happen, a center of financial cooperation between the Government and business must be created. It would coordinate the activities of partnership participants, establish cooperation with international financial institutions;

2) developing and carrying out feasibility studies of investment projects at the State and local levels. It should be expected that the costs must be compensated by the private partner after the making decision on running the project;

3) the annual monitoring of social and economic efficiency of the implementation of public-private partnership projects, based on which, if necessary, to make proposals for improvement of the forms and methods of such cooperation;

4) developing a mechanism of refunding losses to the private partner by the Government in case of termination of long-term public-private partnership contract. And in case of the failure to meet obligations by the private partner, to provide the opportunity to re-elect a new partner by means of competition;

5) determination of the types of budget support of public-private partnerships projects through making amendments to the Budget Code of Ukraine.

Thus, establishment of close financial cooperation between the Government and business will activate investments, encourage financing of infrastructure projects, solving of social and economic policy problems and improvement of the welfare of population. This, in return, will provide high innovation and social development of the country in long-term perspective.

**List of references:**

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2. Mostepaniuk A.V. Public-private partnership as a mechanism of increasing of Ukraine's economy competitiveness / A.V. Mostepaniuk // Theoretical and applied economic problems. – 2011. – Edition 26. – P. 296-304.