

FORMATION AND USE OF THE SYSTEM OF FINANCIAL INCENTIVES FOR THE DEVELOPMENT OF PARTNERSHIP BETWEEN THE STATE AND BUSINESS³

The article reveals the domestic and foreign practices of using the main types of financial incentives for public-private partnership: direct financial support, subsidies, guarantees and insurance and government benefits. It was found that concessional lending, provided mainly by international development banks, plays an important role in direct financial support. Such support is especially relevant in the initial stages of project implementation due to the lack of skills and financial resources to achieve effective results. Emphasis is placed on the active participation of public authorities in the lending process, which involves the signing of international agreements and the provision of state or local credit guarantees. Given the low level of development of the financial market in Ukraine, the expediency of using interest rate subsidies is justified, which compensates for the difference between market and preferential rates. It is proved that in the process of state incentives in the form of tax benefits, preferential tariffs for private partners, lease or leasing benefits, public authorities must take into account the annual losses of the state budget from the provision of such benefits. In this regard, to minimize the negative consequences, it is necessary to apply financial incentives, taking into account the impact on the budget and financial and economic activities of economic entities, to introduce an effective system of control over their use. Carrying out a comprehensive analysis of the use of financial incentives in domestic and international practice made it possible to identify problems that hindered their successful implementation in Ukraine.

Keywords: financial incentives; public-private partnership; soft loans; guarantees and insurance; subsidies; tax benefits

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1. Introduction

In Ukraine and the world, there is an increasing tendency to intensify relations between the state and private business. The implementation of many socioeconomic tasks in the country is associated with ever-increasing constraints in the financial sphere, as well as the need to improve the quality of social services and infrastructure. In this regard, an integral condition for the effective functioning of the economic system is the constructive interaction of government and business to address common financial, economic and social problems. Therefore, the interaction between the state and the business sector is effective at every stage of state formation, as it allows not only to save budget funds, but also to develop entrepreneurship and social infrastructure and promote cooperation with the state in doing business.

In particular, the first stage (1991-1992) is related to the formation of the institutional environment, that is, the birth of private entrepreneurship and the expansion of cooperation between the state and business in the economic sphere began. The second stage (1993-1999) was characterized by an active transformation of the economy, in which various approaches to the implementation of the state's economic policy were developed. Mutual cooperation between the state and business was mainly focused on the raw material sector of the economy. At the same time, the deterioration of the economic situation in the country led to a decrease in incentives for entrepreneurial activity and business readiness for long-term investment. The main content of the third stage (2000-2008) was to strengthen the role of the state in regulating the socioeconomic processes of the country. Big business has firmly established its position as the main subject of innovation and investment activity and the main partner of the state in joint socially significant and economically strategic projects. The fourth stage (2009-2014) is associated with the global economic crisis, which led to the problems of the extensive development of the domestic economy, which led to the negative dynamics of the main indicators of the socioeconomic development of the state, including the cancellation of many public-private partnership projects. The fifth stage (2015 – present) is the period of the modern development of the financial mechanism of public-private partnership, which is aimed at the development of industry, modernization, and transfer of new, innovative technologies.

Thus, the interest of public authorities in the implementation of partnerships with business entities is due to the need to invest in important socioeconomic projects. Instead, in conditions of economic instability, due to the high level of risky investments, companies are not interested in cooperating with public authorities. In addition, they have problems attracting long-term loans to finance public-private partnership (PPP) projects. In this regard, it is important to take additional measures to encourage business participation in PPP projects. In view of this, it is advisable to consider the peculiarities of the formation of a system of incentives that should ensure the interests of the private partner and not hinder the implementation of public policy priorities in the socioeconomic sphere.

2. Literature Review

Despite significant achievements in the field of public-private partnership, in the economic literature, domestic scientific papers on the need for its financial incentives are presented sporadically. Among the research should be noted the works of O. Stefankiv and V. Danylyshyn, which are devoted to new models of financial incentives for the private sector to cooperate with the state. So, according to scientists, direct state support can be implemented by: providing investment transfers; repayment of interest on loans; reimbursement of expenses (for construction, participation in a tender, major repairs, etc.); lending at the expense of budget funds; provision of tax, customs benefits, tax credit, refusal to collect taxes, etc.; provision of state (local) guarantees for loans of a private partner; provision of state (local) guarantees for compensation of losses due to exchange rate fluctuations. And indirect state support may include: indirect financing through the system of «shadow» tariffs – reimbursement of payment for services provided to consumers from the state budget through the system of state subsidies for communal services; attraction of loans from foreign countries, financial and credit institutions and international organizations; provision of guarantees for indemnification of the private partner due to non-compliance of the demand for products (services) with the planned indicators, changes in prices (tariffs), non-fulfilment of obligations by the state partner, etc.; guaranteeing the minimum amount of demand (state order) for products or compensation for losses from its reduction; risk insurance (Stefankiv, Danylyshyn, 2016). M. Prorochuk proposes measures necessary for the development of the mechanism of interaction between government and business in the field of infrastructure, the main of which are: thorough elaboration of contracts and funding opportunities, improving legal and economic training of executive bodies, promoting their willingness to compromise and find ways to solve the problems (Prorochuk, 2020). G. Komarnytska also investigated directions of activation of public-private partnership in terms of the development of investment and innovation activities. She proved that the public-private partnership would be effective if it is fully supported by various institutions: both directly by state authorities at the national, regional and municipal levels and by other entities specially created for this purpose (Komarnytska, 2019).

The issue of financial stimulation of PPP projects is a direction of research and foreign scientists. Thus, N. Linh, X. Wan, H. Th. Thuy emphasize the need to encourage the participation of banking institutions in the implementation of PPP projects (Linh, Wan, Thuy, 2018). F. Blanc-Brude and R. Strange study the impact of risks on the bank financing of PPP projects, noting that market risk has the greatest impact, while technical risks are diversified through project structuring (Blanc-Brude, Strange, 2007).

Despite some scientific achievements in the field of financing public-private partnership projects, most of the works mostly concern the general principles and provisions of public-private partnership, but there is still no thorough research on the formation and use of financial incentives for public-private partnerships in Ukraine determines the relevance of this study. Therefore, the aim of the article is to reveal the peculiarities of the formation and use of financial incentives for public-private partnership in domestic practice, highlighting the best world achievements in this field in order to implement them in Ukraine.

3. Research Methodology

In the course of the research, statistical methods were used – when comparing the domestic and foreign practices of applying financial incentives for the development of partnership between the state and business; analysis and logical generalization – in revealing the problems of using direct financial support, subsidies, guarantees and insurance, public benefits for the development of the public-private partnership. At the same time, a systematic approach is used to obtain results, which is aimed at reconciling the interests and ultimate goals of the partnership participants and ways to achieve them.

4. Results

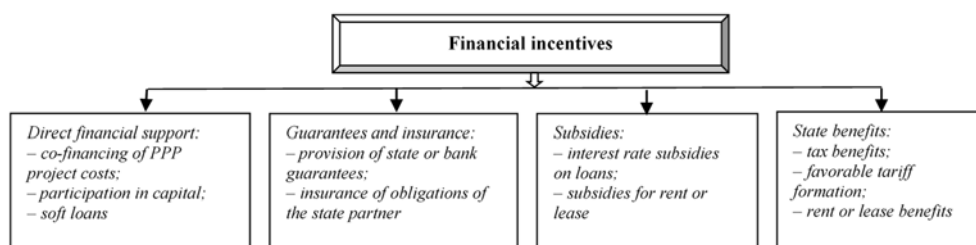
4.1. Types of financial incentives for public-private partnership

In foreign practice, public authorities use various incentives to develop cooperation with business: from investing in a PPP project to providing financial advisory services. Maintaining partnerships with business, the state uses financial incentives in various combinations. It is worth noting that there is no «perfect» set of incentives, as each of them has both positive and negative properties. Attempts to improve one tool by supplementing it with certain types of another worsen rather than improve the situation. This necessitates a study of the practice of financial measures in the process of stimulating public-private partnerships.

Incentives are developed taking into account the peculiarities of national economies and the financial capabilities of the state budget. A. Kireeva, I. Sokolov, T. Tishchenko and E. Khudko believe that «in small countries, the effect of stimulating private business is not always felt, and large countries can assess the effectiveness of measures only at the global level» (Kireeva et al., 2012). At the same time, the stimulus policy is aimed at attracting and retaining business in the field of public-private partnership.

The purpose of PPP financial incentives is to reduce the costs of the private partner in the project and obtain commercial benefits from the partners of the partnership. Given the above, it is advisable to distinguish the following species' financial incentives for PPP development: direct financial support, subsidies, guarantees, insurance and government benefits (Figure 1).

Figure 1. Types of financial incentives for public-private partnership



Sources: <https://www.worldbank.org/en/topic/publicprivatepartnerships/publication/the-ppp-reference-guide-version-20>; (Solntsev, 2017).

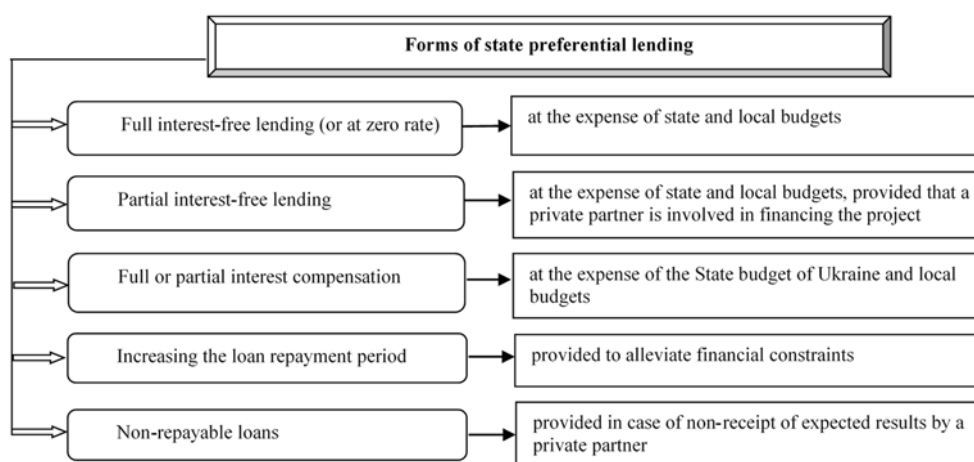
4.2. Direct financial support of public-private partnership projects

Direct financial support is usually provided to compensate for the capital costs of a private partner. Common types are direct or indirect co-financing of PPP projects, as well as participation in the capital (budget investments in exchange for the right to manage the company), which are carried out mainly from the state budget, as local budgets do not have the financial capacity to implement projects PPP.

In addition, in international practice, there are special funds for the development of partnerships between government and business. In particular, in India – the Financial Infrastructure Development Company of India (IDFC) and the Indian Infrastructure Finance Company (India), in Africa – the South African Project Development Facility, in Canada – the Canadian Public-Private Partnership Fund (PPP Canada Fund), etc. An important place in the European financing of PPP infrastructure projects is occupied by European Union funds – the European Regional Development Fund, the European Social Fund and the Financial Support Fund.

Preferential lending involves providing a loan at a zero rate or reduced interest rate, so the borrower is offered an interest rate below market level; full or partial compensation of interest; increasing the term of loan repayment; granting non-repayable loans (Figure 2).

Figure 2. Forms of state preferential lending for public-private partnership projects



Source: compiled by the authors.

Public lending can be an additional burden on the state budget, as the risk of default of the borrower is cyclical and unpredictable.

In world practice, preferential lending for PPP projects is provided by international development banks, the purpose of which is not to maximize profits, but to support, for the most part, commercially unattractive areas of activity in developing countries. The need for their participation in the financing of PPP projects is due to the following factors:

- first, the scale of PPP projects, their long-term implementation and high cost, which prevents the participation of national commercial banks, as well as the inability of the latter to provide low-interest rates on loans raised for these projects;
- secondly, the constant lack of budget funds aimed at financing state-targeted programs, restrictions on the domestic capital market, excessive fiscal burden on businesses;
- thirdly, high political risks, a lack of appropriate legal and regulatory framework in the field of public-private partnership, etc.

The active participation of international development banks in creating charitable conditions for the development of public-private partnerships is especially important in the initial stages of project implementation due to the lack of skills and financial resources to achieve effective results. Therefore, development banks can be involved both in the initial stages of PPP (from financing the development of project documentation to non-financial technical assistance to governments to implement the necessary economic reforms to improve the environment of PPP projects) and directly at the project lending stage by providing loan guarantees, investing in the capital of the project company, issuing soft loans.

No financial institution uses such a wide range of instruments as development banks. However, the most common are loans, which are provided mostly on concessional terms. The conditions for the provision of credit resources by development banks depend on the level of socioeconomic development of the country and the type of credit product. The loan term varies from 1 to 38 years, with a minimum grace period of 3 to 15 years. Interest rates are mostly fixed on soft loans and floating on commercial loans (Faure et al., 2015). At the same time, attracting such credit resources requires the active participation of public authorities in these processes, as it is done by signing international agreements and providing state or local credit guarantees.

4.3. Warranty and insurance support for PPP projects

The most common form of PPP incentive is the provision of state guarantees and liability insurance of the state partner. They are used to implement significant socioeconomic projects, creating favourable conditions for attracting credit resources. This allows to stimulate the attraction of private investment. In contrast to the provision of guarantees to small and medium-sized enterprises, which are mainly carried out with the help of guarantee agencies, guarantees for PPP projects are mostly provided from the state budget.

Guaranteed participation in capital stimulates the investment of high-risk projects, as it provides for the payment of the debt by the state in the event that the private partner is unable to fulfil its obligations. The state guarantee allows the development bank to provide soft loans on the capital market. In addition, state support should promote, not compete with, the Development Bank's cooperation with commercial banks on a subsidiary and segregation-based basis.

In world practice, there are a large number of successful PPP projects with guarantees provided at the national, regional or municipal levels of government, that are implemented within public finances. At the same time, such guarantees are not debt obligations of

countries, but are accounted for separately. They usually have a legal, financial limit (Spain, Poland, France, etc.). The exception is the United States, where government guarantees are the country's debt. This significantly limits the potential for their provision, as a result of which the amount of risks taken by the public sector is reduced.

There are situations when the public partner is forced to fulfil guarantees on PPP projects with erroneously assessed risks, that is, pay funds due to default or to compensate for lost revenue by financing expensive and often economically unjustified PPP projects. In addition, in international practice, there are cases in which guarantees have not been implemented, but to prevent default on guaranteed obligations, the government has provided support to the private partner in other forms (subsidies, soft loans, etc.).

Government credit guarantees should be used in countries where public-business partnerships have not been properly developed. Given that the state provides guarantees on a paid basis, creditors have incentives to finance PPP projects and, at the same time – full or partial responsibility for assessing the creditworthiness of potential borrowers. The state benefits as the need for budget allocations decreases. However, such guarantees may reduce the motivation of borrowers to meet all the terms of loan agreements.

Unlike government guarantees, guarantees issued by development banks have a higher credit rating. The experience of countries with a long history of PPP shows that the implementation of projects using the guarantee mechanism of such international financial institutions allows the completion of the project on time with the initial budget. When issuing guarantees, most banks assume some operational risks, such as low-demand risks and political risks.

Providing guarantees by commercial banks is a rather expensive way to support public-private partnership projects. After all, they apply a rate based on a full risk assessment. Instead, international development banks can provide them on preferential terms, that is, free of charge, at a fixed (one-size-fits-all) or differentiated (by the amount of liabilities and the level of development of the country) rate. It is the first type of rate that supports priority development projects (selected on the basis of scale, type of economic activity and territorial affiliation of the project).

In economically developed countries, the amount of guarantees provided exceeds the cost of their creation and maintenance. In particular, the share of guarantees, that is, payments for guarantees is 2-3% of their total. At the same time, in world practice, it is believed that the optimal level of funding for such guarantees is from 5% to 10%.

According to World Bank statistics, during 2010-2021, there was active participation of international development banks in financing public-private partnership projects. The largest financial support was provided to Latin America and the Caribbean, where 187 PPP projects worth \$ 4,6553.8 million were implemented. The countries of the Middle East and North Africa received the least amount of financial support from development banks, where 58 projects worth \$ 13,606.8 million were implemented (Table 1).

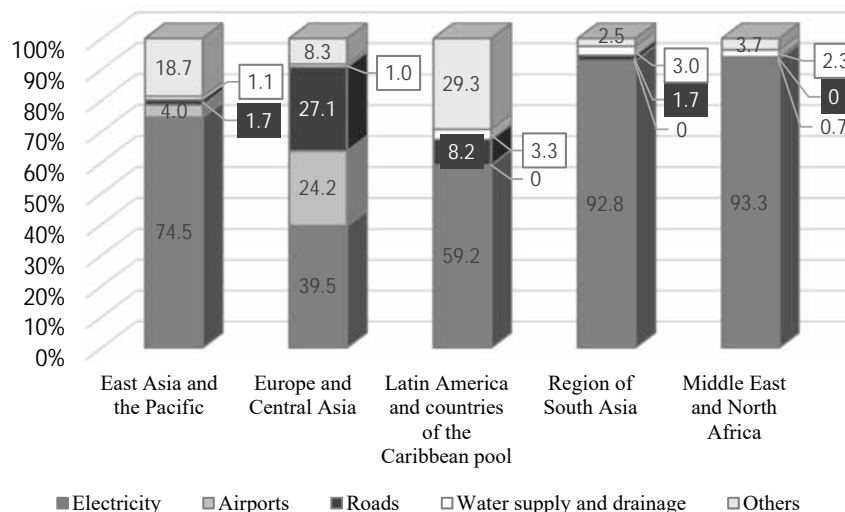
Table 1. The amount of financial support for public-private partnership projects provided by international development banks to various regions of the world during 2010-2021

Years	Regions									
	East Asia and the Pacific		Europe and Central Asia		Latin America and countries of the Caribbean pool		Region of South Asia		Middle East and North Africa	
	units	million dollars	units	million dollars	units	million dollars	units	million dollars	units	million dollars
2010	6	1242,0	6	1997,5	22	4106,4	3	203,5	2	409,7
2011	5	1452,3	9	1836,9	21	4795,7	19	1551,3	–	–
2012	10	5260,5	7	6012,0	18	3633,1	13	2457,0	1	223,0
2013	5	994,1	4	581,5	25	4700,3	6	631,3	2	1728,0
2014	5	2740,8	1	4,0	20	3941,1	6	755,3	6	2906,6
2015	4	1828,7	7	2915,3	22	8973,0	8	1514,0	9	2160,0
2016	4	750,0	3	296,5	4	1222,5	3	417,6	4	1255,1
2017	11	5118,4	7	1131,8	11	3077,7	9	3073,4	28	3109,4
2018	13	5593,0	8	2165,6	16	4384,2	6	1107,3	2	364,9
2019	8	2579,8	25	3115,3	19	5187,5	13	1756,2	1	335,0
2020	6	509,8	8	1475,8	7	2040,8	8	2410,9	2	961,0
2021	5	507,9	5	1934,9	2	491,5	4	316,4	1	154,1
Total	82	28577,3	90	23467,1	187	46553,8	98	16194,2	58	13606,8

Source: <https://ppi.worldbank.org/en/visualization#sector=&status=&ppi=&investment=®ion=&ida=&income=&ppp=&mdb=&year=&excel=false&map=&header=true>.

Worldwide, financial support for PPP projects by international development banks has been provided in various sectors of the economy. The largest share of the mentioned financial support in the regions of the world is provided in the field of electricity. Thus, during 2010-2021 it ranged from 39.5 to 93.3 percentage points. This is primarily due to energy and environmental issues on a global scale. A significant amount of financial support from energy development banks is provided by the so-called «Greenfield project», which is developed from scratch and involves the design of infrastructure, its construction and commissioning. At the same time, the state provides the investor with guarantees of long-term cash inflows as a result of concluding contracts with the main consumers of electricity. However, in the structure of financial support provided, its share was small in PPP projects in such areas as air and rail transport, heat supply and waste treatment, which were mostly implemented in the form of concessions (Figure 3).

Figure 3. Structure of financial support of PPP projects by international development banks in various sectors of the economy during 2010-2021



Source: <https://ppi.worldbank.org/en/visualization#sector=&status=&ppi=&investment=®ion=&ida=&income=&ppp=&mdb=&year=&excel=false&map=&header=true>.

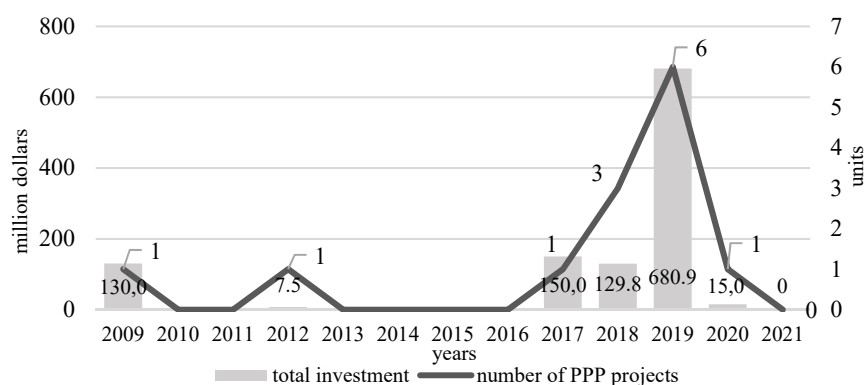
In Ukraine, financial support for national and regional PPP projects by international development banks is low. Thus, during 2009-2021, they financially joined the implementation of 13 PPP projects, the largest number of which was observed in the 2019 year: 6 projects worth 680.9 million dollars, and in 2010-2011, 2013-2016 and in 2021 (Figure 4) no support was provided by the mentioned financial institutions. The main reasons for the low level of interest of development banks in financial support of domestic projects are distrust for the state as a subject of the partnership due to economic instability, changing legislation, frequent changes in priorities of various political forces, underdeveloped institutional environment for public-private partnership.

During 2009-2021, financial support for PPP projects in Ukraine was provided by such international financial institutions as the European Bank for Reconstruction and Development, the International Finance Corporation, the Netherlands Development Bank, the Black Sea Bank for Trade and Development, the Nordic Environmental Finance Corporation, the Norwegian Agency for guaranteeing export credits, etc. Mainly, the participation of these institutions was manifested in the form of preferential loans, less often – in the form of guarantees.

In the specified period, development banks provided financial support exclusively to PPP projects that were implemented in the port industry and electric power. The largest amount of such support was received by the project, which is a significant contribution to the development of the renewable energy sector of Ukraine, called «Syvash Wind Power Project», which involved the construction of a wind power plant. The total amount of financing of the project was 428.45 million dollars, including development banks, among

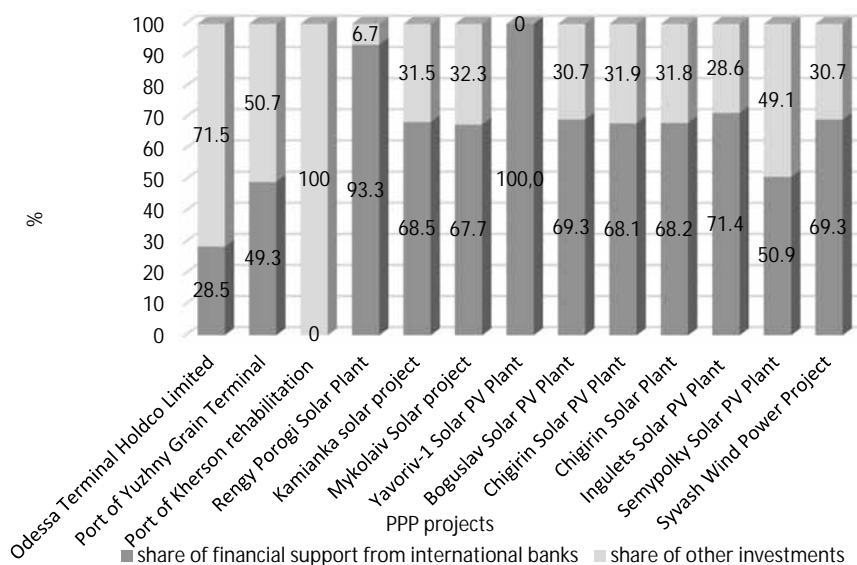
which there were eight participants, provided preferential loans in the amount of 297.0 million dollars, which is 69.3% of the entire cost of the project. In addition, a significant share of such financial support was also observed in other PPP projects. In general, it ranged from 28.5 to 100 percentage points (Figure 5).

Figure 4. Dynamics of the number and volume of financial support for PPP projects in Ukraine from international development banks for 2009-2021



Source: <https://ppi.worldbank.org/en/visualization#sector=&status=&ppi=&investment=®ion=&ida=&income=&ppp=&mdb=&year=&excel=false&map=&header=true>.

Figure 5. The share of financial support from international development banks in the total amount of investments in PPP projects in Ukraine for 2009-2021



Source: <https://ppi.worldbank.org/en/visualization#sector=&status=&ppi=&investment=®ion=&ida=&income=&ppp=&mdb=&year=&excel=false&map=&header=true>.

Despite the significant share of financial support from international banks for the development of PPP projects, which is shown in Figure 5, it was provided in certain sectors of the economy (port and electric power), so the number of such projects was insignificant. Therefore, in order to deepen cooperation in other sectors of the economy, in October 2019, the International Financial Corporation, whose activities are focused on supporting the development of partnership relations between the state and business in developing countries, and Ukraine signed a memorandum regarding the identification of priority sectors for financing PPP projects. Highways, airports, railways and health care are chosen as the main ones, where pilot projects are being developed under concession conditions. The goal of implementing the mentioned projects is to increase the volume of investments, increase the general well-being of society and accelerate the growth of the economy of Ukraine.

The continuation of cooperation with international development banks was the signing on June 26, 2020, by the Ministry of Infrastructure of Ukraine, the Administration of Sea Ports of Ukraine and a consortium of companies as part of Risoil S.A. and Georgian Industrial Group of the agreement on public-private partnership for the purpose of development of the Kherson sea trade port according to the concession model. This was of great importance for the Government of Ukraine, because the mentioned project required an urgent investment and professional experience in the port sector of the country. The International Finance Corporation, the European Bank for Reconstruction and Development, and the Global Fund for Infrastructure Financing became the main financial consultants in this area. This made it possible to conduct a tender for the implementation of the mentioned project in Ukraine at the level of world standards for the first time. Also, within the framework of such cooperation, the implementation of the PPP project for the seaport «Olvia» took place.

Thus, financial support in the form of soft loans and guarantee support in the process of public-private partnership projects is an important factor in strengthening the cooperation of business entities with the state. At the same time, it is necessary to create a comprehensive system of project selection, determine the acceptable level of risks and conditions of the guarantee, take into account the latter, as well as monitor the implementation of guarantee obligations.

4.4. Subsidizing in the process of financial stimulation of public-private partnership

Providing favourable conditions for the participation of banking institutions in lending to PPP projects is important in stimulating partnerships between the state and business. Unfortunately, the interest rate of the National Bank of Ukraine and the risky activities of commercial banks do not allow lending to these projects at an affordable rate. Therefore, it is advisable for public authorities to apply interest rate subsidies, which provide compensation for the difference between market and preferential interest rates.

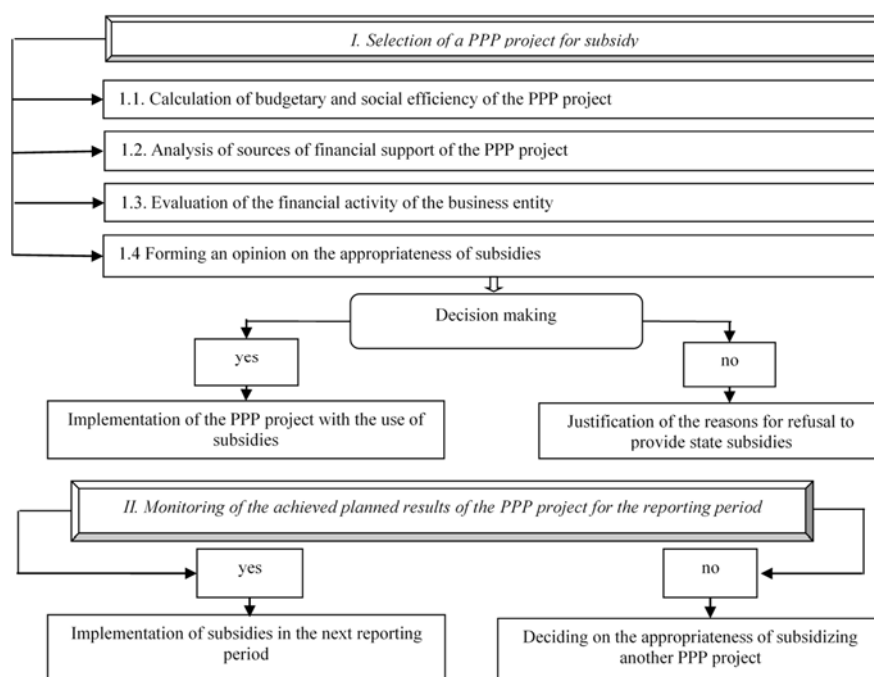
In economically developed countries, the use of this financial instrument is significantly reduced due to the development of financial markets. For example, the Organization for Economic Cooperation and Development, which includes 37 countries, uses interest rate compensation to support 3% of PPP projects (Kryshtal, 2017). However, at the international

level, it is impossible to compare the amount of budget funds allocated by states for these subsidies, as there are different methods of providing and the amount of subsidies.

In Ukraine, the subsidy instrument is a promising stimulus for lending to public-private partnership projects by banks in the long run, due to the low level of development of the domestic financial market. In domestic practice, it is used for investment projects implemented in agriculture, transport, food industry, construction of infrastructure and small and medium-sized businesses. At the same time, as noted by G. Kryshstal, «the scheme of subsidies for loans raised by enterprises for the reconstruction and renovation of production facilities, provides for reimbursement of 3/4 of the amount of interest on the loan for 1 year» (Kryshstal, 2017). However, such a stimulant was not used in the domestic practice of PPP.

Subsidizing payment for rent or leasing in the process of PPP project is legally regulated in the Law of Ukraine «On Concession» from № 155-IX 03.10.2019 (About the Concession: Law of Ukraine, 2019) and the Law of Ukraine «On Lease of State and Municipal Property» from 03.10.2019 № 157- IX (About the Lease of State and communal property: Law of Ukraine, 2019). These legislative acts give the state partner the right to reduce the amount of concession and lease payments. The decision to provide benefits is made by the state partner after calculating the amount of budget losses for the year. These types of benefits must be provided for in the public-private partnership agreement.

Figure 6. Decision-making mechanism on the feasibility of subsidizing a public-private partnership project



Source: built by the authors.

Decisions on subsidizing interest rates and rent or lease payments in the process of PPP projects should be made in accordance with the results of an open discussion with all stakeholders and independent entities, including foreign, professionals, members of the public. It is necessary to take into account the annual losses of the state budget from the provision of such benefits. The mechanism for deciding on the appropriateness of subsidizing a public-private partnership project is shown in Figure 6.

4.5. State benefits in the system of financial incentives for public-private partnership

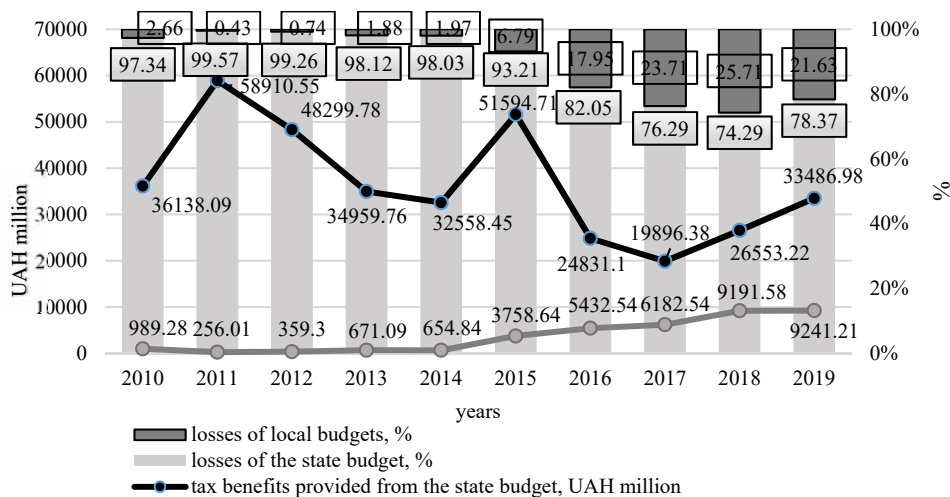
One of the forms of encouraging business participation in the financing of PPP projects is tax incentives, the main tool of which is tax benefits. In the scientific community, there are different interpretations of this concept. Thus, Yu. Ivanov, A. Krysovaty, O. Desyatniuk believe that «tax benefits are statutory exceptions to the general rules of taxation, which give the payer the opportunity to reduce the amount of tax (fee) payable, or exempt him from certain responsibilities and rules related to taxation» (Ivanov et al., 2006). According to scientists, such benefits can reduce the tax liability of the taxpayer, or be exempt from it.

However, despite the variety of tax benefits and the legal field in which they operate, the current tax legislation of Ukraine does not provide for a special tax climate for a private partner in the case of public-private partnership (exemption from certain taxes, lower tax rates and their differentiation according to the complexity of the PPP project, etc.). Therefore, the private partner must pay the taxes and mandatory payments that apply in the national tax system. In addition, the scientific community is constantly discussing the feasibility of introducing preferential taxation in this area.

During 2010-2019, the amount of tax benefits provided by the state budget was cyclical. Its highest value was observed in 2011 and 2015 (indicators amounted to UAH 58,910.55 million and UAH 51,594.71 million, respectively), the lowest – in 2016-2017 (UAH 24,831.1 million and UAH 1,996.38 million) (Figure 7). Instead, the amount of benefits provided from local budgets increased: from UAH 989.28 million in 2010 to UAH 9241.21 million in 2019. A significant part of benefits was provided by national taxes, among which the dominant were corporate income tax and value-added tax cost. The data of Figure 6 shows that the state budget suffered the greatest losses and with the intensification of the decentralization process – and local budgets, due to the provision of property tax benefits.

Increasing tax breaks exacerbates the budget deficit. As a result, the government of Ukraine, attracting additional sources to cover it, reduces tax benefits. This leads to a loss of business confidence in benefits as a stimulus to attract investment, including in the field of public-private partnership. Therefore, the amount of tax support should, on the one hand, not disturb the balance of budgets, taking into account the possibility of meeting the expenditure obligations of the state, and on the other – be an effective stimulus to economic development.

Figure 7. Dynamics of the volume of tax benefits and the share of losses of state and local budgets from their provision for 2010-2019



Source: https://kse.ua/wp-content/uploads/2021/02/23-02-21-Annual-report-KSE_web.pdf.

Thus, both in theory and in practice, there is an opinion that the provision of tax benefits is a negative factor in taxation. After all, they benefit some businesses at the expense of other taxpayers. At the same time, tax benefits are an important stimulus to the state's financial policy. They are aimed at encouraging the implementation of priority activities, in particular, on the basis of public-private partnership. This is confirmed by successful examples of their application in world practice. For example, in Indonesia, there are the following tax incentives:

- exemption from income tax for up to 15 years with its possible extension for another 5 years at the discretion of the Minister of Finance. Such tax holidays are provided to strategically important PPP projects;
- the rate of income tax on dividends paid to foreign taxpayers is 10% or less;
- the possibility of carrying forward losses to future tax periods (up to 10 years), if the private partner implements important infrastructure projects, reinvests capital, etc. (Indonesian Investment Coordinating Board).

In view of the above, in Indonesia, much attention is paid to stimulating private investment in PPP projects through active business support, especially in the initial stages of project implementation and risk sharing between partners. In addition, the government of this country allows businesses to borrow from international financial institutions by providing government guarantees.

In the Republic of Korea, the implementation of PPP projects has a zero rate for value-added tax and real estate registration, as well as reducing the interest tax on concession bonds (up to 15%) for projects with a maturity of more than 15 years (Solntsev, 2017).

In India and Korea, public priorities dominate commercial benefits. Tax benefits are provided to the concessionaire in the event of a reduction in the fee for services provided to end users. This makes it possible to ensure the availability of services to various segments of the population.

Thus, tax incentives are an effective lever for influencing the development of public-private partnerships, as they help to encourage private partners to invest in PPP projects. The state, losing tax revenues, is able to further increase them due to the growth of private partner profits, resulting in increased taxes.

In addition to tax incentives, the state may apply other types of guarantees. In particular, in order to ensure a minimum level of profitability, the state can create favourable tariffs for a private partner, provide benefits for rent or lease, and so on.

5. Conclusions

As a result of the research, we came to the following conclusions:

- implementation of direct state support by the state requires the active participation of state authorities in these processes, since it is carried out by signing international agreements, attracting state funds or taking certain financial obligations;
- a common form of PPP stimulation is the provision of state guarantees and liability insurance of the state partner. They are used to implement significant socioeconomic projects, creating favourable conditions for attracting credit resources. This makes it possible to stimulate the attraction of private investments;
- in contrast to state guarantees, guarantees issued by development banks have a higher credit rating, the use of which makes it possible to complete the project on time in compliance with the initially determined budget;
- it was investigated that a promising stimulating means of crediting public-private partnership projects is the subsidy tool, which is due to the low level of development of the domestic financial market. In domestic practice, it is used for investment projects implemented in agriculture, transport, food industry, construction of infrastructure facilities, small and medium-sized businesses;
- the use of tax incentives leads to an increase in the budget deficit. Therefore, the amount of tax support should, on the one hand, not disturb the balance of budgets, taking into account the possibility of fulfilling the state's expenditure obligations, and on the other hand, be an effective stimulating lever of economic development.

Summing up, it should be noted that the governments of many countries are increasingly focusing on finding new, more effective means of financial incentives for PPPs. They are aimed at creating the preconditions for the development of effective partnerships between government and business. At the same time, the study shows that an unjustified mechanism of their application can lead to significant budget losses. To minimize the negative consequences, it is necessary to apply financial incentives, taking into account the impact on

the budget and financial and economic activities of economic entities, to implement an effective system of control over their use.

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