



ECONOMIC ANNALS-XXI

ISSN 1728-6239 (Online)
ISSN 1728-6220 (Print)
<https://doi.org/10.21003/ea>
<http://www.soskin.info/ea/>

Volume 180 Issue (11-12) 2019

Citation information:

Volokhova, N. (2019). Government and business interaction in Eastern Europe: specific features of the public-private partnership. *Economic Annals-XXI*, 180(11-12), 31-39. doi: <https://doi.org/10.21003/ea.V180-04>

UDC 316.4



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Government and business interaction in Eastern Europe: specific features of the public-private partnership

Abstract. The main principles of modern economic relations including financial interaction of the government and business have become the centrepiece of the development of the post-socialist countries where the Eastern European countries belong to. Among the most popular models of interaction between the government bodies and the private sector, or the public-private partnership (PPP), the following ones can be specified: a cooperation model, a concession model, a lease model, an operator model, a contractual model.

Approaches to the state-business interaction in Eastern Europe within the public-private partnership often depend on different criteria including the degree of the state's economic development, its legal system in general and the system dealing with this particular issue, the vision of the role of the government and business partnership in the economy, setting and implementation of objectives and tasks at a certain stage of the country's development, the prevailing public attitude to the private sector, and so on.

The mechanisms of interaction between business and government in Eastern Europe revealed in the course of our analysis allow us to define the examples of the most efficient cooperation, find the causes of some projects' failures, determine the causes of potential problems and risks, and develop and propose most universal ways to improve interaction between the business and the government. The countries of Eastern Europe in the focus of our research are at the initial stage of the development of public-private relations that are primarily expressed in the public-private partnerships.

Keywords: Eastern Europe; Business; Government; Private Funds; State; Private-Public Partnership (PPP); Economy; Infrastructure

JEL Classification: L32

Acknowledgements and Funding: The author received no direct funding for this research.

Contribution: The author contributed personally to this work.

DOI: <https://doi.org/10.21003/ea.V180-04>

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**Співпраця бізнесу та держави в країнах Східної Європи:
особливості державно-приватного партнерства**

Анотація. Основні принципи сучасних економічних відносин, де знаходить місце й фінансова взаємодія держави та бізнесу, стали опорою розвитку держав колишнього соцтабору, куди входять і країни Східної Європи. Серед найбільш затребуваних моделей взаємодії державних структур із приватним сектором економіки, або ж державно-приватного партнерства (ДПП), можна перерахувати такі: модель кооперації, модель концесії, модель лізингу, модель оператора, договірна модель.

Підходи до співробітництва держави й бізнесу в країнах Східної Європи в рамках державно-приватного партнерства часто залежать від різних критеріїв: ступеня економічного розвитку держави, системи законодавства в цілому та в даному питанні зокрема, бачення ролі держави й бізнес-партнерства в економіці, постановки та реалізації цілей і завдань на певному етапі розвитку країни, громадської думки щодо приватного сектору та ін.

Виявлені на основі нашого аналізу механізми взаємодії бізнесу й держави в країнах Східної Європи дозволяють охарактеризувати найбільш ефективні приклади, визначити причини провалів деяких проектів, встановити причини потенційних проблем і ризиків, виробити й запропонувати найбільш

універсальні шляхи розвитку взаємодії приватного бізнесу й держави. Країни Східної Європи, що знаходяться в фокусі нашого дослідження, перебувають на початковому етапі розвитку бізнес-державних взаємин, що виражаються, перш за все, в державно-приватному партнерстві.

Ключові слова: Східна Європа; бізнес; приватний капітал; уряд; держава; державно-приватне партнерство (ДПП); економіка; інфраструктура.

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Сотрудничество бизнеса и государства в странах Восточной Европы:

особенности государственно-частного партнерства

Аннотация. Основные принципы современных экономических отношений, где находит место и финансовое взаимодействие государства и бизнеса, стали опорой развития государств бывшего соцлагеря, куда входят и страны Восточной Европы. Среди наиболее востребованных моделей взаимодействия государственных структур с частным сектором экономики, или государственно-частного партнерства (ГЧП), можно перечислить следующие: модель кооперации, модель концессии, модель лизинга, модель оператора, договорная модель.

Подходы в работе государства и бизнеса в странах Восточной Европы в рамках государственно-частного партнерства зачастую зависят от разных критериев: степени экономического развития государства, системы законодательства в целом и в данном вопросе в частности, видения роли государства и бизнес-партнерства в экономике, постановки целей и реализации задач на определенном этапе развития страны, сложившегося общественного мнения по отношению к частному сектору и пр. Выявленные на основе нашего анализа механизмы взаимодействия бизнеса и государства в странах Восточной Европы позволяют охарактеризовать наиболее эффективные примеры, определить причины провалов некоторых проектов, установить причины потенциальных проблем и рисков, выработать и предложить наиболее универсальные пути развития взаимодействия частного бизнеса и государства. Страны Восточной Европы, находящиеся в фокусе нашего исследования, пребывают на начальном этапе развития бизнес-государственных взаимоотношений, выражающихся в частно-государственном партнерстве в первую очередь.

Ключевые слова: Восточная Европа; бизнес; частный капитал; правительство; государство; государственно-частное партнерство (ГЧП); экономика; инфраструктура.

1. Introduction

The object of our research is the economy of Eastern Europe, and in particular, the factors of interaction of the state and private capital. Therefore, first of all, the area of the study should be determined, since there are some discrepancies on this point. The Eastern European region was being transformed in the early 1990s, it used to be a historical and geographical concept and then became a geopolitical entity due to the collapse of the Soviet Union and the weakening of the socialist regimes in a number of European countries. The following countries belong to the Eastern European countries: Belarus, Bulgaria, the Czech Republic, Hungary, Moldova, Poland, Romania, Russia, Slovakia, and Ukraine. Some scientists do not distinguish the countries of Eastern Europe as a separate group, but use the term Central Eastern Europe, adding Albania, Bosnia and Herzegovina, Croatia, Montenegro, Slovenia, Turkey, Serbia, Latvia, Lithuania, Estonia, Cyprus, Kosovo, Malta, and the Northern Macedonia to the above-mentioned countries. We explain this by the fact that the transition economies of these countries are similar in many ways, which leads to the lack of consensus in approaches to classification in the international economic practice. Therefore, in our study, we distinguish the ten mentioned-above countries as Eastern Europe and identify the following main criteria (or indicators) that reflect the features of the interaction between business and government in there:

- development of the legal framework regulating relations between the government and business;
- the value of implemented and active PPP projects, taking into account country's GDP;
- the number and scale of implemented and active projects;
- distribution by sectors of the economy where the projects were implemented or are being executed, etc.

During its institutional formation, any government is building special relations with the private sector of the economy, i.e. partnership and mutual benefit become the basis for interaction between the developing state and business. The history of the development of these relations goes back centuries and is traced into such protoforms as excise, mercenary, privateering (or piracy), concession, corporation and so on. It is more correct to say that the protoforms were not acts of partnership, but rather the delegation of a number of functions by the state until the level of its development made it possible to perform them independently and on a full scale.

In general, in terms of a state, public-private partnership can be a way to attract private capital to finance and manage the facilities which the government considers necessary to retain the ownership of, but does not have sufficient funds for the construction, maintenance or improvement of the letter. For business, this form of interaction is as a reliable way to make profit by working at or providing services for the objects of public property. With proper organization and honest legislation, public-private partnerships can be beneficial for the government, business, citizens and society as a whole.

2. Brief Literature Review

The experience of transferring to the private sector the function of financing (construction, reconstruction, operation, management, etc.) of state-owned socio-cultural and industrial infrastructure facilities in Eastern Europe is not massive and not always successful. For example, the infamous case of the Czech experience in the execution of the project for the construction of an 80-km section of the highway D47 (2001-2003), where the customer, represented by the government, suffered significant financial losses (the government was forced to pay about EUR 20 million for the breach of the contract). This once again indicates that the issues of public-private partnership are not sufficiently developed, and, first of all, in terms of legislation (CEE Bankwatch Network, 2008).

If we take into account legislative regulation in the framework of interaction between business and the state, most countries in Eastern Europe have special laws regulating public-private partnership (for instance, Poland, Russia, Bulgaria, Romania, Ukraine) or have legislative acts that enshrine the basic principles of its implementation (Slovakia, Czech Republic, Belarus, Hungary), however, there are countries where PPP is not yet legally regulated (Moldova). Russia is a federation and in addition to two Federal acts, there were adopted some clarifying legislative acts on the regulation of public-private partnership in a number of regions. This is just one of the indicators of difficulties existing between private business and the state economy. The other criteria we used to analyze the situation also determine the weak sides of the interaction entailing serious risks and problems.

If we refer to the history of the development of the phenomenon under study and its methodology, we can talk about the theoretical justification of the interaction of the state and private business by the founders of the European economic school of mercantilism which later became a full-fledged direction of economic activity and policy. The end of the XVII century in France, the era of J.-B. Colbert, was marked by a close connection between private capital and public projects aimed at improving tools and instruments of production, buying up industrial secrets, participating in the construction of roads, canals, bridges, etc. The liberal orientation of the relations between the business and the state, especially in such countries as England and France that can be called the flagships of classical political economy, ensured «honest partnership» between those participants. The first hints of the phenomenon of public-private partnership can be found in the writings of A. Smith and J. S. Mill. The latter recognized the need for government control in the form of a state monopoly and in general formulated the idea of a system concept of the public-private partnership. A. Marshall, F. List, J. M. Keynes, W. Eucken, F. von Hayek, P. Samuelson, R. Musgrave, and others - all these are the names of economic theorists and practitioners of the XIX-XX centuries whose works in one way or another considered various aspects of the interaction of the state and the government and the private business, its formation, development, distinctness and significance. The main specialists of the modern period who study issues of interaction of the business and government are A. Akintoye et al. (2003), H. van Ham and J. Koppenjan (2001), A. Verbeke and M. Roll (2016), M. B. Gerrard (2001), D. Grimsey and M. K. Lewis (2005), J. Delmon (2009), V. Knupfer (n.d.), E. S. Savas (2000), G. Hodge (2007, 2014), A. L. Schneider (2000) and many others.

Among the Russian researchers, the following names should be mentioned: M. S. Hayrapetyan (2009), A. E. Barinov (2006), A. V. Belitskaya (2009), V. G. Varnavsky (2002, 2005), M. A. Deryabina (2008), N. F. Efimova and G. A. Makhovikova (2013), I. V. Zapatrina (2011), I. V. Kuznetsov (2012), K. I. Kolesnikova (2008), S. S. Litvyakov (2013), S. E. Litovchenko (2007), N. V. Reznichenko (2010), N. D. Kholodnaya (2009), V. A. Chernyavsky (2013).

Rigorous studies in the field of government-business interaction in various spheres in Eastern Europe have been conducted in recent years by the following authors: J. Buček (2016), T. Butcher and V. Gentchev (2009), M. Kačirková (2006), A. Dudnyk et al. (2017), S. S. Lal et al. (2011), D. Dalaklis, P. Siousiouras and A. Maniatis (2014), L. Dmytrychenko, I. Braylovskiy and K. Miller (2014), T. Bencze and E. Mindak (2016), L. Nemes et al. (2015), O. I. Soskin (2016, 2019), T. V. Uskova (2013), L. V. Eder et al. (2017), Yu. Husyev (2017), D. Chemtob et al. (2019) and others.

3. The Purpose of the paper is to analyze the current trends and directions in the evolutionary development of various models of cooperation of the government and business in Eastern Europe (Belarus, Bulgaria, the Czech Republic, Hungary, Moldova, Poland, Romania, Russia, Slovakia, and Ukraine).

Assessing the complexity of the expansion and development of the phenomenon of public-private partnership, we should mention three main areas that need to be addressed when implementing and executing projects within the framework of government-business interaction, namely: conceptual difficulties related to the legal (i.e. legislative aspects), microeconomic (i.e. directly connected with the production within the framework of PPP) and functional (i.e. dealing with the specific terms and results of PPP contracts and agreements) areas of a public-private partnership. All these areas require close attention and continuous additional revision.

On the one hand, public-private partnership opens up new opportunities for market expansion for private business, but, on the other hand, the risks of both parties in case of imperfect legal, functional and microeconomic components in the government-business interaction increase.

4. Results

The main theories comprising the basis of the philosophy and practice of collaboration of the government and private business at the modern stage of development are rarely singled out, and those of the high relevance are singled out below:

- agent (agency) theory which specifies and fixes the rights of ownership and information between economic agents and fixes the terms of the contract;
- the theory of transaction costs which seeks to comply with the interests of the parties involved, the terms of contracts and mechanisms for its execution;
- the theory of operational expenditures which takes into account non-asset generating activities at the different stages of the business operation, for example, the costs of finding partners and co-founders, assessing the project's feasibility and profitability before the decision-making regarding its start, drafting the terms of the contract and everything related to it, the cost of negotiations, actions and conditions to ensure them, as well as the regulation, management, and control of contract issues and production cycle.

German researchers, for example, along with the transaction costs theory, name two more important theoretical approaches in the modern PPP (see the overview by Koschatzky, 2017):

- the theory of open innovation with knowledge inflow and outflow;
- the theory of economic geography (spatial economics).

Other important concepts connected, in particular, with implementation of PPP projects are the concept of information asymmetry and the concept of incomplete contracts.

In Eastern Europe, financial markets, the banking sector and private investment are still regarded as weaker and not so well-developed in comparison with the «old» western economies. This is due, of course, to risks, high vulnerability of these countries' economies, and depreciating currencies. The countries of Eastern Europe have experienced serious economic crises, although the extent of the impact was different and corresponded to the degree of pre-crisis macroeconomic imbalances, the level of economic openness and integration into the European market (Personal Financial University, 2018). The indicators of the dynamics of real growth just in the phases of the most severe crises - the GDP of some Eastern European countries of 2012 in the percentage ratio to 1990, to 2000, and to 2008 is presented in Table 1.

In Table 2 you can see the real GDP indicators of the countries we observe for the latest years from 2016 to 2019 which allows to understand the real state of affairs. The GDP indicators of the Eastern European countries are accommodated according to their places among all world countries.

Table 1:
Real GDP in 2012 as the percentage ratio to the chosen years of economic downturns of some Eastern European countries (GDP, PPP in constant 2011 international USD million)

COUNTRY	% to 1990	% to 2000	% to 2008	% to 2012
Hungary	-	65.7	85.8	80.8
Poland	35.8	51.5	71.1	80.8
Slovakia	-	49.5	80.4	84.2
The Czech Republic	58.2	61.1	85.8	84.3
Bulgaria	59.7	53.1	85.2	84.9
Romania	55.5	48.9	81.5	77.1

Source: Compiled by the author based on data by WB (2019)

Table 2:
The real GDP indicators of Eastern European countries
(GDP, PPP in constant 2011 international USD million)

Number of the country (Eastern Europe)	COUNTRY	2016	2017	2018
1	Russia	3621.154	3680.186	3673.167
2	Poland	990.786	1039.708	1093.233
3	Romania	429.158	459.678	277.852
4	The Czech Republic	330.676	345.069	355.275
5	Ukraine	327.641	335.721	346.919
6	Hungary	253.622	264.586	278.064
7	Slovakia	158.671	163.495	170.090
8	Belarus	159.274	163.307	168.288
9	Bulgaria	126.823	131.656	135.713
10	Moldova	21.135	22.126	22.879

Source: Compiled by the author based on data by WB (2019)

While investigating the nature of an economic crisis, we can recall the theory of long waves (cycles) created by N. Kondratiev (1928) where he considered an economic crisis to be not a spontaneous phenomenon, but a cyclical one corresponding to the descending stage of that very cycle. This phase, begun in the world in 2007 and it is characterized by profound technological changes in the global economy and is often mistakenly referred to as a «repeated economic recession», will continue for approximately 25 years. This is what the economist O. I. Soskin (2016) says regarding taking into account the upward phase of the increase and the growth and the downward phase of decline and depression (stagnation) of the long economic cycle: «the slowdown in the dynamics of the world economy which was shown by the forecast of the International Monetary Fund for world GDP growth in 2016-2017, will last until 2020, and then there will be another 12 years of depression and stagnation». To prove the viability of the abovementioned forecast, one should note that the new IMF data signifies the fall of the world GDP for 1% in 2019 as compared to 2018 (IMF, 2019).

If we look directly at the situation in the Eastern European countries, and Ukraine in particular, we clearly understand that they are in the phase of the decline that always lasts for 12-15 years and by 2020 can stop in only the most economically developed countries, where, in turn, «a 15-year phase of depression and stagnation will begin following the phase of the decline» (Soskin, 2019).

All this did not contribute to the rapprochement in the interaction of business and the government. Although, this variant of an economic partnership can become a certain alternative for the emerging market countries in hard times. Banks, financial organizations, and private companies that can join an organizational and institutional alliance with the government for the duration of a significant project - this is a likely and mutually beneficial scenario for solving problems in a number of the Eastern European countries. Building correct, legally sound and institutionally verified relations in the interaction of the business and government is a part of the theory of «mixed economy». This is becoming a new stage and an important strategy in improving both market structures and the Eastern European economy as a whole.

In the course of our research, we came to the following conclusions.

The most popular sectors for the employment of the private sector funds in terms of the implementation of the public orders are:

- 1) sections of roads and highways with elements of road facilities construction;
- 2) transport facilities in a broader sense, including pipeline, railway, water, air, and public transport;
- 3) the energy sector, and above all, facilities for production, transmission and distribution of electricity;
- 4) facilities for processing, recycling, and placement of solid municipal waste;
- 5) healthcare facilities along with the arrangement of recreational and sanatorium-health resort areas;
- 6) educational, cultural, sports, tourism and recreation facilities and other social services;
- 7) other facilities where the share of private business in the projects implementation is minimal.

What is the situation with the government-business interaction in the different areas of activity in Eastern Europe? Which areas have the largest number of projects and the largest investment of capital?

Public-private partnership shows itself in a wide variety of areas, as the world economic experience demonstrates. But there is a clear trend here: in countries with the weak or transition economies transport is the main focus of private business interests, while in the countries with the developed economic system the focus is on financing education and health projects. Here, since 2010 the

share of education and healthcare in PPP of European countries has increased to 35% in terms of cost and 51% in terms of the number of transactions, and the «non-transport» component as a whole (schools, hospitals, water treatment, waste processing, etc.) for the first time exceeded half of the total cost of PPP projects (WOC, 2011).

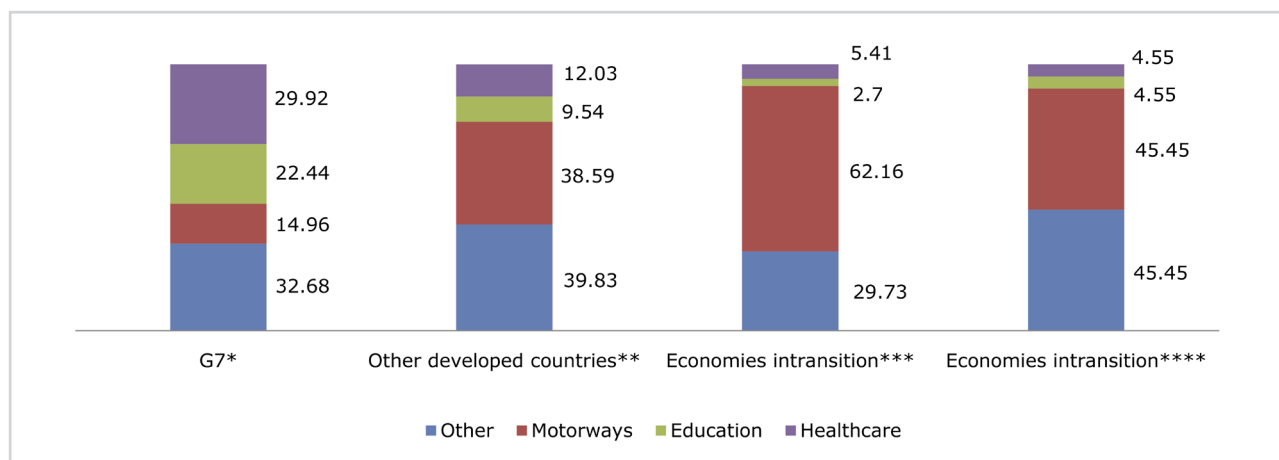
The structure of PPP projects by industry in the Eastern European countries is very clearly presented in the review by «KazMedTekh» (2019) of the distribution of PPP projects in the various countries of the world (Figure 1). There, the sector of private capital investment in roads accounts for more than half of all other areas (62.16%). This priority means, first of all, that when quality infrastructure is needed quickly, the private sector is able to respond quickly and create it in a short time.

In general, the value of projects executed under PPP financing mechanism in Eastern Europe is quite small. If we look at the analysis over the past 30 years, Russia has the highest indices among the Eastern European countries (91 projects worth USD 36,924 mln), and in the top 6 ranking with the highest PPP development level (in points) for the period of 2019 (according to the analytical review by Rosinfra of the Ministry of Economic Development of The Russian Federation, 2019), distribution is as follows:

- 1) Samara region (98.7);
- 2) Moscow city (98.6);
- 3) Moscow region (98.0);
- 4) Nizhny Novgorod region (96.9);
- 5) Perm Krai (95.8);
- 6) Khanty-Mansiisk Autonomous Area - Yugra (93.9).

Russia's scenario is the traditional scenario for Eastern Europe - the transport sector, housing and utilities are actively developing within the framework of a public-private partnership, healthcare and education sectors are going behind.

Then followed Romania (89 projects worth USD 6783 mln) and Bulgaria (58 projects worth USD 4816 mln). These data can be directly correlated with GDP per capita at purchasing power parity. Here, Slovakia shows the highest percentage of the Eastern European countries, which is 76%, then goes Romania - 63%, and the lowest percentage is in Bulgaria - 49%. In other words, the partnership of the government and business takes place both in the wealthiest countries (we understand that these figures are largely achieved due to the incomes of citizens working in Western Europe) and in the poorest countries. The identification of mutually beneficial points has a single vector of development - the interaction of the business and government at the level of project financing in various social spheres.



Notes:

* the USA, Great Britain, Germany, Italy, Canada, France, Japan.

** Austria, Belgium, Denmark, Australia, Israel, Ireland, Finland, Spain, Portugal, Greece, South Korea, Singapore.

*** Bulgaria, the Czech Republic, Hungary, Croatia, Poland, Romania, Latvia, Ukraine.

**** India, Brazil, Chile, Hong Kong, Mexico, Saudi Arabia, the United Arab Emirates.

Figure 1:
Distribution by sectors of PPP projects in different countries of the world
Source: Compiled by the author based on data by KazMedTekh (2019)

In some countries, there were periods of surge in financing a number of projects within the public-private partnership system. For example, in Hungary in 2004-2005, we can name two major and long-term events: the construction of M5 and M6 highways with a 22-year loan from the Hungarian government, and the construction of the third airport terminal in Budapest. The Ministries of transport of Slovakia and Poland also initiated the construction of airport terminals and highways, which led to a viable solution of problems and promotion of projects.

The countries of Eastern Europe, being former socialist countries, remain the least prepared for public-private partnership compared to the countries of Western or even Central Europe. The critical assessment regarding this issue could be found in the special report by the European Court of Auditors (2018) «Public Private Partnerships in the EU: Widespread shortcomings and limited benefits».

Nowadays, the cooperation between the state and business in the analyzed countries of Eastern Europe is rather poorly established. In some countries, such as Moldova, there is not even a legal framework for this issue. A number of others have completed or active projects, but in general, there is no permanent pattern of relations.

5. Conclusions and Prospects of the Study

The 2007 crisis repeated in 2012 (repeated expectably, according to N. Kondratiev's theory) manifested as a slowdown in the dynamics of the world economy and its next stage is likely stagnation and depression. And in the context of such economic development, it is more than ever necessary to attract new forms of interaction, for example, public-private partnership as a condition for the transition to a new technological paradigm and an attempt to bridge the technological gap through the redistribution of budgetary funds.

The progress of the national economy of the Eastern European countries will be largely determined by the efficiency of certain forms of interaction between the state and business. The analysis of the current trends and directions in the evolutionary development of various models of cooperation between business and government conducted in the framework of our research allows us to draw some conclusions. The key moment of changing the situation should be the creation of centers for regulating interaction between business and the state. In Eastern Europe, only four countries have such organizations: Hungary (European PPP Centre), Poland (non - governmental organization - PPP Centre), Slovakia (non-profit Association - PPP Association), the Czech Republic (PPP Association for Infrastructure Development). The main tasks of such organizations are to promote the interaction of private business and the state as an affordable investment tool, to monitor legislative and institutional conditions, and simplify communications between the public and private sector on the implementation of public-private partnerships. In general, such centres should become information platforms that facilitate interaction between business and the state and develop optimal scenarios for projects execution (CEE Bankwatch Network, 2008).

In our study, we mainly used materials from the time period of 2005-2012, when the interaction of private capital and the state in Eastern Europe showed the greatest growth, both on the part of local businesses and foreign investment. The crisis of 2012 seriously reduced the percentage of investments in public-private projects, weakening this type of economic integration, which had already been unstable on a number of indicators. First of all, as one of the leading researchers in this field, Graham Hodge (2014) mentions in his interview, three very important elements without which the interaction of the private business and government will be impossible or extremely difficult are defined: 1) a professional workforce (both on the part of the business and government) with a special arsenal of knowledge when developing a project; 2) a high level of mutual trust; 3) a formed legal system. Today we can talk about a certain downfall of all the three indicators in the Eastern European countries.

When attracting private business resources, the government's interest can be determined by a number of aspects: 1) an additional source of revenue to the budget is formed (mainly in the form of lease or concession payments); 2) the upkeep of the state property and the expenses for investing in it are the prerogative of the private business; 3) the interaction, especially successful, between the government and business weakens socio-economic problems.

Analyzing the case of the Eastern European countries, we can say that they are only at the first stage of the development of public-private partnership and the interaction of private capital and the state is just being established. However, judging from the experience of countries with developed market economies, such as the United Kingdom or Australia, which have established traditions of interaction between the private sector and the public one, we can talk about serious achievements and unique projects being implemented. The most successful in 2000s in the UK are projects in the

health care sector (compared to the total number of public-private projects the ratio in this field is 123 out of 352), in the USA they are in the road economy (36 total, 32 in this field); in Germany, they are in the sphere of education (out of 56 total, 24 are in the education system, etc. More detailed up-to-date overview of PPP projects around the world can be found in the working paper by UN experts Jomo KS, A. Chowdhury, K. Sharma and D. Platz (2016).

With proper coordination, at least with the reference to the experience of more economically developed countries, we can say with complete certainty that the interaction of the private business and government (for example, in the framework of public-private partnership) is a big «credit card for the government» including the Eastern European countries.

Over the past 5-6 years, as we have already noted above, the level and number of projects in Eastern Europe have decreased. But this, in turn, allowed other forms of attracting finance to implement urgent state issues to be formed. At the end of 2017, the Interbank Association of China, together with the governments of 16 Central and Eastern European countries, initiated a project to provide development loans (including public-private partnerships) worth EUR 2 billion.

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Received 22.10.2019
 Received in revised form 27.10.2019
 Accepted 29.10.2019
 Available online 30.12.2019