

FISCAL BALANCE AND SUSTAINABLE DEVELOPMENT OF GOVERNMENT FINANCE

Sustainable development of government finance means the ability of a government to sustain its solvency in the long-run meeting promised expenditure and avoiding default. Usually, sustainability issues are connected with environmental aspects. This research focuses on livelong ability of a government to sustain its policy without harming society's development possibilities.

Fiscal balance is an important macro-indicator of government finance and an instrument of government fiscal policy [1]. From this point of view, it can be analyzed in two aspects: (1) in the context of a society sustainable development; (2) in the context of government finance sustainability. These two dimensions of fiscal balance are interconnected. Sustainable development goals have influence on government budget, and thus on fiscal balance. On the other hand, as the factor of government finance sustainability, fiscal balance and government solvency in the long-run influence the society development goals.

The concept of sustainable development supposes long-run ability to support development in economic, social and environmental areas without harming future generations' development interests. It means that current development has its own limits. The United Nations approved global sustainable development goals (SDG) [2]. They demonstrate 17 goals that are a new agenda for national governments all over the world. Implementation of the SDG has to end poverty, protect the planet, and ensure prosperity for all.

The President of Ukraine Decree approved the Strategy for Sustainable Development "Ukraine — 2020" [3]. This Decree defines several priorities: reform of the national security and defense system, renewal of authorities and anti-corruption reform, judicial and law enforcement reform, decentralization and public administration reform, deregulation and development of entrepreneurship, healthcare reform and tax reform. The Strategy implementation supposes common contribution and responsibility of government, business and civil society.

Sustainable development of government finance is directly connected with fiscal balance and low levels of public debt as they ensure government solvency in the long-run, and healthy macroeconomic and financial environment. Budget deficits put limitations on national government on its way of reforms. According to the preliminary data, central government budget deficit in Ukraine reached 3 % of GDP in 2016. This indicator has worsened in comparison with the previous years. Except budget deficit and public debt that has reached almost 84 % of GDP (without local governments' debt), Ukraine has significant factors negatively affecting sustainability. According to the official information, current deficit of the Pension Fund of Ukraine equals more than 140 billion UAH; additional capitalization of Privatbank requires from 116.8 to 148 billion UAH; the Deposit Guarantee Fund additional capitalization was due to the central government emission of bonds of 129.22 billion UAH. Taking into account military conflict in the Eastern regions of Ukraine, political and economic reforms, shadow economy that is about 35-45 % of official GDP, and low level of GDP per capita, fiscal deficits threaten the government finance sustainability, and impede the achieving of sustainable development goals.

References:

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SOCIAL IMPACT BONDS FOR SUSTAINABLE DEVELOPMENT

Around the world, communities are seeking ways to improve the lives of disadvantaged individuals. The growing range of organizations, which see a market opportunity to create value for disadvantaged customers – and to be rewarded for that value, is a key part of the solution. Such organizations can use for the financing of their social projects such financial instruments as social bonds.

According to the ICMA’s definition, social projects are projects, activities and investments that directly aim to help address or mitigate a specific social issue or seek to achieve positive social outcomes especially for target population [1]. Social Projects should provide clear benefits that can be described and, where feasible, quantified or assessed.

Social Impact Bond (SIB) is a financial instrument that allows private investors to upfront capital for public projects that deliver social and environmental outcomes. If the project succeeds, the investors are repaid by the Government with capital plus interest. If the project fails, the interest and part of the capital is lost.

Despite growing, the market for SIBs is still limited in value: approximately US\$200 million of investment has been committed to SIBs. The largest single transactions were made in the United States - New York State (US\$13.5 million) and Massachusetts (US\$18 million) for prisoners’ rehabilitation.

In 2016 over 56 SIBs (31 in the UK, 11 in the US, 8 in Europe, 3 in Australia, 2 in Canada, and 1 in Israel) have been designed and 60 are being negotiated, half of which are in developing countries. While the majority of SIBs have a value of under US\$5 million, they can reach over US\$30 million [2].

It’s important to find out what are the advantages and disadvantages of using this instrument. For example, for government, the SIB can minimize the financial and operational risk while promoting investment in social projects. Similarly, it can stimulate innovation. For investors, the SIB offers a “mission-aligned” investment opportunity, as well as a potential return on investment. It creates space and a working modality for public-private partnerships and collaborations.

Among disadvantages should be mentioned the following: SIB requires verifiable quantitative metrics, which are difficult to derive for a number of projects; comparatively complex and time-consuming to set up; the intricate structure of negotiations and implementation generates comparatively high administrative costs. As any investment activity, investments in the SIB are risky, first of all, because if the outcomes are not achieved, the investors will lose their investment. Moreover investors may demand and lobby for lower "success thresholds" so that they are sure to be repaid. The misuse of SIB labelling can damage the reputation of the instrument and the trust of the impact investment community.

Nowadays investors are realizing that paying attention to sustainable development issues can increasingly make a company more attractive to shareholders and customers [3]. SIB is an effective solution to the problem of current lack of financial resources of states for really important social problems. It is important to find out ways of monitoring the activities of investors, because, having the opportunity to make profit on a solution of the problems that can be very successfully created them in an artificial way, they can dishonestly use this mechanism.