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PUBLIC-PRIVATE PARTNERSHIP IN THE CONTEXT OF DEVELOPMENT OF STRUCTURAL POLITICS AND INVESTMENT ACTIVITY IN UKRAINE

The article is focused on the public-private partnership and its influence on structural changes of the modern economy. The author analyzed legislation and institutional infrastructure of public-private partnership in Ukraine.

Public-private partnership is considered as a mechanism of government economic policy, that allows attracting extrabudgetary funding sources as well as intellectual, technological, administrative and other resources of a private sector in order to resolve investment tasks important for society. In the article, it was emphasized that changes in a modern economy, that include not only changes in the sectoral structure, but also regional and institutional changes, which should be accompanied by creative government's actions – its structural policy where public-private partnership plays a crucial role.

Key words: mechanism of public administration, policy, public-private partnership, investment activity, legislation.

Formulation of the problem. Building a strong European democracy implies a new level of public services to the population, the development of modern infrastructure, creating a favorable investment climate, which is now associated with public-private partnership (hereinafter – PPP).

Successful implementation of PPP projects requires specific prerequisites in a country, namely a favorable economic environment, public support for implementation of PPP projects, stable and transparent legal framework and a balanced structural policy, which main objective is to overcome distortions that arise between individual areas and sectors of the economy, regions and institutions, and formation on this basis of balanced structure of national economy.

Analysis of recent research and publications. The issues of public-private partnerships and investment cooperation between a state and businesses are studied by such domestic scholars as M. Avksentiev, N. Baldych, N. Bezbakh, V. Varnavskiy, O. Vinnyk, L. Hrytsenko, L. Ilchenko-Siuiva, O. Ihnatenko, V. Zhuk, N. Oliinyk, A. Pavliuk, O. Safronova and others.

The vast majority of these studies comes from the fact that public-private partnership is a form of business organization between a state and private parties, which allows to implement socially significant projects in different areas of infrastructure more effectively than partners could achieve singly, and implies joint investing of material and intangible assets on concession, joint activity, profit-sharing agreement¹. It is also important that development of PPPs for investment attraction is determined by one of the main directions of the Program for investment and innovation activity in Ukraine².

Unsolved aspects of the problem. Despite the presence of important scientific achievements on the functioning of PPP, the current economic situation in the country stipulates necessity of more deep study of ways to establish an effective system of PPP in Ukraine and consider it taking into account structural changes in the economy.

Thus, **the purpose of the article** is to define the role of public-private partnerships as a mechanism for enhancing investment activity, identifying problematic issues of its institutional and legal support and improving mechanisms for implementing public-private partnerships in the context of structural policy and investment in Ukraine.

Presentation of the basic material. In the annual ranking of competitiveness (IMD WCY 2015) Ukraine took the penultimate 60th position out of 61; in particular, the 48th position was in the category

¹ Бодров, В.Г., Балдич, Н.І., Сафронова, О.М. (2013). *Державне управління у фінансово-економічній сфері*. Київ: Національна академія державного управління при Президентові України, 27.

² *Постанова про затвердження Програми розвитку інвестиційної та інноваційної діяльності в Україні 2011* (Кабінет Міністрів України). *Офіційний вісник України*, 28, 1173.

"infrastructure", losing, thus, 4 positions in comparison with 2014. The largest drop was with such indicators as: "basic infrastructure" – from 46th to 52nd position; "technological infrastructure" – from 47th to 54th position; "scientific infrastructure" – from 40th to the 43rd position; "education" – from 24th to 33rd position. "Technological infrastructure" was assessed negatively; in particular the position "public-private partnerships" is the last, 61st¹.

At the same time, functioning of the world economy is only possible due to effective interaction between government and business. These economic actors do not only compete for economic influence, which basically stimulates the economy, but also efficiently cooperate. The advantage of a public-private partnership is stipulated by economic and social feasibility. The partnership will support economic growth while reducing public expenditure, and wherein public functions will be performed at a higher level. A public-private partnership, which essence is at the intersection of public and private responsibilities and interests, is a very specific economic concept.

The development of a partnership between a state and businesses is important because our state does not have enough money to upgrade state-owned infrastructure. Private business is usually considered as more effective owner than a state. In addition, a private owner has certain economic interests: profit and competitive advantages.

The participants of economic cooperation are public and private sectors with possible involvement of third parties. Thus, the public sector acts as a customer, and private – as a performer. Depending on the scope of PPP projects public sector can be represented by central, regional, local authorities and local self-government bodies, and private sector can be represented by private economic agents. Scientists and experts can be involved to participate in preparation and implementation of PPP projects.

Modern infrastructure of the industrial sector in Ukraine does not meet the needs of existing enterprises, all the more so it does not meet requirements of the newly formed modern industrial businesses. Sustainable Development Strategy "Ukraine – 2020" also identified reforms in the infrastructure sector, including transportation, telecommunications, housing and utilities sector. Without improving infrastructure support most of the regions can not attract investments, that's why the Strategy of regional development up to 2020 defined regional infrastructure development as a priority of regional policy².

According to the Investment Attractiveness Index (International Business Compass), which is calculated by international consulting network BDO, in 2015 Ukraine was at 89th position out of 174 countries. Expert assessed Ukraine's investment attractiveness as low and prospects for doing business as moderately risky. But in dynamics, there was some improvement in terms of investment and entrepreneur activity at that moment. According to the results of 2016 Ukraine has moved to 130th position (in comparison to Russia at 100th, Honduras at 120th, and Bangladesh at 127th)³. This situation, of course, deters investors from new investments.

Large-scale state investment in the future will require the further involvement of credit resources, intensification of fiscal pressure on the private sector and reduce of social benefits. Even today Ukraine is among the largest borrowers of several international credit organizations. The fiscal pressure on businesses is rated as one of the largest in the world. In average, real income is almost the lowest in Europe. Development of infrastructure is necessary for economic growth, it will attract private investments while maintaining basic infrastructure in a state (municipal) property. Effective growth can be achieved through participation of private sector in financing (investment, loans) of infrastructure projects; state orders for construction (reconstruction, modernization) of infrastructure objects in the private sector; transfer of infrastructure objects to the control of private companies while maintaining ownership and state control over the quality of service and price (tariff) policy.

The Law of Ukraine "On concessions" was adopted in 1999; it has created such a form of public-private partnership as a concession. Considering the importance of PPP for Ukraine's economy, the Law of Ukraine "On public-private partnership" was adopted in 2010; and during 2011-2012 a number of regulations were adopted regarding methods and procedures related to implementation of PPPs; and finally

¹ Overall ranking and competitiveness factors. *IMD WORLD COMPETITIVENESS CENTER* <http://www.imd.org/uupload/imd.website/wcc/Overall_ranking_5_years.pdf> (2017, February, 15).

² Указ про Стратегію сталого розвитку «Україна – 2020» 2015 (Президент України) *Офіційний сайт Верховної Ради України*. <<http://zakon3.rada.gov.ua/laws/show/5/2015>> (2017, February, 15).

³ BDO International Business Compass Overall ranking (2016). *BDO IBC*. <<https://www.bdo-ibc.com/index/global-comparison/overall-index/>> (2017, February, 15).

in 2013 government has developed the Concept of development of public-private partnership in Ukraine for 2013- 2018.

However, despite the availability of legal basis, practical application of PPP has not acquired sufficient development in Ukraine. According to the methodology of the World Bank, PPP projects include those implemented on the basis of management contracts, leases, concessions, sales of assets. The project is considered PPP if the private partner involvement in its implementation is at least 25%, and in projects of sales of assets – if at least 5% of the shares belong to private owners.

During 2009-2014 27 projects were implemented in Ukraine, almost half of the total amount within 20 years. The average size of investments, which accounted for one project in this period, was 227.6 mln. of US dollars. By 2009 only 5 projects were implemented, but in each of them there were 1221,8 mln. of US dollars, i.e. five times more.

According to the World Bank, major projects implemented in Ukraine on the basis of PPP are the projects in telecommunications (Ukrtelecom, MTS Ukraine, Kyivstar Vimpelcom, DCC/Astelit GSM) and in the field of energy supply (mainly solar energy). For financial participation in PPP projects domestic and foreign partners are attracted, and the largest private investments came from the Russian Federation, Turkey and Austria. It is interesting that in our country, unlike the global parameters, most of the projects are implemented by the model of alienation of property. Such models of PPP as concessions and contracts for management and operation were not widespread in Ukraine during 1992-2012. As for the alienation of property, such a situation is explained by the continuation (or end) of a long process of redistribution of property between the state and individuals.

As of August 1, 2016, on the basis of public-private partnership 185 projects were realized in Ukraine (153 concession contracts, 31 contracts on joint activities and 1 contract of a public-private partnership). Thus, the most common form of cooperation between public and private sectors is a concession. Its sectoral representation is analyzed in the Table 1.

Table 1

**The structure of the spheres of economic activity,
in which projects based on PPP were implemented in 2016.**

The sphere of economic activity	The number of projects	Specific weight, %
Waste processing	112	60,5
Collection, purification and distribution of water	37	20,0
Transport infrastructure	16	8,6
Production, transportation and supply of heat	6	3,2
Production, distribution and supply of electricity	5	2,7
Search, mineral exploration and their mining	1	0,5
Real estate management	2	1,1
Tourism, recreation, culture and sport	1	0,5
Other	5	2,7
Total:	185	100,0

Source: the survey of the Ministry of Economic Development and Trade of Ukraine (<http://me.gov.ua>)

Regarding state property, 7 concession contracts and 15 cooperation agreements were concluded, including contracts with:

- The Ministry of Energy and Coal Industry of Ukraine signed 3 concession contracts for period of 49 years (control over integral property complexes State Enterprise (hereinafter – SE) "Sverdlov anthracite" and SE "Rovenki anthracite" (before the force majeure these contracts have been performing in full; since 13/04/2014 outbreak of the force majeure circumstances which were confirmed by the Certificate of Ukrainian Chamber of Commerce and Industry); production of electrical and thermal energy (integral property complex SE "Heat and power plant-2 "Eskhar");

- Donetsk Regional State Administration concluded a concession contract regarding unfinished construction of Novoazovsk wind power plant for a period of 50 years;
- Kherson Regional State Administration concluded a concession contract on regarding unfinished construction of Syvash wind power plant for a period of 49 years;
- Lviv Regional State Administration concluded two concession contracts for 49 years (restoration and reconstruction of the palace of the nineteenth century at Tartakiv, Sokalskyi district and the castle of the seventeenth century at Stare Selo, Pustomytivskyi district).

The Ministry of Infrastructure of Ukraine is preparing for the competition and development of tender documentation for a concession of SE "Sea Commercial Port "Yuzhnyi". Also, the Ministry is working on the implementation of three pilot projects, namely the transfer into the concession of SE "Stevedoring Company "Olvia", SE "Kherson Sea Trading Port" and rail-ferry complex SE "Sea Commercial Port "Chornomorsk".

Public-private partnership has not received a proper development in Ukraine, but affirmative actions of the state in development of PPP are more active recently. In particular, on November 24, 2015 the Parliament of Ukraine adopted the Law "On amendments into several laws of Ukraine to eliminate regulatory barriers for the development of public-private partnerships and encourage investments in Ukraine", which came into force on May 24, 2016¹.

We believe that a lot of legal regulations for the development of PPP complicates its use in practice. There are remaining inconsistencies between the Law "On Public-Private Partnership" and the Law "On concessions"; for example, the definition of long-term (5-50 years) as a sign of public-private partnership contradicts to the law "On concessions" under which a concession agreement (a form of public-private partnership) is possible for a period of 10 to 50 years.

According to the legislation of Ukraine PPP is a cooperation based on the agreement between the state and local authorities on the one hand, and legal and natural persons – entrepreneurs (private partners), on the other hand, under conditions defined by legislation. The law is limited to only one form of implementation of PPP – contractual. This greatly reduces possibilities of other forms that occur in the world and include different legal association with the use of financial instruments.

In order to promote the protection of interests of private investors and the state in implementation of PPP projects, it is necessary: legally establish essential terms of the PPP contract; develop a mechanism for fair compensation in the case of early termination of the PPP by the initiative of the public partner in order to reimburse reasonable loss of the private partner.

The existing legal framework regulating PPP requires a review and harmonization of regulations. It is advisable to form a single framework act for the legal regulation of PPP, which would take into account sectoral specifics of various different regulations of ministries and departments.

For formation and implementation of PPP projects in Ukraine urgent need is the development of an institutional environment. The system for development of PPP institutions includes financial and non-financial institutions. Financial institutions are development banks, investment, venture and other funds of long-term financing; non-financial institutions are information, consulting, methodical, organizational, expert and other organizations which provide appropriate services and support preparation and implementation of PPP projects.

Inside institutional infrastructure for development of PPPs, it is important to form an independent expert body responsible for the examination of financial and economic substantiation, verification and evaluation of PPP projects for compliance with goals and objectives of public policy, risks distribution. In Ukraine today such system of institutional infrastructure of PPP is absent, which is one of the main reasons hampering the development of PPP in the country. Uniform standards and criteria for the organizational structure of PPP projects are also absent, but international experience shows that a qualitative leap in the development of PPP took place with the creation of a single body governing PPP projects.

Functions on the regulation of partnership between the state and private sector in Ukraine scattered among various ministries, which have their regional units at local authorities. The Ministry of Economic Development and Trade of Ukraine is the main body in the system of central executive power, which

¹ Закон про внесення змін до деяких законів України щодо усунення регуляторних бар'єрів для розвитку державно-приватного партнерства та стимулювання інвестицій в Україні (Верховна Рада України). Офіційний сайт Верховної Ради України. <<http://zakon2.rada.gov.ua/laws/show/817-19/paran69#n69>> (2017, February, 15).

supports formation and implementation of state policy on public-private partnerships; other central executive authorities are also involved in the examination, approval and implementation of PPP projects in the relevant sectors. Thus, the Ministry of Infrastructure of Ukraine is responsible for approving documents for PPP projects related to roads and highways; the Ministry of Regional Development, Construction and Housing approves tender conditions for concession or lease of infrastructure related to heating and sanitation; the Ministry of Finance is responsible for checking the status of the project and identifying the need for state support.

In November 2016 the Ministry of Infrastructure supported by Western NIS Enterprise Fund established Project office on development of PPP *Spilno – Public-Private Partnership Management Office*, whose main task is to launch public-private partnerships in Ukraine.

In order to strengthen institutional and legal support for preparation and implementation of PPP projects, we need financial institutions for development of PPP and private investment guarantees – the Development Bank of Ukraine and the Investment Fund of Ukraine; we also need an expert body of PPP development for independent examination of the financial and economic substantiation, verification and evaluation of PPP projects for compliance with goals and objectives of state policy.

Conclusions. Structural transformations in today's economy are not only changes in industry structure, but also regional and institutional. This should be accompanied by constructive actions of the state, its structural policy, for which public-private partnership has the essential role.

PPP is a mechanism for economic policy, which allows attracting extra-budgetary sources of financing and intellectual, technological, managerial and other resources of the private sector for solving socially important investment objectives.

Reform of state investment policy in the context of intensified cooperation between the state and business involves formation of partnerships between government and business. PPP in the modern sense is an institutional and organizational alliance between public authorities and private sector to implement national and international, massive, socially important projects in a wide range of activities, from the development of strategic industries to support of public services.

Prospects for further research, in our opinion, should include creation of the transparent competitive relationship between market participants, state support for producers of high-quality products, promotion of industrial cooperation and other changes of institutional nature.

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ДИНАМІКА ТРАНСФОРМАЦІЙ УКРАЇНСЬКОЇ СФЕРИ ПОСЛУГ

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TRANSFORMATION DYNAMICS OF UKRAINIAN SERVICE SECTOR

One of the main problems in modern Ukrainian economics is a need to determine orientation of economy restructuring process, towards a transition to a new economic order. In the postindustrial economy, service sector, which by its nature is relatively independent subsystem of open economy, begins to perform the most important function – ensuring continuity of efficient use of limited economic resources for the maximum human needs satisfaction, especially their intangible part. Qualitative determination of features, dynamics and trends in the development of economic relations in services is an important theoretical issue and looks like a multidimensional object of economic research. The paper deals about national features of service sphere transformation processes in the economy of Ukraine. Author historically divided by the dynamics of the service sector in several stages. He identified as basic indicators of such transformations structure of GDP and employment, structure of services consumption. Carefully researched services export and import features in the national economy. Based on this research grounded conclusions were formulated.

Key words: service sector, national economy, GDP, employment, income, foreign trade.

Постановка проблеми. Однією з актуальних проблем сучасної української економічної теорії є необхідність визначення спрямованості процесів модернізації структури народного господарства з метою його переходу до нового економічного порядку. Факти глибоких кризових явищ в реальному секторі економіки, зростання диспропорцій та неоднорідності в середині економічної систем, зниження національної конкурентоспроможності, безпрецедентне погіршення показників якості життя українського суспільства вимагають від дослідників пошуків шляхів виходу з цієї критичної ситуації, зумовлюють необхідність ревізії та перегляду методів та моделей реформування національної економіки з метою досягнення стандартів постіндустріалізму, спонукають до зміни парадигми економічної теорії. Стимулююча роль послуг в народному господарстві зростає в процесі реформування, розширення сфери послуг перетворює її на найбільш привабливе місце застосування для фінансових, матеріальних ресурсів та наявного людського капіталу, а поява принципово нових видів послуг та розширення їх асортиментного переліку змінює принципову схему функціонування третинного сектору економіки в сучасному людському суспільстві.

В економіці постіндустріалізму сфера послуг, яка за своєю сутністю є відносно незалежною підсистемою відкритої економіки, починає виконувати найважливішу функцію – забезпечення безперервності процесів ефективного використання обмеженої кількості економічних ресурсів з метою максимального задоволення людських потреб, а особливо їх нематеріальної частини.

Мета статті. Оскільки економічна діяльність в сфері послуг має значний синергетичний потенціал для суспільного розвитку та знаходиться під впливом різних економічних і неекономічних процесів та чинників, якісне визначення особливостей, динаміки та напрямків розвитку ринкових відносин в сфері послуг є важливим теоретичним питанням і виглядає, як багатовимірний об'єкт економічного дослідження. А процеси формування сфери послуг, як й інших підсистем національної економіки, залежить від різних факторів: динаміка операційної діяльності в первинному і вторинному секторах; доходи і витрати домашніх господарств, підприємств і уряду; спрямованість державної економічної політики; демографічна динаміка; поведінку фізичних осіб і багатьох інших чинників. Процеси трансформації в сфері послуг не є односпрямованими і однозначними, особливо в сьогоднішніх економічних реаліях, що викликає необхідність