

ეკონომიკისა და ბიზნისის განვითარების მიმართულებები

National economy public sector modernization in the context of public-private partnership

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Summary

The article under consideration gives prominence to the public sector modernization issue, which is of a great importance for many countries with human wellbeing low indices. Thus, it makes a hypothesis as regards the possibility of public-private partnership different forms application in the process of this modernization. The article draws attention to a special role of a «third sector» as concerns public goods quality improvement.

Keywords. Public sector, public-private partnership, state-private partnership, “third sector”, public goods.

Résumé

L'Articles est consacré au problème de modernisation du secteur public qui est actuel pour plusieurs pays ayant un niveau bas du bien-être de la population. Il étudie une hypothèse relative à la possibilité d'utiliser des formes différentes du partenariat public-privé, lors du processus de cette modernisation. Une attention particulière est accordée à un rôle spécifique du «troisième secteur» dans l'amélioration de la qualité des biens publics (services publics).

Mots-clés. Secteur public de l'économie, partenariat public-privé, «troisième secteur», biens publics.

Issue statement. Under the conditions of national economy public sector crisis, when there is a lack of resources for public goods production, public-private partnership (PPP) can become a means of this problem solution. The availability of such partnership possibilities is the first and foremost task for the governments of those countries with a low level of a national wellbeing and low social standards of life.

Short review of recent publications. The comparative researches of a history and of public-private partnership

experience carried out by special international and European organizations such as PPP Knowledge Lab, under the auspices of World Bank Group, the European PPP Expertise Centre, the Public-Private Infrastructure Advisory Facility (PPIAF), the Private Participation in Infrastructure (PPI) Project Database etc., represent a considerable theoretical and practical value. The PPP researches are being carried out by academic associates at the School of Built and Natural Environment, the University of Central Lancashire (United Kingdom). In Ukraine, the scientists of the National Institute for Strategic Studies under the President of Ukraine and Ternopil National Economic University have contributed greatly to the research of a public sector of economy and public-private partnership.

Paper purposes. The purpose of this article is to analyze the possibilities as regards the economy public sector modernization and respectively social services development based on public-private partnership improvement.

The main findings of the research.

The successfulness criterion of the national economy public sector modernization is the achievement of public services better price-quality correlation (VFM – value for money). In particular, the British researchers insist on this correlation optimization.¹

In order to solve the scientific issue formulated at the beginning of the article, it is expedient to specify the content of ‘public sector of the national economy’ and ‘public-private partnership’ notions.

While defining the content of the ‘public sector’ notion, modern researchers consider the statement as regards the nonidentity of ‘public’ and ‘state’ to be a basic one.

¹ Ed. Akintoye A., Lixange Ch, Renukappa S. Preston. Public-Private Partnerships [Electronic resource] – United Kingdom, School of Built and Natural Environment, University of Central Lancashire, Preston, PR1 2HE, 2011, – p. 95-105 – Access mode: http://www.arcom.ac.uk/-docs/workshops/2011-Central-Lancashire_CIBTG72.pdf

In our opinion, the public sector of economy is broader than the state sector as in a narrow as well in a broad interpretation of the 'state' notion. When the 'state' is understood restrictively only as central government institutions, the 'public' covers broader area as concerns that part of the content, which relates to local government institutions.²

Unfortunately, the Ukrainian legislation reflects broader interpretation of the 'state', according to which this notion represents both central and local authorities³. Such interpretation does not conform to decentralization reform and local self-government development progressive ideas, which have been reflected in Ukraine-2020 Stable Development Strategy⁴. The result of the mentioned strategy implementation shall provide for local self-government bodies solvency and sustainability.

Even under the broader interpretation of the 'state', the public sector is wider than the state sector as concerns that part of the content which relates to the so-called 'third sector' activity. 'Third sector' comprises non-government, voluntary, noncommercial (nonprofit), self-regulatory organizations, which are financed by collective funds and are aimed at the implementation of citizens sectional interests in democratic societies.

The acknowledgement of the 'third sector' as a public sector element fully conforms to foreign sources 'public sector' notion determination. In particular, public sector is characterized as "a part of the national economy, which provides for goods and services which are not produced or cannot be produced by the private sector...". The public sector provides for military, police, infrastructural (along with telecommunication), educational, healthcare etc. services⁵.

"Third sector" institutions in the economies of different countries are concerned with the production of goods, which cannot be produced at all or are produced unsuccessfully by the private sector. These institutions appear in the sphere of citizens informing, education, health protection, culture, ecological, social and legal protection etc.

The additional argument in favor of the attribution of a 'third sector' to the public sphere has been generated by the Ukrainian reality of 2014-2016. After the Revolution of Dignity self-regulatory non-governmental and voluntary organizations have proven in practice that under the condi-

3 The Law of Ukraine on Public-Private partnership, 1 Jul 2010 № 2404-VI [Electronic resource / The Supreme Council of Ukraine // The Official Website of the Supreme Council of Ukraine. – Access mode : <http://zakon3.rada.gov.ua/laws/show/2404-17>

4 Ukraine – 2020 Stable Development Strategy. Approved by the Decree of the President of Ukraine, 12 Jan 2015, № 5/2015 [Electronic resource] / The President of Ukraine // The official Web-site of the Supreme Council of Ukraine. – Access mode : <http://zakon5.rada.gov.ua/laws/show/5/2015>

5 Public Sector. Definition. [Electronic resource] / Join Business Dictionary. – Access mode : <http://www.businessdictionary.com/definition/public-sector.html>

tions of central and local authorities weakness they are able to take not only usual socio-cultural, but also military, security, legislative and international functions. That is why the thesis on 'a third sector' as an element of a public sector bears along a pragmatic aim – the reflection in the theory of an important role of voluntary self-regulatory non-governmental organizations in public goods production under extraordinary conditions. This role is exercised in case of not only private sector failures, but also in case of central and local power bodies failures.

Unfortunately, the Ukrainian legislation does not include statutory innovations dedicated to state and civil society institutions partnership projects in the process of public goods production. Nevertheless, the official informational space of Ukraine owns the references as regards civil society institutions and state government bodies interaction in the form of "the implementation of common projects of informational, analytical-investigatory, philanthropic and social directions".⁶

The practice of civil society institutions participation in public goods production demonstrates, that these institutions are completely qualified for, firstly, arbitrary function fulfilment in the process of the selection of projects for financing. Secondly, they accomplish the function of resources additional funds involvement for public goods provision based on voluntary contributions, philanthropy and citizens personal participation in projects.

The visualization of the idea of the public-private partnership as a form of national economy public and private sectors interaction considering the public sector coverage of three elements – state, municipal and 'third sector' – is offered by fig. 1.

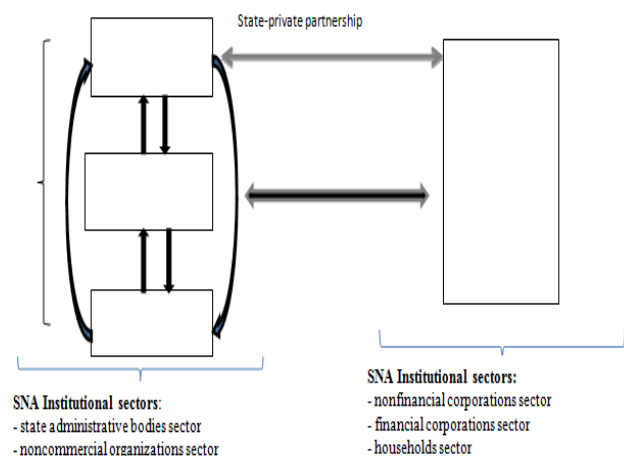


Fig. 1. The public-private partnership in the interaction of the national economy sectors

The approach visualized on the scheme offers a possibility to draw attention to some important directions of the public sector modernization, and namely:

6 Fedorenko V. L., Kahliak Ya. O. Civil Society Institutions and Social Organizations Institute in Ukraine: theoretical-methodological and rule-making aspects [Electronic resource] / V. L. Fedorenko, Ya. O. Kahliak // The Official Website of the Ministry of Justice of Ukraine. – Access mode : <http://old.minjust.gov.ua/20126>

public goods production requires the specification of relationships between three elements of the public sector, and namely: a) choosing of fiscal federalism model – the algorithm of relationships between central and municipal government levels, b) specification of legal and economic fundamentals of ‘third sector’ and central and local governments interaction in the process of partnership projects implementation, public-private partnership is a form of a transfer from a public to a private sector based on the outsourcing of certain powers for public goods production, that is why modernization stipulates the searching of rational forms of interaction between the elements of the public sector in fact, as well as forms of interaction between any of them and the private sector, state-private partnership comprises only a part of all connections, which may appear in the process of public-private partnership public goods production, that is why the focus only on this part deprives public-private partnership of its potential possibilities, public sector correlates with the institutional sectors of the System of National Accounts (SNA), and namely with state administrative bodies sector and noncommercial organizations sector, respectively, private sector correlates with three other institutional sectors; the consideration of this fact broadens the monitoring and assessment possibilities.

Governmental programs of public sector modernization in certain countries, in Ukraine in particular, can rely upon a rich international experience of PPP application. The first experience of a successful public-private partnership has been registered at the turn of 1970-1980s. Currently the partnership has become so famous, that the network of special international and European organizations aimed at this sphere research has appeared.

Traditionally public-private partnership has been considered as a form of agreement mainly in infrastructure sphere, but at the beginning of the XXI century, PPP possibilities in innovation sphere were admitted. This entails, for instance, the implementation of PPP European projects as regards ‘factories of future’, ‘energy-efficient buildings’, ‘stable industrialization’, ‘green car initiative’ etc. In particular, the European Commission has acknowledged the perspective of the additional involvement of funds in the amount of 1,45 billion euros by the virtue of PPP. The EU leaders consider such practice of partnership to be a condition of the European industry leading positions provision in the world.⁷

In our opinion, the distribution of PPP projects in the innovation sphere indirectly testifies to the fact, that the innovation activity bears the signs of public goods, and the creation of all conditions for it is regarded as a special public service just in the period of revolutionary technological transformations.

The list of spheres, which can take advantage of public-private partnership projects, is huge. In accordance with the

7 EU Industrial leadership gets boost new research partnerships European Commission [Electronic resource] : Press Release / Bruxelles, 17 Dec 2013. – Access mode : http://ec.europa.eu/research/industrial_technologies/ppp-in-research_en.html

conclusions made by the Ukrainian researchers from the National Institute for Strategic Studies under the President of Ukraine, partnership projects have been implemented in such spheres of national economies of different countries:

- schools, hospitals, prisons, emergency facilities and automobile roads building in Great Britain; power economy, transport, environment protection, water resources exploitation, water supply and wastewater disposal, recreation facilities, information technologies, health protection, education in Canada;
- automobile roads and airports in Greece;
- automobile roads and local transport systems in Ireland;
- transport networks and urban life-supporting systems in Australia;
- social housing sector and urban life-supporting systems in the Netherlands;
- automobile roads and urban life-supporting systems in Spain;
- nature protection activities, automobile roads, rural life-supporting systems in the USA.⁸

Public-private partnership emphases are different in states with a different level of economic development. The analysis of 915 randomly selected PPP projects has proved that the social sphere, health protection in particular, takes the priority place (up to 30% of projects) in the Group of Seven Industrialized Nations. In developing countries the priority PPP projects relate to automobile roads building and reconstruction sphere, housing and public services, tourism, railway and pipeline transport etc. The part of these projects has made 45%.

The public sector of the Ukrainian economy possesses a considerable unused modernization potential regarding namely public-private partnership application. In particular, relatively lower part of investments in public-private partnership projects to GDP testifies to this fact. The respective information is reflected in fig. 2.

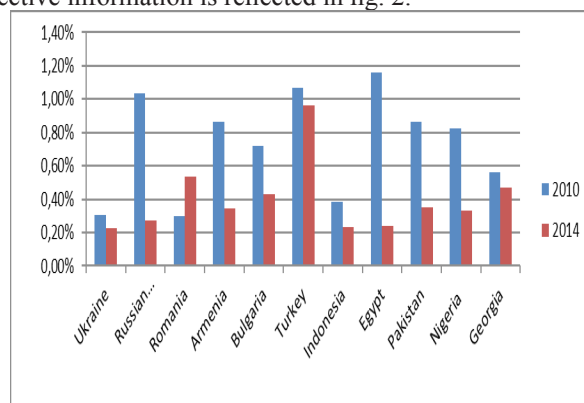


Fig.2 Investments in infrastructure projects involving

8 Regarding the development of state-private partnership as a mechanism of the investment activity activation in Ukraine [Electronic resource] : briefing note / The National Institute for Strategic Studies under the President of Ukraine. – Access mode: <http://www.niss.gov.ua/articles/816/>

private sector to GDP (%)⁹

Fig. 2 represents information on ‘infrastructure projects with participation of a private sector’¹⁰, which, in accordance with the World Bank methodology, encompass four constituents: management and lease contracts (I1), brown-field projects (I2), greenfield projects (I3) and divestitures (I4). Having removed divestitures, we have applied the modified information of the World Bank. As far as the Ukrainian legislation restricts the privatization of partnership projects state property objects, we consider divestitures application inexpedient for the Ukrainian economy partnership analysis. Therefore, the figure reflects the information referring to 11 countries, which has been calcu-

$$\frac{I_1 + I_2 + I_3}{GDP}$$

lated by the formula: $\frac{I_1 + I_2 + I_3}{GDP}$. In accordance with the data, the share of investments in partnership projects in Ukraine is the lowest among 11 countries. In comparison with the leader of the group under analysis – Turkey – in 2014 this share was less by a factor of 4,4, compared to Georgia – by a factor of 2,2. It is possible to observe, that in most countries partnership projects investment share is decreasing, what should be explained separately.

The overwhelming majority of PPP projects in Ukraine turned out to be unsuccessful and led to resources loss without public goods quality improvement. The partnership project, which implied the assignment of the heat distribution network municipal complex in Artemivsk to a private partner for use, is considered one of the most successful one. After we have carried out SWOT-analysis of this most successful project and compared it with other projects, we are able to draw conclusions regarding PPP positive results preconditions. In Ukraine, such is the participation in the capacity of an enterprise private partner, which has working experience according to the European standards. The lack of managerial experience in partnership relationships organization and of land and social relations legal regulation impeded successful projects implementation in Ukraine.

Besides, in Ukraine the lack of precise information on projects hinders the effective PPP projects management. In particular, two state government bodies, responsible for PPP projects, and namely the Ministry of Economic Development and Trade of Ukraine and the State Property Fund of Ukraine, deliver different information on the projects number. Specifically, according to the data of these two bodies, the indices regarding the number of concessionary agreements differed in 2014 by a factor of 1,44, and in

9 Lohtina L. K. State-private partnership concept and essence [Electronic resource] / L. K. Lohtina, E. D. Batuyev // The social aspects of population health electronic journal – 2010. – № 3(15). — Access mode : <http://vestnik.mednet.ru/content/view/212/30>

10 Private Participation in Infrastructure Database. Methodology. World Bank [Electronic resource] . – Access mode: <http://ppi.worldbank.org/methodology/ppi-methodology>

2015 – by a factor of 1,06¹¹.

The Ukrainian legislation stipulates such forms of partnership as concessionary agreements, joint arrangements, property management agreements and others. Only concessionary agreements have been registered and applied regarding SPP projects implementation, as long as official government bodies provide information on concessionary and property management agreements. The provision on such form of a partnership was implemented to the legislation of Ukraine only in 2015.

The peculiarity of the Ukrainian concession consists in the fact, that in practice concessionary agreements often do not conform to the international criteria. They mostly resemble ordinary lease without obligatory terms of investment in infrastructure development and without requirements regarding the quality of services. The instances of the transfer to concession (to lease in fact) regarding residential buildings, garages, bus stops etc. have been registered.

The problem of public-private partnership focus on social interest implementation remains unsolved in Ukraine. Particularly, state policy documents (strategies, programs, methodology), which should formulate and formalize criteria for partnership projects expediency assessment, are not available in fact. The following fact can confirm that the problem regarding false orientation of SPP officially registered projects exist and the correct assessment is not available. The experts of the World Bank have analyzed 11 projects, which had received the status of SPP projects in Ukraine in 2012-2014. Seven projects, or two thirds, have been assessed as typically commercial. They were implemented for the convenience of private companies (mushroom cultivation, stores network development, fish farming, oil refining modernization etc.)¹² and directly did not relate to public goods.

The Ukrainian public-private partnership in view of the ultimate goal (public services improvement) and of the intermediate goal (the involvement of private resources for public goods production) starting from the moment of first attempts of application in 1990s and until nowadays remains an ineffective instrument of state regulation. It does not contribute to public sector modernization. One of the fundamental reasons of such ineffectiveness is a lack of institutional preconditions. The ineffectiveness is explained by the fact, that the Ukrainian legislation is contradictory and unharmonious with the EU legislation. Moreover, the lack of the appropriate allocation of PPP projects management competences among the central authority bodies also influences the situation. Back in 2011, Gide Loyrette, a re-

11 The Ministry of Economic Development and Trade of Ukraine. The official website [Electronic resource] . – Access mode: <http://www.me.gov.ua/> ; The State Property Fund of Ukraine. The official website [Electronic resource] . – Access mode: <http://www.spfu.gov.ua/>

12 State-private partnership in the context of state investments management. The Assessment / The International Bank of Reconstruction and Development. – The World Bank, 2016.

spected French law firm, provided such evaluation of the partnership.¹³ Unfortunately, this assessment has not lost its relevance even in five years since its substantiation.

Conclusions:

The experience of many countries affords grounds for the assumption regarding significant opportunities for public sector modernization at the expense of public-private partnership. This modernization presupposes public services improvement and diversification as well as the optimization of costs for their production. In different countries, partnership spheres are spreading out from automobile roads building and residential complexes modernization infrastructure projects to projects in a social sphere and in innovation activity for new technologies implementation.

The Ukrainian economy and society are at the initial stage of public sector modernization with the application of a partnership, when the task concerning state-private partnership common forms reforming remains the most urgent. It is referred to the task of SPP projects goals transparent definition, projects selection and registration, the improvement of projects effectiveness assessment methods, overwhelming of contradictions between SPP projects central management bodies, consistent legislation development etc.

Along as we have substantiated the expanded definition of a public sector and public-private partnership based on 'third sector' participation, it is expedient to accept the following government policy changes as priority in Ukraine: the list of the most important public services and spheres of PPP projects expedient implementation, which should be determined with the involvement of social society institutes expertise, shall be reflected in the national development strategies and public-private partnership concepts, legal regulation of the algorithms of third sector entities property (financial) participation in partnership projects and of cooperation with central and local government bodies, private sector entities shall be established in the framework of partnership projects.

13 The Diagnostic survey of legislation on State-private partnership [Electronic resource] : presentation / Gide Loyrette Nouel. – Access mode:

http://www.auc.org.ua/sites/default/files/files/0_%20PPP%20Diagnostic%20Review%20UKR%281%29.pdf