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**Olena Petrivna Fomenko,**

*a graduate student of the Department of public management and administration, Ivano-Frankivsk National Technical University of Oil and Gas, Ukraine, 76019, Ivano-Frankivsk, Str. Karpatska, 15, tel.: (0342) 54 72 66, e-mail: O\_p\_fomen@i.ua*

*ORCID: 0000-0001-6228-4510*

**Фоменко Олена Петрівна,**

*аспірант кафедри публічного управління і адміністрування, Івано-Франківський національний технічний університет нафти і газу, вул. Карпатська, 15, м. Івано-Франківськ, Україна, 76019, тел.: (0342) 54 72 66, e-mail: O\_p\_fomen@i.ua*

*ORCID: 0000-0001-6228-4510*

**Фоменко Елена Петровна,**

*аспирант кафедры публичного управления и администрирования, Ивано-Франковский национальный технический университет нефти и газа, Украина, 76019, г. Ивано-Франковск, ул. Карпатская, 15, тел.: (0342) 54 72 66, e-mail: O\_p\_fomen@i.ua*

*ORCID: 0000-0001-6228-4510*



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## STATE OF THE INSTITUTIONAL ENVIRONMENT OF THE PUBLIC-PRIVATE PARTNERSHIP IN UKRAINE IN THE LIGHT OF PARAMETERS OF THE EFFICIENCY OF PUBLIC ADMINISTRATION

**Abstract.** In the article is explained the state of institutional environment of public-private partnership in Ukraine in light of government efficiency using performance indices of Governance Research Indicator Country Snapshot (GRICS). The main factors that drastically reduce the quality of today's institutional environment are political instability and high level of corruption.

It today's situation, the state priority measures should stabilize the political situation, strengthen the position and role of the public sector, position the state as a reliable business partner in the world economic system and as a responsible member of public-private partnership inside the country.

**Keywords:** socio-economic development, public-private partnership, infrastructure projects, institutional environment of public-private partnership, own-

ership structure, public economy, GRICS indices, political and corruption risks in public-private partnership, anti-raider laws.

## СТАН ІНСТИТУЦІОНАЛЬНОГО СЕРЕДОВИЩА ПУБЛІЧНО-ПРИВАТНОГО ПАРТНЕРСТВА В УКРАЇНІ У СВІТЛІ ПАРАМЕТРІВ ЕФЕКТИВНОСТІ ДЕРЖАВНОГО УПРАВЛІННЯ

**Анотація.** У статті розкрито стан інституціонального середовища публічно-приватного партнерства в Україні у світлі параметрів ефективності державного управління з використанням характеристик індексів Governance Research Indicator Country Snapshot (GRICS). До основних чинників, які різко знижують якість нинішнього інституціонального середовища віднесені політична нестабільність та високий рівень корупції. В сучасних умовах пріоритетними заходами держави мають бути стабілізація політичної ситуації, зміцнення позицій та ролі державного сектору економіки, позиціонування держави як надійного бізнес-партнера в системі світових господарських зв'язків та відповідального учасника публічно-приватного партнерства всередині країни.

**Ключові слова:** соціально-економічний розвиток, публічно-приватне партнерство, інфраструктурні проекти, інституціональне середовище публічно-приватного партнерства, структура власності, державний сектор економіки, індекси GRICS, політичні та корупційні ризики публічно-приватного партнерства, антирейдерські закони.

## СОСТОЯНИЕ ИНСТИТУЦИОНАЛЬНОЙ СРЕДЫ ПУБЛИЧНО-ЧАСТНОГО ПАРТНЕРСТВА В УКРАИНЕ В СВЕТЕ ПАРАМЕТРОВ ЭФФЕКТИВНОСТИ ГОСУДАРСТВЕННОГО УПРАВЛЕНИЯ

**Аннотация.** В статье раскрыто состояние институциональной среды государственно-частного партнерства в Украине в свете параметров эффективности государственного управления с использованием характеристик индексов Governance Research Indicator Country Snapshot (GRICS). К основным факторам, которые резко снижают качество сегодняшней институциональной среды отнесены политическая нестабильность и высокий уровень коррупции. В современных условиях приоритетными мерами государства должны быть стабилизация политической ситуации, укрепление позиций и роли государственного сектора экономики, позиционирование государства как надежного бизнес-партнера в системе мировых хозяйственных связей и ответственного участника публично-частного партнерства внутри страны.

**Ключевые слова:** социально-экономическое развитие, государственно-частное партнерство, инфраструктурные проекты, институциональная среда публично-частного партнерства, структура собственности, государственный сектор экономики, индексы GRICS, политические и коррупционные риски государственно-частного партнерства, антирейдерские законы.

**Target setting.** In today's Ukrainian society, due to the depreciation of infrastructure, exacerbated the problem of poor quality of utility, transportation, education, health care and so on. In particular, the main reasons for this state are the following: quasi-market economic processes; inefficient management of public services; deficit in public investment for infrastructure investments; low mechanism of public-private partnership<sup>1</sup> (hereinafter – PPP).

The latter reason (mechanism of PPP) is the subject of this article.

Still unsolved issues. Despite the wide range of literature on PPP, this issue will remain relevant because of changing of the political and economic circumstances in implementing PPP. In particular, there is a need to reflect the fact that Ukraine is ranked the 135<sup>th</sup> among 159 countries and territories on the world in economic freedom [17]. These economic development indicators correlate with economic freedom, economic development of the state, growing welfare of its people and indicators with prognostic capabilities (conditions) in implementing PPP. In addition, important parameters are the ones that represent the connection between PPP and efficiency/inefficiency of public governance and enable, by

understanding this connection, to outline the main ways of improving the institutional environment of PPP.

**Analysis of the recent research and publications.** Wide application of PPP as a mechanism for implementation of the Program of Investment and Innovation Activity in Ukraine as well as National Projects was envisaged by the Program of Economic Reforms for 2010–2014. “Prosperous Society, Competitive Economy, and Effective State” [15]. The undoubted achievement was the fact of adoption the Law of Ukraine “On Public-Private Partnership” (2010) [12]. On the development of the provisions of this law was adopted the Concept of public-private partnership in Ukraine for 2013–2018 [14]. The adoption of these documents has intensified the study of various aspects of PPP, scientific definition of PPP and distinct separation of the various aspects of this phenomenon allowing the development of the state and influence on the globalized environment. There is no need for us to repeat steps on the contents of the study in meaning that characterizes the partnership of the state and business, as it has been done already by other researchers, in particular by I. Braylovsky [1], V. Varnavsky [2], P. Shylepnytsky [16] and others. The research results concerning PPP already allow writing books and practical guides. [7] We made use of, first of all, the legal framework and those sources, where PPP is considered as a factor of social and economic development of the state, and also databases of the World Bank which give grounds for defining features of institutional environment for certain parameters in various countries, including Ukraine.

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<sup>1</sup> In foreign literature public-private partnership is expressed by a term PPP, meaning that the parties of such cooperation, on one hand, are the public entities – executive bodies, local government and NGOs, and on the other hand – the private entities (business structures) that are ready to provide their goods, services, financial and other resources in order to obtain beneficial results. In this article, we follow the same approach, using the term public-private partnership (PPP).

**The main purpose of the article** is to clarify the actual state (quality) of institutional environment of PPP, linking this condition with the indices of Governance Research Indicator Country Snapshot (GRICS), which assess the effectiveness of governance in 209 countries. These options provide a general understanding of public governance as a set of traditions and institutions by which authority is governing the country [6].

**The statement of basic materials.**

Today, the basic condition for the successful economic and social development in economic processes is regarded by the development and installation of the mechanism of PPP. The implementation of such public management tasks will be updated to keep pace, given the economic crisis in conflict situation in separate regions of Donetsk and Lugansk Oblasts (hereinafter – SRDLO). By combining the assets of the state with investment and management capacity of private companies an opportunity to provide a solution of socially important problems of society.

The law on PPP aims to increase the competitiveness of public (state and municipal) sector of the national economy, attracting investment into the economy to build extensive infrastructure [11]. The law provides a legal basis for cooperation between the state, local governments and businesses in the implementation of important projects of socio-economic development, ensures an adequate level of social activity, improving the quality of life of citizens. However, since the adoption of the legislation, situation regarding the use of PPP mechanism has not been changed for the better. Over the past six years,

the problems of public governance in such areas as property rights of investors, settlement of economic disputes, licensing and authorizations, land use planning, attracting domestic and foreign investments in infrastructure development of the national economy and public services on the basis of PPP only exacerbated.

These problems relate not only to the index of economic freedom, but also to the overall situation of low efficiency of public governance, measured by the international practice parameters index GRICS.

The resulting measure of the quality of institutional environment is the efficiency of public governance. Its variable component is the indicator of government effectiveness index GRICS.

The countries with high indicators of effectiveness considered to be the countries with high quality institutional environment. The index options of GRICS include the following indicators:

*Index 1 “Voice and Accountability”* reflects the perception of the political environment, in which citizens of the country are able to participate in selecting their government, as well as freedom of expression, freedom of association and free media.

*Index 2 “Political Stability and Absence of Violence / Terrorism”* forms the idea (perception) of the likelihood of political instability and violence, including terrorism.

*Index 3 “Government Effectiveness”* reflects the perception of quality of the public administrative services, level of independence of public service from political pressure, quality of policy formulation and implementation, and the

credibility of the government to such policy actions.

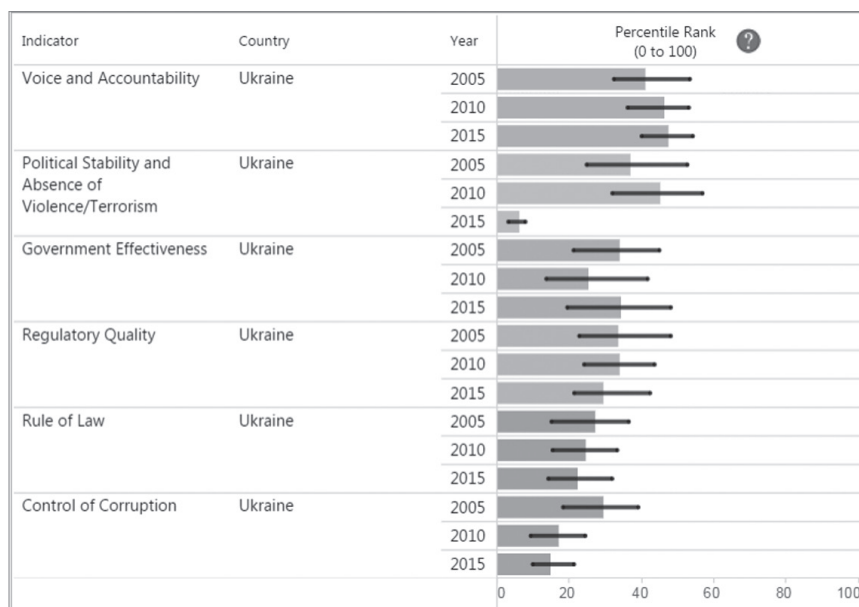
*Index 4 “Regulatory Quality”* is the index value to evaluate the measures that contradict market conditions of economic activity, such as control of prices, inadequate control of banks, excessive regulation of international trade and business development.

*Index 5 “Rule of Law”* reflects the level of protection of property rights, the possibility of using the court as an instrument of civilized influence on decision making. It is a characteristic of public level of confidence in the laws of society and commitment to the implementation of these laws includes the public perception of crime, the effectiveness and predictability of the legal system, commitment to the contract system.

*Index 6 “Control of Corruption”*, which determines the possibility of using informal mechanisms to influence the quality of administrative and public services, including through bribes, gifts and so on. The variable component may be the value of the Corruption Perceptions Index (CPI), or the values of the control of corruption index GRICS.

Turning to the database of the World Bank, which describes the situation in Ukraine at the reference dates 2005, 2010 and 2015, we obtained results that reflect the dynamic changes in the PPP. Unfortunately, they demonstrate a serious stagnation in the case of forming institutional environment of PPP (see Table). The table shows, that the last 10 years were a period of lost opportunities for Ukraine in achieving

**The GRICS Indices on Ukraine for the period from 2005 to 2015**



Source: compiled by the author based on World Bank’s Worldwide Governance Indicators [4]. Date of the request – 19/02/2017.

higher performance of public government in improving the quality of the institutional environment of PPP.

There is no need to give a detailed description of each of these indices, as illustrations clearly outline the current problems existing in Ukraine. For us, it is important to separate the main factors that currently define the general state of institutional environment of PPP and its quality. As we can see, most of its indices in Ukraine have not changed significantly over the period from 2005 to 2015. In the first index “Voice and Accountability”, for example, is observed even a slight increase from 41,5 to 47,78 points. Although, it is still too far from 100 %.

Severe decline in the quality of the institutional environment observed in the indices 2 and 6 (“Political Stability and Control of Corruption”), which should be considered today as the main factors affecting its status. In terms of political stability Ukraine demonstrates a serious decline in the period from 2005 to 2015 from 37,2 to 6,19 points; in terms of control of corruption from 29,76 to 14,90 points. Preferably, this situation is related to the antiterrorist operation in SRDLO. Suffice it to say that the portfolio of concession projects of fuel and energy complex consists of 82 objects, 71 of which are in conflict zone [5, p. 99]. This situation is the basis in order to determine the main factors that reduce the quality of today’s institutional environment of PPP: political (Index 2) and corruption (Index 6) risks. Research on them will help more accurately predict the threat to the national economy as a whole and create a more favorable institutional environment for PPP.

Policy of activation PPP based on attracting foreign and domestic private investment today must be closely connected with the normalization of the political situation in relations with SRDLO, strengthening Ukraine’s position in the international arena as a sovereign state. Ukraine needs to position itself to foreign politicians and businessmen as a promising and reliable business partner in the world economic system. Ukraine must demonstrate that the political factor does not hold any potential threat to development of the national economy.

In our view, the analysis of the main factors reducing the quality of the institutional environment of PPP should be closely linked with the increased role of the public sector in social and economic development. Reducing the size of the public sector during 2000–2016 had a negative impact on the preservation of economic stability. This policy also continues against the backdrop of the events surrounding SRDLO with high political risks that significantly affect the economic activity and PPP. In particular, for the privatization in 2016–2017 are planned 296 state enterprises, among which, are large energy companies [8].

At the same time, international practice shows, that when experiencing political instability, it is more appropriate to strengthen the role of government in the economy as a regulator and an active participant in PPP, free from corruption.

Lacking of opacity in functioning of administrative system, corruption in public authorities, dependence of the judicial system on the political and administrative system critically af-

fect key characteristics of the national investment climate [3, p. 5]. Today, therefore, there is actualization of the problem of finding the optimal ownership structure and scientific evidence of regulatory impact of the state on the functioning and development of the public sector of economy by means of modern risk management.

Improving the situation in the public sector of economy will boost private sector participation in infrastructure projects. To reduce the risk as a prerequisite for the widespread introduction mechanism of PPP, the government, as a business partner, must form strong institutions. Their weakness highlighted in the information from the Ministry of Justice, that in 2015 in Ukraine were about 3 thousand “raider” takeovers that took place in different cities of Ukraine. Narrowing risk zone requires practical action to combat crime in public sector and improvement of national legislation in the sphere of financial monitoring in different directions.

Some laws have been adopted by the Verkhovna Rada of Ukraine [9–10]. Others, aimed at combating terrorism and related phenomena, are still in draft status [13]. In the Plan of Priority Actions of the Government in 2016, approved by the Cabinet of Ministers of Ukraine from 27 May 2016 № 418-p., recorded the need to create more favorable conditions for business development. This, in turn, provides a series of reforms that will make it possible to ensure sustainable economic growth.

**Conclusions.** The analysis of the institutional environment of PPP, using the indices of GRICS in dynamics for the period from 2005 to 2015, indicates

the following: firstly, the past 10 years in Ukraine were a period of lost opportunities to achieve higher performance of public governance in terms of improving the quality of the institutional environment of PPP; and secondly, as of the biennium 2015–2016, there has been a sharp decrease in its quality due to the impact of political risk indices 2 and 6 (“Political stability and Control of Corruption”).

To activate PPP at all levels of public power, the state must implement measures to fully affect the development of not only a purely economic, but also political processes. In view of the above, the priority activities to improve the quality of the institutional environment of PPP should be considered the following measures: stabilization the political situation around SRDLO; strengthening Ukraine’s position in the international arena as a sovereign state; strengthening the position and role of the public sector of economy, positioning the state as a reliable business partner in the world economic relations and as a responsible member of PPP in the country.

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