

# PROJECT MANAGEMENT AND FINANCIAL AND ECONOMIC SECURITY AMID GLOBALIZATION

UDC 005.93:005.8:001.891

DOI <https://doi.org/10.26661/2414-0287-2019-3-43-23>

## USE OF PUBLIC-PRIVATE PARTNERSHIP FOR THE REHABILITATION OF THE INFRASTRUCTURE DAMAGED OR DESTROYED BY ONGOING ARMED CONFLICT IN THE EAST OF UKRAINE

**Klymenko S.Ye.**

*Zaporizhzhia National University  
Ukraine, 69600, Zaporizhzhia, Zhukovsky str., 66*

klymenko.svitlana.2017@gmail.com

ORCID ID 0000-0002-5967-2296

**Key words:**

concession, joint operation agreement, infrastructure, mechanism of PPP, mixed contract, public investment project, public-private partnership, trust agreement.

The article is devoted to the use of public-private partnership (herein PPP) as a platform to overcome an important social and economic problems, chiefly those related to the rehabilitation of the infrastructure damaged or destroyed by the ongoing armed conflict in the east of Ukraine. The author provides the essence and the legislative framework of PPP as a form of business relationship between the state and her authorities and private companies (by means of concessions, joint operation agreements, trust agreements and mixed contracts) about the projects which will be of great public value. It should be noted that PPP refers to the cooperation, which is based on trust and transparency, the appropriate division of risks and costs among the public and private sectors. It has been proved that PPP is the best way to utilise the means (both financial and non-financial) and expertise of the private sector to build infrastructure "off balance." It is also noteworthy that Ukraine's investment management system lacks a strategic vision at public investment priorities. The author has worked out and outlined the strategy for enhancing PPPs for the purpose of infrastructure rehabilitation on the territories that were affected heavily by the armed conflict in eastern Ukraine. The primary goal of this strategy is to renovate quality infrastructure and to create advantageous conditions for sustainable and dynamic economic development in order to attract domestic and foreign human and financial capital, and develop environmentally friendly high-tech industries. At the same time, this strategy allows to reduce the shortfall of infrastructure and to take pressure off the state and local fund budgets.

---

## ВИКОРИСТАННЯ ДЕРЖАВНО-ПРИВАТНОГО ПАРТНЕРСТВА ДЛЯ ВІДБУДОВИ ПОШКОДЖЕНИХ ОБ'ЄКТІВ ІНФРАСТРУКТУРИ ВНАСЛІДОК ЗБРОЙНОГО КОНФЛІКТУ НА СХОДІ УКРАЇНИ

**Клименко С.Є.**

*Запорізький національний університет  
Україна, 69600, м. Запоріжжя, вул. Жуковського, 66*

**Ключові слова:**

державно-приватне партнерство, державний інвестиційний проект, договір про спільну діяльність, договір про управління майном, змішаний договір, інфраструктура, концесія, механізм ДПП.

Статтю присвячено актуальній темі щодо використання механізму державно-приватного партнерства (ДПП) для вирішення важливих соціально-економічних проблем, зокрема пов'язаних із відбудовою пошкоджених або зруйнованих об'єктів інфраструктури внаслідок збройного конфлікту на Східній Україні. Розкрито сутність та законодавчі основи ДПП як форми ділових відносин між державним та приватним секторами економіки (у вигляді договорів про концесію, спільну діяльність, управління майном, змішаного договору тощо) з приводу реалізації проектів, що матимуть велику суспільну користь. Визначено, що ДПП являє собою співробітництво між державою та приватним партнером, засноване на довірі та прозорості, розподілі ризиків та відповідальності. Доведено, що ДПП є найбільш привабливим способом використання ресурсів (як матеріальних, так і нематеріальних) та досвіду приватного сектора для будівництва великомасштабних об'єктів інфраструктури.

Також зазначимо відсутність стратегічного погляду на пріоритети державного інвестування в Україні, що негативно впливає на систему планування та управління державними інвестиціями загалом. Запропоновано стратегію використання державно-приватного партнерства для відбудови зруйнованих об'єктів інфраструктури внаслідок збройного конфлікту на

сході України. Головна мета цієї стратегії полягає в забезпеченні населення якісною інфраструктурою та створенні сприятливих умов для сталого та динамічного економічного розвитку Луганської та Донецької областей з метою залучення вітчизняного та закордонного капіталу та людських ресурсів, а також розвитку екологічно чистих високотехнологічних галузей. Водночас розроблена стратегія дозволяє подолати інфраструктурний дефіцит та зменшити навантаження на бюджети державного та місцевих рівнів.

### Statement of the problem

In recent decades, public-private partnership, hereinafter referred to as PPP, has been recognized as an extraordinarily beneficial form of realizing infrastructure investments in the countries of North America, Western Europe and the Asian region. However, more and more projects are currently being realized in the form of concessions all over the world.

In many transition economies, public-private agreements have been successfully utilised as a governmental attempt to link political interests with the state development strategy. Thus, PPP has been identified as being an efficient tool, serving the interests of municipalities and citizens. At the same time, PPP refers to the formation of new social and economic relations, which are based on trust and transparency, the appropriate division of risks and costs among the state and her authorities and private companies. On this ground, the world PPP market has started to develop providing more value for taxpayers and investors.

A number of factors contributed to the proliferation of PPPs. Firstly, the chronic infrastructure underinvestment and the possibility of attracting private sector's means, both financial and nonfinancial, has made it the most popular model of financing infrastructure projects throughout the world. Secondly, PPP encourages the state to weaken her role as a regulator of the economy as well as remains state's interest in further involvement of the private sector in the provision of public services. Finally, PPP has been regarded as a remedy to foster competition and transparency in liaising with private enterprises.

There is some evidence to suggest that PPP stimulates economic growth and technology transfer by combining the project cycle works on design, construction, execution and financing into one agreement, which must be concluded with a consortium of participating companies, which in turn bear distributed operational risks.

In current conditions Ukraine requires immediate infrastructure upgrading, foreign investment and dissemination of experience and best practices of countries with a longer history of PPP implementation. For this reason, PPP can be a platform to address important social and economic problems, chiefly those related to the rehabilitation of the objects of infrastructure and residential buildings damaged or ruined by the ongoing armed conflict in the east of Ukraine.

In this article, the author reviews the essence and the legislative framework of PPP, highlighting its potential role as well as discussing the main stages of the strategy for enhancing PPPs for the purpose of infrastructure rehabilitation in the conflict zone of eastern Ukraine.

### Analysis of recent studies and publications

There is a growing body of foreign and domestic literature that recognises the importance of managing public investment projects by means of PPPs and concessions.

Works of V. H. Varnavskiy [1], L. L. Hrytsenko [2], A. V. Klymenko [1], V. A. Korolov [1], C. I. Rassadnykova [3] are devoted to analysing the cooperation and risk division between public and private partners, suggesting and justifying effective forms and models of PPP.

L.L. Antoniuk [4], V.H. Hornyk [5] and A.M. Poruchnyk [4] in their publications focus on the issue of enhancing the competitiveness of national products through innovative economic renewal. The practical aspects of formation the strategies for innovative development of the national economy are highlighted in the work of S.M. Illiashenko [6].

However, the need to stimulate economic development through infrastructure investment and to overcome macroeconomic imbalances in Ukraine has risen up the necessity of improving the efficiency of public investment management. So far, very little attention has been paid to thorough analysis of the existing problems of the functioning PPPs and public investment management mechanism, as well as the development of methodological approaches to formulate a general strategy for enhancing PPPs in Ukraine.

### Objectives of the article

The purpose of the article is to define the essence and the legislative framework of PPP, to highlight its potential role and to develop the main stages of the strategy for enhancing PPPs for the purpose of infrastructure rehabilitation in the conflict zone of eastern Ukraine.

### The main material of the research

Newly, a considerable amount of economic literature has grown up around the theme of public-private partnership and traditional procurement procedures. PPP can broadly be defined as cooperation between public entities and private partners in order to perform projects of great public importance and to meet environmental targets. It encompasses profitable and efficient business relationships for realizing large infrastructure investments. PPP is carried out on a contractual basis in the forms of concession, joint operation agreement, trust agreement, mixed contract, etc.

In the Ukrainian law, the legal framework for PPP is established by two acts and a series of rulings by the Cabinet of Ministers of Ukraine that regulate the cooperation between public entities and private partners:

- 1) the act of July 1, 2010 No. 2404-VI on public-private partnership, hereinafter referred to as the Act on PPP;
- 2) the act of July 16, 1999 No. 997-XIV on concessions.

In accordance with the Act on PPP, state or territorial communities represented by local authorities can serve as a public entity, as well as legal entities, except public enterprises and utilities, or entrepreneurs can act as a private partner. In addition, a private partner can be represented by a group of firms called a consortium.

The objects of public-private partnership are owned by state or local governments and are sometimes equated with public infrastructure and services.

Extensive research on the theory and practice of PPPs has shown that they can be used widely in the following sectors: electricity generation, water and sanitation, solid waste, district heating, transport, transmission and distribution, telecommunications, sports facilities, clean technology, mass catering, etc.

The successful and wide implementation of public-private agreements also strongly encourages certain prerequisites, namely:

- the favourable conditions for developing business;
- the stable, clear and transparent legal framework for PPP;
- the fair and transparent division of risks among PPP participants and in-depth analysis of PPP projects;
- the public-sector accountability and competence in the tendering process and infrastructure contracts design and implementation [1].

In addition to determinants mentioned above, the decision on implementation PPP depends on many other factors, particularly: the agreeing ownership of the infrastructure unit, its management and maintenance, sources of financing (who will fund the project and in what proportions), the nature of risk transfer between partners, the duration of the contract.

Furthermore, the synergistic effect of cooperation between the public entity and the private company generates a wide range of benefits for each party. Let us consider what the advantages and disadvantages of PPP are for both partners. Potential benefits from PPPs for governments are the following:

- the receipt of additional resources such as financial, material, cutting-edge experience, the adoption of innovative forms of project financing, the generation of budgetary savings, the risk transfer;
- the implementation of socially important projects that would be impossible under other conditions;
- the improvement of the quality and volume of public services and goods consumed, as well as reducing the cost of their provision;
- the encouragement of further upgrading of the primary industries;
- the preserving control over the general strategy of infrastructure development;
- the saving or creating new work places;
- the better integration of science, education and production;
- the coordination of public and private research and development, ensuring the commercialization of scientific results;
- the development of the ‘government – business’ dialogue [2].

In turn, a private entity receives the upcoming advantages:

- the expanding the market niche, access to previously closed sectors of the economy (for instance, infrastructure, housing services, healthcare, social sphere, etc.), liaison with authorities (especially, permitting authorities);
- the possibility of obtaining subsidized loans under state guarantees, the attraction of budget funds to the project, the guarantees of investment return;
- the acceleration of improvement in the legislative framework for PPP and concessions through ‘government – business’ feedback;

– the creating a positive image of a private partner in society.

In connection with this, there is a need to consider the long-term impact of PPPs on society. PPPs are aimed at better performing public tasks and meeting the needs of citizens. In this respect, as a result of public-private agreements, the public receives goods or services of better quality while the price is reduced due to economies of scale, the introduction of new technologies or reduction of overhead costs along with accelerating the infrastructure construction and upgrading.

In practice, however, there are two main obstacles that heavily influence the likelihood of project performance failure under the PPP agreement. First, while budget planning one should take into account that the budget expenditure will rise, increasing the strain on budgets. Second, PPP-based project management requires appropriate managerial competencies from the state authorities, which, for its part, requires a corresponding increase in the educational level of public servants.

Alternative factors that restrain the success of a PPP project were specified by E. Iossa and S. Saussier, namely:

- the tender and contract design and the contract management;
- the characteristics of the targeted sector and the market structure;
- the degree of macroeconomic instability;
- the country’s regulatory and institutional framework [7, p. 36].

Despite the fact that the efficiency of PPP projects depends dramatically on institutional factors, public-sector accountability and competence, the role of PPPs and concessions in the provision of public infrastructures and services is still increasing in many countries of the world.

Today Ukraine requires immediate infrastructure upgrading and rehabilitation, especially in the conflict zone of the eastern part of our country. This is demonstrated by Kharkiv Human Rights Protection Group’s report on the loss of civilian population, destruction of housing and infrastructure as a result of the armed conflict in eastern Ukraine. The consequences of this conflict for civilian objects on the territory, where in 2014–2018 there were hostilities, and along the demarcation line between the occupied territories and the territories controlled by the government, are summarized in the following data.

By July 2016, in total near 90 000 objects of infrastructure and residential fund, including social and cultural, educational and medical objects, were ruined in Luhansk region, meantime 8,8 billion hryvnias were needed for their restoration [8, p. 31].

In 2015 Luhansk region received from the Cabinet of Ministers of Ukraine costs in the amount of 145,8 million hryvnias, which were used for renovation of schools, medical institutions, objects of the municipal sphere and private households [8, p. 31].

As of December 2017, in Luhansk region, there were 7057 objects of the residential fund destroyed and damaged; among them 6543 objects of the residential fund of private property, and 514 objects of the residential fund of municipal and state property [8, p. 31].

In Donetsk region up to December 2017, there were 7403 objects of infrastructure destroyed and damaged, including 7158 residential buildings [8, p. 32].

Relying on data collected from international resources and assessed by the Razumkov Centre, and bearing in mind asymmetric information problems and lack of contractibility of quality dimensions, overall economic losses from the occupation of Donetsk and Luhansk territories range between 0.9 billion dollars and 300 billion dollars [9, p. 42].

However, as we have seen, Ukraine nowadays suffers a significant amount of infrastructure investment and this trend will continue in the coming decades. Under conditions of budget constraints, fiscal deficit and public debt, current state infrastructure funds are very limited. According to the World Bank’s report on Ukraine’s economy, in 2018, the fiscal deficit was 2 percent of gross domestic product (GDP), whereas public debt was 63 percent of GDP [10].

In the meantime, there are no serious changes and reforms in promoting and supporting PPPs in Ukraine. Consistent with the data of Ukrainian central and local governments, as of January 2019, there were 189 PPP contracts concluded; among them only 58 existing contracts (42 concessions, 15 joint operation agreements, 1 public-private partnership agreement), and 131 contracts that were not implemented (4 contracts expired, 14 contracts terminated, 113 contracts are not implemented) [11].

In reference to above, the largest number of PPP contracts concluded since January 2019 was in water collection, purification and supply (27 contracts), natural-gas production and transportation (12 contracts) and health care (9 contracts) (Fig. 1).

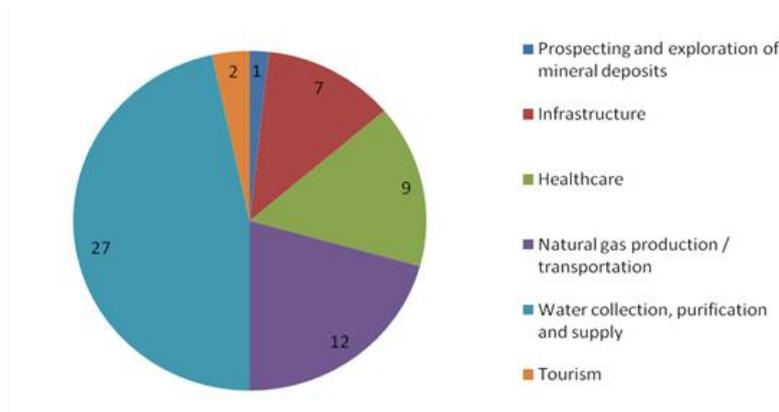


Fig. 1. Number of PPP contracts concluded by sector, which are implemented as of January 2019  
Source: [11]

It should be noted that the national legislative framework for PPPs and concessions has a set of contradictions; the existing mechanism of PPP needs further converging to international standards and best practices. Besides, the state’s investment management system lacks a strategic vision at public investment priorities.

There would therefore seem to be a definite need to formulate the strategy for enhancing PPPs for the

purpose of infrastructure rehabilitation on the territories that were affected heavily by the armed conflict in eastern Ukraine, along with reducing the footprint of the state in the business sector and facilitating public investment.

Let’s outline the main challenges and stages of implementing this strategy (Fig. 2).

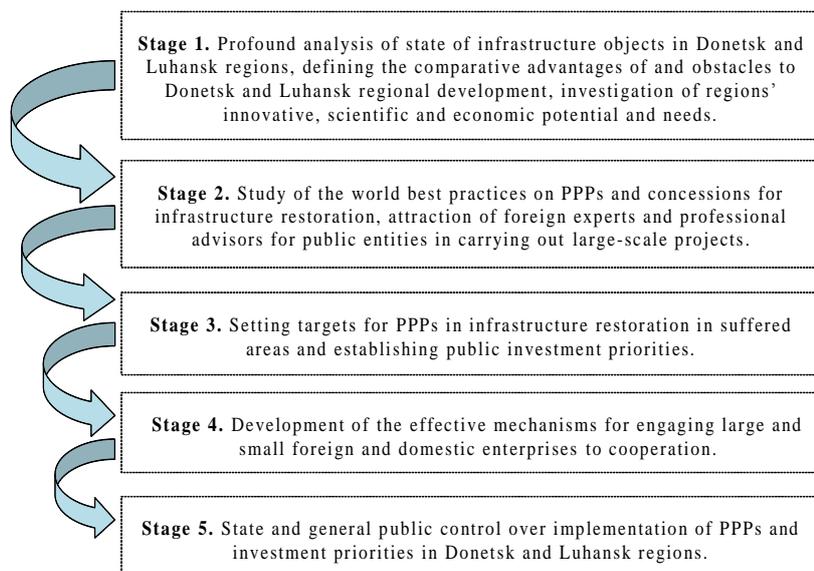


Fig. 2. Strategy for enhancing PPPs for the purpose of infrastructure rehabilitation in Donetsk and Luhansk regions  
Note: built by the author alone

The primary goal of the suggested strategy is to renovate quality infrastructure and to create advantageous conditions for sustainable and dynamic economic development in order to attract domestic and foreign human and financial capital, and develop environmentally friendly high-tech industries.

Therefore, this strategy demonstrates how efficiently to use PPPs for reducing the shortfall of infrastructure and taking pressure off the state and local fund budgets.

### Conclusions

Taken together, these findings suggest a role for PPPs and concessions in realizing infrastructure investments and promoting cooperation between public and private entities. At the same time, this cooperation would be inefficient without a consistent strategy for its implementing.

In order to ensure Donetsk and Luhansk regions' recovery and economic development under proposed strategy it is important:

- to create conditions to improve the performance of local companies and facilitate their access to new markets with existing products;
- to support the preservation, utilization and development of scientific potential of these regions;
- to increase in range and quality business advisory and extension services;
- to improve transport and logistics infrastructure;
- to enhance the willingness of public and private sectors to cooperate.

### References

1. Varnavskiy, V. H., Klymenko, A. V., & Korolov, V. A. (2010). *Hosudarstvenno-chastnoe partnerstvo: teoriya y praktyka* [Public-private partnership: theory and practice]. Moskva : Yzd. dom Hos. un-ta Vyshei shkoly ekonomiky [in Russian].
2. Hrytsenko, L. L. (2012). *Kontseptualni zasady derzhavno-privatnoho partnerstva* [Conceptual principles of public-private partnership]. *Visnyk Sumskoho derzhavnoho universytetu. Seriya «Ekonomika»* – Bulletin of Sumy State University. Economy series, 3, 52-59 [in Ukrainian].
3. Rassadnykova, C. I. (2012). *Kontseptualne obgruntuvannya derzhavno-privatnoho partnerstva v konteksti formuvannya investytsiinoi pryvablyvosti ob'ektiv ekolohichnoi infrastruktury* [Conceptual justification of public-private partnership in the context of shaping the investment attractiveness of environmental infrastructure]. *Mechanism of Economic Regulation*, 2, 176–185. Retrieved from [http://nbuv.gov.ua/UJRN/Mre\\_2012\\_2\\_21](http://nbuv.gov.ua/UJRN/Mre_2012_2_21) [in Ukrainian].
4. Antoniuk, L.L., & Poruchnyk, A.M. (2000). *Venchurnyi kapital: zarubizhnyi dosvid ta problemy stanovlennia v Ukraini* [Venture capital: foreign experience and becoming problems in Ukraine]. Kyiv: Znannia [in Ukrainian].
5. Hornyk, V. H., & Datsii, N. V. (2005). *Investytsiino-innovatsiyni rozvytok promyslovosti* [Investment-innovative development of industry]. Kyiv: Vyd-vo NADU [in Ukrainian].
6. Illiashenko, S.M. (2010). *Marketynh, menedzhment, innovatsii* [Marketing, management, innovation]. Sumy : TOV «TD «Papyrus» [in Ukrainian].
7. Iossa, Elisabetta, & Saussier, St'ephane (2018). *Public private partnerships in Europe for building and managing public infrastructures: an economic perspective*. *Annals of Public and Cooperative Economics*, 89:1, pp. 25–48 [in English].
8. Aseev, Yu., Pylaev, S., Smelyanska, Ya., Yegorova, A., & Zakharov, Ye. (2018). *Report the loss of civilian population, the destruction of housing and infrastructure as a result of the armed conflict in eastern Ukraine*. Kharkiv: LLB 'Human Rights Publisher'. Retrieved from <http://khpg.org/files/docs/1539108739.pdf> [in English].
9. *The war in Donbas: realities and prospects of settlement*. (2019). (n.d.). [razumkov.org.ua](http://razumkov.org.ua). Retrieved from [http://razumkov.org.ua/uploads/journal/eng/NSD177-178\\_2019\\_eng.pdf](http://razumkov.org.ua/uploads/journal/eng/NSD177-178_2019_eng.pdf) [in English].
10. *Ukraine. Economic Update. May 23, 2019*. (n.d.). [worldbank.org](http://pubdocs.worldbank.org/en/677701558601578072/Ukraine-Economic-Update-Spring-2019-en.pdf). Retrieved from <http://pubdocs.worldbank.org/en/677701558601578072/Ukraine-Economic-Update-Spring-2019-en.pdf> [in English].
11. *Stan zdiisnennia DPP v Ukraini* [Status of PPP implementation in Ukraine]. (n.d.). [me.gov.ua](http://www.me.gov.ua). Retrieved from <http://www.me.gov.ua/Documents/Detail?lang=uk-UA&id=62a9b6fb-27ff-462a-b351-eeeadfb26b6f&title=StanZdiisnenniaDppVUkraini> [in Ukrainian].