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PUBLIC PRIVATE PARTNERSHIP PROJECT MANAGEMENT: BENEFITS FOR THE STATE AND BUSINESS

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ABSTRACT

The scientific article investigates the state of PPP in Ukraine, reveals structural disparities both in the type of partnerships and in the economic sectors in which PPP projects are presented. Systemic and institutional problems have been identified that hinder the development of PPP relations in Ukraine and systematized benefits that could potentially provide PPP relations for the state (territorial communities) and for private partners (business). Obstacles that reduce the activity of potential private partners both in the state-initiated (local government) PPP projects and in the initiation of such projects by businesses have been investigated. The way of further research in the field of adaptation and implementation of the leading foreign experience in PPP project management has been determined.

Keywords: Public-private partnership (PPP), Project, Private partner, Public partner, Management, Project management

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1. INTRODUCTION

Global challenges facing both humanity as a whole and individual countries require the use of the most effective approaches and mechanisms, in particular, PPP - a system of public-private partnership. Various forms of PPP have got a fairly long history, however, this system of relations has begun to be used most actively over the past decades, demonstrating its effectiveness not only in economically developed countries, but also in countries, which are in the stage of development.

The form of public-private partnership is optimal for solving such complex dynamic problems as energy supply, minimizing environmental pressure on the environment, solving problems in the field of medicine, etc. This approach is being successfully applied to achieve the 17 United Nations Accelerated Development Goals, having been detailed in 169 objectives [1]. Emphasis is placed on the need for partnership between states as well as between the public and commercial sectors.

The effectiveness of PPP as a mechanism for overcoming complex and dynamic problems lies in the fact that state institutions provide the formulation of socially significant tasks, determine the vectors for their solution and (partially) provide financial support. The private sector provides investment and flexible PPP project management using business-based approaches to adaptability, efficiency and cost-effectiveness. Integration of the public and private components ensures maximum efficiency and speed implementation of PPP projects. For the most part, the state receives solutions to problems that are socially significant, and business obtains an economic effect. By the way, various forms of such partnership also envisage short-term economic benefits and long-term benefits for the state, which involve ensuring sustainable economic development. However, it is social importance that is the main criterion for the effectiveness of PPP projects from the state's perspective as a representative of public inquiry.

The development of PPP in Ukraine was marked by the adoption of the Law of Ukraine "On State-Private Partnership" [2], which created the legal basis for this system of relations. Its adoption can be considered a starting point for the development of PPP mechanism in Ukraine. However, the legislative framework for the functioning of PPP relations in Ukraine was not perfect, as evidenced by the adoption in November 2015 of the Law of Ukraine " On Amendments to Some Laws of Ukraine on Removing Regulatory Barriers to Developing Public-Private Partnerships and Encouraging Investment in Ukraine" [3]. Thus, it has been acknowledged that these regulatory barriers have hindered the development of PPP in Ukraine during five years. The latest amendments to the PPP law were made in October 2019.

Therefore, public-private partnership in Ukraine is at an early stage of its development, that is why the study of foreign experience in the field of PPP with its further adaptation and implementation is timely and relevant.

2. LITERATURE REVIEW

The Public-Private Partnership (PPP) category is well-researched in the writings of foreign scholars. What is more, the views on this tool are different: from quite critical to positive ones. For example, Engel, Fischer and Galetovic point out that public-private partnerships have some drawbacks in terms of public finances, since according to the rules of fiscal

accounting for the maintenance of PPP projects, they violate the normal budgetary process; thus, from the point of view of the state budget, PPP projects should be considered as ordinary public investments [4] (. Author in [5] argues, that in terms of systematic risk, part of the risk premium is in fact additional cost for PPP projects that are not connected with projects funded solely by budget sources. Researchers in [6] focus on infrastructure facilities as a specific asset class; they argue that such assets are particularly interesting in terms of long-term investment because they are almost independent of cyclical changes in the economy. So, in [7] is noted, that public-private partnership has the potential to effectively manage conflicts between the community and industry by enhancing synergies between companies, civil society and the public sector.

The problems and prospects of PPP in Ukraine have been thoroughly investigated by numerous Ukrainian scientists. For instance, in [8-11] developed the concept of PPP business risk management, which includes the economic nature and classification of risks that PPP projects face with; he identified the key risk factors, revealed the modalities, principles and methods of their distribution, developed a risk management system aimed at eliminating risks. Researcher in [12-14] examines the PPP institute in terms of its theoretical and applied problems; he investigates and organizes its theoretical and methodological foundations, substantiates that corporate social responsibility is a specific form of PPP relations, and determines the peculiarities of the use of PPP relations.

The purpose of the study is to identify the benefits and perspectives for the public and private sector, which entails flexible and effective PPP management, based on foreign management experience in public-private partnership sphere and its comparison with relevant domestic experience.

3. MATERIALS AND METHODS OF STUDY

The system of research methods was used in the course of investigations, namely: analysis and synthesis methods - to study the development of public-private partnerships in the countries of the world, as well as in the process of studying the current state of the PPP sphere in Ukraine; comparison method - to compare foreign and domestic experience with the purpose of isolating, adapting and implementing in the conditions of Ukraine approaches and tools that can positively influence the development of the domestic sphere of public-private partnership; methods of systematization and generalization - to identify common features of effective public-private partnership projects on the examples of different countries, as well as to systematize the conclusions and proposals; system approach - PPP is seen as a complex dynamic system that has the features of flexibility and adaptability to changing social-economic conditions.

4. THE RESULTS OF THE STUDY

According to the Law of Ukraine “On State-Private Partnership” [2], this category refers to the relationship between a public partner (represented by state bodies and local self-government bodies) and a private partner: self-employed individual or legal entity except for municipal and state-owned enterprises.

The PPP mechanism in Ukraine has the following features: long-term nature of the relationship: 5-50 years; compulsory documentation in a public interest partnership agreement; transferring part of the risk to a private partner; preferential financing of PPP projects by a private partner; enhanced investment obligations imposed on a private partner.

As evidenced in practice (the concession project at the Specialized Seaport “Olviia” and at the Seaport “Kherson”; project for modernization of the port infrastructure of Kherson and Sadovsky seaports; development project of the central gas station at the airport “Boryspil”,

etc.), PPP objects in Ukraine are mainly existed objects (created or acquired), but those that are already available and sovereign-owned; PPP mechanism is used to finance the modernization, redevelopment or reconstruction of state or communal property by usoing private partner's funds, for which the private partner obtains the rights to manage, use or operate such facilities. This approach significantly limits the possibilities, which the PPP mechanism carries in the field of innovation. However, some changes in this direction are already taking place: the state Innovation Development Fund has been established, and the first innovation projects have already received funding.

As of January 1, 2020, 187 agreements were concluded in Ukraine on the basis of public-private partnership. Of these, 135 agreements are not implemented, 4 agreements are terminated, and 113 agreements are not being fulfilled for other reasons. The other 52 agreements are mostly concession contracts (34 agreements) and only 16 agreements are joint agreements and 2 agreements are other agreements [15]. Thus, concession agreements (i.e. the transfer of state-owned assets and natural resources for temporary use) now prevail in PPP relations in Ukraine (Figure 1).

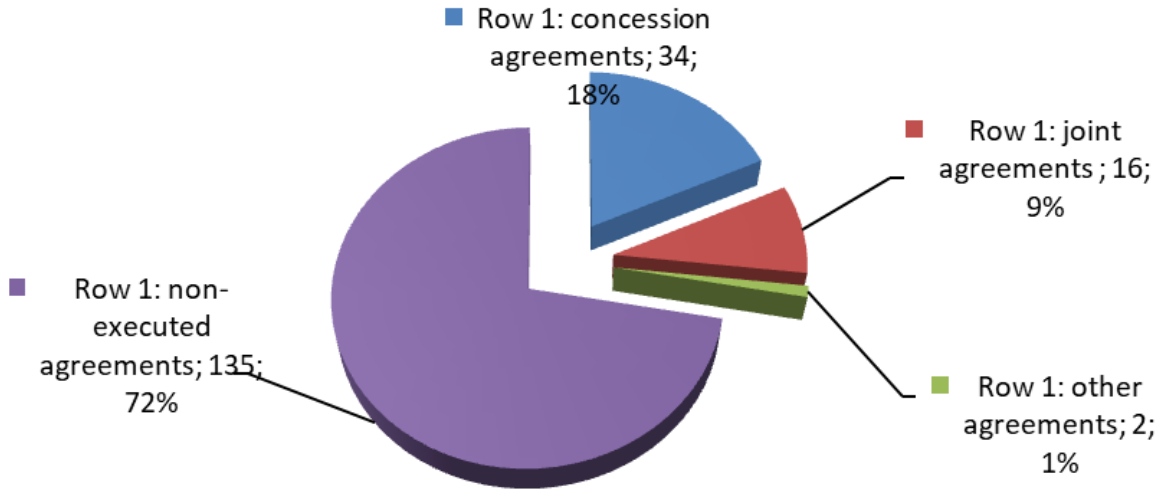

Figure 1. Structural analysis of the current state of PPP relations in Ukraine as of 01.01.20 [15]

Regarding the sectoral and regional distribution of PPP working projects, it can be noted that in the regional context, according to the number of agreements, Mykolaiv region is in the first place with a significant margin (11 agreements, 10 of which are in the water use sector), the second place is occupied by Kyiv and Odessa regions (6 agreements in each region), and the third palce with a small margin isoccupied by Donetsk and Lviv regions (5 agreements in each region) [15].

In terms of industry distribution, PPP transactions in the field of water use prevail (collection, treatment and distribution of water) – 21 transactions or 40,4%; production and transportation of natural gas – 8 agreements or 15,4% are in the second place; and infrastructure - 7 agreements or 13,5% are on the third place. It is significant that only two PPP agreements have been concluded in the energy sector, two agreements - in medicine and one agreement - in the field of waste treatment. But it is precisely in these sectors that most of the pressing social problems of Ukraine are concentrated, including those identified in the goals and objectives of the United Nations Organization accelerated development. According to the 2017 European PPP Market Survey [16], the number of projects implemented in the sectoral structure in the year specified is dominated by transport and education spheres (10 projects in each sphere), health care sphere (9 projects), telecommunications and environmental protection spheres (4 projects in each sphere), which generally corresponds to

the priorities indicated in the UNO Accelerated Development Goals. Three additional projects were implemented in the field of culture and recreation and one in the fields of public order and safety and public services [16], refer to Figure 2.

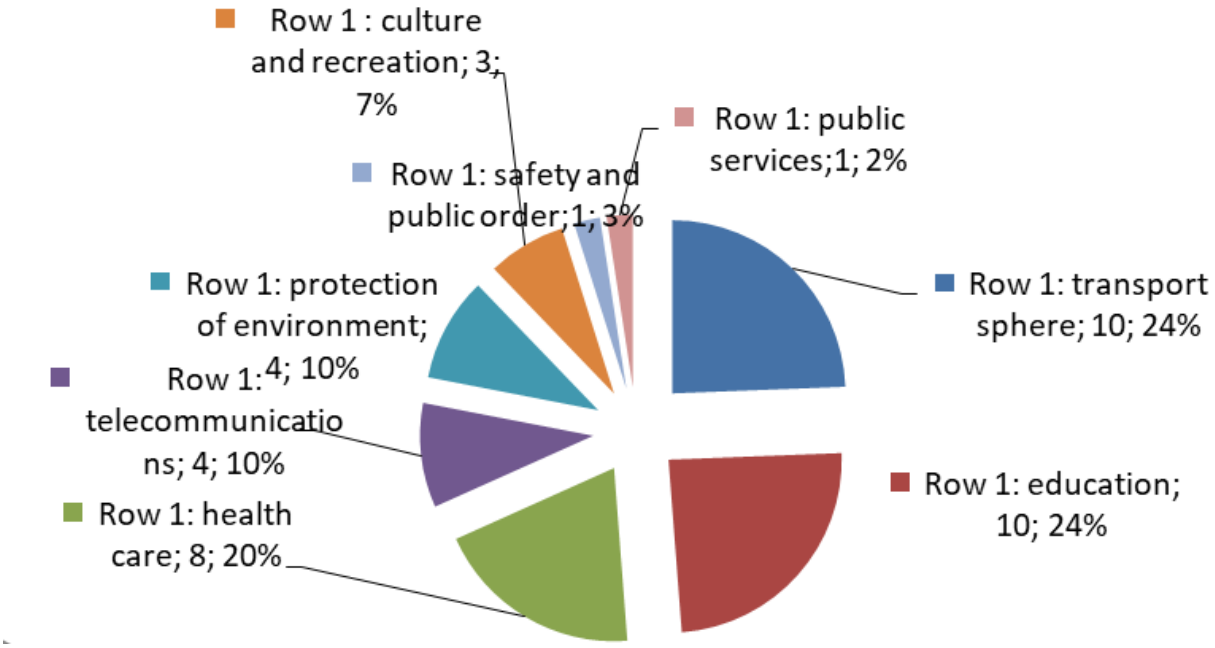

Figure 2. Structural sectoral analysis of PPP in the EU as of 2017 [16]

In terms of attracted investment, the transport sector also prevails, with 7.6 bln EUR attracted, health care sector (3.8 bln EUR), telecommunications sector(1.7 bln EUR). 0.96 bln EUR was spent on educational PPP projects, 0.46 bln EUR - on environmental protection projects and 0.4 bln EUR - on another projects remained.

With geographical breakthrough, the leader in the number of PPP projects in 2017 was the United Kingdom (12 projects or 29% of all projects), the second place was taken by Turkey and France (8 projects or 19% in each country). Germany and Greece had three projects in each country, Italy, Spain and Belgium had two projects in each country, Poland, Lithuania, Austria and the Netherlands had one project in each country.

Turkey was the absolute leader in the aggregative cost of projects in 2017 - PPP projects of this country accumulated 6 bln EUR. Italy took the second place with more than 3 bln EUR in two public-private partnership projects. Great Britain and its 12 PPP projects have attracted less than two bln EUR, France attracted over 1.5 bln EUR. Indicators of projects' aggregative cost in other countries amounted to less than 1 bln EUR [16].

According to a Special Report on PPP in EU [17], EU-funded public-private partnership projects supported in the period from 2000 to 2014, totally amounted 5.6 bln EUR. Herewith, the financial support was largely directed to the Greece PPP (they accounted for 58.53% of the total or 3.3 bln EUR), Portugal accounted for 10% of the projects (564 mln EUR), the amount from 254 to 324 mln EUR were received by Germany (4.5% in general funding), Poland (4.8%), Spain (5.5%) and France (5.7%). The rest of the countries received less significant amounts of support [17].

Moreover, if we trace the EU's participation in the structure of financing PPP projects for a specific country (Table 1), Greece again takes the leading position: the share of financial support in the cost structure of PPP projects in this country is 48.5% (almost half of the

project funds were from the EU). These figures are even higher in Slovenia, Malta and Estonia, however the financial support amounts are much lower.

Table 1. EU involvement in the financing of PPP projects in European countries (2000-2014) [17]

Country	Total cost of PPP projects, mln EUR	EU financial support, mln EUR	Share of EU financial support in financing PPP projects, %
Greece	6806	3301	48,5
Portugal	2379	564	23,7
France	9856	324	3,3
Spain	2422	311	12,8
Poland	388	272	0,7
Germany	2147	254	11,8
Italy	553	210	37,9
Great Britain	2212	110	4,9
Belgium	686	101	14,7
Ireland	1286	81	6,3
Lithuania	99	40	40,4
Slovenia	52	36	69,2
Croatia	331	20	6,0
Malta	21	12	57,1
Estonia	4	4	100,0
The total amount of project funds	29442	5640	19,2

The overall share of EU support in the financing of participating countries' projects over the period is 19.2%. Such significant financial inflows by EU into the PPP segment of Greece in the period from 2000 to 2014 did not affect the country's further performance in the development of public-private partnerships in 2017. The total cost of the three PPP projects in Greece was approximately 500 million EUR, while the costs involved in Turkey's PPP projects amounted to almost 6 billion EUR [17].

An example of Turkey should be considered in detail. As of November 2017 (Figure 3), investments were attracted in 221 public-private partnership projects, of which 83 projects (37.6%) account for the energy sector, 41 projects – for road infrastructure (18.5%), and 39 projects – for port infrastructure (17.7%), 21 projects –for health care (9.5%),18 projects – for airports (8.2%), 15 projects – for water supply (6.8%), the rest of the amount – in the fields of industry, tourism and railway link [18].

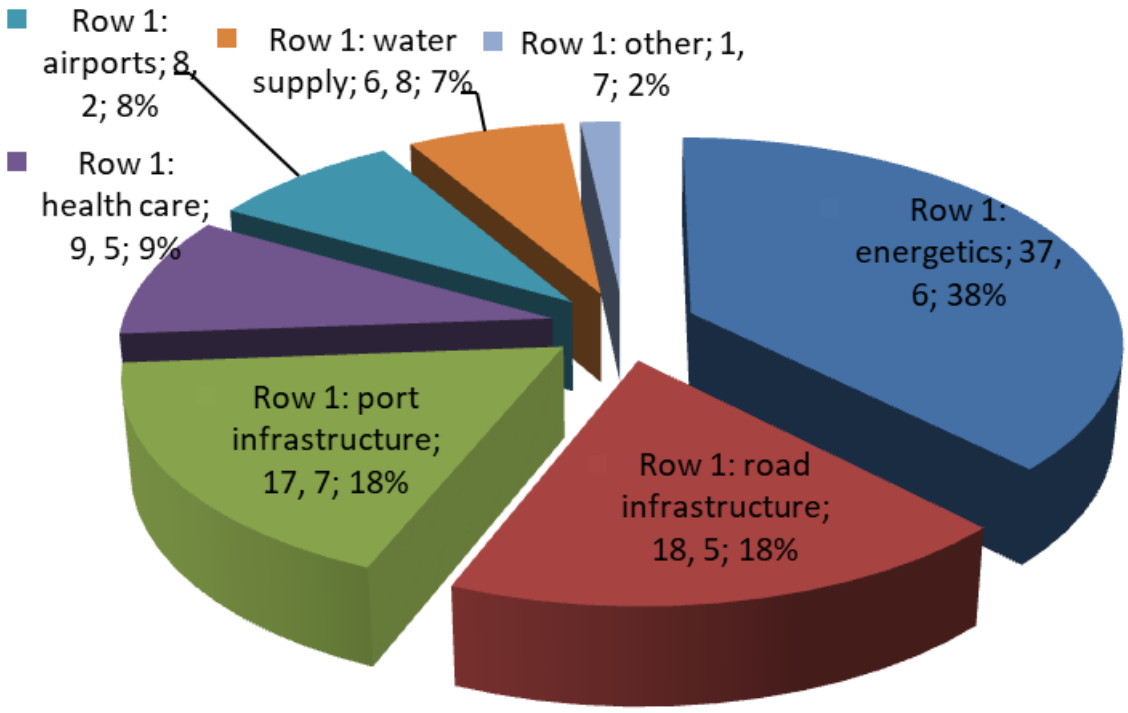

Figure 3. Structural sectoral analysis of PPP in Turkey as of 2017 [18]

The example of Turkey is interesting and illustrative, as its GDP has almost quadrupled since 2001, largely due to the use of a public-private partnership mechanism. Herewith, the experience of using this mechanism in Turkey is not much greater than in Ukraine. An example of this country shows that tasks of any complexity facing the state can be quite effectively addressed using the PPP mechanism: from infrastructure projects to innovation.

For comparison, there were 186 projects in progress in Ukraine in 2017 (let's review that the total number was 187 PPP projects in 2020, that is the increase of concluded agreements over three years is only one position), of which: 153 – concession agreements, 32 – joint venture agreements, 1 – other PPP agreements (82.3% are concession agreements).

The sectoral distribution of PPP projects proves that PPP projects are not implemented in such areas as energy, health care, education.

60% of PPP projects are refered to waste treatment sphere (by the way, one of the current problems in Ukraine), 20% – in water use sphere, more than 8% – in infrastructure sphere, more than 3% – in heat supply sphere [19]. Given that, the vast majority of agreements are not executed at the beginning of 2020, and there are almost no waste recycling projects in the structure of PPP by industry (one versus more than hundreds), although the problem of garbage is unresolved, refer to Figure 4.

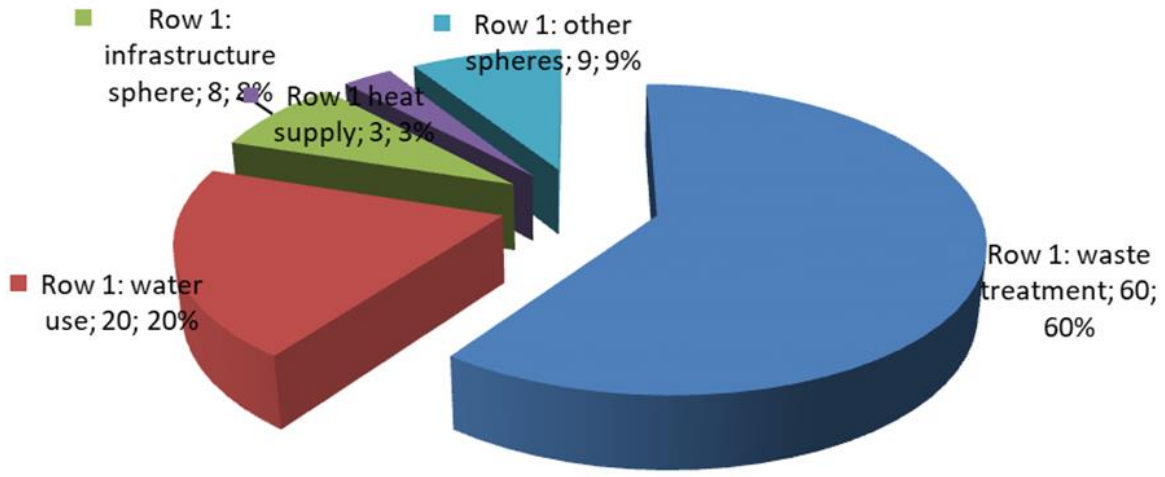

Figure 4. Structural industry analysis of PPP spheres in Ukraine as of 2017 [19]

According to the analysis of probable problems and obstacles to the implementation of PPP projects at various levels, summarized in the U-LEAD report, presented in October 2017, the most significant of these are systemic problems related to the poor state of the institutional PPP environment:

- bureaucratic problems connected with obtaining permits;
- the complexity of re-registering land use rights on which a PPP object is located;
- low motivation and lack of professional training for decision-makers in PPP;
- the corruption component;
- low motivation in PPP;
- the complexity of the implementation of state guarantee obligations [19].

Thus, one of the significant factors in slowing down the PPP relationship is justified fears of private partners.

5. DISCUSSION

In general, the volume of PPP activities is insignificant in Ukraine; in some areas (Kharkiv, Chernihiv, Poltava, Ivano-Frankivsk, Zhytomyr, etc.) only one agreement was concluded, or even none was concluded. Comparing the sectoral structures of the PPP of two countries - Ukraine and Turkey, it should be noted that while in Turkey public-private partnership mechanisms are used to solve topical problems (energy, infrastructure, health care), in Ukraine, this instrument just starting to take effect.

It should be noted that the benefits of participating in PPP projects for a private partner in world practice are wider than in domestic practice. Among these additional benefits (except purely commercial) the following advantages should be noted:

- risk sharing (rather than transferring part of the risk to a private partner): this is relevant for innovative areas with a high level of uncertainty;
- attraction of investments (not only the private partner but also the state, financing the satisfaction of the “public request”, may be an investor for socially significant projects);

- involvement of scientific institutions' leading experts of state subordination (when the state finances certain research programs at the request of business partners under the project);
- tax benefits for private partners.

6. CONCLUSIONS

Thus, in the course of the study, the following issues were examined: the matter of the state of the domestic sphere of public-private partnerships and on managerial approaches optimal for PPP. Concerning the first hypothesis, the following results were obtained: there is an unsatisfactory dynamic both in terms of the number and quality of PPP agreements in the area of public-private partnerships; concession agreements prevail in the structure of PPP agreements; the proportion of agreements that solve current problems and meet the Sustainable Development Goals is too small; compared to Turkey, the structure of PPP agreements in Ukraine is not such as to stimulate economic development; there are obstacles and institutional problems that prevent businesses from actively engaging in or initiating PPP relationships); the list of advantages of PPP for business that could serve as additional leverage for attracting it to partnership in Ukraine is narrower than in other countries.

Further direction of the study is to analyze the tools of project management in the field of PPP in foreign practice and to develop ways of adaptation and implementation of this experience in domestic practice.

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