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### **Forming system of trade sector-public authorities interaction under public-private partnership in Ukraine**

***Abstract.** The paper covers the features of public-private partnership (PPP) based on a cluster approach. The interaction between business and the state that is called public-private partnership is a common phenomenon in the economies of different countries. PPP is used in social projects which are of strategic importance for the development of a country in the first place. PPP allows for an increased number of infrastructure projects, enhancement of the local territories' competitiveness, and an opportunity to meet urgent social needs in healthcare, education, culture, housing and utilities. The analysis of the world's experience concerning recreation and tourism industry shows that the cluster approach is the industry's main tool. It is also expedient to apply the cluster approach to PPP in Ukraine. Another way for PPP can be the use of contracts in the trade sector of the national economy. The cooperation between the state and the private sector in infrastructure projects and tourism will improve the competitiveness of business entities which are part of a cluster, create a positive investment climate, and provide for further attraction of investors to public-private partnership projects.*

**Keywords:** *public-private partnership, cluster approach, development, trade sector, recreation and tourism sector, human capital.*

**Introduction.** At present, public-private partnerships (PPP) make an important contribution to resolving the challenging issues that arise in the relations between state agents and private actors in various branches of the economy. This is particularly significant for the trade sector which has never been supported by PPP yet.

Development of public-private partnership is a common practice abroad and especially under the present conditions, since its organization and operation mechanisms are quite multi-functional, which entrusts the economic science with the tasks of a keen and comprehensive theoretical and methodological conceptualization and building effective relations between the public and private sectors [1-4]. That is why research aimed at improvement and building of a system for interaction between the trade sphere i.e. the private sector, and public authorities within the framework of public-private partnership as a viable cooperation form is a necessary and topical scientific task.

**Literature review and the problem statement.** A great contribution to the problem in question was made by both domestic and foreign scientists, and namely: A. Boardman , Ph. Burger, M. J. Garvin, G. Hodge, M. Kort, J. K. Roehrich, D. Vinogradov, A. Venkatraman and others.

The objective of the present scientific work is to substantiate the theoretical methodological approaches and practical recommendations for forming a system of interaction between the trade sector and public authorities within the framework of PPP.

According to the stated objective, the research tasks have been formulated as follows:

- to elaborate proposals for creating a trade sector within the already-existing clusters under the frame of PPP;
- to substantiate proposals as to introducing changes into the legislation within the scope of PPP projects implementation in the trade sector.

**The results of the research.** Public-private partnership is equal and mutually beneficial collaboration between the state, territorial communities (represented by the respective bodies of state power or local self-government), and private investors within the scope of project implementation aimed at solving important territorial socio-economic problems, which allows raising additional investments into the public sector of the economy [5; 6].

To analyze the public-private partnership development in Ukraine, it is important to start with considering the concept of public-private partnership, its main characteristics and reasoning. The term of ‘public-private partnership’ describes a number of possible relations between public and private entities in the context of infrastructure and other services. Other terms that are used for this kind of activity also imply private sector participation or private property utilization [7; 8].

Public-private partnership refers, above all, to a partnership between a state body and a private sector enterprise which may be used for financing, creating and running projects such as public transport, road networks and highways, schools and hospitals, congress centers, etc. Financing a project at the expense of public-private partnership allows completing it ahead of time, or fulfilling it out of turn [6].

A well-coordinated PPP distributes tasks, duties and risks between public and private partners in an optimal way. The public partners in PPP are public entities, including ministries, departments, municipal establishments or state-owned enterprises. Private partners may be local or international ones and may include enterprises or investors of technical or financial profile involved in the project. Also, PPP are increasingly incorporating non-governmental organizations and/or social organizations that represent parties concerned which supervise project progress directly.

The role of the private sector in the partnership lies in using the experience of entrepreneurship, management, maintenance and innovations in order to effectively do business [9]. The private partner may also invest in capital assets, depending on the form of the agreement.

In some countries, a distinction is made between the state contracts such as concessions where the private party, delivering services directly to the society with the risk to ultimate users, provides services to the public party in the form of wholesale supplies e.g. for a water purification plant project or running existing facilities (e.g. hospitals) for extra payment. The traditional objects of public-private partnership in all countries are social and transport infrastructure assets [10], while its driving force – the trend to reducing the state participation in the economy.

In the current context, the cluster approach is an insufficiently elaborated by the national science, yet promising area of research and modeling of tourism activities. Clusters as groups of integrated enterprises, firms, organizations and institutions operating in the same business sphere are a global phenomenon. The key concept of the cluster theory is combining separate elements into an integral whole in order to implement certain functions or to realize jointly certain objectives [11; 12].

The tourism cluster is regarded as a system of intensive production, technological and informational interaction of tourist enterprises, suppliers of basic and supplementary services for making ‘the core product’ i.e. tourism product. The tourism clusters include geographically and regionally grouped enterprises which jointly use a specialized tourism infrastructure, local labor markets and other functional economic structures. To form and dynamically build regional tourism clusters, it is necessary to work out a concept and adopt a program of action based on the proposed model of forming basic tourism cluster characteristics and stages of its realization that are shown in Fig. 1.

The establishment of partner relations between the private sector and the state can encourage investments in the cluster and help gaining a sufficient state support. The important elements are the enterprises engaged directly in rendering tourist services as well as those providing services and goods for a specific tourist cluster, which ensures higher profits. The enterprises are directly dependent on the natural resources of their region and sell their produced goods at the local markets. Such a system of interaction is very profitable both for the state and for the cluster participants. The essence of the cluster concept, in case of introducing the trade sector

into it, consists in providing production and commerce activities and improving business and personal relations which should acquire the character of a naturally correlated and integrated business cooperation (Fig. 2).

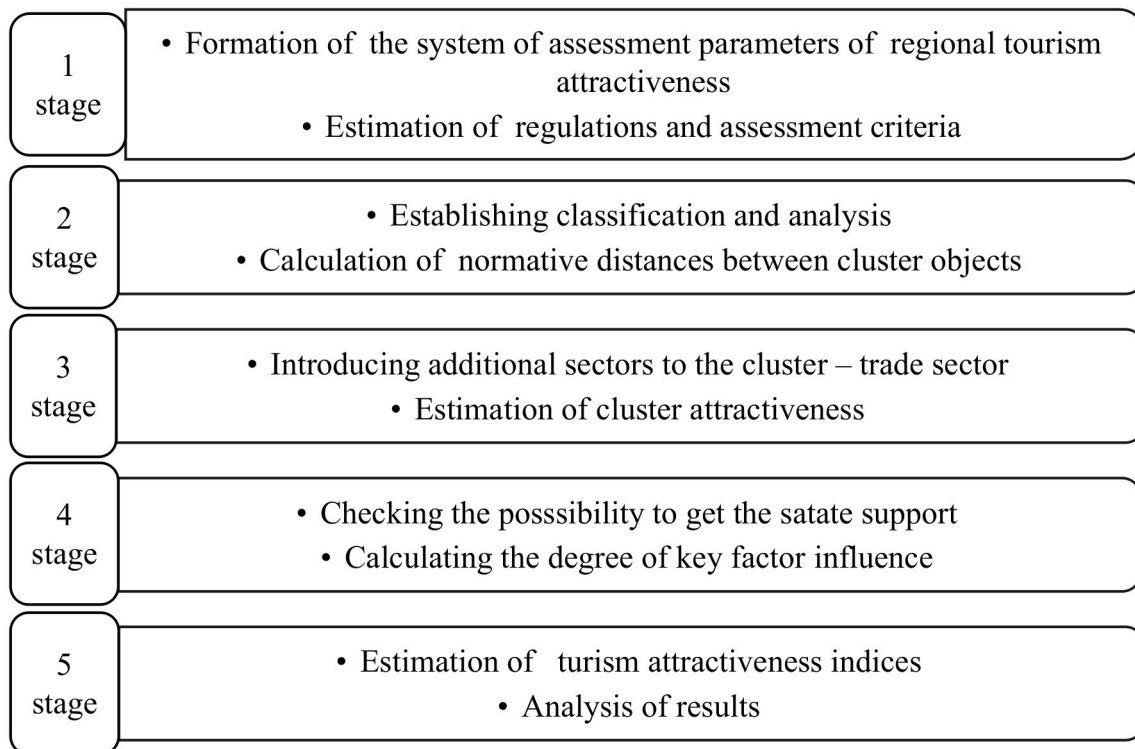


Fig. 1. Model and stages of forming major characteristics of regional tourism cluster

Source: Compiled by authors

Creation of the new sector in the tourism cluster will be advantageous for all of its participants. Since the participants of the tourism sector are sure to apply to the trade sector in order to ensure comfortable work places and tourist trading areas, it is important to create a unit in the trade sector that will provide the sector with the required commodity items at special prices within the cluster. Thus, due to the minimized marketing expenses, the pricing within the cluster will be of a special kind.

At present, the need for reforming the Ukrainian legislation in the public-private partnership sphere is being actively discussed. Some of the proposed changes given below are sure to be crucial for the PPP agreements specifically in the trade sphere. Others will be important, too, although not necessarily in the short-term

perspective. For instance, in certain cases, some ways can be found to deal with this problem by entering the appropriate terms into the PPP contracts pertaining to the trade sector under discussion.

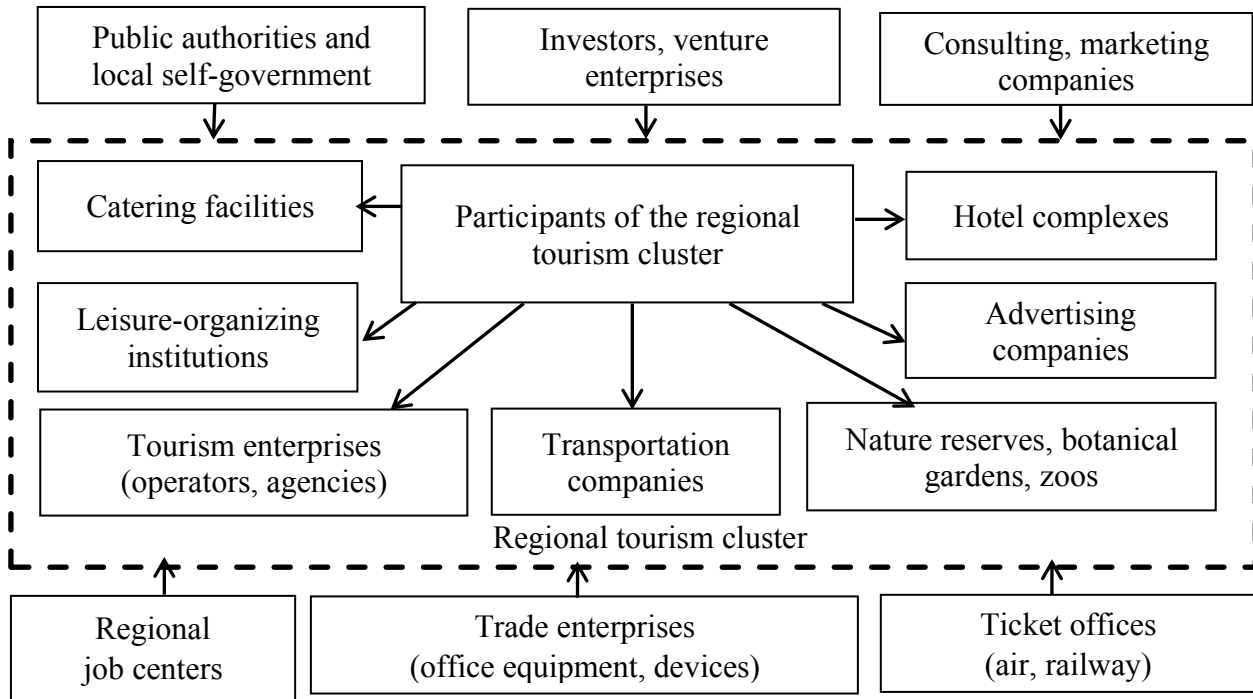


Fig. 2. Structural diagram of the organizational links of tourism cluster participants with integrated trade enterprises

Source: Compiled by the authors

We have outlined several urgent problems of PPP specifically in the trade sector of Ukraine, although they are equally important for all the PPP projects, and should find a legislative solution.

The essence of the first problem may be shown as follows: the laws “On Concessions” and “On Peculiarities of Leasing Out or Giving in Concession of Communal Facilities of District Water and Heat Supply and Sanitation” foresee compensations that are to be paid to private partners in case of PPP agreement cancellation. It should be noted that a PPP project which comes within the purview of any of these laws should also keep in with the law “On Public-Private Partnership”.

The next serious challenge is that presently, according to the Budget Code, municipalities in Ukraine have no right to take on obligations to effect payments except servicing of debts or arrears on obligations, unless these expenses are included in the current annual budget. Debts and arrears on obligations cannot exceed certain quantitative limits confirmed by the Ministry of Finance, although, in principle, such long-term liabilities are possible.

At present, there is no strict regulation in the Ukrainian laws, which could allow a creditor to carry out a ‘step-in’ procedure i.e. to replace a private partner in a PPP agreement, who is on the verge of default, with a new company. In this case, the third party may deny such a replacement on the grounds that it does not take place on the open contest basis.

The step-in right is absolutely necessary in the PPPs that are financed through ‘project financing’ – international creditors insist on that. PPP participants often regard it as creditors’ preferences, and thus they may be annoyed about this international practice. Nevertheless, it is not debatable.

A creditor must be able to act quickly to find another company to run business, so it is not the case for a contest – it is unnecessary. One of the main reasons for making competitive procurements generally lies in creating conditions for the public part to get better prices. In the step-in case, a company accepts liabilities implied by the PPP contract, including the already-existing requirements and prices. This excludes one of the main reasons for competitive bidding policy. The present-day legislation of Ukraine allows a concessionaire to get a permission or license to exploit infrastructure. However, if operational obligations are passed to another company (subcontractor), this company will not have the right of getting an operation license. All it takes is to make minor alterations in the formulation of some by-laws.

Having regard to the above, we can single out 4 stages of the Ukrainian legislative framework improvement:

1. To introduce amendments into the Budget Code concerning the possibility for budget organizations to assume obligations under PPP agreements to undertake expenditures in a non-current budget year.

2. To adjust the step-in procedure (change of a private partner) in the case of a private partner's default, without inviting tenders.

3. To work out accelerated procedures for formalizing the right to use land plots which are transferred for use to private owners within the framework of the PPP in the trade sector.

4. To specify the trade sector licensing conditions which ensure private partners' right to obtain a license merely upon availability of documents which confirm their title to certain resources.

Thus, it is worth noting that changes in the effective legislative environment will make it possible to improve the relations between the private sector, in our case the trade sector, and the public authorities within the framework of public-private partnership, which will respectively create a more effective form of interaction between the parties. All these changes allow a trade enterprise to be protected in case of cancellation of an order, changing the Budget Code or private partnership procedure when it fails to perform its obligations.

**Conclusions.** The scientific novelty of the obtained results lies in the fact that they can be used to substantiate the improvement of the system of interaction between the public sector and private sector representatives in the trade sphere. The research produced a scheme of creating a trade sector in the already-existing clusters (tourism sector) within the framework of PPP in Ukraine on the basis of the interaction of private enterprises with public bodies. Proposals as to introducing changes into the legislation regulating PPP in the trade sector were made.

The practical importance of the obtained results consists in the possibility to use them at the trade enterprises, which will make the PPP programs existing in Ukraine more efficient. The work presents the improved patterns of tourism cluster interactions with state representatives and integration of the trade sector into the cluster, which will help enterprises to get higher profits and loyal customers. The proposed changes of the Ukrainian legislative framework are supposed to facilitate the implementation of PPP projects and attraction of additional investments. The stage of getting the public sector involved in the work of a cluster is examined. It is



possible to create new PPP projects which will give much benefit to the newly-formed cluster, and will ensure a partial financing of its work, as well as support for cooperation within the cluster on special terms as compared to the enterprises' competitors outside the cluster.

Proposals concerning the introduction of changes into the active legislation within the scope of PPP project realization in the trade sector are formulated. Implementation of these proposals at a trade enterprise will allow obtaining higher profits and will help the enterprise to considerably improve its stability and gain a competitive edge.

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