

CHAPTER «REGIONAL ECONOMY AND MANAGEMENT OF TERRITORIES. GLOBAL TRENDS AND NATIONAL PECULIARITIES»

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THE MODEL OF PUBLIC-PRIVATE PARTNERSHIP AS A MECHANISM FOR THE IMPLEMENTATION OF MARKETING POLICY OF TERRITORIAL ECONOMY MANAGEMENT

Summary

This research paper enlightens about a public-private partnership as a management technology – a long term agreement between a national or local government and a private company. In terms of the economic crisis, the private sector acquires the status of an equal partner of the state to achieve the strategic objectives of the country's socio-economic development. Anti-crisis planning and recovery of the national economy is possible in case of establishing cooperation between the state, the private sector, and civil society institutions. This is feasible only under the condition of a public-private partnership formation (hereinafter – PPP). Moreover, the spread of PPP principles is connected not only with the state's desire to attract the private sector's financial resources to fulfil socially significant socio-economic development objectives. It also relates to using complex organisational, management and production technologies.

Introduction

Public-private partnerships have become an increasingly popular mechanism for implementing various public policies, including marketing policies related to territorial economy management. The partnership between the public sector and private businesses creates a collaborative framework that leverages the strengths and resources of both sectors to achieve common goals. The model of PPP has been used in various sectors, such as infrastructure, education, health, and environmental conservation, to name a few. In the context of territorial economy management, PPPs offer unique opportunities for implementing marketing policies that promote economic growth and development in specific regions.

The model of PPP is a mechanism that can be utilized for the implementation of marketing policy in the management of territorial economy. PPP involves collaboration between the government and private sector in the provision of public services, with both parties sharing risks and benefits. In the context of territorial economy management, PPP can be used to attract investment, develop infrastructure, and enhance economic growth. The use of PPP requires effective communication, cooperation, and coordination between the public and private sectors, as well as the establishment of clear contractual arrangements and performance indicators. Successful implementation of PPP requires a supportive legal and regulatory framework, as well as a robust governance structure to ensure accountability, transparency, and effective management of PPP projects.

Part 1. Conceptual Framework. Benefits and Challenges of PPP

Public-Private Partnership is a form of collaboration between the public and private sectors in which both parties work together to achieve a common goal. PPPs are often used in infrastructure projects, such as roads, bridges, and public transportation, but can also be applied to other sectors, such as healthcare, education, and housing.

PPP is based on the principle that the public and private sectors can work together to achieve more than they can separately. PPPs are founded on three main theoretical underpinnings: transaction cost economics, agency theory, and resource dependency theory.

Transaction cost economics: According to transaction cost economics, PPPs can be used to reduce transaction costs by aligning the incentives of the public and private sectors. By sharing risks and rewards, PPPs can reduce the costs of negotiating and enforcing contracts, and improve project efficiency.

Agency theory: Agency theory suggests that PPPs can be used to mitigate agency problems that arise when the public sector contracts with private firms. By aligning the interests of the public and private sectors, PPPs can reduce the risk of opportunistic behavior and ensure that both parties are working towards the same goal.

Resource dependency theory: Resource dependency theory suggests that PPPs can be used to address resource constraints that arise when the public sector lacks the necessary resources to implement a project. By partnering with private firms, the public sector can access the resources it needs to implement a project, such as financing, expertise, and technology.

In modern scientific and economic literature, the economic partnership of the state and international business means: “Institutional and organisational alliance between the state and private foreign companies, banks, international financial organisations and other institutions to implement socially significant projects” [1].

According to leading experts in economics, the phenomenon of the interaction of international private business with the states of different countries, on the one hand, is the result of a change in the distribution ratio of national income in favour of entrepreneurial income and a decrease in difficulties on the way for international – on the other hand.

The expansion of geographical boundaries distinguishes the modern partnership of the state and international private business. Before that, they were used only in small amounts in market-developed countries. Due to the implementation of economic reforms and liberalisation of the world economy, today’s state and international private business partnership is a necessary management element in various countries. Moreover, it is a managerial technology for the modernisation of any economy.

During the formation of partnership relations between the state and the subject of international private business, the state, depending on the priority directions of development, has the right to consider some elements that, in a certain way, affect the terms of the partnership.

PPPs have several key characteristics, including:

1. Joint investment: Both the public and private sectors invest in the project.
2. Risk sharing: Risks and rewards are shared between the public and private sectors.
3. Long-term commitment: PPPs involve a long-term commitment from both parties, often spanning several decades.
4. Innovation: PPPs can encourage innovation by bringing together the expertise and resources of both the public and private sectors.

Table 1 displays the state’s possible parameters regarding the partnership between the government and international private businesses.

Table 1

**The main parameters considered by the state
in the case of the partnership establishing**

№	Parameters	Issues that are considered when establishing a partnership between the government and foreign businesses
1	2	3
1.	Population employment ensuring	<ul style="list-style-type: none"> - the unemployment rate in the country; - the number of new jobs and social guarantees for employees;
2.	National security	<ul style="list-style-type: none"> - the economy's priority sectors; - economic sectors to which foreign investments are directed; - conditions and infrastructure for the national business stimulation; - the efficiency of anti-dumping measures in the national economy; - the impact of international business projects on the country's development; - economic sectors in which investments are not allowable;

Table 1 (continue)

1	2	3
3.	Consumer rights protection	<ul style="list-style-type: none"> - the quality of the goods manufactured for the national market; - the general level of prices; - the level of the population's purchasing power; - the level of salaries and purchasing power;
4.	Foreign economic policy	<ul style="list-style-type: none"> - the allowed forms of foreign economic relations in the country; - the state of the country's foreign trade; - the geography of the state's international trade; - the domestic economic policy methods used in the country;
5.	Fiscal policy	<ul style="list-style-type: none"> - the current taxation system in the state and benefits for investors; - sources of budget replenishment; - customs rates;
6.	Natural resource potential	<ul style="list-style-type: none"> - the existing natural resources of the state and their types; - duration of use and depletion of natural potential;
7.	Priority sectors of development	<ul style="list-style-type: none"> - sectors that require investment; - the task of socio-economic development of the state; - deficit sectors of the economy; - goods (raw materials) necessary for local manufacturers;
8.	Activity type	<ul style="list-style-type: none"> - the specialisation of the corporation entering the state market; - experience in implementing investment projects and the sectors in which they were accomplished; - the impact of the production of foreign TNCs on domestic trade turnover;
9.	Responsibility of economic entities	<ul style="list-style-type: none"> - environmental impact of various interaction projects; - ecological safety; - employee social security; - the impact of projects on the lives of the local population;
10.	Political stability	<ul style="list-style-type: none"> - conflict situations in the state; - the political situation in neighboring states; - form of government; - the attitude of the state's residents to the authorities;
11.	Investor countries	<ul style="list-style-type: none"> - the countries from which investments are coming; - existing trade and economic relations with investor countries; - historical obstacles to investment; - investors' cultural and religious values;
12.	Other comparative advantages	<ul style="list-style-type: none"> - the country's comparative advantages.

Source: compiled by the author

In addition to the parameters mentioned above, in establishing a partnership between the state and international private business, depending on the country, the content of the parameters may change. Countries often must thoroughly assess the most important parameters when concluding contracts with foreign partners.

The international business mainly uses the elements of Table 1. concerning preparation and organisation for production activities or investment cooperation. Nevertheless, if there is interest in other types of activities, in-depth research of foreign markets is conducted before entering the foreign market. Market research is sequential actions to collect information about the market and the state. At the same time, they use several factors to assess new market opportunities (Table 2).

Table 2

**The main parameters on which the investor focuses
when establishing a partnership with the state**

№	Parameters	Issues considered when establishing a partnership between the government and foreign business
1.	Commodity market	- dimensions of the commodity market; - the main differences of this commodity market from the one on which the business already operates (price level, buyer profile); - structural characteristics of the commodity market.
2.	Analysis of competitors' activities	- the characteristics of competing companies; - the effectiveness of competitors' activities in terms of increasing the volume of sales and the number of profits.
3.	Potential target markets	- description of the main segments of the commodity market; - in which segment of the company's market should it be appropriate to sell its products.
4.	Relevant tendencies	- the prospects of the company's activity in this market in the future; - nature of competition; - changes in the efficiency of the competing company.
5.	Success factors	- key success factors in this environment; - weak spots that could lead to absorption.

Source: compiled by the author

The study provides a comparative analysis of the annual Doing Business index parameters and the central state parameters in their interaction with international business to deepen the study of the competition of state interests. Also, we considered the parameters on which the international private business is fixed during market research.

The market research parameters do not always directly affect partnership relations since, based on market research results, the investor formulates a strategy for infiltrating international markets or can use it to set prices at foreign exchange. Therefore, they are marked as additional partnership parameters.

We can combine the elements of the three previous tables (Tables 1, 2 and 3) to determine the classification groups of the partnership parameters of the government and international private business. The impact parameters of the

interaction mechanism between international private business and the national economy are classified as follows (Table 4).

Table 3

Parameters of the Doing Business Index

№	Name
1.	Enterprise registration
2.	Obtaining a construction permit
3.	Connection to power grids
4.	Employment of labour force
5.	Property registration
6.	Lending
7.	Investor protection
8.	Taxation
9.	International trade
10.	Enforcement of contracts
11.	Solvency recovery

Source: [2]

Table 4

The classification of the impact parameters of the interaction mechanism between international private business and the national economy

№	Impact parameters	Type of parameter
1.	Fiscal policy	irreversible
2.	Structure and organisational form of business management	irreversible
3.	Property registration	irreversible
4.	Enterprise registration	reversible
5.	Priority development directions	reversible
6.	Natural resource provision	irreversible
7.	Obtaining loans	reversible
8.	Protection of local investors from foreign competitors	reversible
9.	The state's foreign economic policy	reversible
10.	Protection of foreign investors	reversible
11.	The country's international trade situation	reversible
12.	National security	controversial
13.	Taxation	reversible
14.	Ensuring employment of the population	controversial
15.	Enforcement of contracts	reversible
16.	Responsibility of economic entities	controversial
17.	Political stability	irreversible
18.	Type of business activity of the company	irreversible
19.	Consumer rights protection	reversible
20.	Enterprise registration	reversible

Source: compiled by the author

In the comparative analysis process, three parameters affecting the interaction process between international private business and the state are distinguished: 1) controversial; 2) reversible; 3) irreversible.

Controversial parameters are elements in establishing partnership relations around which the interests of the interaction subjects do not coincide. They evaluate them immensely since, at one moment, they are essential for one issue and unimportant for another.

Reversible parameters can be qualified as flexible elements that, during the period of interaction between international private business and the national economy, can take any value depending on the specifics of the company's activities, the priority directions of the countries' development, the conditions of the world economy, as well as the social and political and the economic situation in the country.

Irreversible parameters are parameters on which the interests of all interaction subjects are based.

In connection with this, it can be concluded that no country, not even an organisation, can develop a strategy that would contribute to developing another state since countries are not partners but will always be competitors. Countries can cooperate in the event of mutual interests. In this case, each country faces an independent task to assess the effectiveness of particular parameter before starting interaction and establishing partnership relations with international business. Such a task arises because another exchange subject needs to possess the information and better identify the country's priorities than another subject of such interaction.

Operating the parameters of each classification group allows the state authorities to form optimal prerequisites for the involvement of international private business in the national economy in terms of realising national interests and the efficient use of transnational capital.

An analytical study of the conditions of foreign capital operation in the economy of Ukraine was carried out using the estimates of leading rating agencies. In particular, the World Bank's Ease of Doing Business Index is dominant.

The mathematical justification for the dominance of the Ease of Doing Business Index was obtained from the calculation of Spearman's rank correlation coefficient, calculated to assess the degree of the interrelationship of characteristics. In particular, when there is a need to compare objects that have a large number of qualitative and quantitative attributes with each other.

Spearman's rank correlation coefficient is calculated using the formula:

$$r = 1 - 6 \cdot \frac{\sum_{i=0}^n d_i^2}{n^3 - n}, \quad (1)$$

here n – sample volume,

d_i – rank difference.

Spearman's rank correlation coefficient satisfies the inequality $|r| \leq 1$. The closer the coefficient r is to one, the closer the connection between the studied features A and B, and the closer to zero, the less dependence.

Let the sample of volume n contain independent objects with two features, A and B. In our case, this is the country's ordinal number in two ratings. To test the hypothesis that Spearman's rank correlation coefficient is equal to zero at the significance level α , the observed value of the Student's test is calculated using the formula:

$$t_{sp} = t_{score}(\alpha; n - 2) \cdot \sqrt{(1 - r^2) / (n - 2)}, \quad (2)$$

here n – sample volume; α – significance level; r – Spearman's rank correlation coefficient; $t_{score}(\alpha; n - 2)$ – the critical point of the crucial two-sided region of the Student's distribution.

If the calculated value of Spearman's rank correlation coefficient satisfies the inequality $|r| < t_{sp}$, there is no reason to reject the hypothesis.

Therefore, the rank correlation between quality features is insignificant. In the case of $|r| \geq t_{sp}$, the main hypothesis is rejected.

There is a significant rank correlation connection between the studied features [3].

As a result of calculating the Spearman's rank correlation coefficient for statistical data for 2019, 2020 and 2021 (Table 5), it was established that between such ratings as the Global Competitiveness Index (R1), Ease of Doing Business Index (R2) and Index of Economic Freedom (R3) there is a close interrelation. This attests to the coherence of the methods of formation of the indicated ratings.

Table 5

The Spearman's rank correlation coefficient

Year	r_{12}	r_{13}	r_{23}
2019	0,8192053	0,688339	0,800652
2020	0,852536	0,773752	0,840194
2021	0,846319	0,767204	0,821272

Source: independently compiled by the author

Using the formula (2), we calculate the observed value of the Student's criterion (Table 6).

The calculated values of Spearman's rank correlation coefficient significantly exceed the observed values of the Student's test, which allows us to conclude that there is a close relationship between the ratings. Thus, the Ease of Doing Business Index is best related to the other two, which is why this

Index is also used in forming groups of factors that affect the interaction mechanism between international private business and the national economy.

Table 6

The observed value of the Student's criterion

Year	<i>n</i>	<i>t</i> ₁₂	<i>t</i> ₁₃	<i>t</i> ₂₃
2019	147	0,0941321	0,119062	0,098339
2020	144	0,086706	0,10509	0,08996
2021	140	0,08966	0,107961	0,096032

Source: independently compiled by the author

The research shows that establishing a partnership process between international private businesses and the state remains complex in the modern world. Practice shows that it is only sometimes possible to determine all the necessary parameters that arise while implementing partnership relations.

Host states face a vital mission:

- to use the opportunity to attract international private business most effectively;
- create conditions for their effective functioning and, at the same time, obtain the most significant advantages (increase in competition in local markets, employment level, the volume of income, increase in technical production level);
- to avoid the negative consequences that international private business may lead to.

The advantages of foreign companies are not limited to quantitative indicators. The study of regulatory mechanisms for controlling the development of PPP in Ukraine and the formation of a tool for attracting private initiative and private capital in various spheres is not only a topical issue of our time but also in the period of the post-war development of the financial and economic space of our country.

Despite the existing number of studies in this direction, developing a road map of a system of institutional measures is adapted to modern realities. It aimed at increasing the efficiency of the private partners' involvement in the implementation of joint projects has a strategic character and is particularly relevant in the post-war period as a management technology.

Part 2. Benefits and Challenges of PPP

There are a number of potential challenges associated with PPP implementation, including:

- Complex Contractual Arrangements: PPPs can involve complex contractual arrangements between the public and private sectors. This can make

them difficult to negotiate and implement, and may require specialist legal and financial expertise.

- Conflicts of Interest: PPPs can create conflicts of interest between the public and private sectors. For example, private sector partners may prioritize their own profits over the public interest.

- Legal and Regulatory Issues: PPPs can be subject to complex legal and regulatory frameworks, which can vary between jurisdictions. This can create uncertainty and risk for investors and project partners.

Overall, PPPs can bring significant benefits if implemented carefully and with appropriate oversight and regulation. However, they are not a panacea and must be considered in the context of specific projects and circumstances.

Restoring the destroyed infrastructure, people's homes and businesses is quite a challenge in rebuilding Ukraine. Ukrainians need housing, children need to go to school and kindergarten, and businesses need to restore capacity to strengthen the economy.

Since the beginning of the Great War in Ukraine, at least 23,800 km of roads, 6,300 km of railway tracks, 41 railway bridges, 643 medical institutions, 1,123 educational institutions, 621 kindergartens, 192 cultural, 115 religious buildings, 178 warehouses, 99 administrative buildings, 28 oil depots and 19 shopping centres have been destroyed or captured [4].

Restoration of these facilities is a priority for Ukraine for at least the next ten years, and PPP is one of the most convenient ways to implement this plan. The main advantage of this option is in the separation of opportunities that Ukraine will use: from aid from international funds to work with private investors. This will make it possible to speed up the entire process because businesses will be interested in quickly implementing projects and receiving funds.

Many works are devoted to the issue of PPP development, in which various aspects related to the formation and evolution of the cooperation system of the public and private sectors are studied.

Accordingly, Dergachova V. and Kuznietsova K., considering the public-private partnership as the interaction of the public and private sectors, focus on the possibilities of implementing PPPs as a tool for attracting investment resources [5].

Malin O., researching the PPPs development processes as a system of organisational and economic relations, concludes that partnership, despite the change in its forms, object and economic basis, remains profitable from an economic point of view [6]. Research on the place and role of PPPs as an effective tool for developing various economic sectors is becoming a key direction.

Hence, Melnyk A. and Pidgaiets S. underline the PPPs' relevance in the institutional support system for modernising national economic development [7].

Fomenko O., in his dissertation research [8], justifies the main directions and the algorithm of implementing the PPPs institutional mechanism as a system element in the state regional policy in decentralising powers.

Izmaylov Ya. and Yegorova I. [9], analysing the experience of PPP implementation in the world, determined that each country uses its forms of PPP and tools that promote the development of partnership relations due to the coordinated activities of public authorities and private owners.

Petryk S. [10], researching the manifestations of public administration in implementing PPP projects, identifies the types of public policy and defines the subjects of public administration and their functions. Thus, the studies focus on the importance of state authorities' PPP national model formation and the specified partnership's development policy as a management technology for coordinating globalisation and deglobalisation processes.

Domestic scholars [11], point out that PPP in Ukraine has a long history. The experience of the concession during the construction of a centralised water pipeline in Kyiv by entrepreneur-engineer Struve A.E. is illustrative (1870–1914, when the city government bought out the water utilities).

In 1866, Prince Kochubey received a concession for constructing a factory to manufacture railway rails. Nevertheless, due to the lack of the necessary capital, the prince was forced to sell the concession to the English businessman John Hughes, who founded the “Novorossiysk (Metallurgical) Society of Coal, Iron and Rail Production”, built the factory and the city of Yuzivka (Donetsk). In the 1870s, the Debaltseve-Luhansk railway was constructed under concession terms.

In the Soviet period, first of all, there were mainly national concessions in the NEP period that were supposed to help overcome the economic crisis, increase production in various sectors of the country's economy, attract hard currency, and additional saturation of the domestic market, etc.

Concessions during the reconstruction period after the civil war became a positive factor. They gave significant state income in the form of share deductions from the turnover of concession enterprises, payment of concession incomes, taxes, rent, fees, etc.

Part 3. PPP Process

Since the period of Ukraine's independence, the question of changing the economy's structure, reducing its energy consumption, developing infrastructure, etc., has arisen. In particular, it required significant investments. Special attention was paid to privatisation and attracting foreign investments when most enterprises were state-owned. The concept of denationalisation and privatisation of enterprises, land and housing stock provided for the convertibility of privatisation securities, granting foreign investors the right to purchase privatisation objects exclusively for freely convertible currency.

Ukraine has already formed a regulatory and legal basis for implementing PPP. The terms of cooperation between the state and business are defined in the Law of Ukraine, “On Public-Private Partnership,” adopted 12 years ago [12].

The norms of this law determine the mechanism of PPP implementation, namely: “public-private partnership is a cooperation between the state of Ukraine, local, territorial communities represented by relevant government authorities and local authorities (public partners) and legal entities, except for state and utility enterprises, or by natural persons-entrepreneurs (private partners), which is carried out on a contractual basis”.

The Law “On Public-Private Partnership” regulates contractual relations between the state and the private sector through concessions, joint activities and other contracts.

It should be noted that following Article 1 of the Law of Ukraine “On Cooperation of Territorial Communities” [13], two or more territorial communities can unite on a contractual basis to implement joint projects, which involve the coordination of their activities and the accumulation of resources by them for common implementation of relevant measures of socio-economic, cultural development of territories, improving the quality of services to the population.

Given Part 1 of Article 1 of the Law of Ukraine “On Public-Private Partnership”, several territorial communities that have united to achieve specific goals can act on the side of the state partner in the contract concluded within the PPP.

This can allow the amalgamated territorial communities (*hromadas*) to implement projects aimed at developing the territorial community, which such communities could only implement with the participation of a private partner.

Projects, currently started by several territorial communities in the form of contracts on the implementation of a joint project, can be completed with the participation of a private partner after the selection procedure of a private partner. Along with that, the territorial communities can initiate the implementation of the project on the terms of PPP.

Another law that defines the legal, financial and organisational basis for implementing projects carried out under the terms of a concession to modernise infrastructure and improve the quality of socially significant services is the Law of Ukraine “On Concession” [14].

Those mentioned above normative legal act defines the concept of concession as: “granting, to meet public needs, by an authorised body of executive power or a body of local self-government, based on a concession contract, on a fee-based and fixed-term basis, to a legal or natural person (subject of entrepreneurial activity) the right to create (construction) and (or) manage (operate) about of the concession object (term paid ownership), on the condition that the subject of entrepreneurial activity (concessionaire)

undertakes obligations for the creation (construction) and (or) management (operation) of the concession object, property liability and possible entrepreneurial risk.”

Taking into account the importance of PPPs for the economy of Ukraine, several bylaws regulating the implementation of PPPs were adopted:

- Resolution of the Cabinet of Ministers of Ukraine dated April 11, 2011, No. 384 “Some issues of the organisation of public-private partnership” (in the wording of the Resolution of the Cabinet of Ministers of Ukraine dated April 22, 2020, No. 294 “On Amendments to the Procedure for Analysing the Effectiveness of Public-Private Partnerships”); (in the wording of the Resolution No. 401 of the Cabinet of Ministers of Ukraine dated May 20, 2020, “On Amendments to the Procedure for Conducting a Tender for the Determination of a Private Partner for the Implementation of Public-Private Partnerships for State-Owned, Communal-Owned Objects, and Objects that Belong to the Autonomous Republic of Crimea”);

- Resolution of the Cabinet of Ministers of Ukraine dated July 1, 2020, No. 541 “On approval of the Procedure for replacing a private partner (concessionaire) under a contract concluded within the framework of a public-private partnership (concession contract)”;

- Resolution of the Cabinet of Ministers of Ukraine dated July 22, 2020, No. 621 “On approval of the Procedure for returning the concession object to the concessionaire after the termination of the concession contracts”;

- Resolution of the Cabinet of Ministers of Ukraine dated August 12, 2020, No. 706 “On approval of the Methodology for calculating concession payments”;

- Resolution of the Cabinet of Ministers of Ukraine dated October 9, 2020, No. 950 “On approval of the Procedure for engaging advisers for the preparation of a project carried out under the terms concession”;

- Resolution of the Cabinet of Ministers of Ukraine dated August 20, 2021, No. 909 “On the procedure for carrying a concession competition and competitive dialogue in the electronic trading system”;

- Resolution of the Cabinet of Ministers of Ukraine dated February 16, 2011, No. 232 “On the approval of the Methodology for identifying the risks of public-private partnerships, their evaluation and determining the form of their management”;

- Order of the Ministry of Economic Development, Trade and Agriculture of Ukraine dated May 26, 2020, No. 986 “On approval of the Procedure for submission by state partners (concessionaires) of the annual report on the implementation of the contract concluded within the framework of the public-private partnership, including the concession contract” registered in the Ministry of Justice of Ukraine dated July 6, 2020 No. 628/34911;

– Order of the Ministry of Economic Development, Trade and Agriculture of Ukraine dated December 22, 2020, No. 2721 “On Approval of the Procedure for Competitive Selection of Independent Experts”, registered in the Ministry of Justice of Ukraine on February 15, 2021, No. 191/35813;

– Order of the Ministry of Economy of Ukraine dated December 14, 2021, No. 1067, “On approval of the Methodology for analysing the effectiveness of public-private partnerships”, registered with the Ministry of Justice of Ukraine on January 31, 2022, No. 109/37445;

– Order of the Ministry of Economic Development and Trade of Ukraine dated June 7, 2016, No. 944 “On the approval of Methodological recommendations for the application of the Methodology for identifying the risks of public-private partnership implementation, their evaluation and determining the form of their management”.

The Cabinet of Ministers of Ukraine also approved the Concept for the Development of Public-Private Partnerships in Ukraine for 2013–2018 [14].

Its purpose was to define a unified approach to the development of a mechanism for effective interaction between state authorities, local self-government bodies, the private sector and institutions of civil society based on a public-private partnership to ensure the successful implementation of projects aimed at improving the indicators of the national economy, the quality of life of the population and the state natural environment.

Also, the National Economic Strategy until 2030 envisages ensuring the efficiency and transparency of the public-private partnership mechanisms [15].

Summarising the above, it can be concluded that the legal framework has been formed, adopting the Law of Ukraine “On Public-Private Partnership”, the Law of Ukraine “On Concession”, and the relevant bylaws shows the desire for the comprehensive implementation of public-private partnership.

Harmonisation and bringing existing legislation into line with the EU acquis in the field of public procurement primarily refers to Directive 2014/24/EU of February 26, 2014.

During the qualification of the project as a concession, the main criterion should be the transfer to the concessionaire of the entrepreneurial risk of an economic nature, as stated in the EU Directive 2014/23/EU.

In particular, following the regulations of Article 5 of the EU Directive 2014/23/EU, the granting of a concession for works or services involves the transfer to the concessionaire of the operational risk in the use of these works or services, covering either demand risk or supply risk, or both risks.

The concessionaire is considered to assume the operational risk when, under normal operating conditions, the reimbursement of investments made or costs incurred during the performance of works or provision of services that are the subject of the concession is not guaranteed. The part of the risk transferred to the concessionaire includes exposure to changes in the market such that any

potential estimated losses incurred by the concessionaire are not purely nominal or insignificant.

More details about the criterion mentioned above are specified in clauses 18–20 of the declarative part of EU Directive 2014/23/EU.

In particular, it is mentioned that the main feature of the concession is that such a mechanism always involves the transfer of business risk of an economic nature to the concessionaire. At the same time, it considers the possibility of not compensating for the investments and expenses made while using works or services provided under normal operating conditions, even if part of the risk remains with the state customer or the customer organisation. The application of special norms controlling the granting of concessions would not be justified if the state customer or the customer organisation exempted the subject of entrepreneurial activity from any possible losses. Simultaneously, they guarantee a minimum income equal to or higher than the investments made and expenses that the issue of the object of entrepreneurial activity must bear within the framework of the contract.

At the same time, it should be noted that specific arrangements, which are paid exclusively by the state customer, should be qualified as concessions. Here, compensation for investments and expenses incurred by the entity of entrepreneurial activity to perform work or provide a service depends on the actual demand for them, the provision of the service, or funds.

Suppose a sector-specific settlement eliminates the risk by providing guarantees to the concessionaire of breaking even concerning the investment and costs incurred in the execution of the contract. In that case, such a contract should not be considered a concession. The fact that the risk is limited from the beginning should not exclude the qualification of the contract as a concession. This can be, for example, in sectors with regulated tariffs. This may also be the case when the business risk is limited by contractual arrangements providing partial compensation, including compensation in the event of early termination of the concession due to reasons related to the government customer, customer organisation or force majeure.

Entrepreneurial risk must arise from factors beyond the control of the parties. Risks related to improper management, breach of contract by the entity of entrepreneurial activity or force majeure are not decisive for the classification of the concession since such risks are inherent in any contract, regardless of whether it is a contract for public procurement or concession contract.

Any entrepreneurial risk should be understood as the risk of vulnerability to market changes, which may consist of either demand risk, supply risk, or both. Demand risk should be understood as the risk of actual demand for works and services that are the subject of the contract.

Supply risk should be understood as the risk concerning the works or services that are the subject of the contract, especially the risk that the provision of

services will not meet the requirements. To assess the entrepreneurial risk, the net present value of all concessionaires' investments, expenses and revenues must be considered consistently and equally.

Pilot projects of PPP in Ukraine are implemented with the support of international organisations, namely:

- UNECE International PPP Centre of Excellence;
- European PPP Expertise Centre;
- The National Council For Public-Private Partnerships of USA;
- PPP in Infrastructure Resource Center;
- European Bank for Reconstruction and Development (EBRD);
- International Project Finance Association (IPFA);
- United Nations Industrial Development Organization (UNIDO);
- European Institute of Public Administration (EIPA);
- International Finance Corporation (IFC);
- The National Council For Public-Private Partnerships of USA.

The main body of the executive power in the system, which ensures the formation and implementation, in particular, of the state policy of economic, social development and trade, state industrial policy, state investment policy, state policy in the field of management of state-owned objects, development of entrepreneurship and PPPs, is the Ministry of Economic Development.

To fulfil the tasks entrusted to the Ministry of Economic Development to ensure the formation and implementation of state policy in the PPP field, the Ministry of Economic Development:

- monitors the effectiveness of the activities of executive authorities and local self-government bodies in the field of PPPs;
- organises inspections of contracts concluded within the framework of the PPP;
- monitors, summarise and publicise in a set manner the results of PPP implementation, including assessment and monitoring of the general level of risks of the state partner in contracts concluded within the framework of PPP;
- monitors compliance with the requirements of legislation in the PPPs field, including during tenders to identify a private partner;
- participates in the organisation of training and professional development of specialists in the PPP field;
- keeps records of contracts concluded within the framework of PPP.

Let us consider what the spheres of application of public-private partnership can be [11]:

- search, exploration of mineral deposits and their extraction, except for those carried out under the terms of agreements on the distribution of products;
- production, transportation, and supply of heat, as well as distribution and supply of natural gas;

- construction and/or exploitation of highways, roads, railways, airport runways, bridges, overhead roads, tunnels and undergrounds, sea and river ports, and their infrastructure;
- machine building;
- water collection, purification and distribution;
- healthcare;
- tourism, recreation, recreation, culture, and sports;
- provision of functioning of irrigation and drainage systems;
- waste disposal, except for collection and transportation;
- production, distribution, and supply of electric energy;
- real estate management;
- provision of social services, management of a social institution;
- production and implementation of energy-saving technologies, construction and overhaul of residential buildings, entirely or partially destroyed as a result of hostilities on the territory of the anti-terrorist operation;
- installation of modular buildings and construction of temporary housing for internally displaced persons;
- provision of educational and health services;
- management of architectural monuments and cultural heritage.

The above list of activity spheres needs to be more comprehensive. Considering the decision of the state partner, the PPP can be applied in other spheres of activity, except for types of economic activity, which according to the law, are allowed to be carried out exclusively by state enterprises, institutions and organisations.

The trends and pace of PPPs development in Ukraine are slightly different from those of the world in terms of the number, volume of investment, structure of deals, economic activity, and geographic location.

The number of projects (contracts), their completion and the total amount of PPP investment in Ukraine.

First, the history of PPP development began much later than in the world. Secondly, for the first 20 years, Ukraine still needed a business sector capable of generating private partners, appropriate legislation, a regulatory mechanism, and a public-private partnership policy. That is why, during the first 20 years, the formation process of the business sector and PPP took place. During this period (1990-2012), only 58 PPP projects were initiated, of which two were terminated. Over the next five years, the number of PPPs increased and, according to the World Bank, from 1992-2017, there were 74 implemented projects in the following fields: energy (46), communications (14), transport (2).

According to the data of the central and local executive authorities in Ukraine, as of January 1, 2023, 193 contracts have been concluded under PPP conditions, of which 18 contracts are implemented (9 – concession contracts,

5 – joint activity contracts, 4 – other contracts), 162 contracts are not implemented (116 – not implemented, 46 – terminated/expired), 13 suspended in terms of armed aggression of the Russian Federation.

The geographic location of PPP projects (contracts) in Ukraine demonstrates that each region has peculiarities and equal prerequisites for PPP development. In particular, PPP projects for constructing preschool institutions are relevant in the Kharkiv oblast and seaports in Odesa and Mykolaiv oblasts.

It should be noted that the statistical data on the dynamics of the PPP projects number in Ukraine, published by the World Bank, and the data of domestic statistics regarding “PPP-based contracts” do not coincide due to the “fragmentation of the project registration system in Ukraine” [17]. This makes it much more challenging to analyse and determine the number of signed PPP and concession contracts. Using a different methodological approach to accounting for the partnership between the state and business (the number of concluded PPP contracts), the domestic data exaggerate the world data several times, as seen from the comparison of official data (Figure 1).

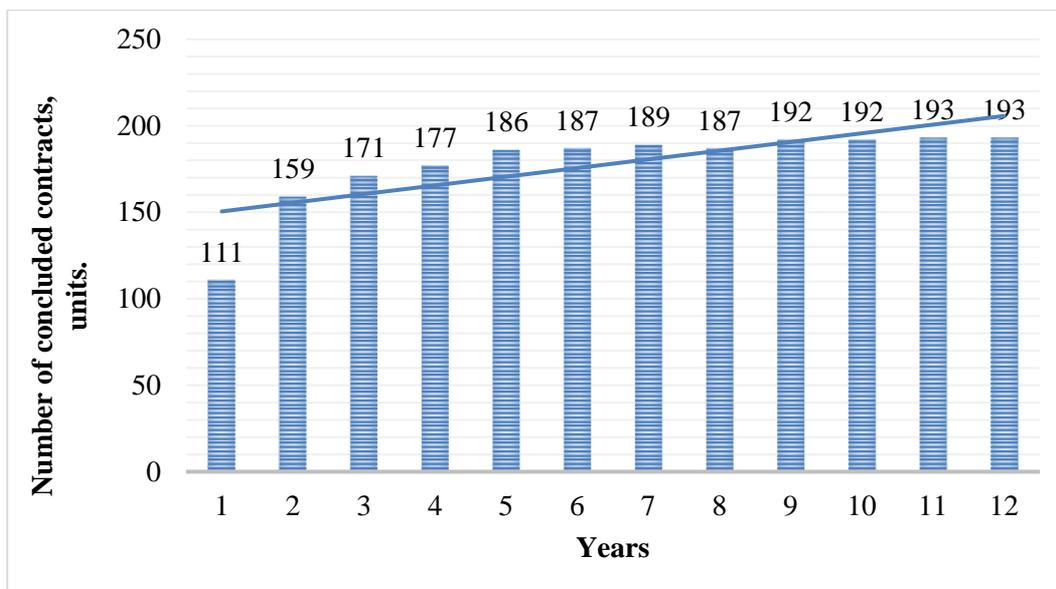


Figure 1. Dynamics of PPP contracts in Ukraine, 2012–2023

Source: independently compiled by the author [18]

Examples of failed PPP contracts are the concession project for constructing and operating the Lviv-Krakovets public highway of state importance. It was concluded on December 23, 1999, with the concern “Transmagistral”, but it was not started due to insufficient state funding, lack of own resources for the concessionaire and unavailability of loans. In 2015, a repeated concession tender was announced. Still, the applications of both applicants (Ukrainian consortium “Concessional Transport Highways” and French Bouygues) were rejected, as they could not provide financing for the construction of the

concession facility either at their own expense or account of raised funds. Currently, for the third time, the Ministry of Infrastructure of Ukraine has developed the M-10 “Lviv – Krakovets” concession highway project with the support of the World Bank, which is planned to be paid for and is part of the second stage of the GO Highway (transnational transport corridor) project, which provides for an autobahn from Krakovets to Odesa. The main reasons for the failure of this PPP project are:

- foreign companies usually do the preliminary examination and evaluation of the concession object with a high international reputation chosen by the grantor (EBRD, IBRD). Nonetheless, their evaluation methodology and preliminary design of the concession object are harmonious with developed countries’ economic and legal systems. Still, it does not consider the specifics of the transition economy with its imperfect legal system. For example, economic calculations include forecasted, economically justified use of the highway, which is the object of the concession. This example allows us to single out a fundamentally new negative outcome of the concession – an anti-social economic effect, the anti-sociality of which determines the fact that the average income level of the population does not allow them to use the new roads and the projected cost of crossing them becomes unacceptable for society;

- secondly, one indicator for evaluating an infrastructure object’s suitability to become an object of a concession is the capacity of its potentially possible loading. But this indicator reveals that all the objects the Ukrainian state offers for concession have a bad value. This leads to a significant payback period for the private partner’s investment: the possible payback period exceeds the traditional 25–30 years, sometimes reaching 50 years. Such a payback period makes the concession impossible due to the economic impracticality of the private partner of the investor.

The National Institute of Strategic Studies, in an analytical note of 2013 [19], which is based not only on the types of economic activity but also on socio-economic problems, identified the following as priority directions for using the PPP mechanism in Ukraine:

- construction of new and reconstruction of old highways under concession terms, since more than 90% of domestic roads need repair, and for the development of the economy, it is necessary to build more than 4.5 thousand km of new roads worth more than UAH 200 billion, which exceeds the capabilities of the state budget;

- development and modernisation of facilities in the housing and communal services sector (including the implementation of new energy-saving and cleaning technologies, improvement of energy efficiency of buildings, and improvement of drinking water quality);

- a geological exploration of deposits and extraction of minerals (shale or shelf natural gas), which will reduce the dependence of the national economy on energy imports;
- implementation of joint projects in the humanitarian sphere (education, science, ecological tourism, recreation, protection of monuments of cultural and natural heritage, construction of recreation areas);
- renewal of the material and technical base of primary, secondary and higher education institutions;
- repair and restoration of cultural and historical heritage objects;
- development of nature reserves and natural landscape parks, combined with the tourism business of private investors;
- popularisation and implementation of projects related to a healthy lifestyle, large-scale sports events, and formation of environmental awareness (including a culture shaping of resource preservation and rational waste management – sorting, prevention and elimination of spontaneous landfills).

It should be noted that in Ukraine, whose economy is more raw-based, PPP projects focus more on extracting, processing and transporting raw materials. The exception is energy service contracts (ESCO-contracts), which relate to the housing and communal services operation in terms of the use of energy resources. Yet, this is rather a consequence not of the consistent development of the legislative and regulatory framework of PPPs but of the direct transfer of the international law on eco-contracts to the legal field of Ukraine (in fact, by the “cover” method).

The prominent role of public initiatives in Ukraine’s PPP is worth noting. Part of public institutions is delegated state functions. In contrast, others contribute to the development of PPP within the limits of the powers defined by their constituent documents: Ukrainian Public-Private Partnership Development Support Center is a non-profit organisation founded in 2010 by the Vice President of the National Academy of Sciences of Ukraine, Academician Valerii Heiets; PPP and Infrastructure Expert Center, created in 2014 by USAID and the US Chamber of Commerce; NGO “Public-Private Partnership Development Platform” has operated since 2014 as an expert association in the PPP field, aiming to develop and improve PPP mechanisms in Ukraine; NGO “Public-Private Partnership Development Fund in Healthcare in Ukraine”; Municipal Management Center (Habitat) and others.

The PPP development environment has been estimated as high enough. Ukraine ranked 49th among 71 countries with an Infrascopes index of 50 points (out of 100 possible). The estimates in certain areas are demonstrated in Figure 2.

At the International Conference on Reconstruction of Ukraine, which took place in the Swiss city of Lugano, a post-war reconstruction plan was presented, which provides that private investors will provide 250 billion dollars out of the required 750 billion dollars [20].

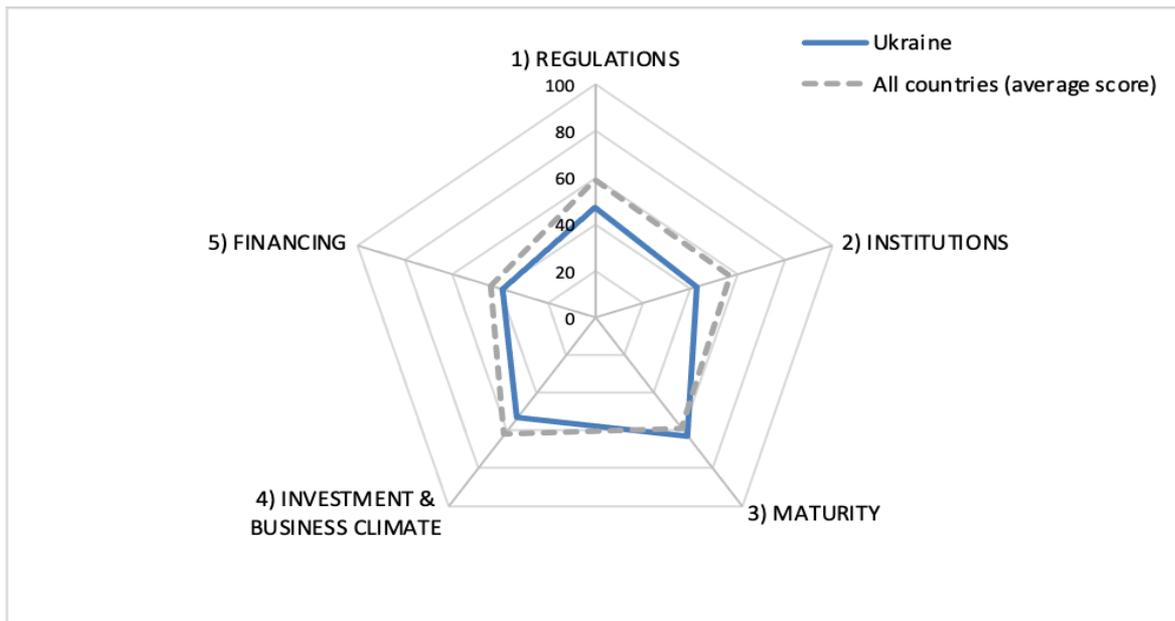


Figure 2. Results of the assessment of the environment for the PPP development in Ukraine and world countries in 2020

Source: independently compiled by the author [18]

To implement this plan, the Ukrainian government approved a list of priority investment projects for 2020–2023, and 40% of them are large-scale projects in the transport sector and infrastructure.

Therefore, to attract business to Ukraine, it is necessary to provide transparent and understandable mechanisms based on PPP.

In addition, creating a new management decision-making mechanism, particularly new public registers using blockchain technology, and the “modernisation” of existing public records is significant for speeding up the procedures for implementing PPP contracts.

Considering the problem of developing PPP information infrastructure, the experience of the Republic of Poland should be highlighted. On January 26, 2011, the Public-Private Partnership Platform was created at the initiative of the then Ministry of Regional Development (now the Ministry of Investments and Development). It “is a response to state and market expectations, and its task is to fill the gap in the field of assistance to the government administration in the preparation and implementation of PPP projects, being a forum for the exchange of information, experience and best practices between public authorities and involved private entities (or by those who intend to be involved) during the implementation of specific projects” (Platforma współpracy). The platform’s mission is to “strengthen the capacity of public institutions to provide high-quality, cost-effective public services and infrastructure, as well as improve the efficiency of self-governance during the implementation of infrastructure projects through PPP” (Platforma współpracy). This Platform

provides an opportunity for all interested parties to obtain information regarding the following:

- current news of PPP in the Republic of Poland;
- databases of current PPP projects in various fields;
- Platform participants;
- certain types of PPP projects that benefit from exceptional support (for example, roads, energy efficiency, healthcare, etc.);
- regulatory framework of PPP in the Republic of Poland;
- development of PPP in the Republic of Poland;
- training and seminars on the PPP issue;
- connection of PPP with EU funds;
- state partner directory (thematic publications, legal clarifications, sample documents, e-consultant), etc.

Within the EU, an effective tool for the PPP information infrastructure is the toolkit for assessing the state of preparation of the public-private partnership project (Tools to assess), developed by the European Center for Public-Private Partnership Knowledge. This toolkit is primarily addressed to public partners. It aims to help them systematically approach the management of these projects and facilitate the assessment of their readiness to enter into contractual relations with a private partner. The principle of the toolkit involves obtaining and analysing the answers to the questions specified in the questionnaire, resulting in an outcome that indicates problem areas in readiness for the implementation of the PPP project. The toolkit is designed to be practically applied to different types of partnerships, for example, their size, objects, application sector, etc.

Improving the PPP information infrastructure should create an atmosphere of trust between private and public entities during the establishment of contacts regarding the implementation of projects, as well as awareness of the real benefits of each of these entities from participation in PPP projects.

In today's conditions, the interaction of state authorities and private businesses are often viewed through the lens of problems, contradictions and conflicts. At the same time, from the PPP point of view, the interaction should be radically rethought: to achieve a result, the public and private partners must cooperate, jointly solve tasks, and bear joint responsibility for the project.

Therefore, this indicates the need to change the fundamental vision of the parties' interaction within the public-private partnership framework. It is about the partnership level, not the level of interaction "manager – subordinate".

The efficiency of PPP as a management technology for harmonising globalisation and deglobalisation processes and a cooperation model is confirmed by thousands of successfully implemented projects in developed and developing countries. Activation of the PPP at any of the levels (national, regional or municipal) should be carried out primarily considering the public partner's development strategy and priorities in its activities (Figure 3). This

will further define the structure of such partnership projects, the relevant processes, tools and culture.

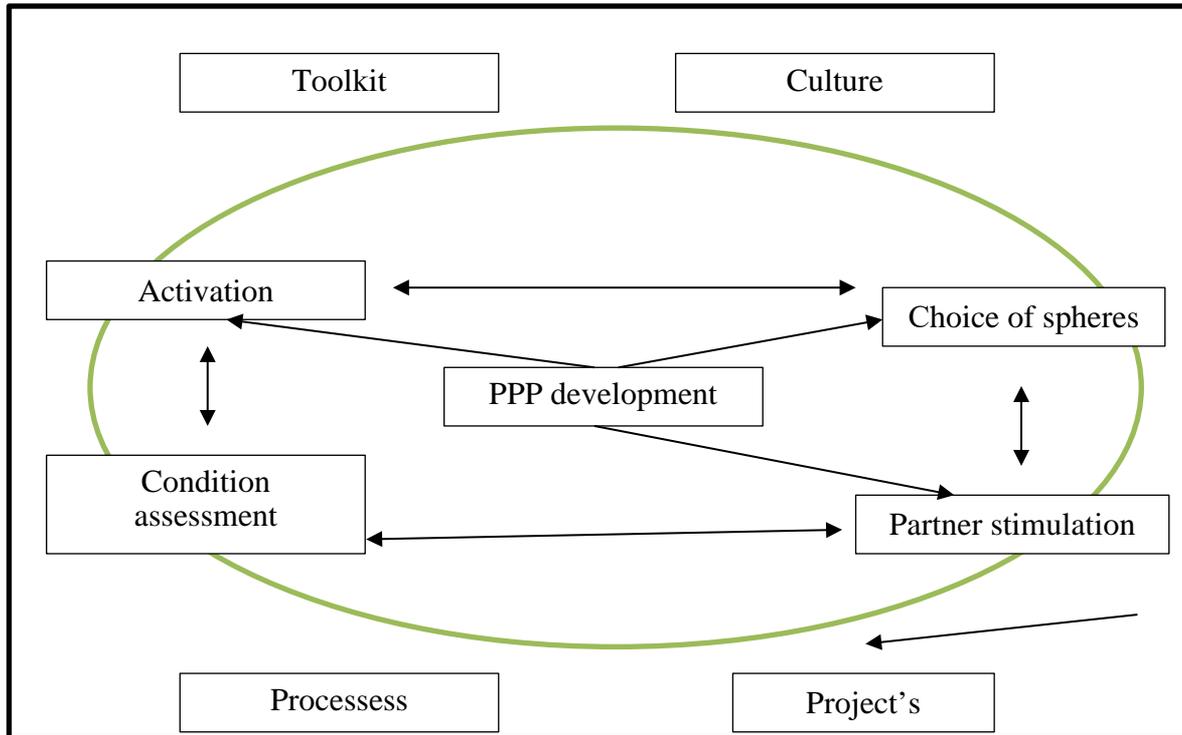


Figure 3. A generalised model of the strategy impact on the development of public-private partnership

Source: compiled by the author

Part 4. Conclusion and Recommendations

Consequently, PPP can be a valuable mechanism for implementing marketing policies in territorial economy management. Here are some recommendations for improving the implementation of PPP in this context:

1) Develop a clear and comprehensive marketing policy: Before entering into a PPP agreement, it is essential to have a well-defined marketing policy that outlines the objectives, strategies, and target audience. The policy should be flexible enough to accommodate the needs of the private partner while also aligning with the public sector's goals.

2) Select the right private partner: The success of PPPs relies heavily on choosing the right private partner. A private partner with experience in marketing and a track record of successful collaborations with the public sector can help ensure the success of the partnership.

3) Ensure transparency and accountability: Transparency and accountability are critical in any PPP. The private partner should be held accountable for their actions and should be required to report regularly on their progress towards achieving the objectives of the partnership.

4) Provide adequate resources: A lack of resources can be a significant obstacle to the success of a PPP. It is essential to provide the necessary resources, including funding, staff, and technology, to ensure the success of the partnership.

5) Monitor and evaluate the partnership: Monitoring and evaluation are critical to the success of a PPP. Regular monitoring can identify issues early on and provide opportunities to make adjustments to the partnership. Evaluation can help determine whether the partnership is meeting its objectives and provide information for future improvements.

Ukraine is gradually implementing pilot projects with the support of international organisations and business representatives while having considerable economic potential for this. In the conditions of the formation of the legislative and institutional framework, the successful preparation and implementation of PPP pilot projects in various sectors of Ukraine's economy, in particular infrastructure, energy, and communal services, opens up new opportunities for potential investors, banks and consultants in one of the largest markets of Central and Eastern Europe.

Ukraine is a country with rapid transport infrastructure development and favourable investment conditions. The Ministry of Infrastructure, with the support of the European Union, the European Bank for Reconstruction and Development, the European Investment Bank, the World Bank, the International Finance Corporation and other international partners, is working on the renewal of the national transport system by attracting investments, implementing PPP projects and drawing private sector investments.

The involvement of private capital in infrastructure is a crucial and urgent issue for Ukraine. The willingness of Ukraine to accept the PPP idea is evidenced by the creation of a regulatory and legal framework, which still needs improvement but already allows the implementation of PPP infrastructure projects. At the same time, to achieve real success and spread the practice of partnership between the state and business, it is necessary to conduct significant structural changes in the processes of interaction between the state, local authorities and the population based on the development of regional strategies, communication policy and their institutional reinforcement.

PPPs in territorial economy management have been utilized globally with varying degrees of success. Below are some examples of successful PPP projects in this field along with their benefits, challenges, and lessons learned:

1. The Singapore Sports Hub: This project was a PPP between the government of Singapore and a consortium led by private sector firms. The Sports Hub includes a stadium, aquatic center, sports museum, retail space, and community facilities. The project's benefits included a state-of-the-art sports facility that has helped to increase tourism and sports participation, while also generating economic benefits for the local community. However, the

project also faced challenges such as delays in construction, cost overruns, and disputes between the government and private sector partners. One of the lessons learned was the importance of establishing clear roles and responsibilities, as well as robust dispute resolution mechanisms, to mitigate such challenges.

2. The London Olympics: This project was a PPP between the UK government and private sector firms, including construction and infrastructure companies. The project's benefits included job creation, increased tourism, and the regeneration of the surrounding area. However, the project faced challenges such as budget overruns, delays in construction, and public criticism of the use of public funds to support private sector partners. One of the lessons learned was the importance of transparency and stakeholder engagement, including ensuring that the public is fully informed and involved in decision-making processes.

3. The Port of Miami Tunnel: This project was a PPP between the Miami-Dade County government and private sector firms, including construction and infrastructure companies. The project involved the construction of a tunnel connecting the port to the mainland, which has improved transportation efficiency and reduced congestion in the surrounding area. The project's benefits also include increased economic activity and job creation. However, the project faced challenges such as unexpected construction issues and delays, as well as concerns about the long-term financial sustainability of the project. One of the lessons learned was the importance of risk allocation and management, including ensuring that private sector partners have appropriate incentives to manage risks effectively.

Overall, successful PPPs in territorial economy management require careful planning, robust risk management, and effective stakeholder engagement. Lessons learned from these projects include the importance of clear roles and responsibilities, transparency, and effective risk allocation and management.

Thus, Ukraine should continue developing and carrying out profound reforms. After all, the PPP sphere is positioned as a social innovation, an institutional and organisational combination of state and business resources whose equal relations are aimed at solving acute social problems. Ultimately, an important function is to serve as an anti-crisis tool in ensuring the sustainable economic development of the regions.

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