

PUBLIC–PRIVATE PARTNERSHIPS IN HOUSING CONSTRUCTION IN UKRAINE

Elena Balabenko*

Donbas National Academy of Civil Engineering and Architecture, Ukraine

Abstract. *The paper presents an analysis of construction operations, retarding tendencies, necessity to attract private capital to civil engineering, with an emphasis on the development of national cooperation and construction business in the realization of concrete social and economic and investment projects in Ukraine in the form of public–private partnership. The problems of the development of housing construction institutions are also presented within the framework of the public–private partnership and the preconditions for the topical character of the private capital attraction to this sphere. The necessity of developing the public–private partnership in housing construction has been justified. The development of the trend will help to unify the interests of power, business, financial institutions and private investors. Also, a special pattern of the public–private partnership taking into consideration the peculiarities of the contemporary house-building industry is proposed.*

Key words: *housing construction, public–private partnership, investment, pattern*

Introduction

Residence is a necessary component of each person in providing normal conditions of living. Housing construction is one of the priority fields of the state administration and the development guarantee of the private sector. In the period of the formation of market relations in Ukraine, there was a decrease of housing construction and a deterioration of the available dwelling fund as a consequence of breaking the previous state planning system of housing construction and the withdrawal of the state from managing the process of providing the population with dwelling.

An effective model of partnership development of the state and private sector in the sphere of housing construction at the present stage of the economic development of Ukraine includes the multiple effect of the construction industry on the development of the production of building materials and of the corresponding equipment, machine building industry, metallurgy and metal working, petroleum chemistry, glass production, woodwork and timber, porcelain and faience industries, transport, power engineering, etc. Construction, more than any other branch of economy, promotes the development of

* *Corresponding author:*

Economics, Management and Law in Civil Engineering Institute, Management Organizations Department, Donbas National Academy of Civil Engineering and Architecture, Derzhavin str. 2, 86123, Makeyevka, Ukraine;
e-mail: balabenko_e@mail.ru

small business enterprises, especially those specialized in the repair work, in the production and installation of built-in furniture, etc. Thus, the development of the construction branch inevitably causes an economic advance in the country and provides for the necessary conditions in solving numerous social problems.

In the light of the above-mentioned information, it seems appropriate to generalize the experience of housing construction in Ukraine and to elucidate such aspects as the participation of the state, attraction of investors, stimulation of financial institutions, activity of construction companies, etc.

Literature review

There are a lot of papers connected with the problems of housing construction in the Ukrainian science, exactly the papers of such scientists as A. Asaul (2010), R. Podolsky (2009), M. Ivanov (2013) who investigated the problems related to the innovative and investment provision of the regional construction complex development, effective movement of the constructional complex structure in conditions of the transformation of Ukrainian economy, problems of the integration of the constructional complex into the global economy, the organization and economic provision of the competitive abilities of regional construction complexes.

Methodical approaches to the integration of the building complex of Ukraine into the global economy were theoretically grounded and developed. Recommendations concerning the improvement of foreign investment resources' control process are presented. The role and importance of the integration processes in the current economic conditions have been researched. The organizational mechanism of integration changes has been considered and the features of the foreign investment management of the enterprises in the construction industry of Ukraine have been characterized. The effectiveness of integration in the national economy was evaluated, the influence of external market environment factors on the degree of investment attractiveness of the sector was analyzed. The effectiveness of construction companies in Ukraine was also analyzed, and the diagnostics of internal environment factors' management in these companies was carried out. Basing on the research results, a set of indicators to calculate the degree of investment attractiveness and the methodical approach according to the improved foreign investment management efficiency at building complex companies in the conditions of Ukraine's integration into the global economy were proposed (Podolsky, 2009).

The problems of housing construction are discussed in papers of such scientists as V. Sevka (2011), O. Sudarenko (2009), V. Lyubarov (2012) and O. Shevchuk (2011), where the principal topics are the legal regulation of housing construction in Ukraine as well as the civil and legal regulations of relations in the sphere of housing construction, national policy on an example of building materials enterprises and housing construction,

the economic mechanism of insurance risk of mortgage credit lending in housing construction and monitoring the housing construction development in Ukraine.

To solve the problem of transition to a sustainable operation and development of housing, indicators of the construction economics reformation and the urban economy of the region were analyzed and generalized. As a result, a number of propositions have been made on the improvement of organizational-financial and information support of the building complex development; the current state of construction financing and crediting on the region has been analyzed; the necessity of the introduction of the state and local authorities' power system in implementing the policies of social and housing construction as well as a system of measures of the sustainable housing development for the period till 2015 have been proposed (Amosha, Sevka, 2011).

Fundamental and applied problems of the partnership development of the state and entrepreneurship structures were investigated by such scientists as L. Bezzubko (2010), P. Klimov (2011), S. Silvestrov (2010), and others.

The term "public-private partnership" includes cooperation among the state, the private sector, public institutions in the economic, political, social and other spheres of public life. Accordingly, the public-private partnership could be considered as the social-public partnership, defining it as a constructive cooperation of the state, businesses and public institutions in implementing socially important projects based on the priority of state interests, consolidation of the parties' resources, an efficient distribution of risks among them, equality and transparency to ensure the sustainable development of society (Pavlyuk, 2010).

The emphasis of the studies is concentrated on the necessity of the mechanisms of determining the suspended proportions and an efficient distribution of functions between the state and private enterprises in the economic environment (Bezzubko, 2011).

In spite of the considerable progress in the research of housing construction and public-private partnership, there are numerous problems which are still disputable and the contradictions have not yet been solved. It should be pointed out that the problem of housing construction institution development within the framework of public-private partnership is paid insufficient attention.

Basic material research

Civil engineering industry is one of the principal fields of the Ukrainian economy. The development of this field improves the social and economic indices of the national development. In the recent years, in conditions of the financial and economic crisis, there has been a recession in civil engineering (Fig. 1).

As is obvious from Fig. 1, in 2012 the volume of construction works increased as compared with 2011.

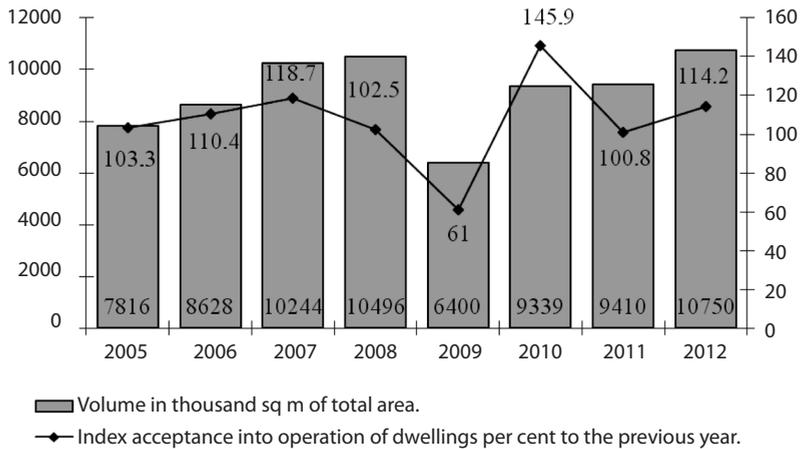


FIG. 1. Total area put into operation, thousand sq. m

Source: Statistical annual of Ukraine of 2012.

Nevertheless, one can see that, in spite of the general recession in the sphere of construction, it began to slow down in 2010. The purpose of the construction industry is solution of the problems of housing construction development by providing dwellings to broad sections of the population. The principal task of the construction industry is the formation of a valuable balanced market of dwellings, attraction of private investments into housing construction, formation of the efficient market of the construction industry, increased accessibility of mortgage credit lending and housing construction savings for broad sections of the population.

In unstable financial conditions, by virtue of capital intensity and long-terming of housing design, having originated budget restrictions have forced the necessity to reconsider the possibilities of the national, regional and local budgets in the formation of planned housing construction objects. Thus, nowadays, the problem on the procurement of private capital into the housing construction sphere is acquiring a special topical character.

Attraction of private investors into housing construction objects will increase the efficiency of their building and the subsequent operation substantially. The foreign experience proves conclusively that participation of the private sector shortens the construction time, minimizes the cumulative costs of construction and also increases the satisfaction of consumers.

In addition, an advantage of private investment procurement deals with cutting the costs from the national as well as regional and local budgets, what is rather important in conditions of increased load on all level budgets, stimulated by the world financial instability. There is a need to accelerate housing construction objects putting into operation

and a simultaneous decrease of budget expenditures, which stipulate the necessity of developing offers on private investment attraction for their formation within the framework of public–private partnership (PPP).

The contemporary stage of the stability and prosperity of society depends on formation of an efficient system of interaction between the state and the private sector. Adjustment of the public-private partnership mechanism within the framework of great investment economic projects directed to meeting the government administration purposes can be a guarantee of state development as a whole.

PPP can be represented in various forms. In the first place, examples of PPP can be various agreements and contracts of the state and private companies. In the practice of public–private partnerships, most expanded are considered on the be contracts to execution of works, on civil services, on control and administration, on the production of goods for national needs, on technical aid. Short-term contracts are applied rather widely in the economic managing practice of the state authority bodies in Ukraine.

Another form is leasing or renting relations in their traditional forms of rent contracts and leasing. The peculiarity of renting/leasing relations between authority structures and private business is determination of what happens in conditions determined by the agreement – handover to a private partner of a state or communal property for temporary use and for a determined charge. The traditional leasings/rentings admit another side of an object of leasing/renting relations while the competence of instructions on property is reserved to the owner and is not disposed to a private partner. In special cases, leasing/renting relations can be finished with buying out the leasing/renting property. In case of the leasing agreement, a lease-holder has always the right of buying-out the state or communal property.

One more form of the public–private partnership is participation of the private sector in the capital of a state (communal) enterprise, which occurs by auctioning or by establishing mixed enterprises on the basis a shared participation of the sides.

Business activities in joint stock companies occur though investments of shareholders who can be subjects of the state. The freedom degree of the private sector in approving administrative and management decisions is determined by its part in a share capital. The less the part of private investors in comparison with that of the state, the narrower the spectrum of independent decisions which they can accept without state intervention or a record of its thoughts. The risk of the parties is distributed proportionally to their part in the capital.

In contrast to other forms of the PPP where the state does not interfere in flow, investment, production, administrative and management activities, in joint stock companies with state participation, state representatives are present permanently. Thus, with the state participation in the capital, the private sector has less independence and freedom

in the approval of investment, administrative, management and other decisions than, for instance, in a concession.

One more form of the PPP is an agreement of product sharing. In accordance with it, the state gives an investor on a compensated basis and for a definite period, an exclusive right of searching, intelligence, mining of raw materials, of mineral resources pointed out in the contract, and of conducting work connected with it, but an investor is bound to carry out the indicated work at its own expense and at its own peril. The manufacturing products are subjected to partition between the state and the investor in accordance with the agreement which should stipulate the conditions and order of such partition.

Such forms of the PPP as a concession agreement may be used in carrying out major, capital-intensive projects. The purpose of such an agreement is attraction of investments into the Ukrainian economy, provision of an effective use of property available in the state and of the communal property on the terms of the mentioned agreement, and raising the quality of goods, activities, services offered to consumers. By its economic content, a concession represents relationships between the state and the private capital with the management on the basis of a private initiative within the framework of contractual relations and also is the form of activity based on the temporary use of the state property by a private subject.

These forms of the PPP may be undoubtedly considered to be exhaustive. The choice of a specific form of the PPP depends on the economic efficiency of the project implementation.

In particular, a special pattern of the PPP considering the peculiarities of this activity, providing a complete attractiveness for an investor, security of funds investment into the corresponding constructional design, namely into developing the housing construction sphere strategically important for a state (see Fig. 2) is offered for this kind of construction.

The whole conception of the above pattern stipulates the formation of a company on assets control (CAC) being responsible for housing construction, with obtaining the right of property to it and offering dwellings upon completing the construction to private people, commercial organizations, and local authorities.

The first stage of the implementation of the above pattern stipulates that the CAC participating in the project is picked out by the local authorities from the tender results, on the basis of demands presented to the housing construction objects setting out on the tender. In this case, the authorized capital of the CAC is formed at the expense of deposits of private investors.

At the second stage of a CAC implementation, for ensuring its activity, it attracts credit resources of the financial institutions.

While implementing a project of the CAC, it bears responsibility to creditors for the interest payment and the principal debt sum. As far as the mortgage is concerned, its capacity may include shares, property, agreement rights of the CAC.

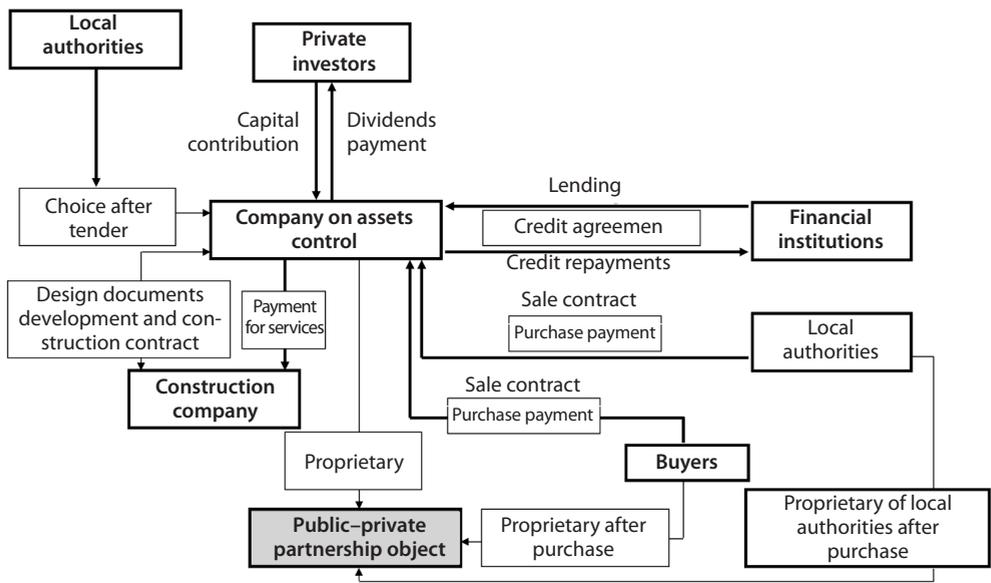


FIG. 2. A model of public-private partnerships in housing construction

Source: compiled by the author.

At the next stage of implementing the pattern for the immediate execution of its obligations, the CAC makes a contract with a construction company stipulating the development of design documents of the object and its construction. It should be noted that private investors of the CAC can be owners of the given construction company. In this case, in the functioning of a construction company one or more private investors may take part (in the latter case, the functions of the construction company are distributed among the participants) or an independent attracted company. A construction company may also be especially established by private investors for the given design.

The corresponding costs of the CAC are paid from the own funds and attracted credit resources.

The business bank can give credit resources of the CAC on the security of its shares, property (including the ownership of a specialized project company of housing real estate) and also rights on the agreement of the CAC. The volume and conditions of the advanced credits are determined by bilateral agreements between private investors and the corresponding banks. These agreements can be reached both preliminarily (before the beginning of a contest to the right of participation in a project) and in the process of implementing a project. At the expense of the local budget funds on the credits, the CAC can partially compensate the interest payments given by business banks.

The result of implementing the above pattern is the purchase of housing construction objects by private people or organizations, made with the CAC contract of purchase.

Local authorities can also buy out part of housing construction objects in the CAC and use them by their own power or distribute on the social charts later on.

One of the principal advantages of the pattern is the fact that private investors possess the right of property of the erected housing construction objects. Such a situation allows using these objects in the capacity of a credit mortgage, the result of which can be a decrease of the debt financing value. There are also drawbacks in the proposed pattern, among them the risk of a discrepancy between real and forecast dwelling demands for investors who are not always able to control this risk. However, within the capacity of the mechanism of this decrease, schemes connected with the buying-out of a significant part of apartments by local authorities can be used.

Conclusions

The study has proposed the latest solution of a scientific task which consists in the justification of the reference concerning the formation of development approaches to PPP in housing construction. According to the obtained results, the following conclusions have been made.

1. An analysis of the development of civil engineering industry has been carried out. The development of the industry has been determined to provide for the execution of social and economic indices of the development of Ukraine. In spite of the evident recession because of the world's financial instability, the recession in civil engineering has been slow since 2010, which was proved by statistics.
2. The basic priority of the civil engineering is formation of the dwelling market both on the side of the offers to the civil engineering and its demand. The financial situation in the state led to a revision of the budget possibilities at all levels in the formation of housing construction objects' planning and the attraction of private capital on the principles of public-private partnership.
3. The development pattern of the public-private partnership in housing construction, unifying the power, business, financial institutions and private investors, has been proposed. Such kind of a pattern provides for a constructive interaction of all the components and can add to the initiatives directed to the provision of a permanent development of housing construction, thus allowing to solve complicated social problems.

On the whole, it is necessary to note that the pattern of public-private partnership for housing construction objects, described above, can be implemented both at the local and the regional or state levels.

REFERENCES

Bezzubko, L., Ilyashevich, S. (2011). Experience of public–private partnership in Ukraine. Problems and perspectives of business activities: Materials and reports of the II International Students' Scientific and Practical Conference (Samara, 13–14, May, 2011) Ed. Sorotchaykin A.N. Publishing House 'Glagol', p. 117–122.

Amosha, A., Sevka, V., et al. (2011). Development of Civil Engineering Economy and Municipal Economy of Donetsk Oblast in the Context of Transformation Changes in Ukraine. Donetsk, Partnership "Drukinfo". 316 p.

Statistical annual of Ukraine of 2012. Ed. Osaulenko, A.G. Publishing House "Konsultant", Kiev, 2013.

Pavlyuk, K., Pavlyuk, C. (2010). Substance and role of public–private partnership in the social and economic development of the country. Scientific articles of KNTU. Economic Sciences, issue 17, pp. 25–35.

Klimov, P. (2011). Public–private partnership as a mechanism of infrastructure modernization financing. Economic Systems' Management, Vol. 35, 11/2011; <http://www.uecs.ru/uecs-35-352011/item/791-2011-11-17-06-04-34>.

Podol'skiy, R. (2009). The impact of market environment factors on the degree of investment attractiveness of the building complex in Ukraine. Bulletin of Donetsk National University. Series V "Economics and Law". Donetsk: DonNU, №1, pp. 165–169.

Ivanov, M. (2013). Logical-formal and methodological approaches to the development of strategies for the development and revitalization of innovation and investment at the regional level. Industrial Economics, №1, pp. 82–90.

Asaul, A. The phenomenon of the investment and construction complex, or the building complex is preserved in a country's market economy (monograph): <http://www.aup.ru/books/m65/>.

Silvestrov, N. (2008). Public–Private Partnerships in the Innovation Systems. Moscow, LKI, 312 p.

Sudarenko, V. (2009). Concepts and principles of government housing loans. Financial Law. Vol. 3(9), pp. 28–35.

Krivodubskiy, A., Shevchuk, A. (2011). Logical-formal models of financial planning in construction organizations. Information Processing Systems. Kharkiv: KUAF, issue 4 (94), pp. 240–244.