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# Public Management of Public Investment Projects in Ukraine under Conditions of European Integration

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***Abstract*—The article deals with the system of public investment projects management existing in Ukraine. The authors state its actual tasks concerning realization of EU-Ukraine Association Agreement. An estimation of quantitative parameters of public investment in terms of promotion of economic growth is carried out and its forms are determined. This made it possible to conclude on unwarranted plurality of the public investment projects' organizational forms in Ukraine which led to weak transparency and accountability in their realization. The article highlights the formation of the institutional framework for public management of public investment projects – the legal base, responsible authority, methodological recommendations, and the creation of projects' pipeline. The authors analyze the activity of the recently set up Interdepartmental Commission on State Investment Projects. The weaknesses of public investment management in Ukraine are identified: imperfect procedure for initiating, appraisal and selecting public projects; lack of a single information system; insufficient control over the implementation of investment projects; lack of guarantees of their sufficient financing. The possibilities of the improvement of public investment management are considered in the light of the European integration orientation of the state development. Among them there are: setting of the adequate fiscal rules, clear definition of the PIP priorities, increasing the share of government investments that are managed as projects, setting of clear criteria and introducing of independent expertise of PIP' selection, strengthening institutional capacity of government agencies etc.**

***Keywords*—public investment management, public investment, investment project, budget, appraisal, selection, monitoring**

## I. Introduction

The evidence of European countries suggests that in the period of market transformation of the economy, the state plays a leading role in financing the investment programs of general importance, especially in the infrastructure sphere. In general, the infrastructure - productive or social - relates to public goods, the creation of which, as a rule, is not profitable for private business, but which promote private investment and socio-economic progress. Therefore, the state assumes the related costs, which form budget capital expenditure. Their management is a rather difficult task that should be implemented taking into account the commitments undertaken by Ukraine in the framework of the EU-Ukraine Association Agreement, namely, ensuring the balance of public finance, developing medium-term budget planning, improving program-targeted approaches in the budgeting, providing reliable internal control and external audit systems.

In the situation of a budget deficit, socio-economic instability, the growth of public debt, the state's ability to invest is extremely limited. Therefore, issues of public management of all the stages of public investment cycle, in particular, thorough selection, high quality appraisal, and comprehensive monitoring the implementation of public investment projects are being actualized.

## II. Literature Review

Public investment management (PIM) is a subject of scientific studies both in Ukraine and in other countries. The international organizations such as International Monetary Fund (IMF) and Organization for Economic Cooperation and Development (OECD) are also actively researching this area, studying and evaluating the situation in various countries and providing practical recommendations for improving PIM.

Laursen and Myers analyze PIM in the new EU member states, focusing on the management of projects related to transport infrastructure, rightly considering it as one of the material foundations of economic development [1]. Particular attention is paid to the stages of strategic planning and implementation of the projects.

The relationship between public investment in infrastructure and economic growth has also been proved by Nannan and Jianing [2] in case of China's economy. The OECD is investigating the effective investment management at various levels of public administration, noting that in most OECD countries sub-national investment expenditure account for more than a half of the public ones, which requires the strengthening of exactly this level's capacity [3].

Quak [4] substantiates the need and the possibility for expanding public investment sources by improving fiscal policy, increasing the efficiency of PIM, and using public-private partnership. The collective work edited by Rajaram [5] highlights the high potential of public investment in stimulating the development of the national economy, which in practice is decreased by political influence on project selection, inadequate validation, lack of funding, delayed implementation, etc. Presbitero [6] and Shen, Yang, and Zanna [7] analyze the ability of low-income countries to transform their growing public investment in sustainable economic growth, which is determined by institutional frameworks and managerial capabilities.

Kyrylenko and Maliniak investigate the problems of budgetary investment [8]. They have developed conceptual approaches to improving the mechanism of planning and realization of budgetary capital expenditure in the case of the state budget and local budgets in Ukraine. Fedorchak [9] highlights the peculiarities of various types of investment projects in Ukraine and the directions of their state support. The problems of improving the efficiency of public investment project management are at the focus of Povna [10], as well as Korniievskyi and Trofymenko [11].

## III. RESULTS

Modern features of the Ukrainian economy - technological backwardness, structural imbalance, lack of innovations - place heavy demands on the state as an elaborator of investment policy and a direct participant in the investment process. On the one hand, it should create favorable conditions for the investment activity of all economic actors, promote the “propensity to invest” (by Keynes), and on the other hand, should develop and implement investment programs and projects for accelerating social and economic progress through public investment.

By OECD definition, “public investment” refers to capital expenditure on physical infrastructure (e.g. roads, government buildings, etc.) and soft infrastructure (e.g. human capital development, innovation support, etc.) with a productive use that extends beyond a year [3, p. 4]. There are direct and indirect investments: the first is directly related to the creation or acquisition of capital assets at public expense, the second is defined as capital transfers that have a specific purpose to lower-level budgets or other economic entities. A similar definition of the state investment is in Article 2 of the Budget Code of Ukraine (BCU) [12] (in Ukraine the term “state” is used in official documents on investments, therefore, the words “public” and “state” will be used as synonyms in the article).

Budget revenues or public borrowings are the sources of public investment. In Ukraine, as in other countries, choice between directing funds to support the real sector of the economy, its competitiveness, or to the social sphere. The investment is carried out both from the state budget and from the local budgets. Budget investment always means the need for the latter in Ukraine is determined by the low standard of living of the population. At the same time, there is an issue of the overall amount of such investment as a representation of the state interference in economic processes.

Over the past ten years, the amount of capital expenditure in the consolidated budget of Ukraine has increased more than 9 times - from UAH 20.0 billion in 2009 to UAH 184.0 billion in 2018. Simultaneously, the share of capital expenditure of the local budgets significantly increased due to the processes of fiscal decentralization that began in 2014. If in 2009 capital expenditure of the local budgets amounted to slightly more than a half of the relevant expenditure of the consolidated budget, by 2018 this share has increased to 75%. During the last few years after the crisis 2014, the share of capital expenditure in total budget expenditure, as well as their ratio to GDP is gradually increasing (Fig. 1).

According to the relative indicators of public investment, Ukraine has come closer to the level of the EU member states (2.7% of GDP and 5.7% of total expenditure), but it must be taken into account that the latter are already developed and stable countries with minimal “market failures”. However, Ukraine significantly lags behind other emerging markets economies, in particular the so-called “Asian tigers” (5-7% of GDP and more than 15% of total expenditure) [15, p. 13]. In addition, capital transfers to enterprises are increasing faster and have already constituted 40% of capital expenditure that reduces the amount of the state direct investment.

At the same time, capital expenditure in Ukraine do not have the same positive effect as in the European countries due to their weak targeting to solve the most urgent problems

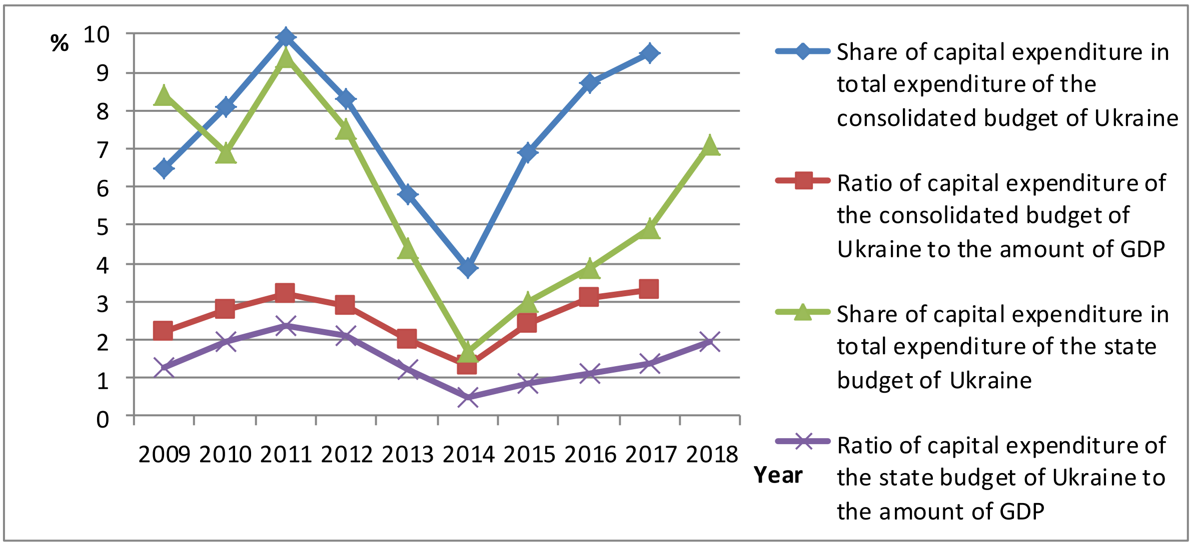


Fig. 1. Relative indicators of budget capital expenditure dynamics in Ukraine for 2009-2018 (source: authors on the base of [13], [14] data)

of the national economy, to remove the obstacles that impede business development. Thus, an increase in public investment without the improvement of the institutional framework for their management simply does not make sense. Moreover, in practice the planned indicators for investments are constantly underperforming: the lowest performance rate in the period of analysis was in 2014 (50.0%), and the highest one - in 2018 (76.6%) [13].

It is worth noting the unwarranted plurality of the organizational forms in which, according to the Ukrainian legislation, investment with the participation of the state as a direct investor, a creditor or a guarantor can be carried out. These are:

- state (public) investment projects (according to BCU);
- investment projects for which state support may be provided (Law of Ukraine "On Investment Activity");
- investment projects in top-priority sectors of the economy (Law of Ukraine "On Stimulating Investment into Top-Priority Sectors of Economy for the Purpose of Creating New Workplaces");
- innovative projects or priority innovative projects (Law of Ukraine "On Innovation Activity");
- projects implemented with the participation of international financial organizations and international technical assistance, as well as projects of cross-border cooperation;
- projects on the basis of public-private partnership (Law of Ukraine "On State-Private Partnership");
- projects funded by the state fund of regional development as a part of the state budget.

In the first half of 2010, the government also identified projects for priority areas of socio-economic and cultural development (national projects) that were managed by the State Agency for Investment and Management of National Projects of Ukraine, which was abolished in 2015.

In addition, currently there is a State Agency for Infrastructure Projects of Ukraine, created in 2016 on the basis of the National Agency for the Preparation and Conduct in Ukraine of the Final Part of the European Football Championship 2012, which implements state policy in the field of development, construction, reconstruction and modernization of the air, sea and river transport infrastructure.

Accordingly, different requirements for the preparation, appraisal, selection and implementation of the aforementioned projects are applied. There are different registries run by various government bodies - the Ministry of Economic Development and Trade, the Ministry of Education and Science, the Ministry of Regional Development, Construction and Housing. Various forms of state support are being practiced (budget financing, granting of budget loans and guarantees, compensation of interest on loans received, preferential taxation, etc.). In this case, the legislation does not prohibit registration of a certain project in several registers with the receipt of appropriate support. So, harmonization and reduction of the number of legal acts providing certain forms of state investment, the formation of a single register of investment projects with state participation are of vital importance. This will increase the efficiency of budget funds spending.

The role of the state as an active investor most completely is manifested in the implementation of the public investment projects (PIP). More or less, but public investment has taken place throughout the lifetime of an independent Ukrainian state, despite the fact that, until recently, there has been a lack of adequate institutional support.

Over the past ten years, international organizations have assessed the quality of PIM in Ukraine three times: the IMF - in 2010, based on the index of public investment efficiency [16], the World Bank (WB) - in 2012 by the PIMA methodology [17] and in 2015 by the PEFA methodology [18]. The assessment results of the quality of several PIM stages implementation are presented in Table I.

TABLE I. THE RESULTS OF THE PIM ASSESSMENT IN UKRAINE

| PIM stages | 2010 (IMF) | 2012 (WB) | 2015 (WB) |
|---|---|---|---|
| Economic analysis of investment proposals | 2.0 | D/D+ | D |
| Investment project selection | 2.0 | D+ | D |
| Investment project costing | 1.73 (implementation) | D+ | C |
| Investment project monitoring | 2.0 | D+ | D |
| Overall | 1.93 | C | D+ |

According to the experts, public investment management in a certain country is strongly influenced by common approaches and governance culture in the public sector. In 2010, Ukraine gained an overall score of 1.93 out of four possible in assessing the situation in the middle- and low-income countries. In 2012, the overall score (C) was higher than its individual components, as the evaluation was conducted on a much wider list of indicators that got higher scores (A is the highest, D is the lowest). Lastly, the 2015 evaluation showed that only one PIM stage could be assessed better than complete inability. Therefore, in Ukraine, measures were finally taken to create the necessary legal framework for the implementation of PIP.

In April 2015, amendments to the BCU [19] were adopted, which, firstly, defined the concept of the state investment project and the state investment. By this time, the term "state investment programs" was used. This allowed a large number of investment projects to be financed from the budget not considering them as PIP and thus avoiding evaluation, selection and monitoring. The aforementioned amendments introduced a mandatory evaluation for all PIP. Their selection was entrusted to a special interdepartmental commission consisting of the members of the Cabinet of Ministers of Ukraine and of the Budget Committee of the Verkhovna Rada of Ukraine members. Finally, the requirement to finance the already initiated projects was extremely important. It should be directed at least 70% of the planned amount of public investment for this purpose.

In order to implement these legal provisions, it was necessary to adopt recommendations for a comprehensive and unbiased PIP appraisal. The previous regulation (2012) existed in the form of an order of the Ministry of Economic Development and Trade and contained a score of about 20 sufficiently formal indicators that did not correspond to the international practice. Competitive selection was delegated to the commission of the same ministry. This led to the starting of budget funding of investment projects on the basis of voluntarist or politicized decisions without clarification their real efficiency and effectiveness.

In July 2015, the Cabinet of Ministers of Ukraine simultaneously approved the Procedure for the selection of state investment projects and the Regulation on the Interdepartmental Commission on State Investment Projects [20]. The said Procedure puts into practice a double appraisal of the project: by the developer, in terms of cost-efficiency analysis (projects up to UAH 30 million) and cost/benefits analysis (amounting to over UAH 30 million), and through state expertise. The Ministry of Economic Development and Trade of Ukraine has been designated as an authority responsible for ensuring the design and the implementation of the state investment policy, including the management of public investments.

The new system of public investment management has been operational since the drafting the state budget for 2016. However, only in October 2016 the Procedure for monitoring the development (implementation) of state investment projects was approved [21], which introduced two levels of monitoring - internal, by the responsible project executor (ministry or other government body), and external - by the Ministry of Economic Development and Trade based on the reporting of the executor.

However, the institutional framework for supporting the PIP management system was sufficiently completed in 2017, when the Department of State Investment Projects and Development Support was established as a part of the aforementioned ministry, as well as when the amendments to the Law of Ukraine “On Investment Activity” [22] were adopted. In this document, in particular, the decisions on the amount of PIP funding were clearly tied to the budget legislation. In addition, at the end of 2017, the Cabinet of Ministers of Ukraine adopted the procedure for maintaining the State Register of Investment Projects [23], to which public investment projects and investment projects with state support were to be entered.

Thus, in the draft state budget for 2016 (and for the next two years), the state investment for the development and implementation of PIP in the amount of at least UAH 1.0 billion annually was determined for the first time (6.7% of direct state investment for this year). Also, the areas of their implementation were identified - socio-cultural sphere, health care, environmental protection, transport infrastructure.

The Interdepartmental Commission selected 10 public investment projects initiated in previous years (2005/2011/2012), eight projects were denied budget funding [23]. The total value of the selected PIPs was UAH 13.68 billion (Table II). Funding for all projects as the separate budget programs was included in the Law of Ukraine “On the State Budget for 2016” [25].

One should pay attention to the following. Firstly, the minutes of the meeting of the Interdepartmental Commission do not include information on the outcome of the internal appraisal of projects and state expertise, and therefore the motivation for selecting projects isn’t clear. Secondly, the selected projects have virtually no relation to economic development (except for one project on reconstruction of transport infrastructure). Thirdly, at the same time some other budget programs were included to the state budget which were not considered as public investment projects and thus did not undergo evaluation and selection procedures: the reconstruction of Bortnytsa aeration station (UAH 63.1 million), the construction of “Vector” complex for the disposal of radioactive waste (UAH 56.0 million), housing construction for the servicemen (in the total amount of UAH 1094.0 million), etc.

In mid-2016, a Commission meeting was held, which reviewed the first results of the monitoring of selected PIPs based on reports from the main administrators of budget funds. The status of the implementation of 5 projects was considered unsatisfactory due to the delay in holding tender procedures, the lack of timely approval of budget program passports, and the non-consideration of the specifics of the project documentation development, which led to delays in the design and implementation of projects. At the same time, poor reporting quality was noted. Subsequently, this deficiency was, in general, remedied, and proper reporting on the implementation of each investment project has been posting on the websites of the main administrators of budget funds (ministries).

In September 2016, for 2017 (and for the next two years), the Interdepartmental Commission selected six projects that were transferred from 2016 and 18 new ones with a significantly higher total annual funding than the planned

TABLE II. THE CORE PARAMETERS OF PUBLIC INVESTMENT PROJECTS IN UKRAINE IN 2016 [24]

| Investment sphere | Number of PIPs | Period of realization | Total project value (UAH million) | Previous funding (UAH million) | Construction readiness of the investment objects (%) | Amount of budget funding in 2016 (UAH million) |
|---|---|---|---|---|---|---|
| Health care | 4 | 2011/12- 2016/18 | 5142.5 | 658.9 | 82.1/47.2/26.6/4.1 | 585.0 |
| Culture | 2 | 2005-2018/20 | 5484.9 | 649.1 | 26.6/9.6 | 120.0 |
| Transport infrastructure | 1 | 2016-2018 | 1751.5 | - | 0 | 232.1 |
| Environmental protection | 3 | 2012-2016 | 1301.8 | 5.1 | 48.2/4.7/0 | 62.9 |
| Total | 10 | - | 13680.7 | 1313.1 | - | 1000.0 |

one billion UAH [26]. Therefore, the Ministry of Finance was recommended to take into account that decision of the Commission when preparing a draft state budget. Eventually, budget programs were scheduled to fund 19 PIPs for a total amount of UAH 1.7 billion (9.2% of direct state investment). And seven projects were finally rejected, but it was not clear by whom and according to what procedure. The share of funds financing already started projects amounted to 67.5%, that is somewhat less than is required by the BCU. At the same time, the state budget contained significant amounts of capital expenditure that did not get the form of PIP: improvement of the highways - UAH 1.25 billion, construction of a bridge in one of the regional centers - UAH 250.0 million, creation of three national memorial complexes - 69.0 million UAH, construction of football fields with artificial turf – 270.0 million UAH etc. [27].

Based on the results of the semi-annual monitoring, in July 2017, the Interdepartmental Commission stated, in particular, that nine projects had a level of implementation of planned half-yearly expenditure of 0%, which was explained by the untimely adoption of budget program passports, the failure to conduct bidding procedures and the elaboration and adjustment of design documents, etc. This situation ultimately resulted in a delay in the implementation of projects and a significant increase in their value, and to the redistribution of funds between projects during their monitoring.

Only in 2018, a new, industrial, direction of implementation of public investment projects - the fuel and energy sector, mining and manufacturing, and mineral/raw materials base – was included in the draft law on the state budget. The first extract from the State Register of Investment Projects was published on the website of the Ministry of Economic Development and Trade in April 2019, although, according to the procedure for its administration, this should take place within a month after the submission of a new project to the register. During 2016-2018 five PIPs were successfully completed.

At the beginning of 2019, the State Register of Investment Projects contained information on 38 projects: 34 of them were selected by the Interdepartmental Commission; two were implemented by the decision of the Cabinet of Ministers of Ukraine, and two - on the terms of receiving foreign aid. Their implementation areas were: socio-cultural -14, health care - 8, environmental protection - 6, transport infrastructure - 5, activity of the authorities and provision of services - 5.

## IV. Discission

So, based on the scope of the implementation of the public investment projects, it is clear that the Ukrainian government does not try to consider public investment as an incentive for economic development. The priorities of public investment, defined in the legislation, are rather blurred. According to the established tradition, public investment projects perform a social role, which is to create or reconstruct social infrastructure. They have no multiplier effect; they do not generate sources of increasing budget revenues, activation of private investments. World experience shows that increasing social investment can be carried out only by the countries with a high standard of living.

The multiplicity of types of the investment projects supported by the state, different approaches to their appraisal and criteria for funding lead to the dispersion of insignificant budget resources of the state, leaving room for voluntarism and corruption. A more or less regulated PIP procedure cannot fundamentally change the situation, since they amount to less than 10% of public investment.

Legislative establishment of interrelation of project and budget planning for the medium term can be considered as a positive point. However, the analysis showed that annual investment of UAH 1 billion planned for the first three-year period (2016-2018), in the following year has risen to UAH 1.7 billion under the pressure of the increasing number of projects proposed for selection. At the same time, the requirement to allocate 70% of the funds to the implementation of already started projects is not respected. The timing of the projects' implementation is not always consistent with the real possibilities of budget planning and forecasting. Thus, the register of PIPs contains projects to be completed in 2028/2030/2035.

The creation of the Interdepartmental Commission has somewhat regulated the selection of investment projects, but the transparency of this process and the possibility of public control are insufficient. The results of the state expertise of projects, annual reports on the progress of projects implementation, the results achieved and problems identified, the risks and the ways of their minimization are not disclosed. This impedes the quality of investment projects being prepared for presentation.

Delays in the implementation of projects and inadequate use of planned funds are due, to a certain extent, to the lack of skills and experience in project management of project executors (ministries, other government agencies). However, until now, the relevant guidance on the mechanism and features of PIP management has not been developed. There are no methodological approaches to managing the portfolio of public investment projects on macro level.

## V. Conclusion

The identified weaknesses will not facilitate achieving the public finance management improvement goals outlined in the Public Finance Management Support Program for Ukraine - EU4PFM: to obtain a B score in the assessment of public investment management in 2020 [28, p. 45]. The latter will help Ukraine to honor its commitments under the EU-Ukraine Association Agreement. In our opinion, further improvement of management processes at all stages of public investment cycle – planning, allocation, and implementation – is required in order to fulfill this task:

- setting of fiscal rules that are adequate to the current economic situation with regard to determining the total amount of public investment and financing of public investment projects;
- clear definition of the PIP priorities to convert them from the channels of regular spending of budget funds to the points of economic growth;
- maximum reduction of existing organizational forms of public investments in Ukraine, unification of procedures for their development, appraisal, and

selection for improving the efficiency of investments and avoiding corruption;

- steady increase in the share of government investments that are managed as investment projects;
- considering in the development of projects not only the necessary capital costs, but also future operational and technical ones to take them into account during budget planning;
- increasing the transparency of the process of submission, appraisal, and selection of public investment projects, monitoring their implementation and further use of facilities. To do this, it's necessary to create a public and easy-to-use PIM information system;
- setting of clear criteria and introducing of independent expertise to increase the soundness of the public investment projects' selection;
- further clarification of the roles and responsibilities of the various authorities and public institutions in the public investment management cycle;
- active development of public-private partnership to reduce the capital burden on the state budget;
- strengthening institutional capacity of government agencies implementing project through the development of staff qualifications and of easy-to-use methodological documents.

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