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REFORMATION OF THE PUBLIC INVESTMENT SYSTEM IN THE CONTEXT OF THE REGIONAL POLICY OF SUSTAINABLE DEVELOPMENT IN UKRAINE

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INTRODUCTION

Introduction (Including the problem of the research) The economy development rates of any state depend significantly on cumulative investments size carried out in a country. The main part of such investments in Ukraine is the private sector investments (more than 400 billion UAH or 68.7% of the total volume of capital investment (CI) in 2019). However, public investments carried out by public and local authorities at all levels are key for many investment spheres: infrastructure, education, and human capital that do not have a special attractiveness for private business (almost 86 billion UAH or 14.6% of the total volume of CI in 2019). The topic of public investment efficiency is especially relevant in Ukraine, taking into account the national decentralization policy and local government reform aimed at rationalization and empowerment of local governments by integrating numerous territorial communities into larger territorial subjects that have assumed key powers transferred from national, regional and district levels.

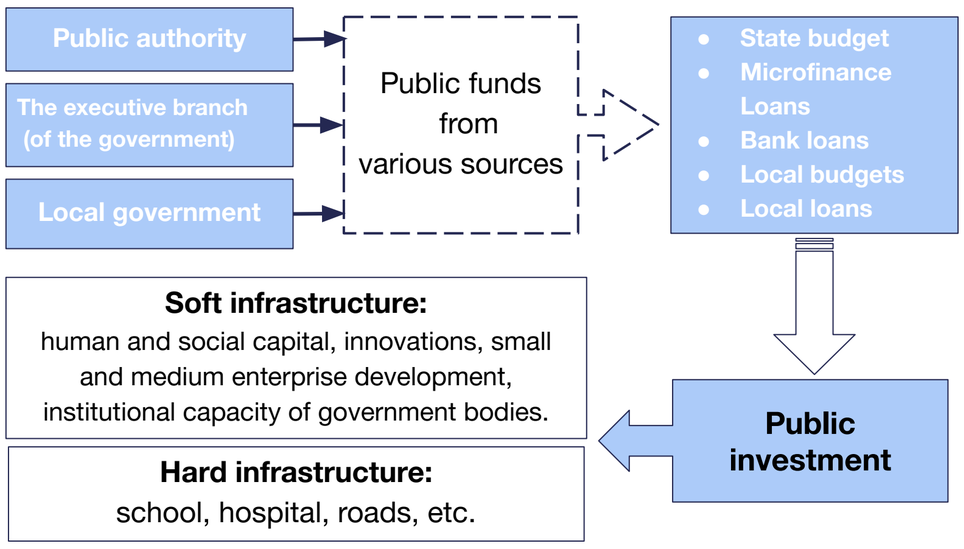
The aim of research The research aims to determine the main directions of public investment reform under current conditions and the critical mechanisms by which transformations should take place for the efficient implementation of the regional sustainable development policy of Ukraine.

Objectives Analysis of the public investment system, the capability of local and regional authorities for the effective public investment, identifying obstacles and determining ways to overcome them at different levels of government.

The methods of the research Abstract and logical and system and structural analyses were used to determine the main directions of public investment reform. The research was conducted based on actual data published in open sources. The methodological basis of the study was the "Recommendation of the OECD Council on Effective Public Investment Across Levels of Government", as well as research conducted by other initiatives funded by international organizations (namely SIDA, the Swedish International Development Cooperation Agency). The generalization method was used to summarize the results and determine the ways to overcome obstacles to public investment.

Theoretical background

Public investment is defined as capital expenditure on physical infrastructure owned and/or operated by one or more communities or small cities of regional significance. Such expenditures must correspond with the definition of "investment". Their funding can be provided by local government bodies, higher levels of government, donors and private sources.



For effective public investment, it is necessary to consider the current needs identified as important for the community as a whole and ranked in order of priority. It requires: a) a medium-term planning process and b) a given mechanism to offset the excessive disparities between different types of local government bodies.

In particular, the process of planning a portfolio of public investment projects should be based on general principles.

1. The public investment portfolio (PIP) should be adapted to and connected with a development strategy based on assessing regional (or local) characteristics, particular competitive advantages and sustainable development principles.
2. The PIP should be particular results-oriented: it has to be designed taking into account national and subnational sustainable development goals, complementarity and avoidance of potential conflicts between sectoral investments.
3. Investment priorities should be realistic and based on reliable data: carefully evaluated, adequately prioritized and financed through a multiannual budget package.

The basis for investment planning at the local level is Socio-economic Development Plans, which determine particular activities in the short and medium-term period based on the collected/analyzed data; Local Development Strategies, which cover most part of the same area, but are more thorough and designed for a longer period.

Main findings

In 2018, Ukraine officially joined the Recommendation of the OECD Council on Effective Public Investment Across Levels of Government. Monitoring of Public Investment Portfolios (PIP) has proved that public investment planning does not sufficiently consider the specific character of regional and communities' development and is not consistent with strategic goals at the national and sub-national levels.

The analysis of the public investment field gave the following results:	
1	From 2014 to 2019, the growth rate of public investment was three times higher than private.
2	Local government public investments were almost twice larger than the state budget public investments.
3	In total, public investments were almost six times less than private ones.
4	Ukraine lags behind its neighbours in terms of public investment (for example, almost five times compared with Poland).
5	Public investments planned and implemented in the regions at the expense of sectoral ministries were not analyzed for their influence on the achievement of regional development strategic goals and related sectors of the regional economy, on the human capital development.
6	Local budgets did not require any funds to attract external expertise of the PIP. The created Regional Development Agencies cannot provide the necessary external expertise in all the fields.

Today, because of the war with the Russian Federation, changes in the structure of public investment portfolios (PIP) in the context of regional development are inevitable. They will primarily require the renewal of infrastructure, housing, medical, and educational institutions. According to various (preliminary) estimates, the war is being fought on the (that part) of Ukrainian territory, where 50-60% of GDP has been created. According to the Ministry of Economy, the economic losses from the war (which is not over yet) are estimated at $ 564.9 billion, including $ 112 billion in GDP losses, $ 119 billion in infrastructure (almost 8 thousand km of roads, dozens of railway stations and airports are destroyed and damaged).According to other estimates, the damage to transport infrastructure is estimated at $ 40 billion to $ 300 billion, housing infrastructure – at several billion dollars (more than 60 thousand residential houses, 1018 educational institutions, 95 of which were completely destroyed). The losses of the civilian population (10 million square meters of housing, 200 thousand cars, food security for 5 million people) account for $ 90.5 billion. Therefore, in the coming years (under the condition that the war is finished), the PIP will be reshaped by the requirements of the country reconstruction and stabilizing the economic situation.

MAIN RESULTS AND CONCLUSIONS

Of course, it will be impossible to increase the required amount of public investment quickly, but it is essential to increase their efficiency. That is why the following steps are necessary:

1. to make investments based on an adapted strategy, following the specific nature of different places and time;
2. assess the long-term influence and risks of public investment in advance;
3. develop fiscal mechanisms adapted to investment goals;
4. mobilize the participants of the process from the private sector and financial institutions;
5. ensure transparency and strategic compliance of public procurement;
6. seek to improve the quality and coherence of regulatory systems at all levels of government;
7. to ensure the quality and availability of technical and managerial expertise necessary for planning and implementation of public investments in current conditions;
8. use traditional and innovative mechanisms for financing public investment.

Regular public investments are necessary, as local government bodies must ensure legally binding standards, work in line with citizens' expectations on public service delivery, and intend to improve (or support) economic activity in their communities, which is a fundamental driver of material well-being and social welfare.

The very infrastructure can play a crucial role in ensuring a green and sustainable economic recovery. The infrastructure sector has to be based on environmental considerations that have already taken root in other economic sectors' companies. After all, the construction and infrastructure usage accounts for about 70% of all greenhouse gas emissions, mainly driven by the energy and transport industries, as well as the production of materials like cement and steel. It is on these principles that PIPs should be based in the context of the implementation of regional sustainable development policy.