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Institute of public-private partnerships as a condition for increasing innovation and investment activity in agribusiness of Ukraine

Scientific problem. In recent decades, the radical changes have occurred in the world in the approach used by the state to meet economic challenges, one of which is the problem of increasing innovation and investment activity in agribusiness. The private sector, investors, science and government are increasingly entering into cooperation in search for effective ways to meet the challenges of innovation and investment development, and growth of agribusiness on the basis of public-private partnership, since it is just the latter that is able to promote the implementation of innovation and investment programs.

Analysis of recent researches and publications. Theoretical and applied aspects of the creation of public-private partnerships institute, and use of its technologies to enhance innovation and investment activity in agribusiness have been fragmentarily highlighted in scientific studies of V. Ambrosova, V. Heiiets, O. Hudz, P. Sabluk, M. Savluk, V. Senchahov, P. Stetsiuk et al. Appreciating and duly noting the importance of existing creative works, however it should be noted the lack of scientific developments with respect to proposals concerning the well-defined construction of theoretical and methodological basis for the formation of the institute of public-private partnerships as a condition for increasing innovation and investment activity in agribusiness, as well as the

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possibilities for using new approaches to cooperation of private agribusiness, science and state that are adequate to challenges and threats of modern economic space, which meet the needs of the society.

The objective of the article. The objective of the paper is to identify the role of the institute of public-private partnerships in enhancing innovation and investment activity in agribusiness, and in outlining the directions of motivational enhancement component in the mechanisms formation for interaction between state, science, investors and agricultural producers.

Statement of the main results of the study.

One of the mechanisms that characterises the new economic approach is the interaction between public authorities and businesses. Private agricultural business, investors, science and the state in search for effective solutions to social problems of agrarian business based on the public-private partnerships, since it is just that partnership that is able to promote the implementation of innovation and investment programs of agribusiness modernization with the lowest public expenditures and social losses.

Public-private partnerships take various forms under established statutory, contractual and other relations between public institutions, enterprises and non-public business entities, including these in agriculture [8 p.18]. Today, innovation and investment activity in the agrarian business is underdeveloped, and therefore there is no proper interaction between business, science and state. Fundamental principle of modern approach to the formation of research and innovation systems, which make the high-tech basis of the effective development for competitive sectors of the economy, is the distinction between the functional purpose and productive capacity of scientific-technical and innovation fields [12]. "It is the model of public-private partnerships that is able to fill gaps in this area, and establish the required rules for all the participants of the innovation market" [10].

The development of public-private partnerships in innovation and investment area provides an opportunity to attract significant investment resources, which facilitate the implementation of promising innovative projects and allow to reduce the burden on the state budget. The main objective here is to create a

favorable business climate enabling the private capital to invest heavily in domestic innovations, and implement them [4].

The public-private partnerships can be considered a key mechanism of agribusiness innovation modernization. Its high efficiency as a technology of cooperation between the state, science, investors and business has been proven through practices of many countries. In particular, in 2010 over 100 projects on public-private partnership basis at total value of about 18.3 billion euros were carried out in the European Union. It should be noted that most of them have been implemented in the field of education (34%), transport (21%), health (17%). Today 50 projects amounting to 8 billion euros, and 23 in the amount of 1.5 billion euros are implemented in France. One of the features of partnerships in France is maintaining a balance between large and small public projects, which are implemented by local authorities [3].

The term of public-private partnerships is usually understood as a special form of interaction between business and state. The nature of this interaction, methods and specific forms of that cooperation significantly vary depending upon national peculiarities of market relations and legal systems.

In general, the system of partnership relations between the state, science, private agribusiness and investors are based on two postulates of the liberal conception of economic development, namely: first, the formation of private property institutes promotes activation of the processes of economic growth; the second, the economy based on private property, is more effective than the one based on state ownership and direct public management [2].

Public-private partnership is a complicated institute from organizational, economic and legal standpoint. It includes multilateral agreements, risk sharing, analyses of economic perspectives and individual financing schemes, and legal support.

Interestingly is that the public-private funding of public infrastructure projects is not an entirely new economic concept. Thus, at the turn of the 18th and 19th centuries the UK economy was restored due to the involvement

of private capital. In Ukraine, on the 1st of July 2010 also there was adopted the Law № 2404 – VI "On Public- Private Partnerships", which defined the organizational and legal framework of interaction between government and private partners on the contractual basis [5]. According to the Law the features of public- private partnerships include the following: ensuring the highest technical and economic performance indicators; long-term relationship (from 5 to 50 years); transfer some of the risks to the private partner; making investments by the private partner from legal sources into partnership facilities [5].

However, in most countries that have a positive practice in implementing projects under the public-private partnerships, one of the main features of it is considered that the mentioned mechanism is used to implement large-scale, national or international, either socially important projects. The international practice has shown that the interaction between the state and private business has the greatest effect especially in infrastructure areas where historically the preconditions are created, as well as the need and opportunity for such a cooperation in the implementation of large-scale socio-economic problems are ripe.

In addition, the key features of public-private partnerships usually include competitive method of selection and scanning partners, and the success of the project implementation based on the technology of public-private partnerships depends on the transparency of the tender, as far as only this method provides a selection of the most cost-beneficial project and a reliable partner. Unfortunately, Ukrainian legislation ignores these essential features.

The basic principles of public-private partnerships include the following:

- public and private partners' equality before the law;

- the prohibition of any discrimination of public or private partners' rights;

- reconciling the interests of public and private partners in order to get mutual benefit;

- immutability of purpose and ownership of the objects that are in the state or communal form of ownership transferred to the private partner;

- recognition by public and private partners the rights and obligations provided for by law and determined by the terms of the contract;

- equitable distribution of risks associated with the performance of contracts between public and private partners

The feasibility of the institute formation of public-private partnerships as a condition of increasing innovation and investment activity in agribusiness is due to several factors, namely;

- imbalance in the relationships that ensure the harmonization of interests and balance of participants in interaction (the state, science, private agribusiness, investors and agricultural producers) and the gaps occurring in the system of relations between "power – business – science – society";

- dramatic changes in the economic environment of the state, the dominance of private ownership in agricultural business, and investment and financial institutions, which requires effective use of partnerships between power, science, investors and agribusiness;

- restriction of government investment resources from direct involvement into the private ownership of agribusiness, and the authority's weak understanding of investors' interests, who possess powerful investment resources, modern intellectual, organizational and economic potential;

- preservation of strategic regulators in the framework of state interests, and the need to increase their effectiveness through the benefits of collaboration between science, business and investors to cover costs and increase the profitability of public investments;

- benefits derived from the partnerships between government, science, agribusiness and investors in various forms of its manifestation.

The purpose of the formation of the institute of public-private partnerships as a condition of innovation and investment activity increasing in agribusiness is the development and growth of a competitive agricultural production. The features of public-private partnerships levelled with other investment innovation mechanisms, consist in the fact that the partners pursue different goals and meet their specific challenges, thus the parties have multi-vector motives. Technically, the backward and deteriorated agribusiness infrastructure requires a sig-

nificant financial investment and use of a new technology, and that the state alone under financial and economic crisis is not able to provide. Accordingly, the main motivation of the state for projects implementation based on public-private partnerships is the limited budget resources, as well as lack of relevant practice of economic entities effective management in market conditions.

With respect to public-private partnerships the state pursues its both, internal and external purposes. The exterior result of public-private partnerships serves, in its broadest sense, the interests of the community as defined in the political and administrative areas. For this purpose, the government is trying to stabilize within the framework of a partnership structure the development and profitability of agribusiness, to restore degraded rural settlements, promote investments, improve the competitiveness of agribusiness, create jobs in rural areas, and to meet other social problems in rural areas. At the domestic level the state administrations try to benefit from the market knowledge and business competencies of private partners through performing tasks within the public-private partnerships, also they try to reduce government spending and simultaneously find interested partners. Research institution receives its share of income from the sale of innovative products under joint projects and joint activities of market actors in the form of royalties and services payment [11].

On the other hand, the objectives of private partners (investors, agribusiness) within the framework of public-private partnerships is to increase or support (at least in the long-term vision) stable profits. In addition, private partners are seeking their businesses to remain competitive and expanded; they are looking for the opportunities to share or reduce risks. Moreover, they want to increase their abilities to expand relations with public bodies, and promote rural development. This helps to improve their external image. In this case, all parties are interested in successful implementation of their priority and strategic projects in general.

Joint projects through public-private partnerships often facilitate access to global markets, stimulate the attraction of foreign invest-

ment in agribusiness to implement the innovative projects. The public-private partnerships is of particular importance for the economies of rural areas, where it is the basis for the development of rural markets of capital, goods and services. However, the interests of the state and business can not just be different, but controversial. Therefore, mutual cooperation should be preceded by the negotiation of the parties, thus harmonizing economic interests and objectives of the projects [10, pp. 17-21]. The partner cooperation of state, science, private investors and agribusiness allows to attract additional resources into agribusiness, and introduce innovations. In such a system of relations there is the union of financial resources and potentials of different economic actors, i.e. the state - in the form of its property, science - in the form of scientific potential and innovation developments, agribusiness and investors as the use of modern economic and managerial methods, as well as attraction of investments and introduction of innovations. As a result there is improved the efficiency of resource use. For businessmen the partnership with the government means reduction of long-term risks while running businesses [1, p. 9].

The structure of innovation and investment projects of public-private partnerships may differ in different sub-sectors of agribusiness. There is no such a notion as a "standard project" of public-private partnerships, since each innovative investment project and the agreement is unique, possessing its individual properties.

Within the framework of public-private partnerships there can be concluded agreements on concession, joint venture, production sharing, and other contracts. Concession is the provision by the executive authorities or local government under a concession agreement on the charged basis to the legal entity or natural person right for the creation and management of the concession object under the term of taking by the concessionaire obligations for the creation and management of concessions object, property liability and probable business risk. A distinctive feature of the concession is that the state as one of the parties has a monopoly on certain resources or taking certain economic activities. Concessions are rather a universal

way for solving economic problems in Italy [9]. Today they are the most advanced progressive form of partnerships between the state, local authorities and the private sector.

The advantages of implementing innovative-investment projects in agribusiness based on public-private partnerships are the following:

- reducing pressure on the state / local budget in the short term due to the transfer of budget expenditures for the following 15-20 years;

- improving the quality of agricultural produce, ensuring effective operation of the facility by the private partner;

- creating an object of a certain fixed value determined at the stage of the competition (operating costs are indexed specifically on inflation-based rate);

- using practice and professionalism of private agricultural business while keeping state control over assets;

- risk-sharing between the state and private business;

- promotion of a constructive dialogue between business and government.

However, the implementation of innovative investment projects in agribusiness on public-private partnership-basis has the following disadvantages:

- creation of financial obligations of the state for the long term perspective;

- potentially high risk of significant government spending in case of the agreement termination;

- lack of practice in implementing innovative investment projects in agribusiness on public-private partnership-basis, absence of high quality specialists on the side of the state partner;

- duration of the terms for innovation-investment projects implementation in agribusiness, and inability to take into consideration in the contract all probable risks, including cyclicity of generating crisis phenomena;

- high costs on the stage of an innovative investment project design (the cost of technical-economic substantiation, payment of consultants, lawyers, auditors, holding tenders and conclusion of a contract);

- time lag between the implementation of innovative and investment projects and the ability to budget its implementation;

budget does not display a specific project, there are no effective mechanisms to monitor its implementation;

- potentially high corruption component.

The most important obstacles to the implementation of technologies of public-private partnership are: lack of interaction between the partners (26%), legal and regulatory issues (23%), lack of financial resources (23%), lack of businessmen's motivation (8%) [7].

According to sociological research the "UNDP Public-Private Partnerships" of the USA Agency for International Development found that: only 52% of the respondent representatives of the authorities, 30% - of business, and 32% of non-governmental organizations understand the nature of public-private partnerships;

59% of the respondent representatives of the authorities, 78% - of business, and 71% of non-governmental organizations are unaware of the Law of Ukraine "On Public-Private Partnership";

only 4% of respondents are familiar with the details of this Law, and 24% of them happened to hear about it; 33% of the respondents named the body responsible for the implementation of public-private partnerships; 78% of the respondents know nothing about successful examples of implemented public-private partnerships [7].

Global integration processes, and rigid competition require a transition of agribusiness to the innovative way of development. The stated goal may be in the long view (even with the account of global economic crisis) achieved only through ensuring an adequate level of economic freedom, creation of equal conditions for competitiveness, strengthening of property rights, as well as effective integration of government, science, education and business [6] enabling to enhance innovative activity, to concentrate financial resources on key areas of scientific and technological progress, to create Ukrainian scientific and industrial innovation agrarian formations, able to compete successfully in the global market.

Therefore, it is necessary to create the institute for public-private partnerships as a condition of increasing innovation and investment activity in agribusiness, to build effectively operating innovative investment structures ena-

bling to rapidly transform the agribusiness on a new basis. At that, the created infrastructure subsystems should coordinate the provision of services and work as a single mechanism. The system elements that are responsible for the production of scientific and technological product and its promotion in the market, should be the engineering firms, including subsidiaries of backbone elements. Without the use of the mechanisms for public-private partnership the solution of aforementioned tasks is impossible.

The development of effective institutes for cooperation between the state and business is to become one of the important conditions for the formation of an effective agricultural policy, also for the increased innovation and investment activity in agribusiness, and the development of economic and social infrastructure in rural areas. That is, the need to develop the institute of public-private partnerships as a condition of increasing innovation and investment activity in agribusiness is enhanced by the necessity to provide interaction between the public and private capital for development of science, technology and engineering.

To enhance the motivational component in the formation of interaction mechanisms between state, science, investors, agribusiness it is appropriate to use co-financing of particularly significant innovation and investment projects in agribusiness (direct funding and issuance of guarantees), including participation in the authorized capital of the management company, to issue the public secured target bonds and loans; to prefer investors and creditors in channelling their significant financial resources, granting them the right to lease land; to reduce risks of private investors and banks for effective commercial agricultural projects by guaranteeing debt service or interest rate subsidies; to invest the resources of the pension accumulation system into innovative investment projects related to the development of agricultural infrastructure; to provide the extra-budgetary guarantee, i.e. the right to increase tariffs or extend the term of agreement in case of absence of the investment cash flows to return.

The government should realize that the stabilization and modernization of agribusiness, development of rural territories - is the first of

its duties, and not that of private investors and agribusiness. When the government is afraid to invest itself it can not stimulate a private investor. If the government sets ambitious targets to ensure food safety and to create a globally competitive agricultural production, it should put its efforts in innovation and investment development in accordance with high standards and demands of the present.

The question of whether the state, or private investors, or banks are to invest in a particular innovative project in agribusiness should be viewed from the angle of proper distribution of risks, availability of economic, financial, technological, and managerial expertise, also from the ignoring of current approach that "public investment is inefficient, while private is effective". There is no fundamental reason why the government investment should be less efficient than private. But to prove that the state should apply the same principles used by the private sector, and to invest into innovative agribusiness projects, scanned by private companies on a competitive basis [6].

As instruments for stimulating innovation processes and the development of agribusiness and rural infrastructure with application of mechanisms of public-private partnerships should be considered innovative investment projects that are a priority for the development of agribusiness, but do not get the required resources from the private sector, because of high risks, length of payback period, the complexity of the necessary support tools and more. The state support of these projects can be achieved through both, direct crediting and borrowing, including these which are made together with private institutions, and by reducing risks (guarantees, credit insurance, etc.) that will enable the important for the state innovation and investment projects to be invested by private agribusiness.

Consequently, the state should not act as a source of budgeting for deliberately unprofitable projects, but as a catalyst for the investment processes of the priority areas and sectors of agribusiness with the attraction of private sector resources.

Conclusions. In summary, it should be noted that in recent years the introduction of the public-private partnership institute was not a

major priority of the government strategic programs of innovation and investment development of agribusiness, which is an indicator of a successful collaboration between business and structures of government power, and an alternative way to restore and modernize agribusiness.

Being a relatively new phenomenon, a public-private partnership in Ukraine has all chances to become an institutional tool for business updating based on uniting potential of the government and science with the investment, management and other resources of private business. At the moment the objective circumstances are critical for the introduction of public-private partnership technologies. In order to implement large-scale innovation projects in agribusiness substantial investment resources are required, a powerful source of which may be private business. However, in terms of post-crisis development the interest of business grows to government support, which will allow to reduce the risks of private investment, and improve the reliability of innovation projects in agribusiness.

It should be noted that in recent years the government has created certain preconditions

for the expansion of public-private partnership practice in agribusiness, namely: the feedback of science, agribusiness investors and government developed through public-private consultations, and formation of self-governing business organizations; the introduction of credit subsidies for agricultural producers; the creation of institutions of special economic zones and technology parks.

Public-private partnership is a necessary scenario for agribusiness as a symbiosis of public and private support of innovations and high technologies will create incentives for its development. However, in spite of the importance of these measures it can be stated that the process of creating and using the public-private partnerships technologies as a condition for increasing innovation and investment activity in agribusiness has just started. The movement in that direction should be significantly accelerated, especially given the fact that the development of the considered areas of interaction between state, science, investors and agribusiness facilitates the motivation enhancement of the parties' activities in the implementation of socially useful efforts within the framework of innovative agribusiness development.

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