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THE NATIONAL AND REGIONAL MARKETS FOR SERVICES IN UKRAINE: ARE WE APPROACHING EUROPE?

Abstract

The article analyses the national and regional markets for services in Ukraine in statics and dynamics. The diagnostics was performed from the standpoint of structural transformation of the markets exhibiting deep qualitative changes. Empirical assessment corroborated that Ukraine's economy and its regions acquire attributes of servicization, which generally corresponds with tendencies in the development of European markets for services. The authors identify impediments to activation of structural transformation on the national and regional services markets, which is necessary to satisfy the EU criteria and facilitate the European integration of Ukraine.

Key words:

National services market, regional services markets, servicization of economy, structural transformations, structure of the services market.

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Introduction

The fourth great social division of labor which took place in the 20th century, resulted in the services sphere becoming an independent economic sector, an object of product and monetary relations, and the sphere of most dynamic development. The practice of European countries proved services to become one of the most important sources of economic growth in these countries and their regions. At the same time, services play an important role in the development of human capital and satisfaction of household needs, act upon the development of material production and quality of economic growth, and become the crucial element of modern life quality.

Evolution of the services sphere in the 1990s has largely determined the model of economic transformation in Ukraine and its regions. Along with that, the underdevelopment of the services sphere is often recognized as an essential constituent of the «inadequacy» of Ukraine's industrial structure in terms of its integration into the European space (Kozyk 2006, 25–26).

Taking into account how important the development of the services sphere is for the economy of Ukraine and its regions, as well as for initiation and implementation of economic reforms and economic integration into the European Union, the factors and essence of this development are worthy of special research. Any development, including that of the services market, has three dimensions: growth, change in quality, and structural transformation. All three aspects of the problem being explored are of equal urgency; however, the study of structural changes on these markets, evaluation of their adequacy with respect to global and European tendencies, as well as diagnostics of the factors and barriers to structural transformation, become a decisive vector synthesizing the challenges, causes and consequences of this development.

The issues of services market functioning, at least in the context of revealing their general characteristics, are discussed in the works of many foreign and national scientists, in particular A. Atkinson, H. Beckwith, J. Boddewock, A. Deardorff, I. Dumulen, R. Zablotska, V. Kutsenko, R. Merdyk, S. Osyka, V. Plotnytskyi, R. Russel, E. Savelyev, J. Stiglitz, A. Filipenko, I. Shkola, and others. Their studies focused on such issues as the nature of services and their place amongst the categories of economic theory, the features of the services sphere in the system of national economy, the concept of the services market, trade in services, the functioning of the international services market and its separate components. Along with that, the assessment of modern tendencies in the development of national and regional services markets of Ukraine viewed through the prism of their structural transformation in the context of global and European dimensions has not been sufficiently considered, which determined the goal and tasks of this scientific investigation.

Methodology of research

Delineating the methodological basis of this study, we put forward the hypothesis that correct choice of methodology would allow creating a proper scientific and information basis for the analysis of the phenomenon in statics and dynamics, thus objectifying managerial decisions in the field of structural policy in the services sphere. At the same time, the following postulates were taken into consideration:

Firstly, the concepts of the «services sphere» and «services market» are not identical. Thence, it is important for structural analysis not to mix these concepts, as researchers of this problem often do. The national services market should be viewed as: a) a sphere encompassing different enterprises and industries; b) an environment where providers and consumers of services interact in the process of reaching their goals and where complex causal relationships between supply and demand, incomes, prices, and volumes are formed; c) a complex dynamic system operating under the influence of different external and internal factors vulnerable to crisis phenomena. Regional services markets should be viewed as: a) complex spatial socio-economic systems that can be structured by sector, type of economic activity, industry, etc; b) hierarchically organized spatial systems comprising local markets; c) elements of regional market systems interacting with other markets, such as markets for means of production, labor markets and consumer markets.

Secondly, traditional concepts explaining the functioning of the services market assume balanced cyclical development. In context, in particular, the following concepts are worthy of being mentioned: a) the classical concept, which characterizes the market as a mechanism whereby consumers and providers of services act on price signals generated by supply and demand; b) the marketing concept, which defines the market as a set of existing and potential consumers of services; c) the institutional concept, which represents the market as a basis for conclusion and development of contracts, the fulfillment of which is ensured by respective institutions and market agents; d) and the evolutionary concept, which considers the services market as a place where every market entity is purposefully evolving and changing so that to adapt itself to the market environment (Kopytko, 2012, pp. 265–266).

The size of the article does not allow us to study the problem from the standpoint of each of these concepts. However, taking into account the imperfections of competition, market failures and complexity of the processes of national and regional market formation and development, we paid attention to separate propositions of all the above-mentioned concepts. At the same time, we took into consideration the experience of empirical studies focused on expansions and recessions in the development of industries in various countries («structural changes») performed by Simon Kuznets, Arthur Burns (Quatraro, Fr., 2010, and Rashmi Banga).

Thirdly, the structuring of the national and regional services markets is based on classification of services. Economic literature suggests various approaches to this matter: a) the «sectoral structure» of economy (the Clark-Fisher model) views economies as consisting of three sectors: primary sector (extraction of primary resources), secondary sector (manufacturing), and tertiary sector (services) (Kotnyako, Morozov, 2001). In terms of sectoral structure, the services sphere is divided into infrastructural, distribution-and-exchange and socio-administrative sectors; (Derevyanko, 2013), b) the production-technological approach proceeds from the principle of productive-technical and technological commonalities of service industries as a kind of vertically integrated structures; c) the function-specific approach is focused on the profile of service industries servicing production, society, households, and individuals (Lifanova, 2007.); d) the approach based on affiliation with material production presupposes that production is divided into production of material services and production of non-material services; e) the approach based on consumption singles out productive consumption and personal consumption (Apopiy, 2006); f) the approach based on the nature of services as an object of international trade (GATS WTO); g) classification of services by criterion of their capability to be supplied through commercial presence (FATS) (Sokhatska & Melnyk, 2009).

The Ukrainian statistics distinguishes between services that are used for productive consumption by industries producing material goods and services for final consumption of households. Recorded are also services that, according to the UN recommendations on international statistical practice, are recognized as services for sale or services sold at economically significant prices.

Final consumption expenditures of public institutions and organizations servicing individual needs of the society in general and those of non-commercial organizations servicing households are considered separately. The mentioned groups of institutions and organizations supply services at prices which are statistically insignificant. These services are recognized as non-market and their value is calculated at self-cost (The SSSU, 2015).

By type of economic activity, services are grouped into following categories: trade and catering services, financial services, public administration services, and non-financial services (except for trade and catering). Taking into account the peculiarities of business cycles, statistical observations for the industry are organized separately for each group of services in what concerns the production of market services. Special approaches are also used for estimation of the volumes of produced non-market services. Apart from being grouped by criterion of differences in the production processes, enterprises of the services sphere as resident institutional units have differences with regard to their functions in institutional sectors of the economy. Keeping in mind the above-mentioned peculiarities, the overall performance of enterprises of the services sphere is highlighted in the system of national accounts.

For purposes of Ukraine's positioning on the world services market, the following groups of services were singled out: power supply, gas supply, water supply services; construction, trade, hotel and restaurant, financial, business, education, and medical services; transport, distribution and communication services; public services; social and personal services.

The existing limitations with respect to available statistical data for Ukraine allowed selecting only the following dimensions for analysis of the structure of national and regional services markets:

a) on the supply side: industrial structure by type of economic activity (trade and catering services, financial services, non-financial services, public administration services); institutional structure by type of service-providing institutions (service providers whose main activity is service supply and service providers, for whom supply of services is not main activity); and sectoral structure;

b) on the demand side: productive consumption and personal consumption; consumption by expenditure structure of households.

For structural analysis of the supply factors, the following indicators were chosen for purposes of this research: the number of registered enterprises – juridical persons, whose main activity is provision of non-financial services; the volume of services provided by enterprises of the non-financial sphere; the share of employed in the services sphere by type of economic activity; the volume of services provided by enterprises of the services sphere by type of economic activity; the volume of services provided to different consumers by enterprises as part of their main and secondary types of activity.

For structural analysis of the demand factors, the following indicators were chosen: distribution of provided services by consumer group; the volume of services provided by budget-financed enterprises in what concerns services supplied at market prices; household expenditure on services, etc. We also took into account the need to consider public services.

The dynamics of structural changes was evaluated based on the index method and calculations of structural change coefficients. Benchmarking and comparative analyses were used to identify the factors which produce influence on structural changes in the services markets.

Analysis of the structure of national and regional services markets

The main actors who determine the development level of the national and regional services markets are consumers represented by households, enterprises (institutions) and other consumer groups.

The analysis based on statistical data of the State Statistical Service of Ukraine (Table 1) shows that in 2014, the volume of services provided to various consumers nationally equaled 360.6 bn UAH, of which 78.8 bn UAH are services provided to population (The SSSU, 2015, p. 13). Households account for 21.9% of total services supplied. The standard of market services consumption by the country's population (represented by its consumption basket) is reproduced at the expense of household incomes, which results in supply and demand equilibrium being reached on the national and regional markets. Table 1 illustrates that regions of the country exhibit significant differences in the structure of service consumption by this type of indicator, which adequately reflects differences in the levels of solvent demand and cash incomes of the population. Implementation of shock reforms in the economy and military action in the East of Ukraine have resulted in decreased levels of population's well-being and reduced share of services provided to citizens nationally and regionally. This is especially true for Donetsk (7.5%) and Luhansk (10.3%) oblasts. Under such conditions, the volume of deferred demand and the volume of services supplied to households on self-service basis have grown. Services provided to enterprises, organizations and institutions accounted for 65.7% of the total volume of services supplied in Ukraine.

On the supply side, in 2014, services were offered to various groups of households by 56 023 enterprises (juridical persons) who indicated services as their main activity, of which 1 258 were located in Vinnytsya region, 1 294, in Volyn region, 5 179 in Dnipropetrovsk region, 2 251 in Donetsk region, 1 172 in Zhytomyr region, 1 297 in Transcarpathian region, 1 499 in Ivano-Frankivsk region, 2 770 in Kyiv region, 935 in Kirovohrad region, 649 in Luhansk region, 4 411 in Lviv region, 1 874 in Mykolayiv region, 5 051 in Odessa region, 1 571 in Poltava region, 1 304 in Rivne region, 1 230 in Sumy region, 1 008 in Ternopil region, 4 667 in Kharkiv region, 1 576 in Kherson region, 1 467 in Khmelnytsk region, 1 164 in Cherkasy region, 792 in Chernivtsi region, 998 in Chernihiv region, and 7 477 in the city of Kyiv (Ibid., p. 11).

Table 1

The volume of services provided by Ukrainian service enterprises in 2014 by type of consumers, %

Region /oblast	Distribution of provided services by consumer group (as % of total volume)*		
	Population	Enterprises (institutions)	Other consumer groups
Ukraine	**21.9**	**65.7**	**8.0**
Vinnytsya	23.6	64.5	2.0
Volyn	22.8	66.1	2.1
Dnipropetrovsk	19.2	69.7	5.1
Donetsk	7.5	51.0	31.3
Zhytomyr	33.4	49.0	3.8
Transcarpathian	24.7	57.7	5.8
Zaporizhzhya	26.1	66.8	2.0
Ivano-Frankivsk	24.3	62.2	1.8
Kyiv*	15.3	76.3	2.0
Kirovohrad	11.9	81.4	2.1
Luhansk	10.3	46.6	0.9
Lviv	19.7	69.4	6.9
Mykolayiv	11.7	78.5	6.8
Odessa	11.7	83.7	3.4
Poltava	20.4	62.3	4.1
Rivne	20.9	55.6	12.1
Sumy	26.7	54.4	2.2
Ternopil	21.0	64.0	2.5
Kharkiv	26.1	63.2	2.6
Kherson	22.5	67.2	3.4
Khmelnytsk	24.8	53.8	6.5
Cherkasy	22.9	57.1	7.3
Chernivtsi	33.8	42.1	8.1
Chernihiv	27.4	52.2	1.9
Kyiv, the city of	30.8	66.5	1.8

Source: as appears in The SSSU, 2015.

Note: * The data on volumes of services rendered by companies Aerosvit, Ukraerorukh and Borispil Airport not included.

In the regions of military action, as well as in rural areas, service-providing enterprises collapsed. The problems with material and technical basis and absence of possibilities for introduction of modern service technologies have become acute. On the supply side, the regional services markets of Ukraine are characterized by the small scale of business operations performed by service enterprises; negligible share of service enterprises involved in innovations; absence of stimuli to realize long-term corporate savings under the existing tax system; lagging capabilities of the services sphere and the needs of the production sphere.

The analysis of the structure of national and regional services markets by type of economic activity (Table 2) shows that, in 2014, in the structure of non-financial services, transport services accounted for the largest share (22.6%) of total volume of provided services, whereas information and telecom services had the second largest share (20.1%), while professional, scientific and technical services accounted for the third largest share (10.8%) of total volume of provided services. The peculiar feature of services supply is that more than a half of all services is provided by enterprises of three regions: the city of Kyiv, Odessa oblast and Dnipropetrovsk oblast.

The structure of national and regional services markets by type of economic activity manifests features of economic modernization, which is particularly true for information and telecommunication services (mobile communications, cable and digital television, the Internet), as well as professional, scientific and technical services (advertising, market conditions research, architecture and engineering services accounted for 66.7% of total services of this type).

With respect to regions, the highest concentration of information services was observed in the city of Kyiv (3 724 942 063 thou UAH), Dnipropetrovsk oblast (3 975 513.3 thou UAH), Kharkiv oblast (4 404 266.5 thou UAH), Lviv oblast (3 537 301.7 thou UAH), and Donetsk oblast (3 649 274.1 thou UAH). The mentioned regions are characterized by concentration of intellectual potential, with the demand and supply of the mentioned types of services being preconditioned by the well-developed networks available for provision of these types of services. The leaders in terms of volumes of provided professional, scientific and technical services in 2014 were Dnipropetrovsk oblast (3 872 265.4 thou UAH), Lviv oblast (1 136 977.8 thou UAH), Donetsk oblast (1 300 911.7 thou UAH), and the city of Kyiv (23 027 727.9 thou Kyiv), which is explained by availability of a large number of universities, science and research institutions, and technological parks.

The provision of education services is concentrated in the city of Kyiv (947 540.2 thou UAH), Lviv oblast (185403.1 thou UAH) and Dnipropetrovsk oblast (150 943 thou UAH), whereas administrative and support services are concentrated in Dnipropetrovsk oblast (2 285 655.1 thou UAH), the city of Kyiv (10 240 626.9 thou UAH), Lviv oblast (1 400 804.3 thou UAH), and Donetsk oblast (2 126 245.0 thou UAH).

Table 2

The structure of national and regional services markets of Ukraine by type of economic activity in 2014, %

Regions	Types of economic activity										
	Transport, warehousing, communications	Catering and accommodation	Information and telecom	Real estate	Professional, scientific and technical activity	Administrative and support services	Education	Healthcare	Arts	Other	Total
Cherkasy	51.4	2.3	24.3	8.5	3.2	6.7	1.1	1.7	0.1	0.7	100
Chernihiv	37.5	4.1	38.6	5.8	4.3	5.1	2.2	0.7	0.4	1.3	100
Chernivtsi	29.8	5.6	30.7	13.6	5.1	6.2	3.0	3.4	0.5	2.1	100
Dnipropetrovsk	34.0	5.6	15.4	17.2	15.0	8.9	0.6	1.8	0.6	0.9	100
Donetsk	17.4	33.5	18.4	11.3	6.5	10.7	0.2	0.9	0.9	0.2	100
Ivano-Frankivsk	43.6	4.3	20.4	6.0	5.6	15.3	1.5	2.4	0.3	0.6	100
Kharkiv	19.6	3.8	27.9	17.7	16.2	9.4	0.9	2.3	1.4	0.8	100
Kherson	50.0	6.0	16.1	11.8	3.4	6.8	1.2	3.7	0.3	0.7	100
Khmelnytsk	38.1	2.1	26.8	10.5	5.2	8.3	2.5	3.7	2.1	0.1	100
Kirovohrad	77.3	0.7	9.9	3.2	3.2	4.3	0.5	0.5	0.1	0.3	100
Kyiv*	44.7	4.8	18.4	14.1	7.3	7.0	0.8	2.1	0.3	0.5	100
Luhansk	15.3	0.8	52.2	3.0	22.8	4.0	0.2	1.0	0.1	0.6	100
Lviv	40.6	5.4	18.2	16.0	5.9	7.2	1.0	4.8	0.5	0.4	100
Mykolayiv	72.3	2.5	10.1	3.7	4.7	4.3	0.8	1.0	0.4	0.2	100
Odessa	68.4	2.2	8.8	7.9	6.3	3.6	0.5	1.6	0.2	0.5	100
Poltava	36.1	3.6	22.9	7.3	9.5	10.8	3.7	5.3	0.2	0.6	100
Rivne	51.2	2.7	19.7	8.1	3.8	4.4	2.7	2.5	4.1	0.8	100
Sumy	42.4	2.9	27.1	7.0	7.7	9.1	0.8	2.0	0.2	0.8	100
Ternopil	51.6	1.8	24.4	7.9	4.0	5.5	1.4	2.6	0.2	0.6	100
Transcarpathian	45.4	3.3	20.8	7.7	2.8	3.7	2.1	10.0	0.4	3.8	100
Vinnytsya	44.7	2.9	27.5	4.9	5.5	5.4	2.8	5.7	0.2	0.4	100
Volyn	44.3	2.6	18.2	20.8	4.7	5.7	1.1	1.9	0.2	0.5	100
Zaporizhzhya	36.0	6.2	17.4	9.7	13.8	8.6	1.5	5.6	0.5	0.7	100
Zhytomyr	30.0	3.4	34.6	11.4	4.6	9.4	1.5	3.4	1.1	0.6	100
Kyiv, the city of	22.6	3.2	27.9	8.7	17.2	7.7	0.7	1.6	9.8	0.6	100
Ukraine, %	39.5	4.9	20.6	9.6	11.1	6.9	0.8	2.0	4.0	0.6	100
Ukraine, thou UAH	142579353,1	17841836,9	74271843,3	34725905,2	39941268,2	24745845,4	2971156,6	7319020,3	14306861,9	1858793,7	360561188,6

Source: calculated by the authors based on data of The SSSU, 2015, p. 11.

In terms of supply, the shares of services can be ranked in the following order: real estate services (9.2%), administrative and support services (6.6%), catering and accommodation (5.0%), services in the sphere of arts, sports, recreation and leisure (4.4%), healthcare and medicare services (2.1%).

In the context of consumer needs satisfaction, apart from transport and communication services, in high demand were services in the sphere of arts, sports, recreation and leisure (17.0%), administrative and support services (9.1%), catering (8.8%), healthcare (6.1%), education (3.3%), real estate (2.9%), hotels and similar accommodation facilities (2.7%) (The SSSU, 2015, p. 6).

The lack of solvent demand generated by the fall in population's well-being and incomes (through withdrawals to the state budget), as well as increased prices (tariffs) of services (compared with 2013, retail prices and tariffs charged on services in 2014 increased by 8.8%) (Apopiy, 2006, p. 63.), preconditioned the problems of unbalanced potential demand for services both nationally and regionally. This is partially compensated by the activity of enterprises providing non-financial services mostly financed from the budget, but also partially provided at market prices. The statistical data shows that in 2014, there were 11.2 thousand enterprises of this kind, while the volume of services provided by them was 11.7 billion UAH. In the structure of provided services prevailed education services (70.8% of total services volume supplied by these companies), professional, scientific and technical services (10.0%), and healthcare (8.2%) (The SSSU, 2015, p. 6).

In 2014, the total volume of services provided (at market prices) by budget-financed enterprises to various kinds of consumers in Ukraine reached 11 711 828.3 thou UAH, of which 80.9% were provided to general population, 17.8% to enterprises (institutions), 1.3% other consumers (Ibid., p. 77). The comparative analysis corroborates the partial transfer of services traditionally supplied free of charge from being financed by the state and local budgets to being financed by households and the proliferation of the principle of «direct payment» for services. Instead, the share of services provided (at market prices) by budget-financed institutions to enterprises and institutions is insignificant (17.8%). The providers of services supplied (at market prices) to enterprises and institutions are mostly business entities (representatives of large, medium and small business).

The national and regional services markets of Ukraine exhibit a growing involvement in the global services markets. For majority of the types of economic activity, we can observe the provision of services to non-residents of Ukraine. Across the country as a whole, in 2014, the volume of provided services to non-residents reached 13.4% of total services rendered. In this respect, the leaders were border regions, such as Transcarpathian (14.3%) and Luhansk (18.6%) oblasts, port regions, such as Odessa and Mykolayiv (14.7%) oblasts, and the city of Kyiv (17.8%). The highest level of activity was observed in the spheres of information and telecommunications, transport, warehousing, postal and currier activity, professional and technical services. In particular, in Donetsk oblast, operations in the spheres of law, accounting, architecture and engineering, technical testing and research, operations of head-offices, and management consulting for non-residents accounted for 41.8% of total volume of provided services of these types, whereas scientific research and development accounted for 31.5%. Scientific research and development for non-residents in Zaporizhzhya oblast made 49.3% of the total volume of this type of services provided to enterprises of this region. In Luhansk oblast, the largest shares of services provided to non-residents were computer programming and other information services (44.0%) and scientific research and development (76.6%). Significant shares of computer programming and information services to non-residents are provided in Lviv (80.2%), Odessa (43.7%), Ternopil (54.1%), Kharkiv (73.0%), Chernivtsi (65.7%), and Chernihiv (50.3%) oblasts, and the city of Kyiv (53.5%). All the above-mentioned requires that transformation tendencies in the global, international and European services markets be taken into account.

Empirical evaluation of transformation processes in the regional services markets: Tendencies and factors.

Being open structured systems, the national and regional services markets in their dynamics are subject to structural transformation. By «structural transformation» we mean changes in their structure under the influence of internal and external factors that precondition the behavior of market entities.

First of all, it is necessary to consider the following global tendencies on the services markets: Transnationalization of the global services market driving growth in the share of services provided through commercial presence; increasing interconnection between the services sphere and all other types of economic activity, which forms the peculiarities of economic growth in modern economic systems, thus determining development vectors for the global economy as a whole (Sayinchuk, n. d.); differentiation of demand for services under the influence of globalization as a precondition for diversification of service enterprises; evolving inter-firm relations; increasing scale and complexity of production, increasing diversification of the final stage of production process and market segmentation, growth of services, which are used in material production and provide for competitive advantages (Derevyanko, 2013); growing interdependence between product markets and services markets; accelerated growth of ICT services, i.e. services provided by means of information and communication technologies in a digital form; growing share of manufacturing enterprises, companies and TNCs on the international, national and regional markets in result of business diversification in direction of the services sphere (Sokhatska & Melnyk, 2009, p. 76.); emergence of major industrial clusters (financial and related services; tourism and travel; information services; professional, in particular consulting, advertising, marketing services, etc); services rendered under outsourcing agreements; increasing transnationalization of the international services market through non-joint-stock forms of TNC activities (Sokhatska & Melnyk, 2009, p. 83); relocation of employees from the production sphere to the sphere of services.

The structural transformation of the national and regional services markets of Ukraine is influenced by the following factors:

1) The development of European integration processes calling for elaboration of a functional model of positioning Ukraine and its regions (primarily territories bordering on the EU) on the markets for services, identification of priorities for structural reforms of the national and regional services markets with consideration for competitive advantages;

2) Ukraine's WTO accession and participation in the General Agreement on Trade in Services (GATS WTO), which requires that improvements be made in the institutional providing of Ukraine's participation in the processes of international services market transnationalization, as well as in the processes of regional services markets. This primarily refers to growing requirements for providers of standardization and certification systems. Although the majority of standards underwent harmonization with international quality standards ISO 9001 and adoption of multiple service-related standards, it is necessary for national service-providers to undergo certification in compliance with international standards ISO 9001, CMM and CP3M, which is especially important in the sphere of computer services and outsourcing;

3) The process of decentralization, which corresponds with European tendencies of regional development. The policy of decentralization mirrors the model of subnational government, which has been promoted in Ukraine by the EU and the Council of Europe since 1990, and the model of local and regional government reorganization functioning in Poland at the time of its EU accession. It is factually implemented by uniting «base» territorial communities (villages) into larger communities facilitated by financial stimuli for those willing to integrate, reducing the number of administrative districts and transiting to self-government built on the subsidiarity principle in what concerns organization of service provision. In the EU countries and Poland in particular, the decentralization processes were accompanied by dynamic changes in infrastructure, development of transport networks, and appropriations from structural funds, which ensured that integration of territorial communities (parishes, gminy) did not lead to reduced access to services. In Ukraine, decentralization bears threats and risks related to

low quality, and in many cases even collapse of physical and institutional infrastructure, which under weak local budgets can result in failure of basic infrastructural services outside of large cities. In the integrated territorial communities, service provision will largely be concentrated in municipal units, which can result in, first, significant differences in the quantity and quality of services supplied to various categories of consumers, and second, appearance of situational threats related to restructuring of the institutional environment.

In the European countries, the subsidiarity principle in service provision is assured through active entrepreneurship in the sphere of services, establishment of various public partnerships, financial independence of local self-governments, developed technologies of municipal management, and flexible mechanisms of service fees and charges as instruments of efficient use of financial resources of municipal units.

The diagnostics of Ukraine's starting positions proves that the state of local authorities and economic conditions in the regions and separate territorial communities is not satisfactory. A considerable number of local self-governments face the problem of insufficient financial, material and infrastructural resources that are necessary to ensure provision of both market and public services. Since current legislature does not take into account the dependency between the functions of territorial communities and their size, it means that smaller communities will always have to choose between limiting the number of supplied public services and increasing local taxes and duties so that to assure service provision. Proceeding from the experience of EU countries, this problem can be solved in one of the following ways: a) setting effective minimal sizes of communities per each type of services; b) creating community associations for purposes of solving the problem; c) implementing the practice of acquiring access to services of the neighboring territorial communities on a paid basis; d) delegating the provision of some part of public services to district (raion) or regional (oblast) levels; e) providing subsidies to communities for these purposes.

The experience of the EU countries shows that services of water supply and wastewater discharge, maintenance of local residential areas, waste collection and utilization, and electricity supply can be financed from: a) the budget; b) user fees used to support the effective functioning of respective systems; c) tariffs charged on services; d) concluded contracts with specialized enterprises selected on competitive terms (in particular, franchising) (Melnyk, 2015). Territorial communities in Ukraine, similar to European countries, must be entitled with the right to independently choose among these options. In other words, in forming the European model of national, regional and local services markets, Ukraine must create conditions enabling the state (territorial community) to act as an effective capitalist, which is flexible in using different sources of financing and services;

4) Structural reforms of both national and regional economies precondition general economic conditions and tendencies of territorial development. We can single out four groups of factors driving structural transformations in the markets for services both on the demand side and on the supply side. First of all, these are the so called «commodity» factors, which are connected with changes in household incomes and respective changes in patterns of consumer spending. Thus, in particular, the fall in real personal incomes over the period from 2013 to 2015 preconditioned the lack of access to technologically sophisticated durable products for the majority of population, thus provoking cutbacks in production and technical servicing of such products. The causal relationships in the «incomes – goods – services» system in the conditions of economic recession and falling well-being of population will induce decreasing rates of development for high-value types of services, slowing process of institutionalization of high-competence enterprises with foreign capital, falling demand for production of made-to-order, high-quality consumer goods, which requires that markets should be thoroughly segmented by population's income levels.

Productive factors are connected with: a) creation of highly professional service enterprises (including those with foreign capital); b) growth of entrepreneurial activity in regions, which is accompanied by the growing share of services provided to enterprises, share of services of production and business nature, in particular rentals of machines and equipment, market conditions research, commercial and management consulting, business activity in the spheres of engineering, geology and geodesy, technical testing and research, advertising, and staffing and employment services. Thus, the tendencies which are typical of the services market transformation in the European countries, have also been clearly revealed in Ukraine. The influence of production also shows itself in the fact that in order to strengthen their competitive positions, enterprises of any type of economic activity diversify their operations by providing services in the process of distribution, sales and after-sale support, which is typical of the European practice and is interpreted as one of the basic features of economy servicization.

Institutional factors relate to changes in the structure of regional services sphere that take place in result of privatization and denationalization, restructuring of ownership and small business development, appearance of foreign competitors on the national and regional markets.

The analysis of structural transformation of the Ukrainian economy performed according to sectoral approach corroborated the tendency towards growing contribution of gross value added (GVA) generated in services to gross value added of the country. Estimations based on national accounts data for the period from 2005 to 2011 (statistical data for 2012–2014 are not available), indicate that the share of GVA created in the services sphere has grown from 55.4% to 61.6% nationally, which corresponds with the European tendencies and is one of the features of economy servicization. The analysis performed with respect to regions (Table 3) showed that the most significant changes towards economy servicization and formation of the post-industrial society were taking place in Lviv oblast (+10.8%), Ivano-Frankivsk oblast (+9.6%), Odessa oblast (+9.2%), Sumy oblast (+15.5%), and Chernihiv oblast (+14.7%). The above-national-average indicators were observed in AR Crimea, Transcarpathian, Kyiv, Lviv, Odessa, Ternopil, Kharkiv, and Chernivtsi oblasts, as well as the cities of Kyiv and Sevastopol. On the contrary, Dnipropetrovsk, Donetsk and Luhansk oblasts in 2011 remained to be the regions with conservation of old technological modes and lack of noticeable advances towards servicization of the economy.

Table 3

Contribution of services to GVA of Ukraine and its regions in 2005 and 2011, %

Region	2005	2011	Region	2005	2011
Ukraine	55.4	61.6	Mykolayiv	51.9	57.9
AR Crimea	63.4	68.6	Odessa	67.2	76.4
Vinnytsya	47.3	55.0	Poltava	37.0	39.8
Volyn	58.8	58.7	Rivne	48.0	52.3
Dnipropetrovsk	41.1	44.8	Sumy	37.9	53.4
Donetsk	40.1	47.8	Ternopil	54.8	61.7
Zhytomyr	51.9	54.3	Kharkiv	59.6	67.2
Transcarpathian	58.7	64.7	Kherson	52.3	55.5
Zaporizhzhya	40.4	52.3	Khmelnytsk	51.1	56.8
Ivano-Frankivsk	43.5	53.1	Cherkasy	47.1	52.1
Kyiv	49.2	64.7	Chernivtsi	57.4	63.1
Kirovohrad	49.1	51.5	Chernihiv	40.3	55.0
Luhansk	37.2	41.6	Kyiv, the city of	85.6	91.0
Lviv	58.0	68.8	Sevastopol, the city of	78.1	80.0

Source: calculated by the authors based on data of The SSSU, 2013 (Melnyk, 2015, pp. 16, 20–24.).

The influence of the national and regional services markets on the gross domestic product and gross regional products is shown in Table 4.

The share of services in GDP of the country made 22.6% in 2013, whereas in GRPs of such regions as Poltava oblast, Ivano-Frankivsk oblast and Luhansk oblast, services accounted only for 7.4%, 8.5% and 8.9% respectively.

Table 4

Changes in the share of total services in the GDP of Ukraine and GRP of regions in 2008–2013, %

Regions (oblasts)	2008	2010		2013		Regions (oblasts)	2008	2010		2013	
	Share of services	Share of services	Δ	Share of services	Δ		Share of services	Share of services	Δ	Share of services	Δ
Ukraine	21.5	23.8	+2.3	22.6	–1.2	Mykolayiv	18.8	25.2	+6.4	24.4	–0.8
Vinnytsya	12.7	17.0	+4.3	14.4	–2.6	Odessa	41.3	41.2	–0.1	40.9	–0.3
Volyn	15.7	14.6	–1.1	13.7	–0.9	Poltava	9.3	6.8	–2.5	7.4	+0.6
Dnipropetrovsk	10.6	11.9	+1.3	12.8	+0.9	Rivne	15.4	16.2	+0.8	13.6	–2.6
Donetsk	12.9	12.2	–0.7	12.5	+0.3	Sumy	12.0	9.8	–2.2	10.0	+0.2
Zhytomyr	10.1	12.8	+2.7	11.7	–1.1	Ternopil	11.4	11.2	–0.2	11.3	+0.1
Transcarpathian	15.7	14.9	–0.8	13.0	–1.9	Kharkiv	16.0	15.2	–0.8	16.3	+1.1
Zaporizhzhya	10.2	11.7	+1.5	11.5	–0.2	Kherson	19.6	11.2	–8.4	17.2	+6.0
Ivano-Frankivsk	11.8	11.4	–0.4	8.5	–2.9	Khmelnytsk	9.5	9.7	+0.2	9.0	–0.7
Kyiv	17.4	17.5	+0.1	13.4	–4.1	Cherkasy	11.5	14.7	+3.2	15.5	+0.8
Kirovohrad	19.8	18.3	–1.5	17.0	–1.3	Chernivtsi	13.7	12.8	-0.9	12.0	–0.8
Luhansk	9.7	7.9	–1.8	8.9	+1.0	Chernihiv	10.9	13.9	+3.0	12.2	–1.7
Lviv	28.2	27.3	–0.9	23.5	–3.8	Kyiv, the city of	36.2	46.4	+10.2	42.7	–3.7

Source: calculated by the authors based on data in Collections of Statistics «Regions of Ukraine» for 2009, 2010, 2012, 2014.

Taking into account that the above-presented calculations concentrate exclusively on market services, we can draw a conclusion that starting from 2010, the national and regional services markets revealed a tendency to decreased activity both on the supply- and the demand-side, which corresponds to real tendencies in the development of Ukraine and its regions during the period of growing political tensions and unfolding crisis. We should keep in mind that according to the CIA, the share of services in global GDP in 2012 made 63.4%, whereas employment in the services sphere reached 42% (The CIA, 2012).

Structural transformations in the regional services markets are most fully illustrated by changes in the shares of services by type of economic activity. In the process of this research, for assessment of structural changes in the regional services markets, we calculated relative indicators of structural change, which reflect the dynamics of type-specific structure of services provision to population and are calculated as a ratio of the mass of structural change in services of type *i* to base indicator for the specified period (1):

$$K_{it} - \frac{P_{it} - P_{io}}{P_{io}} - \frac{M_i}{P_{io}}, \tag{1}$$

where K_{it} is the coefficient of structural change in the volume of provided services of type i in year t; P_{it} – the value of indicator in the current year; P_{io} – the value of indicator in the base period; M_i – the mass of structural change in services of type i in the period under study.

Results of the calculations are presented in Table 5.

Our findings show that on the whole, over the period from 2004 to 2014, Ukraine exhibited a tendency towards sharp increase in the share of informatization and telecommunications services (K_{it} = 8.36), showing signs of evolving new technological modes and servicization of the economy, which are typical of the EU countries. The most noticeable advances in supply of these services were observed in Chernihiv oblast (K_{it} = 47.667), Khmelnytsk oblast (K_{it} = 43.667) and Luhansk oblast (K_{it} = 43.455). Chernihiv oblast (38.6%), Zhytomyr oblast (34.6%) and Luhansk oblast (58.2%) accounted for the largest shares of information and telecommunications services in total services provided. At the same time, in 2014, Dnipropetrovsk oblast, Donetsk oblast, Lviv oblast, Kharkiv oblast, and the city of Kyiv preserved their leading positions in terms of overall volume of provided services of this type. These regions formed powerful IT-clusters targeted at development of software and knowledge economy.

Structural changes characterized by the increasing share of operations in the sphere of administrative and support services (+0.5% nationally) were revealed as well. The highest values of structural change coefficients for this type of services were estimated for Ivano-Frankivsk oblast (K_{it} = 1.414), Chernivtsi oblast (K_{it} = 3.429) and Vinnytsya oblast (K_{it} = 2.857). The activation of tourism and military action in the Eastern part of the country have produced an ambivalent effect on the structural transformation in the sphere of short-term accommodation and public catering. While on the whole the share of this type of services in Ukraine increased (K_{it} = 1.882), the highest levels of structural changes were characteristic of Kyiv oblast (K_{it} = 12.000), Zhytomyr oblast (K_{it} = 10.333) and Donetsk oblast (K_{it} = 26.916), which to a large extent was connected with relocation from the occupied territories.

Negative tendencies in the development of production activity sectors preconditioned a decrease in the share of warehousing, transport, postal and currier services (K_{it} = –0.32). Another negative phenomenon is a significant decrease in the share of education services (K_{it} = –0.385), which was preconditioned by the demographic situation, aggravated problems with employment of graduates, decreasing incomes of population, emigration of young people abroad. The high negative values of coefficient K_{it} in Donetsk oblast (K_{it} = –0.591) and Luhansk oblast (K_{it} = –0.846) were additionally affected by the factor of military action in these regions.

Table 5

The coefficient of structural changes in supply of services on regional markets for the period from 2010 to 2014 by type of economic activity

Regions (oblasts)	Types of economic activity									
	Transport, warehousing, communications	Catering and accommodation	Information and telecom	Real estate services	Profession, scientific and technical activity	Activity in the sphere of administrative and support services	Education	Healthcare and social support	Arts, sports, recreation, leisure	Other services
Cherkasy	–0.342	2.833	39.500	0.349	–0.220	1.913	–0.476	0.133	–0.857	–0.811
Chernihiv	–0.498	4.857	47.250	–0.227	–0.189	0.500	0.100	–0.300	–0.429	–0.667
Chernivtsi	–0.530	3.308	24.583	–0.081	–0.038	3.429	0.500	1.429	–0.808	0.488
Dnipropetrovsk	–0.328	4.600	4.500	0.229	–0.045	0.978	–0.600	0.059	–0.727	–0.813
Donetsk	–0.634	26.916	17.400	–0.280	–0.604	1.378	–0.857	–0.591	–0.800	–0.964
Ivano-Frankivsk	–0.408	3.300	39.800	0.304	–0.371	6.650	–0.348	0.412	–0.824	–0.891
Kharkiv	–0.443	2.800	5.341	–0.111	–0.214	1.000	–0.438	0.150	–0.333	–0.906
Kherson	–0.263	0.364	13.636	0.229	–0.105	1.345	–0.200	0.057	–0.813	–0.825
Khmelnytsk	–0.371	1.100	43.667	–0.211	–0.188	2.773	–0.286	–0.140	–0.417	–0.978
Kirovohrad	–0.076	1.333	11.375	–0.319	–0.590	1.389	–0.643	0.000	–0.889	–0.880
Kyiv	–0.309	23.000	25.286	–0.097	–0.170	1.414	–0.200	1.333	–0.700	–0.884
Luhansk	–0.717	–0.111	46.455	–0.756	0.434	–0.024	–0.846	0.630	–0.963	–0.878
Lviv	–0.339	1.250	3.912	0.882	0.054	0.412	–0.474	–0.492	–0.583	–0.778
Mykolayiv	–0.113	1.778	10.222	–0.196	–0.145	1.867	–0.385	0.000	–0.500	–0.900
Odessa	–0.141	0.833	13.667	0.243	1.100	–0.163	–0.375	–0.059	–0.750	–0.688
Poltava	–0.232	2.600	13.313	–0.339	–0.421	1.512	–0.260	–0.243	–0.800	–0.895
Rivne	–0.307	1.455	27.143	–0.110	–0.050	1.588	–0.156	0.471	2.154	–0.758
Sumy	–0.280	1.417	37.714	–0.320	–0.319	0.110	–0.333	0.000	–0.846	–0.837
Ternopil	–0.189	2.000	21.182	–0.397	–0.333	0.667	–0.500	0.000	–0.900	–0.878
Transcarpathian	–0.279	0.179	51.000	–0.245	–0.333	1.313	–0.050	0.010	–0.800	0.310
Vinnytsya	–0.405	6.250	33.375	–0.020	0.000	2.857	1.545	0.018	–0.600	–0.913
Volyn	–0.346	1.600	21.750	0.507	–0.096	1.850	–0.450	–0.095	–0.667	–0.896
Zaporizhzhya	–0.261	1.296	6.909	–0.085	–0.296	2.739	–0.375	0.077	–0.722	–0.844
Zhytomyr	–0.591	10.333	23.714	0.357	–0.148	2.760	–0.211	0.308	–0.633	–0.818
The city of Kyiv	–0.466	0.778	4.365	–0.040	–0.242	0.262	–0.364	0.455	0.485	–0.786
Ukraine total	–0.320	1.882	8.364	0.011	–0.172	0.500	–0.385	–0.231	0.176	–0.813

Source: calculated by the authors.

The tendency towards decreasing share of education services combined with simultaneous curtailment of state-budget financing opportunities threatens the collapse of higher education in the first place, loss of Ukraine's positions on the global market for education services, growth of unemployment among highly qualified employees (candidates and doctors of sciences), and increased labor migration among representatives of this category.

The analysis of population's consumer spending on services, as well as its comparison against aggregate consumer spending dynamics revealed no significant structural changes in Ukraine and its regions over the period from 2010 to 2013. The share of expenditure on services ranges from 30.0 to 30.1%, which is lower than indicators for the EU and points to consumption patterns, typical of the poor countries.

Conclusions

1. The national and regional services markets of Ukraine are becoming one of the key factors of change in the country's economy and undergoing the stage of structural transformation encompassing sectoral, industrial, territorial, and institutional structures.

2. The key factors of such a transformation are global tendencies that are taking place in the development of services markets; increased involvement of Ukraine in the processes of globalization and European integration; decentralization processes; commodity, production and institutional factors of intra-national and intra-regional nature, which affect the demand and supply on the services markets.

3. The analysis of structural changes in the national and regional services market corroborates the tendencies of servicization of Ukraine's economy and its regions typical of the European countries, which shows itself in (a) the increasing share of types of economic activity in the services sphere in the GDP of Ukraine and GRP of its regions; (b) formation of higher technological modes; (c) growing share of services in production of goods, works, services of enterprises and organization for which service provision is not the main type of activity, development of servicing.

4. A number of services, which have traditionally been provided free of charge (public services), have moved into category of paid services, including the activities of enterprises (organizations) partially financed from the state budget. Shrinking government sector in service provision testifies to movement away from paternalism.

5. In general, the transformation of national and regional services markets in Ukraine exhibits a tendency to the development of a services market model, which is typical of the EU countries. However, negative tendencies in the development of education services call into question the ability of Ukraine to achieve high positions on the European market of this type of services.

6. The activation of structural changes in the national and regional services markets, which would ensure their competitiveness, comply with European criteria and contribute to EU integration, remains to be hampered by the following factors: a relatively low level of national well-being, which has worsened in result of crisis events in Ukraine; unfavorable institutional environment for small- and medium-size business development; low innovative capacity of the entrepreneurial sector combined with insufficient state support; poor infrastructure; insufficient pace of structural and technological reconstruction of material production.

7. The prospects for further research of these issues in the EU and Ukraine based on principles of benchmarking and comparative analysis require that Ukraine's national and regional statistics be brought in conformity with statistical standards of the EU.

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