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UDC 336.14

УДК 336.14

**B. S. Shuliuk**, Candidate of Economic Sciences**В. С. Шулюк**, к. е. н.**FINANCING AND ORGANIZATION OF PUBLIC PROCUREMENT IN UKRAINE: PROBLEMS AND DIRECTIONS OF SOLVING****ФІНАНСУВАННЯ ТА ОРГАНІЗАЦІЯ ДЕРЖАВНИХ ЗАКУПІВЕЛЬ В УКРАЇНІ: ПРОБЛЕМИ ТА НАПРЯМИ ВИРІШЕННЯ**

**Urgency of the research.** The importance of the study and improvement of public procurement system in Ukraine in the context of applying international principles of public procurement policy is determined by the unstable economic development of the country, ineffective activities of economic structures and inefficient use of financial resources.

**Target setting.** The current public procurement system is in its infancy and is accompanied by unresolved problems concerning legislative direction, the regulation of planning, control of the responsibility of subjects of public procurement and so on. Therefore, there is a need to build new models of state procurement, that would facilitate the sustainable socio-economic development of the state.

**Actual scientific researches and issues analysis.** The scientific works of such scholars as N. Bondarenko, I. Demyanova, S. Naumenko, N. Topolenko, I. Fedorova, O. Shatkovskiy and others deal with peculiarities of the organization and funding of public procurement.

**Uninvestigated parts of general matters defining.** Scientists did not work out enough the issue of defining ways of increasing the efficiency of public procurement system in Ukraine in order to save public funds, ensuring free competition environment and economic growth in general.

**The research objective.** The article aims to highlight the current practice of the public procurement system organization, define current problems and directions of their solving concerning their financing and organization under conditions of establishment of market management type in Ukraine.

**The statement of basic materials.** The article substantiates the need for budget financing of the system of procurement of goods, works and services for state needs. The principles of effective functioning of public procurement system on the basis of the best achievements of world experience are defined. The main causes of inefficient process of organization and funding of public procurement have been found and the strategic directions of their solution have been outlined.

**Conclusions.** An effective public procurement system should be based on the principles of competition, transparency and non-discrimination. This will help to save public funds, to ensure the most transparent and open process of their spending, that of course, will increase the degree of public confidence in state.

**Keywords:** public procurement; budget funds; government orders; tenders; financial and public control.

**Актуальність теми дослідження.** Важливість дослідження і удосконалення системи державних закупівель в Україні в контексті застосування світових принципів державної закупівельної політики визначається нестабільним економічним розвитком країни, нерезультативною діяльністю господарських структур та неефективним використанням фінансових ресурсів.

**Постановка проблеми.** Діюча система державних закупівель перебуває на стадії становлення та супроводжується невирішеними проблемами щодо законодавчого спрямування, регламентації планування, контролю відповідальності суб'єктів держзакупівель тощо. Тому існує потреба у побудові нових моделей організації державних закупівель, які б сприяли забезпеченню сталого соціально-економічного розвитку держави.

**Аналіз останніх досліджень і публікацій.** Наукові праці таких вчених, як Н. Бондаренко, І. Дем'янова, С. Науменко, Н. Тополенко, І. Федорова, О. Шатковський та інші мали справу з особливостями організації та фінансування державних закупівель.

**Виділення недосліджених частин загальної проблеми.** Науковцями ще недостатньо опрацьовані питання щодо окреслення напрямів підвищення ефективності функціонування системи державних закупівель в Україні з метою економії державних коштів, забезпечення вільного конкурентного середовища та економічного зростання в цілому.

**Постановка завдання.** Стаття покликана висвітлити діючу практику організації системи державних закупівель, окреслити існуючі проблеми та напрями вирішення щодо їх фінансування та організації в умовах становлення ринкового типу господарювання в Україні.

**Виклад основного матеріалу.** У статті обґрунтовано необхідність бюджетного фінансування системи закупівель товарів, робіт, послуг для забезпечення державних потреб. Визначено принципи ефективного функціонування системи державних закупівель з урахуванням кращих здобутків світового досвіду. З'ясовано основні причини неефективного процесу організації та фінансування державних закупівель, а також окреслено стратегічні напрями їх вирішення.

**Висновки.** Ефективна система державних закупівель повинна базуватися на принципах конкуренції, прозорості, недискримінації. Це дасть змогу заощадити державні кошти, забезпечити процес їх витрачання максимально гласним і відкритим, що, безумовно, буде сприяти підвищенню ступеня довіри громадськості до держави.

**Ключові слова:** державні закупівлі; бюджетні кошти; державні замовлення; тендерні торги; фінансовий та громадський контроль.

DOI: 10.25140/2410-9576-2017-2-3(11)-154-158

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**Urgency of the research.** Successful development of market relations in Ukraine requires the creation of favourable investment climate, creation of innovative technologies, concentration of material, financial, scientific and technical resources for multilateral modernization and reconstruction of production facilities, creation of social and economic system that can lead to the global economy. The system of public procurement can be an effective tool for concentration of financial resources of the country in order to implement scientific and technical, innovative, socioeconomic programs.

**Target setting.** Creation of conditions for effective functioning of public procurement system is an important issue for our country. Such procurement process is accompanied by unsubstantiated assessment of requirements in public procurement, that does not ensure transparency, openness, competition and effective use of budget funds. So far as these problems affect national economy, they need to be solved by strengthening the control over the targeted use of budget funds and modernization of public policy in the sphere of formation and placement of orders, increasing their budgetary, organizational and administrative efficiency.

**Actual scientific researches and issues analysis.** Public procurement is the subject of investigations of both foreign and domestic experts. This is due to the complexity of procurement procedure realization and importance of procurements in general for the socioeconomic needs of the country. Scientists who researched issues of financing and organization of public procurement are the following: N. Bondarenko [1], I. Demianova [1], S. Naumenko [2], N. Topolenko [3], I. Fedorova [4], O. Shatkovskiy [5] and others.

**Uninvestigated parts of general matters defining.** In general the above mentioned scientists' research results contributed to an improvement of economic and legal mechanism of public procurement. However, not all financial and organizational aspects of public procurement problems are fully solved, that requires further research in this area.

**The research objective.** The purpose of the article is to highlight the role, tasks and principles of public procurement system and to outline current problems and ways of solutions of their financing and organization under conditions of establishment of market management in Ukraine.

**The statement of basic materials.** The need for budget financing of the system of procurement of goods, works and services for government needs is caused by the presence of production spheres, which are of national importance, particularly those with high capital intensity, high-risk, remote economic effect. So, in the world practice separate sectors of the economy, the social and industrial infrastructure facilities are traditionally financed by means of the budget funds and new innovative industries, that define the scientific and technological progress and promote fundamental structural changes in the economy, are developed.

In many countries the organization of procurement for public use is based on similar general principles. Almost all the documents governing the procurement of various countries note that the main difference from public procurement conducted by commercial sector and individuals – is that they are not carried out at the buyer's own funds, and the taxpayers' money. Unlike the private sector, acting in their own interests in case of public procurement, the procurement of goods and services is provided by a third party – state officials. In these circumstances, there is a wide scope for inefficiency and abuse. This means that in case of public procurement, special requirements for the organization of the procurement process should act. Accordingly, most procurement mechanisms that are used in various countries are aimed at addressing this problem.

Today, almost all democratic countries declare that the mechanism of public procurement should be based on two basic principles: the economy and justice (Table 1). The importance of these principles for the process of public procurement and the mechanism of their implementation shall be reported to all government customers, the final recipients of relevant benefits, as well as to suppliers and contractors environment.

Any purchases, regardless of the amount and volume of goods, should be based on equality and openness not only in theory but also in practice. They should provide equal opportunities to all bidders

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through the use of open and conventional channels of information. The procedures should be clearly defined and any changes in the rules should be communicated to all participants.

Table 1

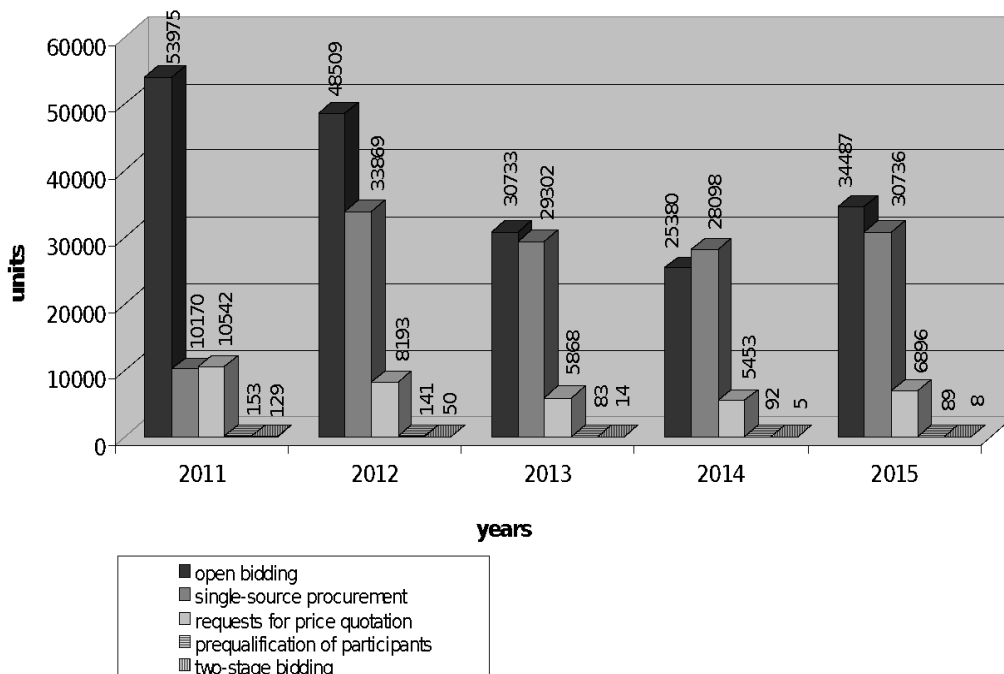
**The basic principles of public procurement mechanism\***

No.	Name of the principle	Content of the principle
1.	Equality	Providing equal opportunities to all applicants
2.	Honesty	Minimizing corruption and patronage
3.	Economy and efficiency	Getting the goods and services at low prices should be periodically compared with the estimated data and similar transactions; revision of accumulated reserves is needed
4.	Effectiveness	It is necessary to check periodically the implementation of purchase plans in order to stop activities which do not give result.

\*Prepared by the author

In Ukraine, an important problem in the system of budget financing procurement of goods, works and services for state needs is the issue of ensuring its effectiveness and efficiency. Limited financial resources of the government against the backdrop of acute crisis tendencies in the economy acutely put the problem of common methodological approach to quantitative methods for evaluating the effectiveness of budget financing procurement system and the reliability and accuracy obtained during implementation of the results.

Current procurement funding mechanism in domestic practice does not ensure fully the task concerning elimination of inefficient budget allocation because it is more regulated and accurately formed only at the stage of public order. Thus the process of goods and services procurement for government needs is accompanied by violations of procedures and non-transparency of tenders, lack of funding. As illustrated by Fig. 1, during 2011-2015 the number of open trades decreased and the number of requests for price quotation during the public procurement of goods and services reduced. In addition, it can lead to inefficient use of public funds as a result of failure to obtain the benefits from purchased goods, performed works and provided services.



**Fig. 1. Information on public procurement of goods, works and services\***

\*Prepared by the author based on references [6]

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The main reasons for inefficient process of organizing and financing procurement for government needs are the following:

1. The absence of an authorized body that has the Unified Register of contracts for the supply of goods for state needs and progress of their execution; can monitor procurement activities of public purchasers; considers disputes on public procurement in the pre-trial order and so on.

2. Gaps in the methodology of forming tender (competitive) conditions. Mechanisms and procedures of tender (competitive) condition formation do not include all the necessary factors that affect the efficiency of procurement, namely objective criteria for assessing the quality of purchased products are not established; the responsibility of officials for meeting deadlines for each stage of the procurement procedures is not assigned; standard forms of contracts which contain basic provisions and standards required for usage in contracts to supply goods and services to the state are absent; requirements for qualification of tender committee members are absent.

3. Failure to comply with economical efficiency of the procurement process. There is no precise formulation of the conditions under which a decision concerning the selection of a procurement mechanism is made. While forming conditions of the tenders not all of the factors, that may affect the delivery, transportation costs, installation, maintenance and other costs, are provided.

4. There is high probability of creating discriminatory conditions of competitive bidding as there are no procedures for receiving, registration and storage of competition (tender) applications, the administrative procedures of making decision concerning determination of the winner, specific criteria for determination of value of the deposit. A request for the examination of contracts with the relevant authorities in case of the absence of objective assessing criteria creates the conditions for making decisions primarily based on subjective opinion of an officer.

5. Gaps in the budget system functioning results in untimely or incomplete procurement financing, disruption of supply terms.

6. Lack of professional personnel for training and retraining of specialists engaged in procurement for state needs, financial and procedural control within public procurement area.

As a result, these problems cause low productivity and inefficiency of public procurement and lead to direct losses of budget funds and failure to achieve the expected socio-economic results. The situation becomes more complicated due to the absence of clear concepts of economic development and public policy priorities, that does not allow to use limited public resources effectively. So today it is extremely important to solve these problems. This will help to link certain strategic priorities with expected budget resources in the short-term period and in the medium- and long-term perspective. So, to improve procurement for public needs the following measures should be implemented:

1. To develop flexible funding mechanism for public procurement, which can respond to changing market conditions, to provide essential social needs in case of the most efficient allocation of budget resources.

2. To create a single information resource in order to ensure the greatest transparency, openness and authenticity of information concerning procurement. For this it is necessary to develop the procurement registers, to make life cycle contracts with establishing a fixed purchase price in case of implementation of public and private partnership projects, to strengthen control in procurement area etc.

This unique resource should include the possibility of collecting, storing, displaying previously posted information and carrying-out of an analysis of obtained data that provides the greatest transparency, openness and accountability of the financial activities of public authorities and members of the procurement process that enhances the effectiveness of the financial mechanism of public procurement.

3. To monitor the effectiveness of the financial budget allocation through the use of tools such as the current financial planning, assessment of procurement starting (maximum) price and the contract price, the use of standard contracts and library of the contracts, work with claims and control of contracts ensuring, forming of procurement committees, the use with reference to each other methods of state and public control etc., that increase the efficiency of the public procurement financing mechanism.

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4. To evaluate the effectiveness of the financing mechanism of the state order that characterize: frequency of use of placing order procedures; the degree of environment competitiveness in the sphere of public orders financing; average value of concluded public contracts; saving budget funds.

The implementation of these proposals will help to improve the process of financing and organization of procurement for state needs, which will allow to stabilize and ensure rapid social development of the country in the future.

**Conclusions.** Thus, budget financing of procurement system, on the one hand, allows to solve the problems of socio-economic development of the country, on the other hand – increases the revenues of budgets of all levels and provides strengthening of financial and economic positions of economic entities – recipients of budget allocations, is an effective mechanism of their support and is the source of funds that can be directed by them for their development goals.

The most significant factor in the development of the financial mechanism of public procurement is social and economic policy of the government implemented in competitive market conditions. Introducing a balanced government policy, taking into account peculiarities and structure of national economic complex, aims to improve and strengthen of market mechanisms of economic and social relation development, to improve the country's image, to stimulate sustainable development of Ukraine.

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Received for publication 30.05.2017

### Бібліографічний опис для цитування :

Shuliuk, B. S. Financing and organization of public procurement in Ukraine: problems and directions of solving / B. S. Shuliuk // Науковий вісник Полісся. – 2017. – № 3 (11), ч. 2. – С. 154-158.