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INSTITUTIONAL TRANSFORMATION OF PUBLIC-PRIVATE PARTNERSHIPS IN UKRAINE

Large-scale destruction of infrastructure capital and the growing need for its restoration in the context of the post-war transformation of Ukraine's economy have exacerbated the problem of limited budgetary resources and the declining effectiveness of traditional financing mechanisms for projects. The investment needs identified in the Fourth Rapid Damage and Needs Assessment (RDNA4) substantially exceed the capacities of budgetary and donor financing, which underscores the need to attract long-term private capital to Ukraine's green recovery process. In this context, the institutional transformation of the public-private partnership (PPP) model in Ukraine becomes decisive. The study is based on the assumption that the institutional changes enshrined in the new Law of Ukraine "On Public-Private Partnership" (2025) transform PPP from a quasi-off-budget instrument for financing individual projects into a managed mechanism for long-term investment, capable of simultaneously enhancing the fiscal sustainability of the state and attracting private capital to green infrastructure projects.

To verify this assumption, institutional-economic and reproduction approaches were applied, supplemented by a comparative analysis of the previous and updated regulatory PPP model and an analytical interpretation of sectoral recovery needs based on RDNA4 data. The results indicate that the institutional renewal of PPP is accompanied by a reduction in transaction costs, increased predictability of risk allocation,

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ІНСТИТУЦІЙНА ТРАНСФОРМАЦІЯ МОДЕЛІ ПУБЛІЧНО-ПРИВАТНОГО ПАРТНЕРСТВА В УКРАЇНІ

Масштабні руйнування інфраструктурного капіталу та зростання потреб у його відновленні в умовах повосної трансформації економіки України загострили проблему обмеженості бюджетних ресурсів та зниження ефективності традиційних механізмів фінансування проєктів. Зафіксовані у четвертій Спільній швидкій оцінці завданої шкоди та потреб на відновлення (RDNA4) обсяги інвестиційних потреб істотно перевищують можливості бюджетного й донорського фінансування, що актуалізує необхідність залучення довгострокового приватного капіталу до процесів зеленої відбудови України. У цьому контексті визначальною стає інституційна трансформація моделі публічно-приватного партнерства (ППП) в Україні. Дослідження ґрунтується на припущенні, що інституційні зміни, закріплені новим Законом України "Про публічно-приватне партнерство" (2025 р.) трансформують PPP з квазіпозабюджетного інструменту фінансування окремих проєктів на керований механізм довгострокового інвестування, здатний одночасно підвищувати фіскальну стійкість держави та забезпечувати залучення приватного капіталу до зелених інфраструктурних проєктів. Для перевірки зазначеного припущення застосовано інституційно-економічний та відтворювальний підходи, доповнені порівняльним аналізом попередньої й оновленої нормативної моделі PPP та аналітичною інтерпретацією секторальних потреб відновлення на основі даних RDNA4. Отримані результати свідчать, що інституційне оновлення PPP супроводжується зниженням транзакційних витрат, підвищенням передбачуваності розподілу ризиків, інтеграцією



integration of long-term commitments into the budget planning system, and a decrease in the cost of capital for infrastructure projects with long payback periods. Under such a configuration, PPP acquires significant potential for the structural modernization of Ukraine's economy and the implementation of green recovery objectives.

Keywords: public-private partnership, institutional transformation, green recovery, infrastructure investment, fiscal sustainability.

JEL Classification: M21, O10, Q32.

довгострокових зобов'язань у систему бюджетного планування та зменшенням вартості капіталу для інфраструктурних проєктів з тривалим строком окупності. У такій конфігурації PPP набуває мультиплікативного потенціалу для структурної модернізації економіки України та реалізації цілей зеленої відбудови.

Ключові слова: публічно-приватне партнерство, інституційна трансформація, зелена відбудова, інфраструктурні інвестиції, фінансова стійкість.

Introduction

Ukraine's post-war reconstruction will take place under conditions of sharply increasing investment demand for the restoration of infrastructure capital and, at the same time, severely constrained budgetary capacity. Estimates provided in the fourth Joint Rapid Damage and Needs Assessment (RDNA4) indicate that total recovery and reconstruction needs amount to USD 524 billion over the next decade, while the financing gap for 2025 alone remains substantial, underscoring the limits of direct budgetary and donor support and the need to mobilize long-term private capital. This structural mismatch between the scale of investment needs and the volume of available public resources reveals the limitations of traditional infrastructure financing models and objectively increases the importance of institutional mechanisms capable of attracting private investment into reconstruction processes. In this context, transforming the public-private partnership (PPP) model emerges as one of the key priorities of contemporary economic policy.

At the same time, previous experience with PPPs in Ukraine has demonstrated their limited effectiveness as an instrument for infrastructure development. These shortcomings stemmed not so much from a lack of private-sector interest as from high transaction costs, regulatory uncertainty, non-transparent risk allocation, and a tendency to generate hidden fiscal liabilities. Under such conditions, PPPs often functioned as a quasi-off-budget source of financing rather than as an instrument integrated into a coherent system of public investment and budgetary risk management (Kondratov, 2019; General Overview of Public-Private Partnership, n. d.).

In international academic discourse, PPPs have traditionally been examined from several conceptual perspectives. A substantial body of research considers PPPs as a mechanism for improving the efficiency of infrastructure projects through optimized risk allocation, lower life-cycle costs, and better-quality public services (OECD, n. d.; EIB, 2023). Another strand of scholarship focuses on the fiscal dimension of PPPs, emphasizing their implications for public debt, contingent liabilities, and macro-financial sustainability (Duarte et al., 2023, April 13; IMF – PPPs and PFRAM, n. d.). More recent studies link PPPs to the achievement of sustainable development

objectives, treating them as a mechanism for mobilizing private capital for projects characterized by high upfront costs and long payback periods (UNECE, 2019, May; International Monetary Fund, 2022). At the same time, many studies analyze PPPs either at the level of individual projects or through the prism of contractual and financial arrangements, while their macroeconomic and reproduction-related dimensions remain insufficiently explored.

In Ukrainian scholarship, PPPs have been addressed primarily through legal analysis or as an auxiliary instrument of state budgetary and investment policy, with emphasis on the procedural aspects of project implementation, fiscal risks, and debt obligations (Kovbas, 2025; Krylova & Hlushchenko, 2025). However, the institutional transformation of PPPs as part of the economic model of post-war green reconstruction and as a mechanism for the reproduction of infrastructure capital has not yet received sufficiently systematic scholarly attention, particularly from the standpoint of reconciling investment feasibility with the constraints of fiscal sustainability and long-term budget planning (Havrysh et al., 2024; Venger & Kushnirenko, 2025).

Against this background, the central scholarly problem addressed in this article is to assess the economic substance of the institutional changes introduced by the new Law of Ukraine "On Public-Private Partnership" (2025, June 19) (hereinafter, the Law) and to determine their implications for scaling investment in the green reconstruction of transport, energy, and housing and communal infrastructure (Diachek, 2025).

The author's previous research examined the institutional preconditions for PPP development in Ukraine and the behavioral models of interaction between the state and the private sector in the implementation of infrastructure projects (Ilchenko, 2025). Its findings demonstrated that PPP effectiveness largely depends on the quality of the institutional environment and the mechanisms for risk sharing between partners. The adoption of the new Law creates fundamentally new conditions for the functioning of partnership mechanisms, which require further economic analysis of their effects on investment incentives and the scaling of infrastructure investment in the process of green reconstruction.

The aim of this research is to provide an economic rationale for the institutional transformation of the PPP model in Ukraine in the context of green recovery and to assess its effects on investment incentives, risk sharing, and fiscal sustainability in strategic sectors of the economy.

The research is based on the hypothesis that the institutional changes enshrined in the new legislation transform PPPs from an instrument that does not encompass the full life cycle of infrastructure assets into a managed long-term investment mechanism capable of combining private capital mobilization with control over fiscal effects.

This hypothesis is tested through a combination of institutional-economic and reproduction approaches, supplemented by a comparative analysis of the previous and updated PPP regulatory models and an analytical

interpretation of sectoral recovery needs based on RDNA4 data. The empirical basis of the study consists of official materials produced by international financial institutions, regulatory acts, and statistical assessments of recovery needs. The study is limited by the aggregated character of the available data and by the lack of complete information on the practical implementation of the new PPP mechanisms.

The structure of the article reflects the logic of the analysis. The first section substantiates the economic rationale for the key institutional changes introduced by the new Law of Ukraine "On Public-Private Partnership" (2025, June 19). The second section examines their impact on fiscal mechanisms and the associated regulatory framework. The third section assesses the economic effects of the institutionally updated PPP model for the green reconstruction of key sectors of the Ukrainian economy on the basis of RDNA4 data.

1. The economic rationale for the key institutional changes introduced by Ukraine's new law "on public-private partnership"

The institutional changes enshrined in the new Law are systemic in economic nature and are intended to transform PPPs from a formally permissible method of attracting private capital into a full-fledged institutional and economic mechanism for long-term investment with manageable fiscal consequences. These changes are not merely isolated procedural improvements; rather, they reflect a shift in the approach to creating investment incentives for the private sector through the redistribution of infrastructure project risks and the clearer specification of the state's budgetary obligations.

The establishment of PPPs as a special legal regime has a clear economic rationale. By separating the procedures for the preparation, appraisal, and selection of PPP projects from general public procurement legislation, the new framework reduces institutional uncertainty, which in earlier practice led to duplication of regulatory requirements, delays in decision-making, and higher non-financial costs for private investors (UNCITRAL, 2020; Duarte et al., 2023, April 13).

From an economic perspective, such institutional unification helps lower entry barriers for private capital, shortens the pre-investment phase, and increases the predictability of competitive selection outcomes (Kim et al., 2020; Pavlenko & Kravchenko, 2022). Taken together, these effects reduce the regulatory risk premium in the capital structure, which is of fundamental importance for infrastructure projects characterized by high capital intensity and long payback periods. The economic effect of lower regulatory uncertainty is manifested not only in a qualitative improvement in the investment climate, but also in a measurable reduction in the cost of capital. For a typical infrastructure project valued at USD 1 billion with a

25-year concession period, a 1 percentage point reduction in the weighted average cost of capital (WACC) may reduce total discounted costs by approximately USD 120–150 million, which is equivalent to 12–15% of the initial investment.

One of the key institutional innovations of the new Law is the regulatory consolidation of requirements for the identification and allocation of risks at all stages of the PPP project life cycle. The economic logic of this approach is grounded in contract theory and assumes that each type of risk should be assigned to the party best able to manage it at the lowest total cost. The new Law substantially expands the list of forms of state support for PPPs while also changing their economic meaning. Availability payments, minimum revenue guarantees, and compensation mechanisms are interpreted not as subsidies to the private partner, but as instruments for correcting market failures in sectors of high social importance and limited solvent demand (IMF – PPPs and PFRAM, n. d.).

By reducing demand-related risks for private investors, smoothing cash flows over the implementation period, and improving the credit-worthiness of project companies, this approach becomes economically justified. In this configuration, state support is aimed primarily at lowering the cost of capital rather than directly replacing private financing, which is consistent with the principles of fiscal prudence.

Another important institutional shift is the integration of PPPs into the system of budget planning and fiscal control. The mandatory approval of PPP projects by bodies responsible for budget policy, together with the introduction of accounting for long-term and contingent liabilities, changes the economic nature of PPPs from institutionally detached project financing into a component of the state's unified fiscal space.

By limiting the accumulation of hidden debt obligations, enabling assessment of the cumulative impact of PPPs on public finances, and strengthening the confidence of creditors and international financial institutions in the state's budgetary policy, these institutional arrangements reinforce the functional role of partnership mechanisms. Under such conditions, PPPs are transformed from a tool for postponing budget expenditure into a managed mechanism for long-term investment.

In international practice, lower regulatory uncertainty in infrastructure projects is associated with a 10–30% reduction in transaction costs and a 100–300 basis-point decline in the regulatory risk premium embedded in the cost of capital (Yescombe, 2018; Akomolehin, 2025).

In the context of green recovery, the institutional transformation of PPPs acquires an additional dimension associated with the integration of environmental and climate criteria into the financial logic of projects. Requirements related to energy efficiency, emissions reduction, and environmental sustainability affect both technical solutions and the structure of costs and revenues throughout the life cycle of infrastructure assets.

The transfer of part of environmental costs to the investment phase, combined with lower operating costs over the longer term, increases the overall social return on PPP projects. In this sense, PPPs should be viewed not as neutral financial instruments, but as mechanisms for aligning private investment incentives with the objectives of sustainable development and green reconstruction.

2. The strategic impact of Ukraine's new law "on public-private partnership"

The adoption of the new Law of Ukraine "On Public-Private Partnership" (2025, June 19) has systemic implications not only for the legal architecture of PPPs, but also for the economic logic governing the entire body of subordinate legislation and related regulations that support infrastructure investment. This is not merely a formal change in the hierarchy of legal acts, but a deeper restructuring of the mechanisms through which investment incentives, risk sharing, and fiscal responsibility are distributed between the state and the private sector. International experience suggests that contingent liabilities associated with PPPs can become a significant source of fiscal risk if they are not integrated into medium-term budget planning and properly monitored. In the Ukrainian context, these fiscal parameters require quantitative specification in light of the scale of the economy and existing debt constraints (International Monetary Fund, 2016; 2022). Against this background, a fiscally prudent PPP portfolio for Ukraine in the medium term may be estimated at approximately 1–1.5% of GDP, which is equivalent to about USD 2.5–4 billion in annual long-term budgetary liabilities without creating an excessive debt or deficit burden on the public finance system.

The new Law effectively reorients subordinate regulations from a fragmented set of autonomous and often poorly coordinated procedures into instruments for implementing a single economic model of partnership. The diminished role of outdated procedural rules, particularly in the areas of competitive selection and project preparation, means the elimination of regulatory duplication that previously generated additional transaction costs and created opportunities for regulatory arbitrage.

Such institutional recentralization reduces the administrative costs of PPP implementation, improves the predictability and uniformity of investment conditions across sectors, and minimizes the risk of delays caused by procedural conflicts. At the same time, it establishes a single institutional framework within which subordinate legislation performs a supporting function rather than independently defining the economic model of PPPs.

The strengthening of budget legislation and related by-laws, particularly with respect to accounting for long-term and contingent liabilities, the provision of state support, and the control of fiscal risks, fundamentally

changes the economic status of PPPs. Subordinate acts cease to serve merely as instruments for individual projects and instead become part of a broader system for managing aggregate fiscal risks associated with partnership initiatives. The economic effect of this transformation lies in constraining institutionally detached project financing, increasing the transparency of the state's long-term and contingent liabilities, and creating opportunities to integrate PPPs into medium-term budget planning. In this context, budget-related by-laws acquire the status of instruments of macro-financial stability rather than remaining a purely technical appendage to investment projects.

Sector-specific regulations in transport, energy, housing and communal services, and social infrastructure also undergo an indirect but economically significant transformation. The new Law changes their functional role from detailed procedural regulation of interaction with private partners to the establishment of stable economic parameters for sectoral activity, including tariff policy, quality standards, and technical and environmental requirements. This creates a clearer distinction between regulatory and contractual logic, reduces the risks of discretionary interference in financial models, and strengthens investor confidence in the stability of sectoral conditions. Under this logic, sectoral legislation primarily performs the role of a framework economic regulator, while PPP contracts concentrate the financial and risk-related obligations of the parties.

An important economic consequence of these institutional changes is the transformation of the role of secondary legislation in shaping the cost of capital for PPP projects. Methodologies for assessing efficiency, risk, and budgetary impact remain relevant, but they are now embedded in a new institutional logic aimed at project bankability and the financing of infrastructure initiatives. For private investors and lenders, this reduces information asymmetry, improves the comparability of infrastructure projects, and lowers the institutional risk premium. Taken together, these effects indirectly influence the cost of debt financing, which is crucial for large-scale infrastructure and green projects with long payback horizons (World Bank, 2017; EIB, 2023).

In the context of green recovery, the strategic impact of the Law lies in the gradual reorientation of subordinate legislation and related regulations away from short-term budget savings and toward the generation of long-term social returns. This creates institutional preconditions for the implementation of projects characterized by high upfront costs but substantial environmental, social, and economic benefits. In economic terms, such a transformation enables the scaling-up of investment in green infrastructure, reduces pressure on current budgets, and increases the multiplier effects of public spending, as each hryvnia of public resources committed through an institutionally configured PPP mechanism generates a cumulative economic effect exceeding its nominal value. This should be understood not as a classic

Keynesian consumption multiplier, but as an investment and institutional scaling effect arising from the combination of budget support, private capital mobilization, lower financing costs, and the creation of long-term replicable outcomes in key sectors of the economy. Under these conditions, PPPs acquire strategic importance as a mechanism for reconciling fiscal sustainability with the objectives of long-term green reconstruction in Ukraine.

3. The economic impact of the institutional transformation of PPPs on the green recovery of key sectors of Ukraine's economy

The institutional transformation of the PPP model, as enshrined in the new Law, acquires practical economic significance above all in the context of post-war reconstruction. Its core function is to expand investment capacity beyond the limits of budget financing, reduce the cost of capital, and redistribute financial and operational risks across the sectors with the greatest recovery needs.

The scale of recovery and reconstruction needs in Ukraine, estimated at approximately USD 524 billion, objectively necessitates the use of PPPs as an economic mechanism for mobilizing long-term private capital for infrastructure and green projects, given the substantial constraints facing public finances (World Bank, 2025).

To illustrate the investment effect of institutionally updated PPP mechanisms, it is useful to employ a simplified analytical representation of investment leverage:

$$I_{tot} = B \cdot L,$$

where: I_{tot} denotes the total investment mobilized through PPP mechanisms;

B denotes the volume of the government's budgetary commitments;

L denotes the investment leverage ratio, reflecting the relationship between private and public resources.

According to the World Bank and the OECD (World Bank Group, 2024; OECD, 2018), private financing in infrastructure PPP projects typically accounts for approximately 70–85% of total investment, corresponding to an investment leverage ratio of roughly 3–5, depending on the sector, risk profile, and quality of the institutional environment. If budgetary commitments amount to 2% of GDP and the leverage ratio equals 4, the cumulative investment effect reaches 8% of GDP, which is comparable to annual gross fixed capital formation in the pre-war period. Under a leverage ratio of 1:4, even a relatively limited public contribution of USD 10 billion through PPP mechanisms could mobilize up to USD 40 billion in total investment, potentially covering more than half of the transport sector's needs, about 60% of the energy sector's needs, or nearly half of the needs of the housing and communal services sector, depending on sectoral prioritization.

The *Table* below presents the sectoral distribution of the expected economic effects of PPPs during Ukraine's post-war reconstruction.

Table

The economic impact of the institutional transformation of PPPs on the green recovery of Ukraine’s key sectors

Sector	Estimated recovery needs (RDNA4), USD billion	The role and impact of PPPs	Expected economic results
Transport infrastructure	78	Attracting long-term private capital to rehabilitate roads, bridges, ports, and railways; using concessions and life-cycle contracts; redistributing construction and operational risks	Reduction of budget burden; improvement of infrastructure quality; reduction of logistics costs; growth of transit and export potential
Energy	68	Implementing projects to restore generation, grids, and energy storage systems through partnership models; increasing the investment attractiveness of decentralized and green solutions	Increase in energy sustainability; reduction of import dependence; reduction of system losses; stabilization of tariff burden in the medium term
Housing and communal infrastructure	84	Using PPPs to rebuild and modernize housing, heating, and water supply systems; introducing long-term payment mechanisms and energy efficiency standards	Acceleration of housing stock recovery; reduction of socio-economic risks; improvement of energy efficiency and quality of life; multiplier effect for local economies

Source: Compiled by the author based on (World Bank, 2025; UNDP, 2025).

The data presented indicate that in each of the key reconstruction sectors, PPPs perform distinct but economically complementary functions. In the transport sector, the principal effect is associated with greater efficiency in the use of capital and lower logistics costs, which directly influence export competitiveness and Ukraine’s integration into international logistics chains. In the energy sector, PPPs serve as an instrument for reducing systemic risks and increasing the resilience of the energy system, thereby generating macroeconomic effects through lower losses from shortages and supply instability. In the housing and communal services sector, partnership models make it possible to combine social objectives with economic rationality, distribute investment costs over time, and reduce fiscal pressure on budgets at different levels. Overall, the institutional transformation of PPPs, aligned with the scale of needs identified in RDNA4, creates an economically grounded mechanism for shifting from one-off budgetary decisions toward systemic investment in green reconstruction.

International experience with infrastructure PPPs suggests that institutionally robust partnership models can achieve investment leverage ratios of 1:3 to 1:5, meaning that each unit of public resources can mobilize 3–5 units of total investment. In this sense, PPPs become integrated into the system of post-war economic policy as a structurally formative mechanism rather than merely an auxiliary financing instrument.

Conclusions

The institutional transformation of the PPP model enshrined in the new Law of Ukraine "On Public-Private Partnership" (2025, June 19) reflects a transition from the episodic use of PPPs as formally permissible instruments to their recognition as a systemic mechanism for long-term investment and risk management in the process of post-war green reconstruction. The key result of this transformation is a change in the economic logic of PPPs – from an emphasis on minimizing current budget expenditures to the establishment of a managed model for attracting private capital with predictable fiscal consequences. Clarifying the fiscal parameters of PPP implementation makes it possible to treat PPPs as an instrument of managed investment policy: in the medium term, a fiscally prudent PPP portfolio for Ukraine may be estimated at 1–1.5% of GDP, allowing investment to scale up without generating excessive contingent liabilities or undermining debt sustainability.

The analysis demonstrates that the institutional transformation of the PPP model reduces not only transaction costs but also the cost of capital. For typical infrastructure projects, this may translate into a 12–15% reduction in discounted costs if the weighted average cost of capital (WACC) declines by 1 percentage point. At the same time, these changes improve the transparency of risk allocation and strengthen budgetary discipline by integrating partnership projects into the state's unified fiscal space. Under such conditions, PPPs cease to function as a form of institutionally detached extra-budgetary financing and acquire the features of a full-fledged instrument of economic development policy aligned with medium-term budget planning. On the basis of World Bank data (2025), the article substantiates that the scale of reconstruction needs in transport, energy, and housing and communal infrastructure significantly exceeds the capacity of direct budget financing. A more precise specification of the fiscal parameters of PPP use makes it possible to identify a fiscally safe range for its application. Within this range, Ukraine's medium-term PPP portfolio may amount to 1–1.5% of GDP, equivalent to approximately USD 2.5–4 billion in annual long-term budgetary liabilities, without imposing an excessive debt or deficit burden on the public finance sector. In such a configuration, PPPs function not as a source of hidden obligations, but as a tool for the managed mobilization of investment resources.

The sectoral analysis confirms that institutionally updated PPP mechanisms generate an investment-fiscal multiplier, whereby each unit of public commitment can mobilize 3–5 units of aggregate investment. This is of critical importance for scaling the green reconstruction of transport, energy, and housing and communal infrastructure without imposing excessive pressure on current budgets. In the medium and long term, this creates preconditions for expanding potential GDP by increasing the productivity of infrastructure capital, improving the logistics and energy efficiency of the economy, and strengthening the state’s fiscal sustainability. Under conditions of an institutionally coordinated and fiscally controlled partnership model, PPPs move beyond the realm of institutional experimentation and become a macroeconomic mechanism for managing the reproduction of infrastructure capital in the context of post-war green reconstruction, thereby confirming the hypothesis advanced in this study.

Overall, the institutional transformation of PPPs creates the preconditions for a transition from one-off recovery measures to a reproducible model of green reconstruction in which private investment is integrated into the state’s strategic objectives. This makes it possible to view PPPs not only as a tool for implementing individual projects, but also as an important component of a new post-war economic development model for Ukraine.

Further research should focus on the quantitative assessment of the macroeconomic effects of PPPs in the reconstruction process, particularly their impact on economic growth, employment, investment dynamics, and environmental outcomes, as well as on the analysis of practical experience in implementing partnership projects across specific sectors and regions.

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