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PRIVATIZATION IN UKRAINE (1991 – 2004): FEATURES AND RESULTS

Abstract. *The purpose of the research is to determine the features and results of privatization in Ukraine during the first decade of independence. The research methodology involves using various tools to achieve the purpose. The use of comparative time (vertical section) research made it possible to identify the peculiarities of privatization at each of its stages. The principle of dynamics contributed to the identification of changes in quantitative and qualitative parameters in the process of privatization during each historical period. The scientific novelty consists in the fact that for the first time in the scientific discourse, the privatization process with its features and results in Ukraine during the decade of independence is defined, taking into account the political component of the corresponding stage of state formation. The Conclusions. During the first period (1992 – 1994) the process of privatization was rather complicated and controversial, which reflected the indecision of the political elite and the president himself to act in the direction of such changes. Although privatization began in 1992, the authorities have not yet decided how massive it should become on a national scale. Therefore, during this period, it was allowed to rent state-owned enterprises and carry out their activities there, primarily*

by the former management and their labour teams. After the change of power in 1994, the new president and his government began to implement mass privatization for the entire people by providing them with certificates (vouchers) actively. During the second term of office, especially during the period of 2000 – 2004, the president facilitated the privatization of large strategic state-owned enterprises by the young bourgeoisie, mainly those that were particularly close to him. In this way, the formation and final crystallization of financial and industrial circles in Ukraine took place, which later exerted a significant influence on political and economic processes in the state.

Keywords: privatization, enterprises, certificates, rent, power.

ПРИВАТИЗАЦІЯ В УКРАЇНІ (1991 – 2004): ОСОБЛИВОСТІ ТА РЕЗУЛЬТАТИ

Анотація. *Метою* статті є визначення особливостей та результатів проведення приватизації в Україні протягом першого великого періоду незалежності (1991 – 2004). **Методологія** дослідження полягає у використанні різного інструментарію для досягнення мети. Використання компаративного у часі (вертикальний зріз) дослідження уможливило виявити особливості здійснення приватизації на кожному з її етапів. Принцип динаміки сприяв виявленню зміни кількісних та якісних параметрів у процесі приватизації в зазначеному історичному періоді. **Наукова новизна** полягає у тому, що вперше в науковому дискурсі визначено приватизаційний процес з його особливостями і результатами в Україні протягом десятиліття незалежності з урахуванням політичної складової відповідного етапу державотворення. **Висновки.** Процес приватизації у перший період (1992 – 1994) був досить складним і суперечливим, що відображало нерішучість політичної еліти та безпосередньо президента діяти у напрямку таких змін. Приватизація хоч і почалася у 1992 р., проте влада ще остаточно не визначилася, якою масовою вона мала стати на рівні загальнодержавного масштабу. Тому у цей період була дозволена оренда державних підприємств і здійснення там діяльності – передусім колишнім менеджментом та їх трудовими колективами. Після зміни влади у 1994 р. новий президент і його уряд активно почали впроваджувати масову приватизацію для всього народу шляхом надання йому сертифікатів (ваучерів). Під час другої каденції, особливо у період 2000 – 2004 рр., президент сприяв тому, щоб великі стратегічні державні підприємства також були приватизовані молоддю буржуазією, переважно тією, котра була до нього особливо наближеною. У такий спосіб в Україні відбулося формування і остаточно кристалізація фінансово-промислових кіл, які надалі здійснювали значний вплив на політичні й економічні процеси в державі.

Ключові слова: приватизація, підприємства, сертифікати, оренда, влада.

The Problem Statement. Ukraine's declaration of independence in August of 1991 opened a new stage in its nation-building. The country began to build its own institutions of power, and also defined the basic rules of the game, which were enshrined in laws, and later in its Constitution. At the same time, Ukraine had a significant legacy from the previous Soviet regime. Such a legacy was both material and technical base, as well as the entire complex of mental and worldview principles and methods of people's life, which was rooted during the decades of the Soviet occupation.

For a complete understanding of the privatization peculiarities in the 1990s, it is worth making a correction concerning the historical peculiarities of that period. Thus, during the Soviet rule in Ukraine, collective farms were forcibly established in which people worked under the so-called "working days", there were famines (with millions of victims), there was a period of "shot revival" and mass "purges" of 1936 – 1938, in which both creative and entrepreneurial elite of the nation was liquidated. Only during the interwar period, according to various sources, about 10 million Ukrainians and their market and democratic values were destroyed by the occupation authorities and replaced by the communist experiment – the construction of a worker-peasant state with a planned economy in the form of the Soviet

five-year plans. The Ukrainians were not allowed to manage their country, neither in the political nor in economic sense. At the time of the collapse of the USSR, Ukraine controlled only 5 % of its own gross national product (Ukraina, 2007, p. 948). Despite this, as early as 1990, the German Bank provided an assessment of the situation in Ukraine, in which it was noted that the country with its economic and human potential had the best chances for a quick and relatively easy transition to the market and democracy (Hrytsak, 2022, p. 558). After the declaration of independence and final de-occupation from Moscow in August of 1991, Ukraine tried to get on the market rails, which is not possible without private property and free enterprise and their protection by the state. Therefore, the political elite further took a course to build democracy in Ukraine with the transition to a market economy, which began to be based on the denationalization of property in the form of a widespread privatization.

The Review of Recent Research and Publications. The process of privatization in Ukraine has repeatedly been the research focus by domestic researchers. Among them, it is worth highlighting the research co-authored by O. Koshyk, N. Leginkova, and I. Fabryka (Koshyk, 2011), in which the authors considered privatization from the point of view of problems that arose during a certain period of Ukraine's independence, as well as through the ideology of progress in this direction. A thorough study of privatization processes in countries with a transition economy (especially in Ukraine) by O. Havrylyshyn and D. McGettigen (Havrylyshyn, 2000) should also be highlighted. The authors compare the features of privatization processes in a number of post-Soviet countries and other "social camp" countries. From economic factors, N. Nohinova describes the process of privatization in Ukraine, focusing on achievements and omissions (Nohinova, 2014). A. Halchynskiy, economic adviser to President L. Kuchma, presented in his memoirs A. Halchynskiy (Halchynskiy, 2013) as an important testimony of how the process of privatization in Ukraine took place from within the high-ranking government offices. A number of other scholars also studied this direction, but their focus was more on the economic parameters of privatization than political ones. The latter has a certain niche to be filled with scientific developments. The process of privatization in Ukraine can be considered in terms of deindustrialization. The latter found its scientific coverage in the publication A. Zadoya (Zadoya, 2012). The analysis of privatization processes under the conditions of post-Soviet transit is reflected in the joint publication of G. Kramarenko and O. Chorna (Kramarenko, 2013). A scholar A. Palladin (Palladin, 2017) analysed the privatization process in Ukraine using the institutional component and singled out the relevant results for the state. The issue of privatization at the village level was reflected in the publication by S. Padalka (Padalka, 2013). In addition, the scholar S. Padalka (Padalka, 2011) carried out a comprehensive analysis of privatization processes in Ukraine during the first two decades of independence from the standpoint of society, government and man. V. Danylenko and V. Kotsur (Danylenko, 2021) analysed the political dimension of privatization during the years of Ukraine's independence.

The purpose of the research is to determine the features and results of privatization in Ukraine during the period of 1991 – 2004, in particular with an amendment to the political component of this period of state formation.

The Research Results. After the collapse of the USSR, Ukraine inherited a huge production base, especially the industrial base, which necessitated its further transit from state to private ownership. However, taking into account the unprofitability of the majority of enterprises, which inertially continued operating under the new capitalist conditions, counting on support from the state, in the form of a subsidy, they became more of a problem,

which rather resembled a “suitcase without a handle”. Galloping inflation and the economic crisis at the beginning of the 1990s prompted the authorities to act quickly, but the latter’s lack of determination and experience under market conditions was evident, especially in the first years of independence.

It is worth noting that together with the popular recognition of the Verkhovna Rada decision regarding the independence of Ukraine during the referendum on December 1, 1991, the first presidential elections were held, in which the former speaker of Parliament L. Kravchuk won. Parliament remained in the same composition as it was elected during the March 1990 elections, in which the communist “group 239” made up the majority. That is, Ukraine entered the year 1992 with a post-Soviet speaker of Parliament as president and continued to have the communist majority in the Verkhovna Rada.

Accordingly, neither the deputies nor the head of state understood either how to move to the market, or how to carry out the privatization process under the new conditions properly. Therefore, the privatization of state-owned enterprises, at the initial stage, began (in fact – continued) to be carried out inertially precisely by the Soviet managers (the so-called “red directors”) in a more closed format. It was more like a hidden redistribution of state property under conditions of initial accumulation of capital by those who were already involved in its administration. Subsequently, this led to the appearance of closed “joint-stock companies” (Koshyk, 2011, p. 74), which became more like private firms than, in fact, companies.

The institutional process of privatization itself began in 1992. As stated in the historical reference of the State Property Fund of Ukraine: “The main guidelines for privatization in Ukraine were laid at the end of 1991, when Parliament approved the Concept of Denationalization and Privatization of Property of State Enterprises, Housing Fund and Land. In 1992, the main privatization laws were adopted and the State Privatization Programme for 1992 was approved. This year can be considered the beginning of privatization...” (Istorychna, 2021). It was in 1992 that the Law of Ukraine “On Privatization of the State Housing Fund” was adopted regarding the transfer of residential premises to the private ownership of citizens, and on March 4, 1992, the President signed the Law of Ukraine “On Privatization of State Property” (Kulchytskyi, 2011).

To understand the assets, it is worth noting that with the declaration of independence, Ukraine had property in the state ownership for an estimated amount of 6.5 trillion hryvnias, and property worth about 4 trillion was subject to privatization. (Ledomska, 2001, p. 14), i.e. it should have been 61 % of all objects. It would be practically impossible to implement privatization on a monetary basis, since the savings of all citizens were only UAH 100 billion (Ibid), i.e. 2.5 % of the value of what was planned to be sold. In addition, the monetary reform, which should have encouraged this process to become more active, had not taken place yet.

Before privatization (1992), there were 46,000 state-owned enterprises, of which 40,000 were medium and 6,000 large, which provided about 75 % of all production in Ukraine (Derzhavotvorchyi, 2007, p. 292).

According to the state concept, 70 % of the objects were to be privatized using certificates (vouchers) distributed by the government through the State Property Fund to all citizens in accordance with the principle of equality and ownership of all property by the people, and the rest (30 %) were to be sold for money to new owners (Ibid). At the same time, it should be noted that at the very beginning of the privatization process (1992), Parliament blocked any monetary privatization until the introduction of a new unit, the hryvnia (Derzhavotvorchyi,

2007, p. 297), which entered into circulation as early as September of 1996. That is, during the first five years of independence, the purchase of state and communal enterprises in cash was not supposed to take place.

Therefore, during the first privatization period in Ukraine (1992 – 1994), the most common was the leasing of the relevant state-owned enterprises to their collectives (actually – managers) with the possibility of further repurchase of the property. It was on May 20, 1993 that the government adopted Decree “On Privatization of Integral Property Complexes of State-owned Enterprises and their Leased Structural Units”, according to which the state sold shares of open joint-stock companies that were established by state privatization authorities and tenants, first the latter (the value of which exceeds 20 million krb.), and then to all others (Dekret, 1993). Most often, the companies were hired by their management and continued to carry out their management activities until they were completely bought out. Privatization of such facilities took place far below the market price. Initially, such managers (the so-called “red directors”) managed the respective enterprise during the Soviet times, and continued to do so in the future, and also received subsidies from the state for their (although legally still state-owned) enterprises. For the final purchase of such a leased enterprise, it was initially brought to the point of unprofitability and complete bankruptcy, and was subsequently bought out by the management by purchasing the corresponding shares for nothing. Such “schemes” were used until 1997. Already after such privatization, the new (old) owners became much more interested in the results of their enterprise, in particular, not only in the quantity, but also in the quality of the final product, and its successful implementation at the market under conditions of relative competition.

Under the conditions of such a “primary” privatization (lease with subsequent purchase), during the period of 1992 – 1993, 3,599 enterprises (1,976 communal and 1,623 state) were transferred to a private ownership (Kulchytskyi, 2011). The following year (1994), the pace of privatization became more rapid, mainly at the expense of utility companies. A total of 8,348 enterprises were privatized (Ibid). During the period of 1992 – 1999, the buyout of their enterprises by labour collectives accounted for 42.07 % of the total number of privatized objects, and the buyout (mainly by the so-called external “outsiders” for funds, which took place since 1996) of leased property – 19.73 % (Derzhavotvorchy, 2007, p. 300).

It is worth noting the political component of this period. Thus, in 1994, in independent Ukraine, for the first time, there was a change of government from one that had uncertainty regarding the course of privatization to one that more actively generated a course in this direction. In March of 1994, the Verkhovna Rada of the second convocation was elected under the majority system (the majority of mandates were won by left parties, primarily the Communist Party); in July, L. Kuchma became the new President of Ukraine, who replaced the first Head of State – L. Kravchuk in this position. As for the first president, as the famous economist Professor A. Galchynskyi notes: “Economy... was not the subject of President Kravchuk’s immediate interest. His policy in this area was reduced to postponing the solution of the most difficult tasks “for later”. This turned out to be a tragic mistake, as the euphoria associated with independence quickly faded and the economy went into free fall” (Halchynskyi, 2013, pp. 18–19).

The second president, however, considered it necessary to carry out broad and rapid privatization. Thus, L. Kuchma issued a decree according to which by the end of 1995, privatization was to take place in respect of 90 % of small enterprises (Hrytsak, 2022, p. 572). The most massive privatization of enterprises in Ukraine began with the use of property

certificates (vouchers), which was carried out during the period of 1995 – 1999 (Koshyk, 2011, p. 76). According to it, the government distributed appropriate privatization certificates to the people, as the owner of all state-owned enterprises, which gave each citizen the right to own part of the property and co-own such property with others. This certificate, as a kind of share, could be sold, exchanged, etc. In total, the State Property Fund of Ukraine issued about 50 million such privatization certificates and created more than 1,000 auctions at which they were to be distributed free of charge to all citizens (Kulchytskyi, 2011). Citizens received almost 92 % of them, i.e. 46 million pieces, as well as 30 % of compensation certificates in the amount of over UAH 1 billion (Derzhavotvorchyi, 2007, p. 298). Almost 20,000 shares of various enterprises were sold through the network of certificate auctions created throughout Ukraine, the value of which amounted to UAH 4.6 billion. (Paskhaver, Verkhovoda, Voronkova & Tereshchenko, 2003, p. 13).

The “voucher” model of privatization was developed by a government group under the leadership of the Deputy Prime Minister of Ukraine V. Lanovoy, who, to a certain extent, borrowed the experience of Czechoslovakia in the implementation of privatization certificates (vouchers) (Koshyk, 2011, p. 75). At the same time, the government did not allow such privatization options as: return of property to former owners (restitution), since the nationalization of property took place in a rather earlier (interwar) period, as well as – sale to foreigners, because it was not popular among the people.

Thus, the voucher model became a “secondary” option for privatization in Ukraine and looked fairer at first glance, because the entire nation owned all the state’s property, which had to be evenly and proportionally divided in the transition to the market conditions. This type of privatization allows it to be carried out relatively quickly and quite flexibly, which was implemented in Ukraine in the mid-1990s. However, this type of privatization has also a number of disadvantages, in particular such as: lack of access of owners to capital and property management skills; small profits for shareholders as well as for the government; it does not contribute to the modernization and improvement of the management of such enterprises by the collective owner, etc. (Havrylyshyn, 2000). However, despite these shortcomings, which are evaluated later, it was almost the only option that the then government and the president could take. Despite this, the people regarded such massive and rapid privatization of state-owned enterprises as a kind of deception, because the certificates distributed by the government almost immediately lost their value many times over and citizens tried to sell them for nothing to interested people (mostly those involved in the management of such enterprises, i.e. the so-called “insiders”).

According to the 1994 survey conducted by the Institute of Sociology of the National Academy of Sciences of Ukraine regarding the privatization process, 38.4 % of respondents gave a negative answer, and 34.2 % said it was “difficult to say” (Vorona, 2005). That is, there was no public consensus regarding the privatization process at its initial stage in Ukraine, and accordingly, this undermined its entire legitimacy. Looking ahead for comparison, it is worth noting that at the end of L. Kuchma’s rule in 2004, the situation with citizens’ distrust of a private property halved and was already 19 % (Halchynskyi, 2013, p. 184).

As for the political component, it is worth noting that if the second President of Ukraine L. Kuchma pedaled and accelerated the privatization process, then the left parties (primarily the Communist Party of Ukraine) in the Verkhovna Rada of the second convocation, which had the majority of mandates in Parliament, were against such torpedoing of this process by the head of state. In July of 1994, the Communist Party of Ukraine and other left-wing

political forces voted for a moratorium on privatization, which lasted until May of 1995, and constantly increased the number of objects that were not subject to this process (as of 1996, there were 6,000 of them) (Derzhavotvorchyi, 2007, p. 297).

In general, at the beginning of 1997, the authorities distributed about 80 % of privatization certificates, of which 2.5 million remained unused by their owners, and 5.3 million citizens never applied for them (Kulchytskyi, 2011). 19 million, although they legally became co-owners of certain enterprises, they did not receive real ownership, because the actual managers deprived them of real participation in the activities of these objects and the distribution of profits. Because of this, the latter bought their privatization certificates from the owners of the shares, in fact, for cash and at a much lower price than their market value, i.e. for nothing, and received a controlling stake in the respective enterprise.

The only benefit for the owners of such privatization certificates was the opportunity to sell them to interested parties, as long as these “papers” had at least some value. That is, citizens under the conditions of crisis and actual survival in the middle of the 1990s did not appreciate the true value of the relevant certificates that they had in their hands and were not ready to “play the long game” and exchanged them to meet their current needs, most often for everything, essentials. The “red” managers, realizing the real value of these vouchers, significantly dumped (understated) the prices in order to massively buy them from citizens at a low cost in order to acquire full ownership of the respective enterprises. Subsequently, this state of affairs led to a significant property stratification of society into an impoverished majority and a wealthy minority.

During the period from 1995 to 1998, the following non-competitive methods of privatization were common in the country: purchase of property by the labour team or tenants for certificates, property certificate auctions, non-commercial competitions, etc. (Derzhavotvorchyi, 2007, p. 295), as well as commercial contests and auctions held with the aim of privatizing non-production facilities.

The “tertiary” stage of privatization in Ukraine fell on 2000 – 2004, when the sale/purchase on the market of large, strategically important state-owned enterprises began. Thus, in 2000, the Law of Ukraine “On the State Privatization Programme” was adopted, and the Program was focused on the years 2000 – 2002 (Derzhavna, 2000), according to which privatization of strategic industries became possible. The mass purchase of such enterprises by “their own” contributed to an even greater integration of business with the government and led to the emergence of large financial and industrial circles known as “oligarchy”. Thus, in 2004, 20 out of 38 privatized objects were strategic enterprises and monopolistic enterprises (Nohinova, 2014). During the specified period, 18 objects of Group “G” (large, strategic enterprises) were sold, 13 of which were purchased by large business groups, in particular such as: “System Capital Management” company – 7 objects; Interpipe Corporation – 2 objects (Paskhaver, Verkhovodova & Aheieva, 2006, p. 12) and the others. At the same time, President L. Kuchma’s economic adviser at the time, A. Galchynskyi, notes in his memoirs that: “...privatization was never directed by us and could not be directed at solving purely fiscal problems. The goals of privatization were different... privatization is not only the budget, it is much more than the budget. In the process of privatization, it is necessary to take care first of all about the effective owner and his competitiveness” (Halchynskyi, 2013, pp. 184–185).

In general, during the ten years of independence, in particular, during the period of 1992 – 2002, only UAH 5.4 billion was received from the privatization of property to the

state budget. (\$1.1 billion) (Kulchytskyi, 2011), which indicates large-scale “schemes” in this process. At the same time, during the period from 1992 to 1998, the state budget received only UAH 646.22 million from privatization from the planned 1,540 million hryvnias (Derzhavotvorchyi, 2007, p. 302). Almost 85 % of the value of state property was privatized on a non-monetary basis, of which: 47 % by certificates and 38 % by working privatization mechanisms (Halchynskyi, 2013, p. 185). Almost 30 million hectares of agricultural land and 5.7 million apartments were also privatized on a cashless basis (Ibid). Deductions to the state budget from privatization increased from 50 % in 1993 to 90 % in 1999 and went to repay social benefits (i.e. to “eat out”) (Derzhavotvorchyi, 2007, p. 297).

Thus, during the period from 1992 to 1994, more than 11,000 enterprises and organizations were officially privatized, and during the period of 1995 – 1998 another 40,400 small ones, and about 10,000 medium and large ones. Of all these 61,591 privatized objects during the period of 1992 – 1998, 80 % (49,519) were small enterprises; 17.6 % (10,840) – medium and large; about 2 % (1,232) are objects of unfinished construction (Derzhavotvorchyi, 2007, p. 299). In total, 96,400 objects (of communal and state ownership) were privatized between 1994 and 2004 (Halchynskyi, 2013, p. 184). Among these objects, 71.4 thousand were as follows: industrial enterprises – 8,564 (only in 1999 were privatized enterprises: metallurgy – 26 %; electric power – 25 %; chemical and petrochemical – 19 % (Derzhavotvorchyi, 2007, p. 302)), construction – 3,750, commercial and freight transport facilities – 38,371, hotels and restaurants – 7,085, transport and communications – 1,997, financial sector – 363 (Kulchytskyi, 2011), etc. If in 1994 there were 79.8 thousand small enterprises (of all types of ownership), then ten years later (2004) there were 283.4 thousand of them (Halchynskyi, 2013, p. 186).

According to the state privatization programme for 2000 – 2002, it was to be carried out exclusively for money (Derzhavotvorchyi, 2007, p. 302). This programme established a three-year period during which the state could own the shares of a certain enterprise, and in case of deterioration of its situation, it was put up for auction and subject to mandatory privatization (Ibid).

In 2004, 75.8 % of all employees in the country worked in non-state enterprises; was 95.8 % of wholesale turnover and 91.2 % of export products; produced – 85.3 % of industrial goods, in particular: 98.5 % in light industry, 97 % – in food industry, 88.6 % – in machine building, 85.7 % – in metallurgy (Halchynskyi, 2013, p. 184). A year later (2005), 78.3 % of objects were privately owned; in the state – 4.1 %; in communal – 7.4 % in associations of citizens without specifying ownership – 10.1 % (Derzhavotvorchyi, 2007, p. 305).

The Conclusions. Thus, privatization in Ukraine from 1992 to 1996 was the so-called “primary” with the future purchase by tenants of enterprises of state and communal ownership. If the first (post-Soviet) government in Ukraine did not quite understand how to carry out this process during the period of 1992 – 1994, then due to such inaction in this direction, privatization took place more chaotically, primarily at the initiative of the so-called “red directors”. In 1994, when the second government was formed, in particular President L. Kuchma and his subsequent governments, privatization became more systematic and massive. From 1995 to 1999, the so-called “secondary” (“voucher”) privatization, in which enterprises began to be transferred to private ownership en masse through the purchase of certificates by interested parties. Most often, as during the “primary” period, such enterprises went mainly to managers and people affiliated with them. During the period of 2000 – 2004, during the second term of President L. Kuchma, the “third” privatization took place.

Wealthy people, primarily connected to the government circles, acquired large strategic state enterprises on a “competition” basis at lower prices, which contributed to the emergence of financial and industrial circles in Ukraine, known as “oligarchy”.

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