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# **Health-resort industry in Ukraine: The underlying causes of changes**

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## **Abstract**

### **Health-resort industry in Ukraine: The underlying causes of changes**

Ukraine has great potential for the development of the health-resort industry, as there are rich natural complexes on the coast of the Black and Azov Seas, as well as the mountainous massifs of the Carpathians and Crimea.

However, in recent years, the health-resort industry of Ukraine has been influenced by factors that negatively affected its development. The purpose of this research is to investigate the consequences for health-resort complexes of Ukraine of the annexation of Crimea by the Russian Federation and of an anti-terrorist operation being conducted in the east of the country.

The paper analyzes the current state of the health-resort industry of Ukraine. Also, the authors discuss their distribution across the territory of Ukraine. They consider how changes in the state financing of health-resort treatment have affected the condition of the health-resort industry. Special attention is paid to the state of the health-resort complex of Donetsk and Luhansk regions, as parts of these territories are outside the control of the Ukrainian authorities. Based on data from open sources of information, the structure of health-resort complexes has been studied for the years 2013–2016.

## Introduction

During the last five years, the number of organizations of the health-resort industry of Ukraine has decreased due to an unstable financial and political situation in the country. In 2015, the occupation of the Autonomous Republic of Crimea, where a significant number of health complexes were located, was one of the factors that influenced the decline in the number of health resorts and, accordingly, which resulted in a decrease in the number of health-resort visitors. In 2011, there were 548 specialized accommodation facilities in Crimea — the largest number among all regions of Ukraine, constituting 24.7% of the market. A similar situation developed in eastern Ukraine, namely in Donetsk and Luhansk regions, where as a consequence of the anti-terrorist operation taking place, many health resorts and spas stopped functioning. In the Luhansk region, the number of specialized accommodation facilities has sharply decreased — from 52 in 2011, to 4 in 2017.

Historical circumstances have also in some way conditioned the domestic modern structure and features of the sanatorium and health resort. Their investigation and systematization also helps to understand the tendencies in modern changes of spa complexes.

The purpose of the research is to investigate the consequences for the health-resort industry of Ukraine of the annexation of Crimea and of the anti-terrorist operation being conducted in the east of the country.

The subject of the paper is a set of organizational, economic, and administrative mechanisms for regulating the changes in functioning and development of health resort complexes. The object of the research is to show the underlying processes of the changes in the functioning and development of health resorts.

Our main hypothesis is that further development of the Ukrainian health-resort industry should be managed with consideration to the underlying causes of changes in organizational, economic, and administrative mechanisms that regulate their functioning.

## 1. Theoretical framework of the research

Recently, Ukrainian researchers have paid more attention to the problems of the development of the health-resort industry and to the scientific substantiation of their solution.

Mazaraki and Vedmid (2013) distinguish the following groups of development parameters of health resorts: economic, social, natural and resource, institutional, medical, business and technological (service). They consider it necessary to define the optimal interrelation between types of health-resort and recreational enterprises as a unique demand-driven ratio, and the need of the domestic social sphere.

Mendela (2017) emphasizes the role of the governmental regulation of development of Ukrainian spa-resort complexes by taking into account available resources. The author focuses on tools of governmental regulation of development of Ukrainian spa-resort complexes. such as marketing tools, price regulation, restrictions of access.

Humeniuk (2014) highlights the following characteristics of modern Ukrainian spa-resort complexes: lack of real, effective institutional changes over the past 25 years, chaotic transformation of the sanatorium and resort area, which manifests itself in its inability to satisfy the needs of Ukrainian society for restorative and preventive medicine; excessive regulation and low effectiveness of the procurement and distribution mechanism of services with the participation of the state and of their social insurance funds. According to this, the basic economic conditions of development are the following: high level of economic reclaiming of natural treatment resources, formation of industrial infrastructure for spa treatment and health of the population; revival of institutional norms of conducting sanatorium and resort affairs on the principles of private ownership, entrepreneurship, competition; disabling the anti-market mechanism to ensure appropriate reproduction of human capital; transformation of the quasi-market system of health-resort services to a socially-oriented market system of relationships that meets the modern needs of the Ukrainian society.

Galasuk and Apanasenko (2016), as well as Kovalenko (2015) analyze the main indicators of functioning of the health-resort industry of the recent years; they underline negative trends in development of the Ukrainian health-resort industry but consider the market of health-resort services to be potentially attractive. A significant part of its success is attributed to the government and governmental regulation.

Further studies of changes in the health-resort industry, in our opinion, should be conducted in the context of an institutional approach to the study of economic processes which allows to analyze most fully the competitive environment described above, the market agents, as well as conditions for market transactions (Humenuk 2014). Institutionalism is recognized as a trend of modern economic thought, whose objects of study are certain institutions, in particular the state, private property, trade unions, households; traditions, legal norms, standards, taxes, competition, monopoly, system of financial relations between agents of economic rights, rights of individual social strata and groups of people, as well as individuals as a subject of property relations (Ekonomichna encyklopedia, 2000, p. 659).

## 2. Changes in functioning and development of the Ukrainian health-resort sector

### 2.1. Historical causes of modern changes in functioning and development of the Ukrainian health-resort sector

The main stages of development, the influential events and corresponding characteristics of Ukrainian health-resort industry are shown in Table 1.

**Table 1.** The main stages of Ukrainian health-resort industry development

Stages	Events	Characteristics
Until 1917	Health insurance funds provided health resort treatment for employees of enterprises.	Private ownership of health resorts.
November 1917	The Decree of the Council of People's Commissars of the USSR "On the free transfer of all medical establishments of the enterprise to the sickness funds or, in the absence of those, for the issuing of sums of money for their equipment".	State ownership. Great number of sanatoria or sanatoria-preventoria were built.
July 1918	The People's Commissariat of Health was founded.	Programs for restoration, preservation, protection of resorts and healing areas were developed.
June 1921	The Decree of the Council of People's Commissars "On administration of therapeutic areas (resorts) of national importance"; Resolution of the Council of People's Commissars "On the organization of the Central Resort Commission at the All-Union Central Executive Committee".	The management of medical areas (resorts) of national importance, according to the list established by the People's Commissariat of Health, is to be carried out by the People's Commissariat of Health through the local resort authorities, to which all medical institutions, mineral springs, salt and mud lakes, limans, beaches, parks, all residential and commercial buildings with inventory that cater for the needs of medical institutions, were transferred. The leading role of the Soviet trade unions in the organization of health-resort issues was determined.

January 1922, March 1923	The sources of financing of health resorts, spa establishments were defined; the right of free resort treatment for citizens was secured.	State funds, estimates of the Main Military Engineering Department are the sources of financing of health resorts, spa establishments. Free provision of beds of national-level resorts, which were on state security, for workers and employees, children, invalids of labour and war. The plan for the additional deployment of beds at the expense of the social insurance fund was developed to provide resort assistance to workers and non-state enterprise. It was also allowed to exploit the resorts beyond established norms on a commercial basis, renting sanatoria to private individuals.
March 1923	The Decree of the Council of People's Commissars "On the organization of the resort issue".	The organizational and economic principles of transition of resorts of national importance to economic calculation are foreshadowed.
1933	The decision to liquidate the People's Committee of Labour.	Trade unions became direct managers and owners of the resort network.
April 1956	The Resolution of the Council of Ministers of the USSR "On improving the work of sanatoriums and rest homes".	All existing sanatorium and spa establishments belonging to trade unions, as well as those which were under construction, were taken away from trade unions and transferred to the Ministry of Health of Ukraine.
April 1960	The Resolution of the Council of Ministers of the Ukrainian SSR.	All existing sanatorium and spa establishments transferred earlier to the Ministry of Health of Ukraine were removed back to the governance of Ukrainian Republican Council of Trade Unions.
December 1991	The decision of the executive committee of the Leninsky district council of Kyiv.	The assignee of the Ukrainian Republican Council for the management of resorts of trade unions, health resorts and farms, unions of sanatorium and resort establishments of trade unions of Ukraine was determined to be the JSC "Ukrprofzodorovnitsa".

Source: designed by the authors on the basis of Kozlov (1982) and Barchukov (2006).

The nationalization of the resorts of the USSR was carried out in the first years after the October Revolution. It was preceded by the Decree of the Council of People's Commissars (CPC) of the USSR of 14 November 1917 devoted to the free transfer to the sickness funds, which in the territory of pre-revolutionary Ukraine were the bodies of social insurance, medical establishments of en-

terprises. Hospital cashiers existed at large enterprises or were formed for several small ones; entrepreneurs were supposed to provide hospital workers with medical assistance, including sanatorium treatment. According to the Decree, entrepreneurs were obliged to transfer all their medical institutions and enterprises which were in a satisfactory condition to hospitals. They should do it free of charge. In case of non-compliance with the standards of medical aid, entrepreneurs were to issue additional money.

Subsequently, in connection with the inadequacy of the hospital, including sanatorium beds for providing treatment and improvement of health for a great amount of people, a public health system was created.

The highest governmental health authority under the CPC of the Russian Soviet Federative Socialist Republic was founded on 11 July 1918 on the basis of an appropriate CPC decree. A little later, by Decree of CPC of 4 April 1919 "On therapeutic areas of national importance", nationalization of resorts was declared.

Further formation of the system of management of resorts was associated with the adoption of the decree of the All-Union Central Executive Committee and the CPC of 23 June 1921 "On the management of medical areas (resorts) of national importance" and the resolution of the CPC of 24 June 1921 "On the organization of the Central Resort Commission at the All-Union Central Executive Committee".

By the Decree of the CPC "On the organization of the resort issue" (March 1923) annual approval of the number of free beds for workers and employees was implemented. The maintenance of such beds was carried out at the expense of the public funds according to the estimated cost in agreement with the People's Commissariat of Finance. All income of the resorts should be used solely for improving the resort business; resorts and auxiliary enterprises were equated for taxation over three years in the state-financed institutions, which are financed on an estimated basis; the necessity to form the Main Resort Administration in the structure of the People's Commissariat was determined.

In 1933 trade unions became direct managers and owners of the resort network. In 1956 all existing sanatorium and spa establishments belonging to trade unions, as well as those which were under construction, were taken away from trade unions and transferred to the Ministry of Health of Ukraine. However, in 1960 by the Resolution of Council of Ministers of the Ukrainian SSR they were removed back to the governance of Ukrainian Republican Council of Trade Unions.

The assignee of the Ukrainian Republican Council for the management of resorts of trade unions, health resorts and farms, unions of sanatorium and resort establishments of trade unions of Ukraine was determined to be the JSC "Ukrprofozdorovnitsa" in 1991. The JSC "Ukrprofozdorovnitsa" was created on the property of the founders of the Federation of Trade Unions of Ukraine and the Social Insurance Fund of Ukraine for temporary disability. The Federation of Trade Unions of Ukraine contributed fixed assets and working capital of sanatorium and

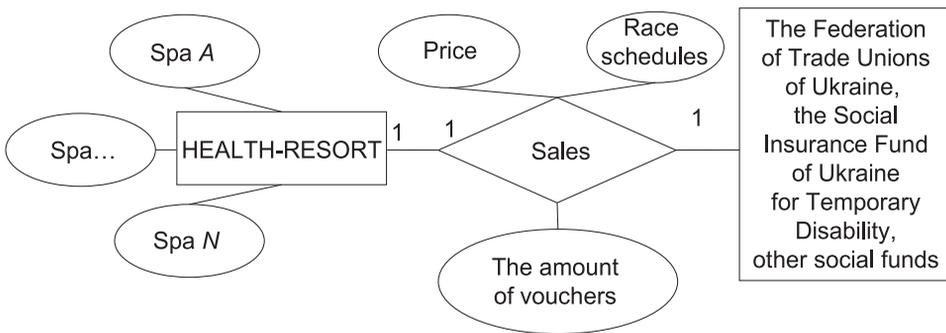
resort establishments, enterprises and organizations of trade unions, with the total value of Ukraine Hryvnia 751,234,350 transferred to the partnership in ownership, amounting to 92.92% of the authorized capital stock.

## 2.2. Transformation of the model of health-resort business of independent Ukraine

The above-mentioned study of the historical stages of the establishment and development of health-resort industry allows us to determine the institutional background when developing spa resort models that will reflect its transformation.

The initial period of the formation of the market of health-resort services of independent Ukraine (the first decade) is characterized by the presence of such institutions as the state, trade unions, social funds. At the same time, prices are regulated by the state through state funds, centralized procurement mechanisms. Sales of services are carried out according to predefined schedules of arrivals in accordance with concluded contracts, the number of which is limited.

In such a way the model of health-resort business of independent Ukraine was formed. It is shown in Figure 1.



**Figure 1.** The model of health-resort business of independent Ukraine

Source: designed by the authors.

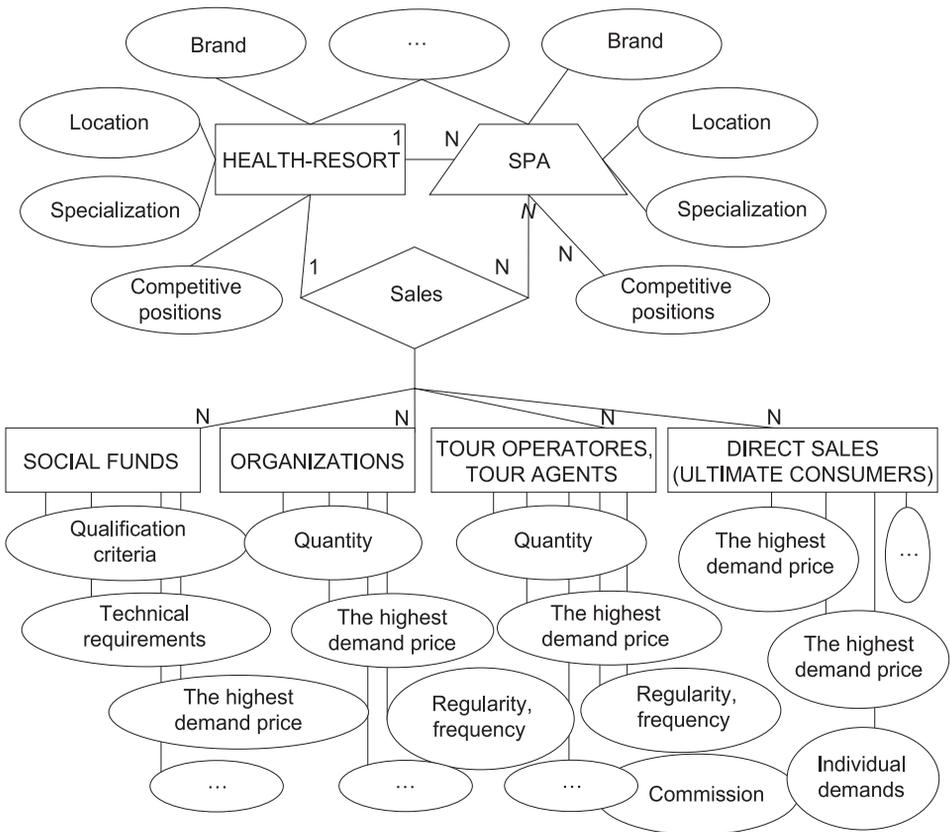
In accordance with the language of the infological models described by Smirnov (1998), in the Figures presented here, rectangles and trapezes depict independent entities (in our model these are sanatorium and spa establishments having the right to carry out independent activities), rhombuses – associations (formed by sanatorium and resort facilities), ovals – attributes (characteristics, parameters of independent objects). The non-directional lines and edges of shapes, showing the degree of communication as either number 1 or the letter N (meaning “many”), indicate links between entities, associations, and attributes.

In the presented model, spas play the role of dependent objects, as attributes of individual resorts; sales have three main parameters: the price, terms of arrivals

and the number of trips that are purchased by one main consumer, the Federation of Trade Unions, later — the Executive Directorate of the Social Insurance Fund for Temporary Disability and other social funds.

The development of market relations in Ukraine and the complication of the environment became a driving force for the formation of a more complex, modern model of health-resort business. It is shown in Figure 2.

According to this model, spas were turned into independent objects, just like the resorts, one of the reasons being the change in the organizational forms of the functioning of large resort associations (unbundling), and the sales processes being complicated by numerous parameters of consumers, in the structure of which there have also been some changes in the direction of increasing the specific weight of individual buyers.



**Figure 2.** The changed model of the health-resort business in Ukraine

Source: designed by the authors.

Thus, the given model illustrates the expansion of the institutional basis for the development of the health-resort business. Unlike in the initial model, apart from the state, social funds, the system of relations of centralized procurement of services, the participants of the health-resort market are private property, households, competition, the rights of the individual as a subject of property relations, standards.

The functioning of the participants in the spa market in accordance with this model occurs in other conditions of market transactions, based on a new legislative framework.

The Law of Ukraine “On compulsory state social insurance in connection with temporary incapacity for work and expenses caused by burial” of 18 January 2001, No. 2240-III (hereinafter referred to as Law No. 2240) offered the following types of social services (provided from funds of the Social Insurance Fund):

- sanatorium and spa treatment;
- restorative treatment in rehabilitation departments of sanatorium and spa establishments;
- improving children’s health;
- partial financing of sanatoria-preventoria for enterprises, institutions, educational establishments and organizations;
- partial funding of children’s and youth sports schools.

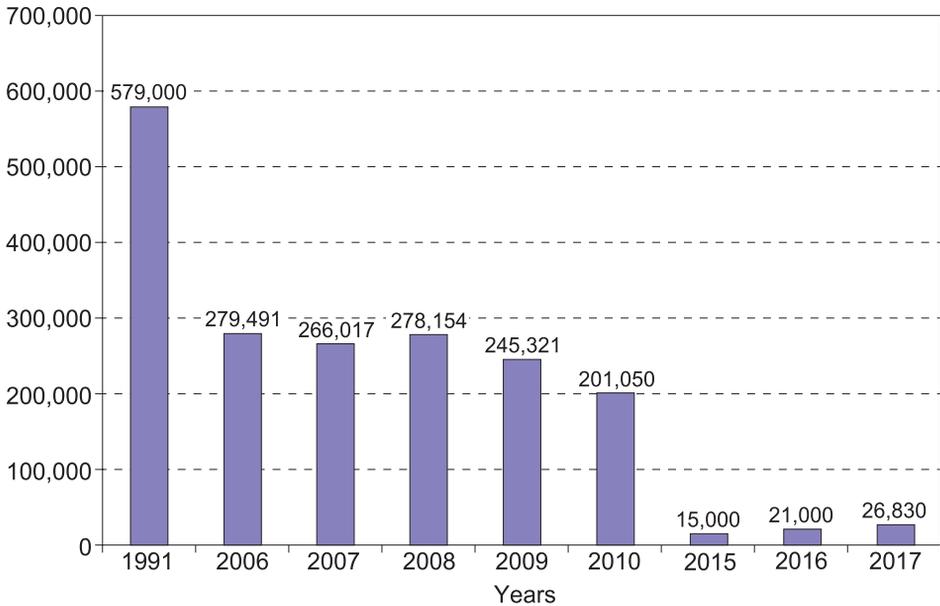
However, Law No. 2240 was lapsed in connection with the adoption of the Law of Ukraine “On amendments to certain legislative acts of Ukraine regarding the reform of mandatory state social insurance and legalization of the salary fund” from 28 December 2014, No. 77-VIII (hereinafter — Law No. 77).

From 1 January 2015 (the date of the enactment of Law No. 77), the Law of Ukraine “On compulsory state social insurance against occupational accidents and occupational diseases that caused disability” was introduced in a new wording under the Law of Ukraine “On compulsory state social insurance” dated 23 September 1999, No. 1105-XIV (hereinafter — Law No. 1105).

The new wording includes three types of social insurance:

- in connection with temporary incapacity for work;
- from work accidents and occupational diseases that caused disability;
- medical.

Figure 3 shows that there is a clear tendency to reduce sanatorium and health-resort vouchers financed by the Social Insurance Fund in Ukraine.



**Figure 3.** The number of sanatorium and resort vouchers that were provided from the Social Insurance Fund for Temporary Disability of Ukraine for 1991–2017

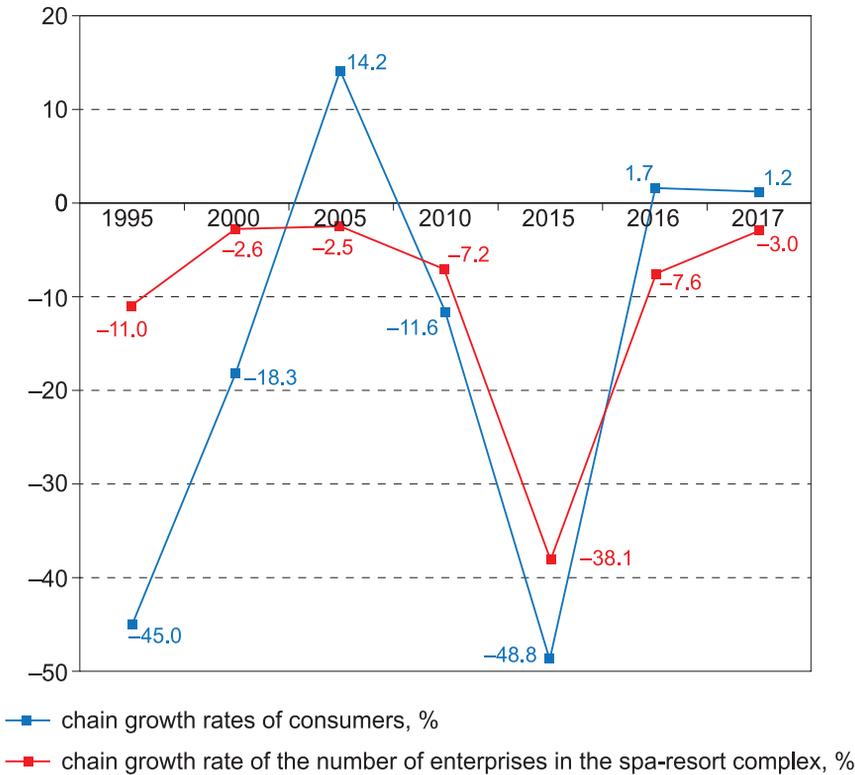
Source: designed by the authors on the basis of [www.fssu.gov.ua](http://www.fssu.gov.ua).

As it can be seen from Table 1 and Figures 1 and 2, the historical prerequisites for the establishment and development of health resorts in Ukraine have made the modern resort business highly dependent on government funding. Besides, in accordance with the law of Ukraine “On resorts”, the development of resorts is carried out in accordance with long-term comprehensive and targeted state and local programs.

A sharp reduction in the state funding of spa treatment funded by the Ukrainian Social Insurance Fund leads to a sharp decline in the activity of spas, reducing their number, and worsening the quality of spa services.

### 3. Impact of the annexation of Crimea and the temporary occupation of a part of the country’s territory on the structure of the health-resort industry of Ukraine

What is more, in Ukraine there is a reduction in the volume of spa treatment due to the fact that some spas are located in the temporarily occupied territories of the so-called “LPR” (Luhansk People’s Republic) and “DPR” (Donetsk People’s Republic), as well as in the territory of Crimea, which has been annexed by Russia.



**Figure 4.** Total reduction of the number of health-resort complexes in Ukraine

Source: designed by the authors on the basis of [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua).

Figure 4 indicates that the biggest drop in growth rates of the amount of consumers of resort-spa services in Ukraine is 45% in 1995 after a sharp reduction in the state funding of spa treatment from the Ukrainian Social Insurance Fund, and 48.8% in 2015.

Table 2 shows the number of resort-spa organizations in the regions of Ukraine.

**Table 2.** The number of resort-spa organizations in the regions of Ukraine for 2011–2017

Region	2011	2014	2015	2016	2017	2015/2011
<b>Ukraine</b>	<b>2,499</b>	<b>2,644</b>	<b>2,478</b>	<b>2,534</b>	<b>2,474</b>	<b>-21</b>
Vinnitsia	46	73	75	60	66	29
Volyn	46	64	66	61	58	20
Dnipropetrovsk	141	146	139	138	120	-2
<b>Donetska</b>	<b>140</b>	<b>50</b>	<b>44</b>	<b>46</b>	<b>45</b>	<b>-96</b>
Zhytomyr	48	59	58	70	67	10
Zakarpattia	159	229	213	211	208	54
Zaporizhzhia	116	125	86	114	131	-30

Ivano-Frankivsk	345	212	200	227	244	-145
Kyyiv	56	89	87	114	111	31
Kirovohrad	32	48	41	30	29	9
<b>Luhansk</b>	<b>60</b>	<b>13</b>	<b>23</b>	<b>23</b>	<b>25</b>	<b>-37</b>
Lviv	228	273	273	287	277	45
Mykolaiv	70	89	66	74	79	-4
Odesa	217	235	250	232	208	33
Poltava	86	106	105	76	77	19
Rivne	41	50	46	45	77	5
Sumy	48	41	34	37	35	-14
Ternopil	46	58	57	59	57	11
Kharkiv	103	125	123	108	116	20
Kherson	74	109	70	92	57	-4
Khmelnyskyi	60	84	70	71	74	10
Cherkasy	70	73	75	80	78	5
Chernivtsi	67	91	87	79	75	20
Chernihiv	44	45	43	35	31	-1
Kyiv city	156	157	147	165	163	-9
Crimea	548	no data	no data	no data	no data	-548

Source: designed by the authors on the basis of ([www.ukrstat.gov.ua](http://www.ukrstat.gov.ua); Derzhavna sluzhba statystyky Ukrainy, 2018).

As we can see, 96 resort-spa organizations of the Donetsk region, 37 of the Luhansk region and 548 of Crimea are out of health-resort business of Ukraine today.

## Conclusions

The study of changes in the health-resort business of Ukraine on the basis of the institutional approach to the study of economic processes has allowed us to identify determinants such as historical background, political instability, military conflict. The complex negative influence of these determinants has undergone organizational, economic, and administrative mechanisms of regulating changes in resort-spa complex. The most significant consequence is the reduction of the number of resort-spa complexes in Ukraine and the lack of control over a part of the country's territory by the Ukrainian authorities. To solve these problems it is necessary to develop effective government support and development programs, and use the positive experience of other countries on institutional basis.

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