

**SOCIAL AND ECONOMIC DEVELOPMENT OF RURAL AREAS
UNDER CONDITIONS OF DECENTRALIZATION**

Yu. Dubnevych, Ph.D., Associate Professor

ORCID ID: 0000-0002-4843-6239

Lviv National Agrarian University,

Deputy Head of Zhovkva District State Administration in the Lviv region

N. Dubnevych, Senior Lecturer

ORCID ID: 0000-0002-0210-9443

Lviv National Agrarian University

U. Dorosh, Postgraduate Student

ORCID ID: 0000-0002-0420-3310

Lviv Regional Institute of Public Administration of the National Academy for Public Administration under the President of Ukraine

© Yu. Dubnevych, N. Dubnevych, U. Dorosh, 2019

<https://doi.org/10.31734/agrarecon2019.01.024>

Дубневич Ю., Дубневич Н., Дорош У. Соціально-економічний розвиток сільських територій в умовах децентралізації

Сучасний стан розвитку сільських територій України залишається на досить низькому рівні, що значною мірою є наслідком і недостатнього рівня ефективності функціонування сільського господарства як основної сфери зайнятості на селі, і незавершеності розпочатої децентралізаційної реформи. Проблема полягає у нереалізації концепції зрівноваженого розвитку сільських територій з урахуванням потреб збереження навколишнього природного середовища для сучасного та майбутніх поколінь, що особливо актуалізується в умовах глобалізації. Основним завданням наразі є пошук можливостей підвищення ефективності децентралізаційних процесів і завершення відповідної реформи. Особливістю децентралізаційної реформи в Україні є те, що, на відміну від, наприклад, Польщі, процес створення ОТГ є наразі добровільним. На регіональному рівні все ще зберігається тенденція щодо недооцінювання ролі сільських територій у загальній структурі економіки областей. В Україні в рамках децентралізаційної реформи останніми роками відбувалося перезавантаження державної регіональної політики на основі європейського досвіду. Надалі підвищення рівня конкурентоспроможності регіонів і пріоритетний розвиток сільської місцевості потрібно забезпечувати через реалізацію низки окреслених завдань. Зараз процес децентралізаційного реформування сільських територій уповільнив свої темпи, але результати проведеного етапу вже відчутні, особливо у фінансовому плані, адже децентралізація – це передача від державної влади органам місцевого самоврядування і повноважень, і фінансів. Децентралізація місцевого самоврядування відкриває нові можливості для нарощування потенціалу розвитку сільських територій та формування позитивних управлінських ефектів на місцевому рівні, створення ефективної системи надання адміністративних послуг і розвитку територіальних громад, дає змогу ефективно й адекватно розпоряджатися власними надходженнями і на основі цього створювати можливості для зрівноваженого розвитку сільських територій. Усі підстави для того, щоб сподіватися на суттєве збільшення кількості ОТГ вже у недалекому майбутньому є, оскільки вагомих об'єктивних причин гальмування процесу об'єднання в територіальні громади практично немає. Потрібно: довести до логічного завершення розпочату реформу; здійснити передачу повноважень від державних органів виконавчої влади адміністраціям громад; обласні державні адміністрації перетворити, як передбачено, на префектури; прискорити секторальну децентралізацію: у сфері охорони здоров'я, освіти, культури, соціальних послуг, енергоефективності та інших секторах.

Ключові слова: децентралізація, зрівноважений розвиток сільських територій, фінанси.

Dubnevych Yu., Dubnevych N., Dorosh U. Social and economic development of rural areas under conditions of decentralization

The current state of rural areas development of Ukraine remains at a rather low level, which has been largely consequenced by the insufficient level of effective agricultural mechanisms, being the main sphere of employment in the rural areas and the incompleteness of the initiated decentralization reform. Issue of the matter is the implementation of the concept of sustainable development of rural areas, taking into account the needs of environmental protection for current and future generations, which is especially relevant in the context of globalization. At current stage the search for opportunities to increase the efficiency of decentralization processes and finalize the respective reform seem particularly attractive. The distinction of decentralization reform in Ukraine is that, unlike, for example, Poland, the process of UTC association is currently voluntary. At the regional level there is still a tendency to underestimate the role of rural areas in the overall structure of the Ukrainian regions' economy. In recent years, within the framework of decentralization reform, there has been a reboot of national regional policy based on European experience. In the future, increasing the competitiveness of the regions and the priority of countryside development should be ensured through the implementation of a number of defined tasks. At present, the process of decentralizing rural areas has slowed down, but the results of the completed phase can already be felt, especially the financial ones, since decentralization presupposes the transfer of both the authority and finances from the state authorities to local governments. Decentralization of local self-government opens new opportunities for enhancing the potential of rural development and creating positive management results at the local level, establishing an effective system of administrative services provision and development of territorial communities, enabling efficient and adequate management of real-life priority needs and based on this ensure effective sustainable development of rural areas. We can conclude that there are all the reasons to expect a significant increase in the number of UTCs in the near future, since there are practically no objective reasons for slowing down the process of territorial communities association. It is necessary: bring the initiated reform to a logical conclusion; transfer powers from state executive bodies to community administrations; transform the regional state administrations into prefectures, as planned; accelerate sectoral decentralization in health, education, culture, social services, energy efficiency and other sectors.

Key words: decentralization, sustainable development of rural areas, finances.

Target setting. The current state of rural areas development of Ukraine remains at a rather low level, which has been largely consequenced by the insufficient level of effective agricultural mechanisms, being the main sphere of employment in the rural areas and the incompleteness of the initiated decentralization reform. In each country, agriculture is crucially important sector of the national economy, affecting the interests of every individual. For our country, rural development sector policy should be among top priorities of the state's regional policy. The importance of rural areas is predetermined by their exceptional contribution to the formation of food security and the increase of the country's export potential. These factors alone make rural development one of the main priorities of the state policy aimed at raising the living standards of rural population, improving the efficiency of agriculture, etc. Therefore, the issue of the matter is the implementation of the concept of sustainable development of rural areas, taking into account

the needs of environmental protection for current and future generations, which is especially relevant in the context of globalization. At current stage the search for opportunities to increase the efficiency of decentralization processes and finalize the respective reform seem particularly attractive.

Analysis of recent researches and publications. Significant contributions to the solving of problems and outlining of prospects in the context of rural development were made by Ukrainian scholars P. Sabluk (2010), G. Marushevsky (2009), G. Cherevko (2010; 2016), I. Cherevko (2012; 2013), V. Yurchyshyn (2005) and many others. Their works elaborate the results of researching the essence of the concept of rural areas sustainable development, outline the current problems as well as the possible prospects and ways of their solution. In particular, G. Cherevko (2016) substantiated the feasibility and possible directions of agricultural diversification in the

context of rural regions sustainable development; I. Cherevko thoroughly developed the whole theory of sustainable rural development (2013); I. Kostyrko and T. Gromyak (2013) made a successful attempt to effectively model the rural development process. The issues of financial decentralization policy implementation have been considerably developed in the works of many Ukrainian scientists, such as Y. Arabchuk (2016), G. Vozniak (2015), L. Sukharska (2016), N. Slobodyanyuk (2016), M. Konina (2016), S. Seryogin (2015), N. Goncharuk, and others. Researchers R. Hirivsky, R. Dudyak, and R. Fediv (2018) identified the main tendencies of the formation of financial resources within united territorial communities as the main mechanism of improving their financial standing. The resource parameters of the united territorial community capacity in terms of its financial independence were researched by R. Khirivsky (2017). He linked the financial independence of communities to state budget grants as they increased their functioning. Scientist N. Natalenko (2016) substantiated the claim that it is through local finances that certain relationships of self-government bodies are formed with almost all enterprises, institutions located in their territory.

New associations of territorial communities, which began to form in Ukraine in 2015 within the framework of the Concept of Local Self-Government Reform, have already faced budgeting issues and efficient allocation of respective funds to fulfill the basic tasks of developing the designated territory. Scientific sources list the results of many scientists' works concerning possibilities of sustainable development of rural areas through the prism of forming an independent financial base. However, the situation with the continuation of the reform is very dynamic, requiring constant monitoring and respective research to evaluate the current situation and justify and develop possible ways for further effective development.

Objective setting. Our aim was to identify opportunities for further social and economic development of rural areas of Ukraine in the context of the decentralisation reform of the

effective government system, as well as to outline social and economic risks in this sphere to create favorable conditions for sustainable rural development and improve standard of living in rural areas.

Research methodology and materials. In the course of this research were used legislative materials and programs on local self-government, social and economic development in Ukraine, as well as data of official statistical surveys of regions and author's personal observations of the processes of decentralization reform implementation. A dialectical approach was used with regard to the phenomena studied, combined with the methods of analysis and synthesis, induction and deduction, economic and statistical comparisons, as well as methodological recommendations as to the formation and implementation of forecast and program documents of the united territorial community's social and economic development.

Outline of the main results. Rural areas comprise a rather complex and multifaceted combined social, ecological and economic object, characterized by a whole set of certain characteristics and elements: the area of land resources (the whole territory and lands intended for agriculture); the number of local population (total number and those employed by activity type); the available natural and ecological resources (soil, water, fauna and flora, other); the volumes and corresponding structure of production; the objects of existing social infrastructure; the local self-government bodies. The notions of rural areas and their sustainable development are used with the following meaning: rural areas are historically formed within a legally defined systematic system, combining administrative and territorial identity (rural settlements, villages, village councils) and territorial and functional identity, which is characterized by a lifestyle other than an urban one. At the same time, the sustainable development of rural areas is a process of qualitative changes aimed at stable social and economic growth of these territories, improving the efficiency of the rural economy, level of employment and quality of life of the population

based on the implementation of a set of economic, social and environmental measures at the state and local levels (The Concept of Sustainable Rural Development, 2015). Today, the perspectives of further sustainable development of rural areas are being slowed by the existing system of local self-government organization, therefore the government decided to reform it, which has been called decentralization, generally corresponding to its essence and content of the respective measures.

The process of decentralization in Ukraine started in 2014, when the legal framework for the creation of United Territorial Communities (UTCs) was formed. And already in 2015, 159 UTCs appeared on the map of Ukraine. Since then, the number of such communities has increased almost twice each year. At the beginning of 2019, 874 UTCs had already been created; and 69 more communities are expecting the decision of the Central Election Commission for the first elections to be set (including 45 UTCs, where elections were not conducted due to the imposition of martial law). As of January 10, 2019, 18 districts in Ukraine are 100% covered by the united communities, in 145 districts this indicator ranges from 50-99%, in 203 districts the rate is 1-49%; 25 regions are located in the territories of occupied Crimea, Donetsk and Lugansk regions. Within 99 districts there no united territorial communities have been created, this number is the biggest in Kharkiv - 15, in Kyiv, Kirovograd, and Odesa regions - 11 each. In 2018, territorial communities joined 24 regional cities; in 2015, the number of Ukrainians enrolled in UTC was 1.5 million people, and today this number is over 9 million. The territory in which the UTCs operate has grown over the four years from 36.9 thousand sq. km to 209.6 thousand sq. km (Q&A..., 2019). At present UTCs have incorporated 4108 local councils and this process is still ongoing.

The distinction of decentralization reform in Ukraine is that, unlike, for example, Poland, the process of UTC association is currently voluntary. At the beginning of the reform, it was planned to create UTCs according to a perspective plan prepared by the government and the

experts. However, decentralization proved to be a very vivid process, so within four years the plan has undergone some adjustments due to the principle of truly voluntary association. The government is convinced that 2020 should be the final year for the communities to enter into associations, and they have announced the start of a new phase of decentralization: next year local government elections will be held on a fundamentally new territorial basis (Q&A..., 2019).

Despite some positive changes in the Ukrainian agricultural sector, there are still many unresolved issues. In particular, at the regional level there is still a tendency to underestimate the role of rural areas in the overall structure of the Ukrainian regions' economy. Agricultural production remains the most important sphere. Non-agricultural activities, however are underdeveloped, which enhances crisis tendencies in rural areas development, and activates the processes of capable rural population migration to cities (Kolesnikov, 2014).

In recent years, within the framework of decentralization reform, there has been a reboot of national regional policy based on European experience. Rural development policy has been defined in the State Strategy for Regional Development until 2020, which was approved by the Resolution of the Cabinet of Ministers dated August 6, 2014 No. 385 (Decree..., 2014), which in the context of the strategic goal determined that increasing the level of regions competitiveness and giving priority to rural development should be ensured through the implementation of a number of tasks, particularly:

➤ Promoting the development of agriculture and agrarian market through the increase of purchasing power of the population on the basis of increasing salaries and pensions of citizens, replacing of all allowances with individual monetary subsidies;

➤ Providing state support to increase the level of rural development in order to create conditions for living, working and life of peasants, differentiating policies as to the support of agriculture and rural development;

- Creating favorable and stable conditions for investing in the country's agriculture on mutually beneficial terms for the investor state and the landowner;
- Creating conditions for social development of villages, sustainable encouragement for social responsibility of businesses in the agricultural sector, as well as related sectors of production and services;
- Diversifying of agricultural production, development of alternative types of economic activity in rural areas;
- Encouraging employment in rural areas outside the agricultural sector.

The abovementioned strategy has broadly defined the whole set of tasks that must be performed in order to ensure the social and economic development of rural areas, enabling to logically structure them (see Fig.).

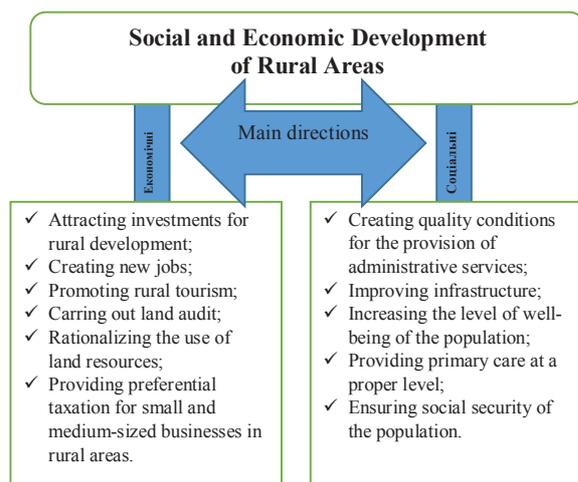


Fig. Logical and Structural Scheme of Social and Economic Development of Rural Areas.*

* Developed by authors.

The ground of the decentralization reform is the formation of a high quality living conditions for the population and the development of territories that have become part of a united territorial community. Such results can be achieved given a number of factors are used to implement economic and social goals (see Fig.).

Economic development is predetermined by the rational use of land resources, the development of agricultural activity and the

attraction of investment. Expansion of economic opportunities for the development of social sector in the countryside, in particular, due to the development of agricultural products processing in rural areas.

Social development is associated with adequate social infrastructure, quality conditions for the provision of administrative services and quality provision of primary care. Significant improvement of the financial security involves the formation of confidence and social balance.

Creation of a UTC, as one of the decentralization directions predetermines not only new opportunities, but also poses certain threats. Four most common risks are worth mentioning:

1. Some local councils do not intend to enter into association because they own sufficient financial resources for social and economic development;
2. Inconsistency of actions of the heads of local self-government bodies in defining organizational forms and timeframe for territorial communities association hinders and reduces the efficiency of these processes;
3. Indifference and lack of strategic vision of the purpose of such association on the part of the heads of local councils;
4. Designation of a new administrative center of a newly united community can cause conflict between residents of these territories.

At present, the process of decentralizing rural areas has slowed down, but the results of the completed phase can already be felt, especially the financial ones, since decentralization presupposes the transfer of both the authority and finances from the state authorities to local governments. Indeed, financial decentralization has become the basis of this reform, and in this respect it involves a process of allocating functions, powers, financial resources and responsibilities between central and local levels of government, which results not only in improving the efficiency of local budget management, but also in reducing the influence of the central authority on development of regions and regional economy (Ostapchuk, 2018).

Moreover, not only the state leaves the lion's share of the finances at the disposal of communities, but also provides them with

significant support for the implementation of targeted projects. And this support is growing every year: in 2014, local budgets comprised 68.6 billion UAH and the state support amounted to 0.5 billion UAH, and already in 2018 the figures comprised 234 billion UAH and 19.37 billion UAH, respectively. Twenty-one oblasts have decided to establish a Regional Development Agency, with local self-government development centers operating in all oblasts, including supporting local authorities in their implementation of regional strategies. Many UTC projects are being implemented with the financial and advisory support of donors - international organizations are stepping up targeted support for decentralization in Ukraine (Q&A..., 2019), given the actual success of the reform.

In 2018, compared to 2017, expenditures in capital construction in the reformed rural areas increased by 29% (from UAH 1,310 to UAH 1,690), construction and regional development by 30.7% (UAH 296.9 and UAH 398,1), housing and utilities sector - by 20,9% (from UAH 527 to UAH 637.4). Administrative Services Centers (ASCs) were established in 123 UTCs, along with 226 community facilities providing social services, and 815 social sector professionals have been hired to the UTC (Q&A..., 2019). In 2018 UAH 2.9 billion were appropriated to realize 519 projects for rural medicine development, despite the fact that the state planned to allocate almost double of the amount, but the regions failed to submit project proposals or did not prove eligible in terms of project's quality criteria. In the field of education: 317 base schools and 512 branches were established in the UTC; 443 inclusive education classes opened; 6196 general educational institutions managed by the local self-government body (cities of oblast significance, UTC), and 629 educational establishments put on the books at the UTC. Communities initiate new projects, start new businesses, revive traditional directions for the regions - and the logic suggests that it is best to unite and do this together in order to increase the investment, tourist, and recreational potential of the region. Today, 1,170 communities (both already united

and those that are in the process of association) have taken advantage of collaboration to address urgent large-scale problems - repairing roads, setting up municipal enterprises, including waste processing, opening facilities of social infrastructure as well as training and health care facilities, etc. The number of such projects is increasing - only at the beginning of 2019 approximately 296 municipal cooperation agreements were concluded (Q&A..., 2019).

Conclusions and Perspectives of Further Scientific Research. The reform of decentralization in Ukraine is carried out at a rather high pace and generally corresponds to the tasks and nature of similar reforms in other countries, although it faces certain national realities that give it special meaning, significance and flair. Decentralization of local self-government opens new opportunities for enhancing the potential of rural development and creating positive management results at the local level, establishing an effective system of administrative services provision and development of territorial communities, enabling efficient and adequate management of real-life priority needs and based on this ensure effective sustainable development of rural areas.

The extent to which rural territorial communities can take advantage of decentralization opportunities to increase their participation in settlement development depends on the productivity of interaction and the search for compromise solutions between public authorities, local councils and the very communities of settlements.

Today, the main task is to develop a strategy for the development of rural settlements of Ukraine at the state level, taking into account the directions of reforming the territorial organization of power and the achievements of the European experience of stimulating local social and economic development.

Assessing the results of the conducted study, we can conclude that there are all the reasons to expect a significant increase in the number of UTCs in the near future, since there are practically no objective reasons for slowing down the process of territorial communities

association, except temporarily occupied territories or those where the issue of elections requires the permission of the relevant authorities (e.g. territories adjacent to the joint forces operation area). In other cases, we can only speak about the resistance of the local authorities, which do not want to lose control levers and sources of income. Another possible reason that can slow this process is the availability in the territory of potential UTCs of valuable resources (land, minerals, etc.), which local authorities and businesses do not want to give to the communities. However, the set

objectives imply that local elections in 2020 should be held on a new territorial basis. In order to do this, it is necessary to: bring the initiated reform to a logical conclusion; transfer powers from state executive bodies to community administrations; transform the regional state administrations into prefectures, as planned; accelerate sectoral decentralization in health, education, culture, social services, energy efficiency and other sectors. These directions define prospects for further research on rural areas development.

REFERENCES

- Arabchuk, Ya. I., 2016. Financial decentralization as a key component of a prosperous community. *The theory and practice of public administration and local self-government*, [online] 1. Available at: http://nbuv.gov.ua/UJRN/Ttpdu_2016_1_20 [Last accessed 1 April 2018].
- Cherevko, G. and Cherevko, I., 2010. Sustainable development of rural areas. *Agrarian Economy*, 3(1–2), pp. 57–66.
- Cherevko, G., 2016. Diversification of business directions in the context of sustainable development of rural areas. *Agrarian Economy*, 9 (1–2), pp. 5–8.
- Cherevko, I., 2013. Introduction to the theory of sustainable development. *Agrarian Economy*, 6(1–2), pp. 10–17.
- Cherevko, I., 2012. Problems and perspectives of rural development in Ukraine. *Agrarian Economy*, 5(3–4), pp. 95–100.
- Hrynkevych, S., Brukh, O. and Bernatska, I., 2018. The influence of the marketing environment on the development of united territorial communities. *Agrarian economy*, 11(1–2), pp. 59–69.
- Kolesnykov, V. I., 2014. World legacy of rural development. *The Efficient Economy*, [online]. Available at: <http://www.economy.nayka.com.ua/?op=1&z=2956> [Last accessed 28 March 2019].
- Khirivskiy, R., 2018. Current tendencies of formation financially viable united territorial communities of Lviv region within the context of decentralization reform. *Agrarian Economy*, 11(3–4), pp. 13–19.
- Khirivskiy, R., Dudiak, R. and Fediv R. Formation of financial resources of the united territorial communities. *Agrarian Economy*, 10(1–2), pp. 65–73.
- Kostyrko, I. and Hromiak, T., 2013. Rural development modeling. *Agrarian Economy*, 6(1–2), pp. 3–10.
- Marushevskiy, G. B., 2009. Sustainable (sustainable) development. *Ecological Bulletin*, 5, pp. 8–10.
- Natalenko, N. V. 2016. *United Community Finance and Budget (training module)*. Kyiv.
- On the approval of the state strategy of regional development of Ukraine for the period up to 2020. 2014. [online] Available at: <https://www.kmu.gov.ua/ua/npas/247566248>. [Last accessed 11 May 2019].
- Ostapchuk, V. O., 2018. Perspectives for financial decentralization in Ukraine: the regulatory aspect. *Economy and Society*, 15, pp. 720–726.
- Prokopa, I., 2007. Rural areas of Ukraine: research and development regulation. *Ukraine's Economy*, 6, pp. 50–59.
- Q&A: *Key facts about decentralization in Ukraine*. 2019. [online] Available at: <https://www.agravery.com/uk/posts/show/qa-osnovni-fakti-pro-decentralizaciu-v-ukraini> [Last accessed 12 May 2019].

Sabluk, P. T., 2010. Conceptual aspects of agricultural production and rural development modernization. *Economy of Agro-Industrial Complex*, 8, pp. 3–9.

Seriogin, S. M. and Honcharuk, N. T., 2015. Theoretical bases and main directions of local self-government reforming and decentralization of power in Ukraine. *Aspects of Public Law*, 4, pp. 111–120.

Slobodyaniuk, N. O. and Konina, M. O., 2016. Problems of revenue formation of local budgets in the conditions of financial decentralization. *Economy and Society*, 2, pp. 611–616.

Stehney, M. I., 2014. *Sustainable development of rural areas within the conditions of decentralization: from theory to practice*. Mykolayiv: IE Shvets V. D.

Sukharska L.V., 2016. Legal regulation of financial support for the development of territorial communities in Ukraine within the conditions of budgetary decentralization. *Public administration and local self-government*, 3, pp. 144–151.

The concept of sustainable rural development. 2015. [online] Available at: <http://minagro.gov.ua/node/14008> [Last accessed 28 March 2019].

Vozniak, G. V., 2015. Benefits and risks of budgetary decentralization: theoretical and methodological aspects. *Problems of economy*, 2, pp. 253–257.

Yurchyshyn V.V., 2005. Rural areas as system-forming factors of the agrarian sector of the economy. *Economy of Agro-Industrial Complex*, 3, pp. 3–10.

The article was received on May 16, 2019.

