

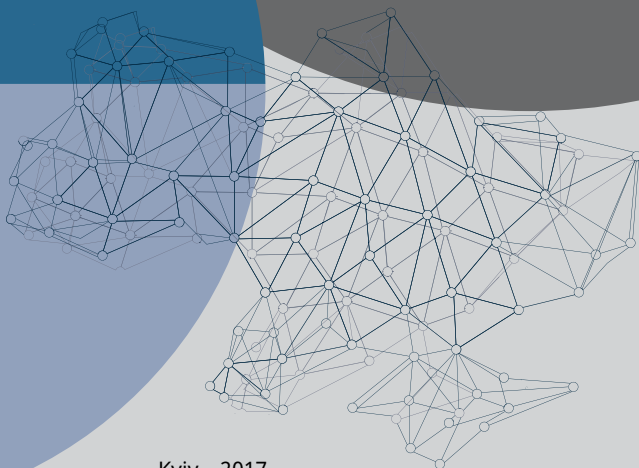
NEW REGIONAL POLICY

FOR RENEWED UKRAINE

(Preliminary release.

Full version of the report will be presented
on April, 10 and can be found at ISER
official website (www.iser.org.ua)

ECONOMIC PRAGMATISM Series



INSTITUTE FOR SOCIAL AND ECONOMIC RESEARCH

«ECONOMIC PRAGMATISM» SERIES

NEW REGIONAL POLICY FOR RENEWED UKRAINE

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Kyiv – 2017

New regional policy for renewed Ukraine: Analytical report (Preliminary release). — Kyiv, Institute for social and economic research, 2017.- 38 p.

This analytical report features the study of special aspects of regional development of Ukraine in light of modern effect of endogenous and exogenous factors, including the consequences of the annexation of Crimea and partial occupation of the territory of Donetsk and Luhansk regions. We analyzed the priorities of regional policy applied in Ukraine and formulated the author's vision of its improving in the context of new European and global approaches. Individual attention has been paid to the procedure of decentralization and issues related to its inclusion in the overall context of regional policy and regional development in Ukraine.

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TABLE OF CONTENTS

INTRODUCTION	4
1. REGIONS OF UKRAINE FROM THE PERSPECTIVE OF SOCIAL AND ECONOMIC DEVELOPMENT	7
2. REGIONS OF UKRAINE AFFECTED BY GEOPOLITICAL CHANGE	11
2.1. «Cost» of choosing the European way.....	11
2.2. Occupation of Crimea and reorganization of the economy of the South of Ukraine.....	16
2.3. Donbas: in search of new quality of development.....	18
2.4. New horizons for regional economies	21
3. REGIONAL POLICY IN FOCUS OF DECENTRALIZATION	24
3.1. Strengthening of communities as a basis for decentralization of regional development.....	24
3.2. Uniting communities: current problems and practical results	26
4. HORIZONS OF NEW REGIONAL POLICY	28
4.1. Strategy of the State and future of regional policy	28
4.2. Model of the state policy concerning development of territories: is there any alternative to paternalism?.....	30
4.3. New regions of new Ukraine: ideology of interaction and shared responsibility.....	32
CONCLUSION: 10 PRAGMATIC STEPS FOR MODERN REGIONAL POLICY	34

INTRODUCTION

Profound changes in the model of development of the world economy that took place since the late 80's of the XX century, which were caused by the spread of globalization, breakthrough technological changes and the gradual consolidation of the principles of sustainable network development, affected the engines of regional economies. Traditional economic and geographic factors of competitive advantages of territories (natural, human and energy resources, accumulated capital, etc.) become less and less important for the quality of spatial development. **Local economic communities become «exterritorial», as the fact that certain territories belong to national economic complexes becomes much less significant than the involvement of such territories in the global value chains.**

National governments tried to overcome the fragmentarity of economic space with the policy of *regional equalization* within the framework of the standard idea of the regional nature of the development of territories disbalances. This consolidated the basic characteristics of the quality of life of regional communities, but did not solve the problem of confrontation (including political confrontation) of the leading regions and the "outsiders". Nowadays different levels of speed of regional development and conservation of unresolved structural contradictions become some of the main bases for political changes in the advanced world on both sides of the Atlantic. They have already changed and will continue to change the «landscape» of the European economic space and organization of the whole global community.

The growing ineffectiveness of the policy of the simulated «equalization of results» with the increasing «difference of potentials» of the territories resulted in the consolidation of role of «soft» competitive advantages. Regional policies in advanced countries crossed over to *creating favorable conditions* for the attraction and effective use of modern resources, technologies and management models in regional economy.

That's why at the beginning of the XXI century the traditional *paternalistic* approach to implementing regional policy utilizing vertical instruments of equalization has been replaced with a new approach. It is based on creating the conditions for spatial development based on improving the *competitiveness* of the regional economy, the ability to *generate resources* for addressing the vast majority of current problems at the local level and for maintaining the progressive development and modernization.

Accordingly, the potential of confrontation between the «leaders» and the «outsiders» gets replaced with the potential of interregional cooperation synergy, based on the efficient use of regional resources for development.

Inclusiveness (involvement of all members of a community in the result generating process and in result obtaining) of development of regions achieved by improving the capability of regional communities to effectively address the problems of spatial development in accordance with the challenges of the modern national and global environment. In its turn, such inclusiveness improves the social cohesion of a local community and generates common interests of a region. Taking into account the new economic conditions, the transformation of problems of regional development into the ability to mobilize regional potential becomes the basis of formation of competitive advantages of a region in the global economy, socio-economic contingency of regional development and creation of opportunities for development of a region in the future¹.

Excessive differentiation of regions by key indicators of economic and social development in Ukraine preconditioned the permanent attention to the problems of regional development. The Concept of state regional policy has been adopted in 2001, State strategy for regional development for the period until 2015 - in 2006, the latter declared that state regional policy focuses at creating conditions for increasing the competitiveness of regions as a basis for their dynamic development and correction of significant interregional imbalance.

In the post-crisis period of 2010-2011 attempts have been made to improve the institutional basis of the state regional policy by creating both centralized and regional strategizing institutions. At the first stage it played a positive role in improving the subjectness of regions in the regional policy and in the shift of the «growth centers» to local level. However, further increasing of administrative centralization and formation of corruptive verticals of power resulted in strengthening of «manual control» and appearance of limitations of authorities of local government bodies. Paternalistic orientations have been spread among local authorities. The fact that real structural changes were not getting approved was crippling economics of a number of regions and escalating interregional imbalance. Improvement of capability of regional communities (objectively caused by the logic of economic and social processes) contradicted the strengthening of administrative centralism of the «Center - regions»² relations, it formed the basis for a serious social conflict.

¹European Regional Policy, an Aspiration for Countries outside the EU & Applying the principles, sharing the lessons, exchanging experience. – EU – EC: Luxembourg, 2009.

²Systemic crisis in Ukraine: pre-conditions, risks, solutions: analytical addition / Ya.A. Zhalilo, K.A. Kononenko, V.M. Yablonskyi [and the others]. – K. : NISS, 2014.- p. 60.

Nowadays Ukraine has an acute need for developing the effective regional development strategy capable of mobilizing decentralized resources for regional development. Dynamic growth and synergy of the use of regional potentials are practicable only based on interregional cooperation. It creates challenges related to the formation of a new model of the regional policy, the orienting point of which is the consolidation of local actions in the field of regional development concerning the implementation of national priorities. Recovering of the capability of local communities can take on the role of the factor of reintegration of the country, but only upon condition of overcoming the fragmentarity of approaches, solutions and partial reform initiatives.

The challenges, which the regional policy faces in Ukraine are not unique or caused solely by internal signs of crisis. In fact, such problems are global and they motivated the introduction of new models of regional policy and local development on pragmatic grounds. Nowadays Ukraine also needs pragmatic approaches to creating a new regional policy in the process of its social and economic renovation.

In this context, our study continues and amplifies the development priorities determined by the economic pragmatism policy³ developed by the Institute for social and economic research. Pragmatizing the regional policy, as opposed to its traditional politicization provides a clear understanding of how the local, regional and national interests are related, what goals the managerial elite face, what economic potential a certain local community has and what steps shall be taken to ensure sustainable development of a community.

New regional policy for new Ukraine must combine European approaches and own Ukrainian strategy that should correspond to the requirements of the modern world. It should rationally combine the powers of communities with present and potential resources, schemes of government support shall have a stimulating effect. Integrity, cohesion and inclusiveness should become the ground principles of development, coexistence and cooperation of communities, regions and the country.

³Policy of economic pragmatism [Electronic source].- K.: Institute for social and economic research, 2015.- Access mode: http://ises.org.ua/uploads/files/NEP_big%2011%2007%202015.pdf.

1. Regions of Ukraine from the perspective of social and economic development

The structure of the economies of the regions of Ukraine has multiple stage genesis, which reflects the difficult historical path that the country traveled over the course of the last century. While having a wide range of natural resources, including high agricultural potential, forceful human capital assets and having a promising geo-strategic location, Ukraine still hasn't managed to properly take advantage of these opportunities to achieve sustainable development and fragmentarity of use of existing potential was accompanied by the increase in regional imbalance. Formation of the regional imbalance took place in three main stages.

First, from the ***USSR period*** Ukraine inherited a significant part of the “traditional” energy- and ecology-intensive industrial sectors with the unfinished production cycle, such industrial sectors were oriented on the production of low-tech products. Orientation on the dynamic industrialization was leading to the concentration of economic growth in big cities, accelerated urbanization was slowing down the rural development. Centrally-controlled economy formed strict orientation of the most part of population on social paternalism that in its turn conditioned a high exposure of economy by social expenditures.

Second, the continuous stage of the ***transformational crisis*** caused the aggravation of regional imbalance because of “washing out” the population dependent on agriculture and further growth of economic weight of cities, “freezing” of the production specialization in the context of breakdown of the main capital in the industrial sector and in the context of the infrastructure aging due to the continuous investment crisis. The number of environmental risks got bigger as well as the number of social problems, especially in the regions with the depressive economy, at that local communities had to solve such problems in most situations.

Third, the ***systemic crisis of 2013-2014 reinforced*** and extended by the Russian Federation (RF) starting the hybrid war, occupying Crimea and opening hostilities in the eastern part of Ukraine, brought a new range of regional problems for the national economy. Such problems include the partial loss of territories and economic potential, physical destruction of infrastructure and residential space, outflow of capital and labor pool, overall increase in business and investment risks even on the territories located far from the war zone, significant number of internal migrants moving to other regions outside the war zone.

These factors formed the specific regional economic landscape that determines the details of economic development of regions at the present stage.

1 Regions demonstrate multidirectional tendencies of economic development.

Despite the same internal and external conditions the dynamics of the main indicators of the most regions have not only the different levels of intensity, but also different tendencies. This is indicative of the fact of increase in the level of competition of regions in resources and market places. Under such conditions regional manufacturers start focusing more on their own interests and become less interested in the development of internal cooperation.

2 Industrial producers of the regions got back to the extensive type of growth.

Leaders by the indicator of industrial dynamics (Kirovohrad, Odesa, Mykolaiv regions) achieved industrial growth in 2016 by means of the extractive industry. The main industrial regions (Dnipropetrovsk, Kharkiv, Donetsk regions) ramp up production and supply of electric power, gas and water despite quite moderate efficiency of work in the processing industry.

3 Commodity sector of agrarian industry is developing as well. 6,1 % of growth

in agricultural sector has been achieved only by means of crop farming and by those regions that provide the main part of agricultural products (Vinnytsia, Zhytomyr, Khmelnytsky regions). But the regions, specialized in livestock production and raw material processing (Cherkasy, Kherson, Poltava, Dnipropetrovsk regions) have much lower rates of growth. Thus, companies from the agricultural sector mostly focus not on advanced processing, but on the scale effect.

4 Regional exporters are being reoriented to work with other countries' markets instead of the RF (and CIS) market.

Trade connections of the western frontier regions with the neighboring countries, which are the members of the EU (percentage of the trade turnover with the EU is 70 % in case of Zakarpattia, Lviv, Volyn regions), are getting improved. At the same time the export commodity structure gets changed: share of vegetable oil and fat industry gets increased; share of the metallurgical, chemical and mechanic engineering products gets decreased. Thus, exploring the market regions retreat to price competition, sacrificing the interests of the marketable and geographic export diversification.

5 Investment activities in regions correlate with the industrial dynamics.

Kirovohrad, Mykolaiv and Odesa regions were leaders by the rates of growth of capital investments in 2016. In addition, there are noticeable gradual changes in the structure of investments for the sake of the real sector.

6 Redefining of economic specialization of regions takes place more and more often. The role of industrial-agricultural regions gets less and less important, regions are being defined as primarily agricultural or as primarily industrial now. There is a group of regions (Cherkasy, Poltava, Kirovohrad regions) located in the central part of Ukraine, which have lower growth rates and quality of the development innovations, than more specialized regions. First of all, it results in stagnation of the labor market and in the highest levels of the recorded unemployment.

Thus, short-term development of regions of Ukraine has been boosted by: transit, cross-border trade, export of raw materials and conventional industries due to the scale effect. Considering that economic structures of regions are different as well as their priorities in cooperation with foreign companies, continuation of economic growth according to the results of 2016 by no means became a tendency for all the regions. We would rather say that the factors of continuation of economic growth across the nation are the sum of regional rates of growth.

We can clearly see that regions strive to be self-sustaining, but it can be achieved only at the expense of even more closed nature of competition and at the expense of the increased competition between regions. Under such conditions there exists a critical need for creating instruments used to revive the multiplicative effect resulting from cooperation and partnership relations within the country.

Regional imbalances in Ukraine (this information is dated 2016)

* - excluded Kyiv city

	Percent of the first quintile (20 %) of regions, %	Ratio between the maximum and minimum values per 1 person, times*	Percent of the last quintile (20 %) of regions, %	Percent of Kyiv city, %
Gross regional product (GRP) (2014)	52,3	3,8	6,8	22,5
Employment	37,3	-	11,4	8,4
Industrial products	54,1	10,5	4,9	8,4
Building products	56,5	-	4,8	23,0
Export of goods	60,0	15,5	3,5	23,5
Import of goods	65,3	17,2	2,4	41,1
Capital investment	58,7	13,5	5,4	29,7
Foreign direct investments (9 months)	81,3	43,8	1,0	54,5
Average wages	-	1,6	-	-
Personal incomes	44,7	2,6	9,5	16,4

Significant disproportion in development levels of the regions of Ukraine (table) is indicative of the fact that the existing model of national economy is non-inclusive. Excessively high levels of differentiation of average values of allocation of tangible equity (investments) and gross output are combined with a very moderate differentiation of income levels, which is indicative of existence of a significant gap between the economic results of regions and quality of life of regional communities. An extremely high share of Kyiv city upon each indicator shows the fact of the harmful level of centralization of economy.

High regional disproportion logically leads to the breach of the single integrated economic space of Ukraine. Thus, the share of interregional trade turnover in GDP hasn't exceeded 25 % in the recent years and economic growth continues to localize in industrial, financial, transportation and transit centers within regions. Trends of local isolationism are being formed, they additionally slow down the interregional exchange and expansion of interregional cooperation.

The scarcity and irregularity in the distribution of resources for regional development is the basis for maintaining the high level of fiscal centralization, thus the government subsidizes the vast majority of local budgets.

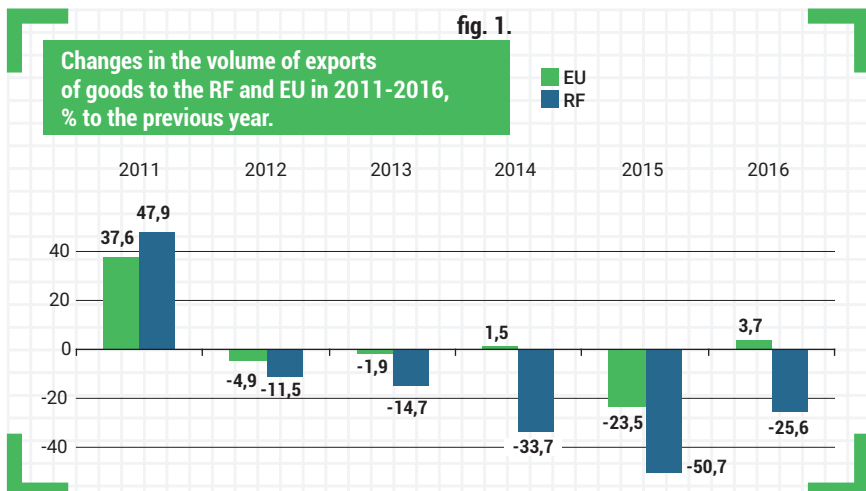
2. Regions of Ukraine affected by geopolitical changes

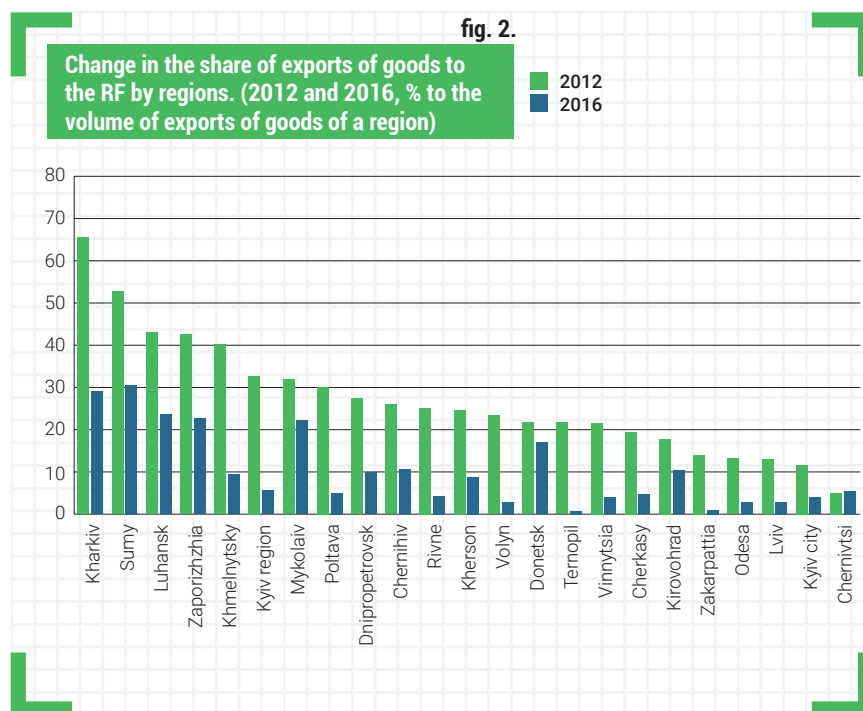
2.1. «COST» OF CHOOSING THE EUROPEAN WAY

The accumulated endogenous problems of the regional development of the economy of Ukraine since 2013-2014 have been supplemented with the effect of geopolitical factors. **The fact that Ukraine had been practically taking steps concerning the European integration and most notably that it was preparing to sign the Association Agreement of Ukraine and the EU became the grounds for activating business cooperation with the EU countries and for deeper entering the “gravisphere” of the European economy.**

At the same time, denying the fact that Ukraine chose the European way, Russian Federation performed the complex of aggressive actions, started with squeezing Ukrainian companies from Russian markets, introducing a number of trade barriers that escalated into the “trade war”. The latter led to the rushing downfall of flows of exports from Ukraine to the RF and to reduction of the industrial cooperation in this area. Generally, the level of export of goods from Ukraine to the RF decreased in 4,9 times in 2016 in comparison to the pre-crisis year of 2012 and the share of exports to the RF decreased from 25,6 % in 2012 to 9,9 % in 2016 (fig. 1).

The decrease in the volume of exports of goods to the Russian Federation significantly affected the regions.





In 2012 the volume of exports to the RF amounted to more than a third part of the total volume of exports of goods of 5 regions, more than a half in Sumy (52,6 %) and Kharkiv (65,3 %) regions that border with the RF. In 2016 these regions remained to be the most focused on the Russian market, but the shares of volume of exports to the RF decreased accordingly to 30,7 % and 29,1 %. Meanwhile, share of the RF in exports from Kyiv region in this period decreased from 32,8 to 5,8 %, share of exports from Poltava region decreased from 30,2 to 5,2 %, Khmelnytsky region - from 40,2 to 9,6 %, Lviv region - from 22,3 % to 3,1 % (fig. 2).

Decrease in the volume of exports to the RF affected mostly regions with conventional industrial specialization. Thus, the losses of the annual volume of exports in 2016 in comparison to 2012 were 2,5 billion dollars for Donetsk region, 2,2 billion dollars for Dnipropetrovsk region, 1,7 billion dollars for Luhansk region, 1,2 billion dollars for Zaporizhzhia region, 1 billion dollars for Kharkiv region and 1 billion dollars for Poltava region. This negative impact has been amplified by the fact that the most part of these losses was sustained for the products with relatively high level of added value, particularly – mechanic engineering. Overall,

the volume of export of mechanic engineering products to the RF in the noted period decreased by 6,6 times or by 5,9 billion dollars.

RF introduced severe restrictions concerning the import of Ukrainian agricultural and food products, it resulted in the slumping decrease in this segment of export: its volume decreased by 21,5 times since 2012.

Signing of the Association Agreement of Ukraine with the EU in 2014 in combination with the unilateral implementation of trade preferences for Ukraine by the EU and full-fledge implementation of the free-trade zone since 2016 became very positive factors for the revival of mutual trade, such factors backed changes in the goods structure and in the regional pattern of Ukrainian export after being removed from the Russian markets. Based on the results of 2016 the volume of exports of goods from Ukraine to the EU increased by 3,7 %, even though the general trend of decrease in the volume of exports was still active in this period and it amounts to 4,6 % (fig. 1).

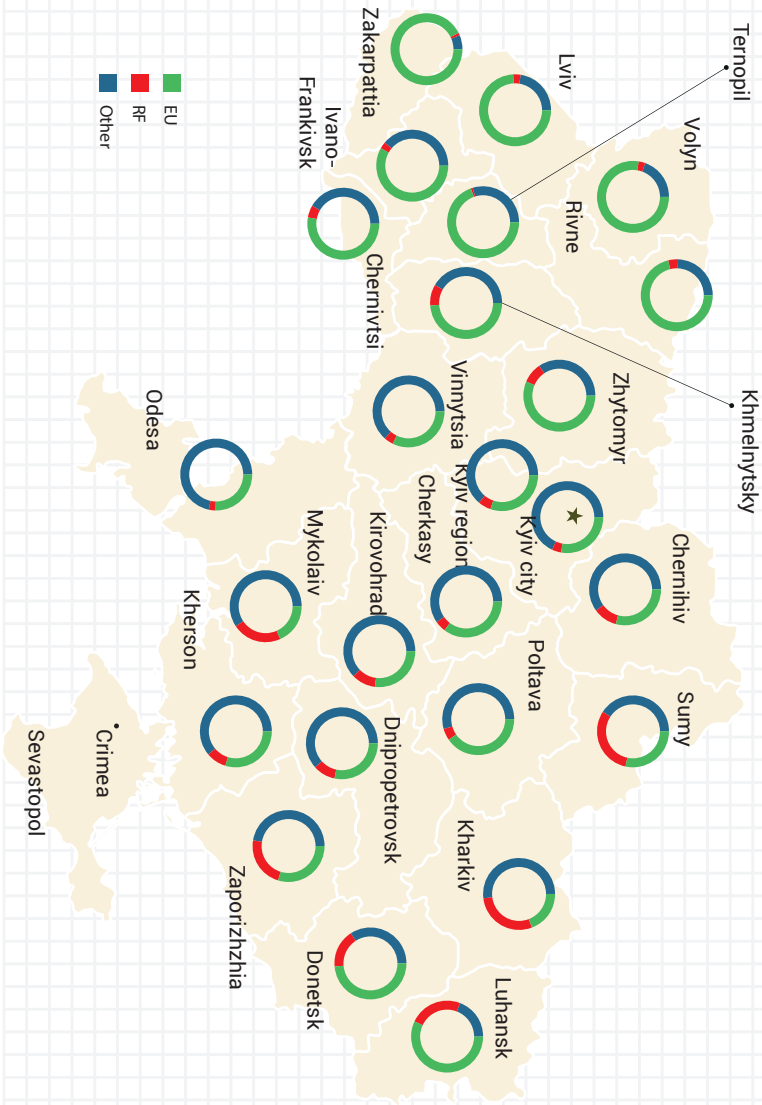
Institutional factors related to the implementation of the potential of the Association Agreement allowed to unweight the regional proximity factor, which traditionally defined the focus on trade with the EU from the western regions of Ukraine. There is a positive sign of gradual spread of the tendency of growth in exports in this direction in 2016 by 481,3 million dollars, the volume of exports from Dnipropetrovsk region to the EU increased by 23,3 % or by 314,5 million dollars, from Luhansk - by 2,1 times or by 132,9 million dollars. Overall, the volume of exports to the EU has increased in 14 of 25 regions of Ukraine, at that 9 regions sold more than half of the volume of their exports goods to the EU (fig. 3).

The growth of trade cooperation is accompanied by the increasing number of European investments. In 2016 the countries of the EU provided direct investments to the economy of Ukraine amounting to 2,0 billion dollars. Even though 1,4 billion dollars were allocated to Kyiv city, but the regions that were allocated significant amounts of European capital also include Kharkiv (146,6 million dollars), Chernihiv (78 million dollars in 9 months of 2016), Kyiv (68,6 million dollars) and Lviv (50,0 million dollars) regions.

Cross-border cooperation has its results as well. In particular, a number of investment projects have been implemented with major foreign investors, each of whom made a significant contribution to the development of regional economies. The following areas of cooperation were developed: scientific information cooperation, cooperation in the tourist, recreational, sports and entertainment areas of the frontier regions.

Trade share with the EU
and RF region-wise, 2016

fig. 3.



Strong potential of development of cooperation includes informal contacts in the form of local border traffic and border trade in particular. Although much lower level of development of Ukrainian trade infrastructure even after the depreciation of incomes of Ukrainian population still causes a significant asymmetry of expenses of participants of this movement being not for the good of Ukraine.

Meanwhile, the use of the cross-border cooperation instrument is not accompanied by noticeable activation after the implementation of the Association Agreement. Asymmetry of powers of local governments of the Ukrainian and European partners is a significant constraining factor, which makes the European partners become less interested in cooperation, this is also a potential corruptogenic factor.

So, the fact that Ukraine institutionalized its choice of the European way and that its Eastern neighbor negatively reacted to it rapidly accelerated the processes of structural changes in regions of Ukraine, which are first and foremost motivated by changes in overall external demand for Ukrainian goods for export. **Continuation of readapting of the national economy to change its geopolitical factors requires improvement of the corresponding economic, law and institutional framework.**

Provisions of the Association Agreement should be the legal basis for the intensification of cooperation of Ukraine with the EU concerning the noted issues. Particularly, the Chapter 446 of the Agreement envisages mutual actions concerning the development of cross-border cooperation, support in adopting regional policies in Ukraine with a special accent on the development of underdeveloped territories. Promotion of large involvement of local and regional government bodies in cross-border and regional cooperation, strengthening of cross-border and regional economic relations and business partnerships is envisaged in the Chapter 447 of the Agreement. Among the top-priorities of such cooperation the Chapter 448 envisages transport sector, power industry, public utilities, culture, education, tourism, healthcare.

The noted potential will be implemented aided by the broadening of powers of the regional and local government bodies concerning the establishment of cross-border contacts, development of cooperation within the European regions, active learning from the experience of restructuring the old industrial areas of the Eastern Europe. Individual attention is going to be paid to the program-based cooperation with the EU concerning the issues of recovering and restructuring of economy of the territories located in the conflict area in the East of Ukraine, which envisages both programs of international assistance in recovering infrastructure and attraction of private investments.

2.2. OCCUPATION OF CRIMEA AND REORGANIZATION OF THE ECONOMY OF THE SOUTH OF UKRAINE

Russian Federation's annexation of the territory of Crimea in 2014 caused a number of structural changes in the southern regions of Ukraine and significantly affected Ukrainian economy as a whole.

Quite a powerful region with the corresponding human and economic potential has been de facto stolen from the territorial structure of the country. As of 2013 population of Crimea amounted to 2,0 million people (4,3 % of Ukraine's population), 966,2 thousand people of which were economic active. GRP of the republic amounted to 3,0 % of the GDP of Ukraine. Annexation of Crimea led to the loss of access to the powerful oil and gas deposits, changed the structure of the use of the Marine Economy of Ukraine by doing a severe blow to the fishing industry. Total loss of the national wealth of Ukraine due to the annexation of Crimea was valued at more than 1 trillion of hryvnias⁴. At that time, it was approximately 70 % of GDP of Ukraine.

Exclusion of such a large territory from the economic turnover reduced the capacity of the domestic market and led to significant changes in trade flows in frontier regions. Termination of these trade flows became one of the factors that slow down the corresponding sectors of their economies.

Moreover, forced and sudden restructuring of the transit transport route took place accompanied by the overall reduction of the goods traffic, processed by the Ukrainian ports, this situation was caused by the loss of the part of the Russian freights. Some changes also happened concerning the directions and volume of passenger traffic due to the loss of the Yalta sea port and due to the reduction in the number of cruise liners visiting the Black Sea water area. Sudden wind-down of the tourist flows to Crimea not only lessened the incomes of Ukrainian railway and airline companies, but also led to unprofitableness of the infrastructure of enterprises located along the highways that tend to the annexed peninsula.

After interrupting transit traffic by the European auto routes named E58 (Vienna – Rostov-on-Don), E95 (Saint-Petersburg – Odesa), E97 (Kherson – Kerch – Ashkhalie) and E105 (Kirkenes – Yalta), a number of important Odesa

⁴Speaking about system consequences of temporary occupation of Crimea in the economic domain. Analytical note [electronic source]. – National institute for strategic studies. – official website. – Access mode: <http://www.niss.gov.ua/articles/1535>.

international infrastructure projects were taken off the table even though they are very important for the development of the corresponding regions, particularly for the development of the transportation corridor around the Black Sea.

Prospects of «resetting» the transit potential of the Southern macroregion leads to forming new transportation corridors in Europe and in the Black Sea region. A number of steps have been taken in the recent years in order to improve the transportation infrastructure of the South of Ukraine. New infrastructure projects have been developed in the Black Sea district, they shall become the integral part of the «New Silk road». Though a number of systemic issues of the national level prevent Ukraine from becoming included in the international transport logistics, such issues include poor status of the road infrastructure and both wear and functional depreciation of the main transport funds.

The loss of the annexed Crimea caused significant structural changes in the use of the recreational and tourist potential of the South of Ukraine (mostly shores of the Black and the Azov Seas) by the Ukrainian vacationers and tourists from the other countries. The South of Ukraine has a high potential, which can at least partially compensate for the loss of the Crimean tourist and recreational attractions. At the same time, the use of the present potential is slowed down by the low quality of services due to the aged main funds and infrastructure facilities, high anthropogenic load on the offshore zone, worn auto road networks. That's why tourist and recreational attractions of the continent's shore require significant investments for sustainable development.

So, as a result of the geopolitical shock a number of regions of the South of Ukraine, which were dealing with transit and supply of goods, were turned into the "new border zone" with signs of the dead-ended periphery. Such situation raises the risk of conservation of their conventional specialization, which shows signs of low sectoral diversification that decreases the inclusiveness of regional development. **The macroregion requires forming of a new ideology of integrated development, which envisages:**

- Refocusing from vertical (Center-South-Crimea) to horizontal (South-South) lines of integration with the passage to the European and the Black Sea interaction vectors;
- Ensuring the sectoral diversification of development of regions;
- «Reload» of the concept of development of tourism and recreation sector;
- Achievement of the maximum inclusiveness level of development of the recreational and tourist potential through extensive local communities' involvement.

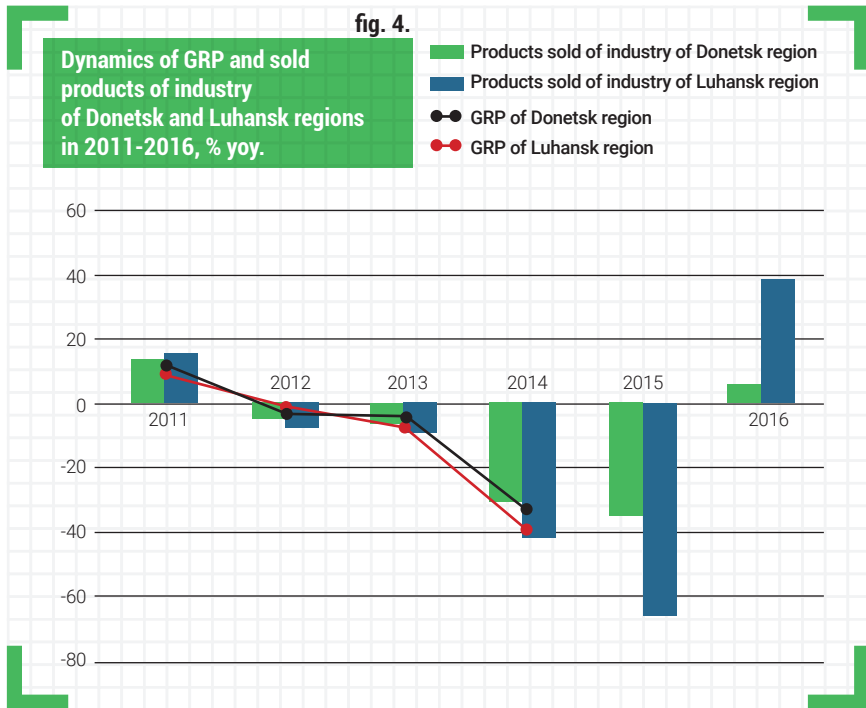
Considering the nation-level significance of implementing the modern paradigm of development of the Southern Ukraine, it is desirable to develop the appropriate national strategy. In the area of strategizing of development of regions it is necessary to ensure focusing on extension of interregional cooperation of Odesa, Mykolaiv, Kherson, Zaporizhzhia and Donetsk regions, this focus will allow to achieve synergy in development of the macroregions through creating common infrastructure facilities aimed at the development of marine sector and tourist and recreational complexes, maritime and riverine traffic, salvation of ecological problems, development of facilities of alternative energetics and so on. Improvement of the European vector of the Southern Ukraine is important to maintain the geo-economic focus of the Eastern regions.

2.3. DONBAS: IN SEARCH OF NEW QUALITY OF DEVELOPMENT

Continuously arising differences between the outdated paradigm of regional policy and the new challenges became the threat to the integrity of socio-economic development of Ukraine. It affected the most the old industrial regions of Ukraine, because the inertial development of their primary industries has real risks in accumulation of compellent contradictions. Events that happened in Donbas in 2014-2017 were illustrative of how the crisis of the old industrial regions can push a community to a path of its dramatic resolution.

Before the crisis occurred, Donetsk and Luhansk regions played a noticeable (and in some cases - crucial) role in the economy of Ukraine. Economic complexes of regions had a characteristic feature of combining the powerful industrial sector with the diversified agricultural sector. Specialization within the goods of intermediate consumption, to a greater extent inherited from the inter-republic division of labor from the times of USSR, stipulated high export orientation or regional economies.

Meanwhile, qualitative indicators of *development* of regional economies were significantly inferior to the quantitative indicators. Excess of capacities of enterprises that have high wear level and don't meet the world standards by technical features became a typical characteristic. Competitiveness of export of primary industries largely relied on low price of resources, economizing on ecological costs, gaining preferential advantages in taxation, transportation and electricity tariffs and so on.



Decline in economic dynamics of Donetsk and Luhansk regions was indicated almost simultaneously in 2012 in contrast to preservation of generally positive indicators at the Ukraine-wide level (fig. 4). Negative tendencies significantly increased in the next year. **Economic downturn in Donetsk and Luhansk regions was the result of the transition to the open phase of the crisis of old industrial regions of Ukraine against the background of deterioration of global markets conjuncture, it was also escalated by means of trade restrictions introduced by the Russian Federation as a response to the meaningful actions of Ukraine aimed at standing up to the European way and can be understood as the «trigger» for the signs of crisis extending to the whole economy of Ukraine.**

Accumulation of problems of non-inclusiveness of regional development and a significant level of social stratification and income inequality, real income reduction and spreading signs of economic depression created a fertile ground for the Russian Federation to spread separatist sentiment in the eastern regions of Ukraine and for the subsequent performance of acts of military aggression against Ukraine with the occupation of parts of Donetsk and Luhansk regions.

Military conflict dealt a hard blow to the economies of these regions. The level of industrial production of Donetsk region decreased by 2.2 times in 2014-2015, in case of Luhansk region it decreased by 5 times. Ukraine lost control of 60% of the coal fields, including 100% of deposits of anthracite coal. Specific social problems were formed.

Given the prominent role of these two regions in the national economy, such situation could not leave the macroeconomic indicators unaffected nationwide.

Solutions of problems related to recovery and peace building in the eastern regions of Ukraine shall be based on the principles of sustainable development, inclusion into the general context of reforming of the Ukrainian society, harmonious reintegration of the affected territories and their population in Ukraine-wide socio-economic, socio-political and legal space, committed systematic interaction on the strategic program-based principles of government bodies, local communities, civil society institutions and the support of international organizations. Prioritized recovering of capabilities of communities located in the conflict zone and on adjacent (controlled by Ukraine) territories is critically important for the reconsolidation of the society. The corresponding "road map" of deoccupation shall be based on the extensive and inclusive dialogue, it shall be revealed to wide audience and made plain to the population of the region, including the territories, which are beyond the control of Ukraine.

The new, forced resources' configuration (material, natural, human, social resources), which was formed on the territory controlled by Ukraine shall be considered as the potential for structural transformation of economies of regions, motivation for reformatting territories, for forming new centers of regional development and for transition to the inclusive model of development of regions. Forming of the alternative resource and technological chains will require horizontal collaboration between different business groups, but it will be possible only in the presence of transparent markets with their core products.

A specialized *Plan of recovery of economies of Donetsk and Luhansk regions that were harmed due to military operations* should be formed to organize the cross-sectoral and interregional interaction, this plan shall ensure **stabilizing** of the socio-economic situation and resumption of sustainable operation of industrial enterprises of primary industries of economies of Donetsk and Luhansk regions under the new economic and political conditions.

However, radical solutions of problems that form the basis of destabilization of the situation in the region will require a new long-term regional policy

concerning Donetsk and Luhansk regions, which in the light of the European practices shall promote forming of potential of **adaptation** of old industrial regions through the optimal use of changes in external environment as factors of achieving economic growth on the new structural basis.

In the long run it is necessary to create at government level with involvement of community leaders and representatives of businesses, regional expert communities the strategy of structural adaptation of old industrial regions of Ukraine aimed at structural modernization of their economies: improving competitiveness of primary industries, increase of the share of alternative enterprises, reconstruction of logistics, restructuring of the labor market and creation of new vacancies, environmental rehabilitation of regions etc. Implementation of such a strategy should result in elimination of contradictions in the development of not only Donbas, but also of other regions of Ukraine, which show signs of being the old industrial regions.

2.4. NEW HORIZONS FOR REGIONAL ECONOMIES

Adaptive reactions of the national economy to the crisis challenges of complex origin directly affected the structural changes in economies of regions:

- Changes in the export geography created additional risks of depression for regions, which previously were focusing on trade with the RF and simultaneously they were motivated to actively make structural changes;
- Intensification of export of agricultural products contributed to the increase in flow of resources to rural areas and to the increase of income related to the agricultural production;
- Significant hryvnia devaluation intensified import substitution, it became the stimulant for increase in territorially localized production;
- High rates of inflation and drop in real incomes of population changed the spending pattern of the population, it hit the incomes of small businesses;
- Revival of investment growth that has been noticed since 2016 became the factor of growth in demand for a number of products that are produced by domestic machine-building enterprises, it contributed to regional diversification of the effect of economic growth;
- Revival (since 2016) of outstripping growth in the construction sector contributed to the activation of local enterprises that manufacture building materials, provide construction services (including road building) etc;
- Change in functions of southern areas of Ukraine created additional potential stimulants for their development and at the same time significantly increased the risks of its sustainability;

- Occupation of parts of Donetsk and Luhansk regions dramatically changed the number of resources available to the economy and opened the door to changes in structural priorities.

As mentioned before, the current tendencies in economy of Ukraine turned out to promote a certain “decentralization” of trends of economic growth and development of regional economies. At the same time, **positive tendencies are mainly concentrated at the level of centers of regions, large and medium-sized cities and they get combined with the increasing differentiation of levels of development of local communities.**

The systemic genesis of the problems of regional development that are currently present in Ukraine makes ineffective any attempts to solve these problems at a local level by targeted means of regional policy. Main focus of implementation of strategic objectives of regional development shall be on creating *conditions* that should ensure the structuring of flows of resources on a nationwide scale in a way, which would be beneficial for optimizing regional potentials of growth.

As of now, the regional communities of Ukraine are usually being in the course of development when awareness of the importance of «soft» instruments of localizing factors of production dictates the concentration on the problems of own development and isolation from the performance of tasks of the nationwide scale. Therefore, **the role of regional policy under the conditions of Ukraine shall involve the implementation of the complex of instruments for development activization of regions to determine their current role within the inter-regional cooperation.** By means of such mechanisms (which in the EU are regarded as «smart specialization») the regional policy will gradually acquire a new meaning as a policy of active participation of the regions in creating conditions for the implementation of the strategy of own development through active forming of environment and contractors for its implementation.

Interregional cooperation fills the key integrating place in the system of the new regional policy. Tasks related to modernization are conversed into specific modernization objectives of regional development within its network, such objectives are envisaged in the corresponding regional strategies.

Cohesion of a regional community largely depends on the quality of spatial development at the local level and on the policy related to the provision of basic administrative, social services and guaranteeing the basic rights and standards

for community members. Therefore, **the unity and consistency of development of regions as the basis for a successful regional policy is determined by the balance of local development and by the effectiveness local governments perform their duties.**

The agenda approved by the Council of Association between Ukraine and the EU in March 2015 is a joint practical tool for preparing and facilitating the full implementation of the Association Agreement. It established the following priorities for cooperation between Ukraine and the EU in the area of regional development: implementation of the Memorandum of understanding for the purpose of starting a dialogue on regional policy and development of regional cooperation, implementation of the National strategy of regional development for the period until 2020, determining the frame of regional development through the adoption of the law on principles of the National regional policy or through amending the laws regarding regional policy. Some of these measures are being gradually implemented, some of them have already been implemented.

Regional policy has become a permanent factor, without which it is impossible to fully perform the act of European integration. That requires the innovative approaches to regional development in Ukraine.

3. Regional policy in focus of decentralization

3.1. STRENGTHENING OF COMMUNITIES AS A BASIS FOR DECENTRALIZATION OF REGIONAL DEVELOPMENT

Global experience shows that successful implementation of development projects created and implemented by local communities has a significant influence on the economic development of particular regions and the country as a whole. As it was observed while determining the Global sustainable development goals, improving the ability of a community to affect the essential characteristics of quality of its life is the basis of sustainable development of communities based on principles of inclusiveness. Meanwhile, shifting of expenses and investments for sustainable development to the subnational level forms the need for improving the capacities of local communities⁵.

The lead process for achieving the capacity of communities in Ukraine is decentralization of power, which takes place due to forming of amalgamated territorial communities and conferring additional powers to communities so that they could address issues of local development. The main attention in the decentralization reform is paid to **decentralization** of powers and resources both between local government bodies and between different levels of territorial power organization.

Meanwhile, **incompetence of administrative officials of local government bodies, dominance of personal interests over the public interests, non-conformity of local budgets to objectives of socio-economic development of territories will for a long time remain to be the characteristics of local government bodies of Ukraine and such conditions will certainly affect the overall efficiency of budget decentralization.**

Significant impact of considerations of the current political expediency leads to lack of the systematic approach and insufficiency of steps regarding the building of capacities of territorial communities. The list of powers that can be delegated to communities is limited and includes the powers concerning administering healthcare, education and the provision of administrative services

⁵Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda) [electronic source]. - UN.- NY, 2015.- Access mode: http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf

(in this case to communities that are acting through local government bodies are delegated state control functions, financial support is also provided to such communities). At the same time the powers in areas in which communities could form the basis for territorial development through engineering the new values are not delegated to communities. On the other hand, delegation of powers and resources to local communities leads to the «depletion» of resources from the regions thereby decreasing the importance of regional governance, such situation infringes the schemes of integrated economic space within the region.

Local budgets increased by 52 % since 2015, when the process of fiscal decentralization was started. Fiscal decentralization provided the new opportunities to pump up the budgets of communities. **But despite the noticeable progress in the field of budget decentralization no essential changes concerning the improvement of the state of financial autonomy of local communities take place.**

In fact, within the frame of changes that take place the state provides the local level with a percent of incomes that previously were used at the center, at that the conditions of forming the tax base and tax rate remain to be the prerogative power of the Center. **So, development of territories largely depends on the processes that take place in the administrative units of higher levels.**

In Ukrainian environment, it is necessary to give up on mechanically copying experience (even successful) of a certain country in decentralization and reformation of the administrative-territorial division. Instead, it is advisable to consider the possibility of introducing in Ukraine particular practices of territorial power organization that are tested in different countries through combining the sole logic of reforming. For example, experience of Germany and Sweden can be useful in the implementation of local taxes and fees by the governing bodies of communities. When considering the experience of Australia, it is advisable to study the organization of the «region-community» type of functional interaction (concerning the division of powers related to the development of infrastructure, education, medicine, attraction of investments, etc.).

The problem of insufficient availability of the financial resources that are needed for local communities to perform their functions (expanding as a result of decentralization) is common to many developing countries⁶.

⁶OECD Regional Outlook 2016: Productive Regions for Inclusive Societies. - OECD Publishing: Paris, 2016. - P. 241.

Therefore, the general trend involves improving the conditions for mobilizing local endogenous resources specifically on the principles of municipal-private partnership, favorableness of local taxation, infrastructural investments of communities, informational and legal support etc. Integrity of the decentralization reform will be ensured through the introduction of market principles for managing property of communities and through accretion of power of local government bodies concerning the acquisition of income from the use of mineral resources, land resources, laying taxes on real estate items.

There is a certain bilateral constraint between enhancing activities of territorial communities and the efficiency of regional policy. Without the efficiency of regional policy, the enhancing of activities of territorial communities may be frankly destructive, so **the development of the modern regional policy is the "key" to successful decentralization and administrative-territorial renovation of the country.**

3.2. UNITING COMMUNITIES: CURRENT PROBLEMS AND PRACTICAL RESULTS

Achieving financial viability of communities became the main motive for the active promotion of the ideas of voluntary amalgamation of territorial communities. According to experts, the main financial stimulant for uniting is the opportunity to acquire direct subsidies from the state during the first five years after associating. The subsidy is provided to create, modernize infrastructure of the associated communities and can be used to build, reconstruct, repair infrastructural objects belonging to the communal form of ownership. De facto, in sectoral terms, half of the allocated funds were spent on objects and measures in the field of education and on objects of the road transport infrastructure. The process of implementation of the policy in the area of decentralization turns to a competition of each region trying to get more funds. The key challenge lies in the fact that without development projects the amalgamated communities will not be able to generate new monetary receipts to their budgets in the future, it should become the basis of frustration after the end of the five-year «bonus».

Generally, a number of problems that shall be additionally addressed arose in the course of implementation of the reform:

- Politicization of the reform through making attempts to use it in order to maintain political leverage at the local level, to obtain political dividends of other nature or the opportunity to get financing from the State fund of regional development.

- Shift away from the Guidelines of forming capable territorial communities (approved by the Cabinet of Ministers) because of their excessive complexity and the opportunity to use them for the purposes of manipulating decisions and actions of population;
- Imperfect algorithm of the process of integration, which allows nonoptimality of its criteria.

The necessary clarity has been introduced to the legislation in 2015. However, there still exists the unsettled issue of local control of development of villages and settlements, which are included in the amalgamated territorial community. There is also an issue arising in the course of decentralization, which concerns the prospects of financing communities that hasn't been united yet.

Direct inter-budget relations between the amalgamated community and the state budget mean the actuality of the search for new forms of existence for region and district councils, particular issues concern focusing on economic development that should become their new task in case of the system of administration gets reformed and the roles of regions in the system of administrative-territorial structure get changed.

4. Horizons of new regional policy

4.1. STRATEGY OF THE STATE AND FUTURE OF REGIONAL POLICY

Nowadays the regional policy of Ukraine faces a number of challenges, proper response to which is essential for generally achieving its efficiency and enhancing the role of regional policy in the state policy.

First, regional policy as a system of measures for regional development got an *institutional opponent* in the «person» of decentralization of power. Decentralization depletes resource and institutional capacities of regions by shifting the emphasis to the level of local communities that are institutionally focused primarily on the spatial development.

Second, regionalistics have not yet formed a *clear notion of a region* in Ukraine as a subject of research, object of management for regional policy and as a subject of development.

Third, there is a problem of the *excessive number of subjects*, which administer regions.

Fourth, regional policy remains to be largely *implicit*, built in the system of all the sectoral policies, that's why it is subject to these policies. The long period of «secondariness» of the regional policy and its subordination to political expediency has been institutionalized in the form of the enrooted regional paternalism, which naturally resulted in orientation on the centralized government funding, argued by the uniqueness of *capabilities* of the region and its problems, however, not by the development *potential*.

Fifth, information support of the regional policy is focused on the issues of decentralization of power, which is particularly explained by the fact that prioritized attention is paid to this process by the institutions of the EU. However, the *reform of regional policy* has almost never been considered to take place.

Sixth, the «hybrid» war that is going on against Ukraine, requires the use of the *«hybrid» instruments of impact* on the uncontrolled, annexed territories and post-conflict territories. In particular, the most important issues as of now are the issues of determination of socio-economic relations with particular districts of Donetsk and Luhansk regions and forming of schemes of reintegrating economies of these territories in the national economy. Meanwhile, the raised issues are being solved in the following manner: settlement of the first issue is

subject to political decisions, the second issue is settled on the principle of “let’s just make it how it was before”.

Consequential implementation of the Association Agreement of Ukraine and the EU and preparing Ukraine for the introduction of the European governance models requires the regional policy, compliant with the European principles.

A list of solutions to the present-day challenges is provided by the National strategy of regional development for the period until 2020 approved in 2014 and by the Law of Ukraine “On the principles of the state regional policy”. Meanwhile, **within the frame of implementation of the European concept of the “new regionalism” the list of tasks of the regional policy in Ukraine should be supplemented with the following tasks:**

- Strengthening of the role of strategizing in regional and territorial development both at nationwide and regional levels;
- Development of new effective mechanisms of interregional relations and strengthening of interregional relations;
- Activization of the organizational and institutional resources at the international, national and regional levels;
- Strengthening of the role of state institutions in regulating interregional relations;
- Activization of the potential of self-development of regions through forming postindustrial factors of economic growth;
- Defining of the «smart-specialization» regional model of regions of Ukraine;
- Monitoring of territorial impact of the regional policy and integration of three levels of regional development: spatial development at the level of local community, regional development at the regional scale and regional policies at the nationwide level.

Implementation of the principles of European integration and implementation of the Association Agreement of Ukraine and the EU motivates to fully consider the components of the European cohesion policy, it requires:

- Defining the top-priority areas, which will be directly financed by the regional development projects, at that the priorities shall be defined considering their functions;
- Setting clear and measurable goals of the regional policy and instruments for monitoring their achieving;
- Defining the related reforms that shall be put in place in order to achieve maximum efficiency of financing of the regional development projects;

- Coordinating of financing by several administrators as part of the unified regional development strategies;
- Simplifying the procedure for the provision and receipt of applications, accounting summaries for funds that are provided for the regional development projects without reducing the effectiveness of control through introducing the components of electronic control;
- Assisting local communities in attraction of financial resources from the European and other international funds;
- Developing cross-border cooperation and increasing participation of Ukraine in macroregional strategies implemented by the EU shall be set as the top-priority goals.

The practical inclusion of the above-mentioned priorities into the administrative documents at government level and at administration level will require corresponding amendments to be made in the law of Ukraine "On the principles of state regional policy" and in the National strategy of regional development.

4.2. MODEL OF THE STATE POLICY CONCERNING DEVELOPMENT OF TERRITORIES: IS THERE ANY ALTERNATIVE TO PATERNALISM?

Futility of methods of state paternalism in the implementation of state policy in the modern economy motivates to search for alternative models. Competition of regions for a share in the centralized distribution of resources of the state shall be replaced with the competition for the decentralized resources for development that will be received as a result of winning the competition of initiatives and community's ability to optimally use these resources in implementation of the regional potential.

Alternatively to the paternalistic instruments that are limited by the lack of resources for direct financing of regional development projects, **in the process of creating of the «development-friendly» environment the government will primarily use the synergy of change of organization of regional economy, it will require inappreciable financial investments.**

In order to form such an environment the measures taken at the level of territorial communities shall be supplemented with **structural reforms** in a nationwide scale, such reforms shall simplify the use of potential of regional development and strengthen its inclusiveness. Such reforms primarily include:

- Deregulation and assistance in development of small businesses;
- Liberalizing of the labor market, strengthening of the territorial and occupational mobility of labor power;

- Ensuring completeness, quality and reduction in costs for receiving administrative services through implementation of electronic control.

The following signs shall be construed as the signs of the «development-friendly» regional economic system:

- Achieving of the maximum possible number of industries forming economy of a region, which shall be able to flexibly utilize a wide range of available resources, thus strengthening the inclusiveness of development;
- Priority of development of sectors that generate network connections (Industry 4.0);
- Sustainability of development;
- Presence of a positive trend by way of human capital;
- Integrity of economy of a region;
- Avoiding of risks of making regional economy enclave and openness of the regional economy to cooperation interaction.

In order to encourage the development within the framework of implementation of regional policy it is allowably to form **limited territories** with **development-friendly special modes**: however, it shall be done only within the framework of their use as the instruments of development of certain territories through fixing the defined problems of their development and without the possibility to use such territories as the “internal offshore”.

Capability of the regional communities to use the positive potential of the system reforms depends on their institutional completion. Thus, current regional policy shall put an emphasis on forming networks of institutions for: improvement of innovative culture of regional communities and learning capability, creation and spread of knowledge, capability to mobilize local actors and to create cooperation networks, to organize publicly private partnerships, to strengthen system related relations, to implement participative approaches in politics etc⁷. **The capability of creating social capital of a region through development of network relations can be construed as the one of the shaping factors of efficiency of a regional policy and primarily of the decentralization policy as its element.**

⁷Evaluating New Regional Policies. Reviewing the Theory and Practice. MARIA-ANGELES DIEZ University of the Basque Country, Spain.- SAGE Publications (London, Thousand Oaks and New Delhi), 2002.- Vol 8(3): p. 285–305

Direct financing of budgets of communities with the funds from the state budget and with funds of international financial organizations will remain to be critically important. Objectivity and effectiveness of distribution of these resources shall be achieved by means of delegating powers related to the picking of projects for financing to the specialized institutions.

One of the main institutions among such institutions is the *State fund of regional development*, which functions in Ukraine now in the form of a separate budgetary program, its funds are being allocated by the Ministry of regional development on the project basis using a formal procedure. **Improvement of the quality of public financing of regional development can be achieved by means of reformatting the State fund of regional development into a separate financial institution with a network of regional offices.** Capital formation shall be ensured by means of funds allocated from the State budget, decentralized attraction of funds, funds of international financial aid (in case, if the principles of activities of the SFRD will synchronize with the main priorities of activities of the European Fund of regional development) and by means of money from the European structural funds (it is future consideration)⁸.

Another important priority is the development of the network of *agencies of regional development*: unprofitable unbudgeted institutions that will help the local government bodies to implement the regional development strategy and take measures envisaged in the plan of its implementation. Such agency shall work as an office providing consultations regarding the preparation and implementation of programs and projects of regional development.

Thus, systemic regional policy can neutralize the possible risks and logically develop the positive potential that is formed by means of regional decentralization.

4.3. NEW REGIONS OF NEW UKRAINE: IDEOLOGY OF INTERACTION AND SHARED RESPONSIBILITY

Uncertainty of subjectness of regions as of the key elements of vertical and horizontal interactions substantially limits the sustainability and purposefulness of regional development. Overcoming of risks of centrifugal tendencies among regions is possible through speeding up the development of institutions of regional strategizing and through interaction of the Center and the regions in this area. In order for this to be done **regional strategies of development must have two fundamental properties.**

⁸Regarding the efficiency of agencies and funds of regional development in implementation of potential of development of regions of Ukraine. Analytical note. [electronic resource].- National institute for strategic studies.- official website.- Access mode: <http://www.niss.gov.ua/articles/710/>.

The first of them is ***inclusiveness***. Choosing the priorities of development of regions with regard to the focuses of their internal integration and choosing of the mechanisms of development of regions with regard to maximized involvement of public in the implementation of the tasks of the strategy and obtaining of a positive result of their implementation.

The second of them is ***inclusion***. Positioning of a region in the system of national economy based on solving national problems through solving regional problems.

Rethinking of available resource potential, opportunities and perspectives of its use, creating of a ***concept vision*** of the new structure of the region's economy are usually required for the developing region to show signs of such properties. It gives even bigger importance to practical implementation of subjectness of strategies of development of regions on the basis of institutions formation that shall optimize the functional interactions determined by the socio-economic structure of the region.

At the intraregional level the subjectness is implemented through institutional framework of inclusiveness of the process of regional development strategizing: revealing and inclusion of interests, establishing of permanent communication of the government with the local communities. Local Councils of regional development and regional agencies of development help solving this problem.

At a nationwide scale the implementation of subjectness requires institutionalization of interactions between the regions and the Center. The main institutions among such should include the consultative body (resembling the ***Council of regional development under the President of Ukraine***) and the body of strategic financing (***Publicly financed fund of regional development*** as a separate financial institution that works on the principles of public-private partnership).

Development of institutions for regional strategizing should allow to form new regional identity that would be based not only on previous experience and acquired potential, but primarily on ***common perspectives of further development*** of regional communities. Commonness of the future forms commonness of responsibility for it, meanwhile full-fledged implementation of identity will drop barriers for interregional interaction and will form responsibility for development on a nation-wide scale

Conclusion:

10 pragmatic steps for modern regional policy

Regional policy will become one of the key aspects of institutional renovating of Ukraine, its territorial and social reintegration, formation of the basis for the dynamic and sustainable development of economy and society. Implementation of the modern model of regional policy in Ukraine will require the following top-priority steps to be taken.

I. NEW STRATEGY

1 The law of Ukraine “On the principles of state regional policy” and the State strategy of regional development until 2020 is to be amended to the compliance with the requirements and instruments of the European cohesion policy.

2 The Council of regional development under the President of Ukraine should be working on the program-based and systematic principles as an instrument of monitoring of regional measurement of reforms and both horizontal (region-region) and vertical (community-region-state) coordination of their implementation.



TARGET POINTS:

- The latest tendencies of regionalization in Europe and the latest tendencies of European regional policy must be taken into account;
- Template documents have to be renewed and the main principles of regional policy in Ukraine shall be reconsidered in accordance with new and expected challenges;
- Strict hierarchy of goals of the state policy regarding the development of territories must be set at local communities' level in accordance with the tasks of reforms.

II. INTERNAL UNITY AND EXTERNAL PARTNERSHIP

3 “Road map” of deoccupation of parts of Donetsk and Luhansk regions must be formed based on the open dialogue and presented to the wide audience, this “road map” should include the key objectives regarding the stabilization of economy, protection of human rights, realization of peace. Plan of recovery of economies of Donetsk and Luhansk regions shall be formed and implemented, it has to ensure cross-sectoral and interregional interaction with aim of resumption of sustainable work of economies of these regions on the principles of structural modernization and overcoming of the crisis of the old industrial sectors.

4 Strategy of development of the South of Ukraine should be created and be aimed at extension of cooperation of the corresponding regions on the basis of development of maritime culture, tourist and recreational complexes, facilities working with alternative energy sources, solving of ecological problems, reformation of the transport logistics etc.

5 Renewed organizational and legal mechanics of operation of Ukrainian parts of European regions and cross-border cooperation in general shall be developed and implemented based on the modern European norms and practices.



TARGET POINTS:

- Social accord has to be achieved regarding the matters of the future of Crimea and Donbas;
- The mechanisms for compensation of losses through the revision of competitive advantages and repositioning of regions in economic relations should be developed;
- New concept of vision shall be proposed regarding the Ukrainian borderland being considered as the equal partner in the relations with the neighboring European countries.

III. NEW POWERS AND RESOURCES

6 Barriers of the voluntary amalgamation of local communities shall be dropped, first ever election to the local government bodies shall be performed within such territorial communities.

7 From focusing on decentralization and changing the administrative-territorial system by means of local reforms accents should be proceeded to increasing capabilities of communities regarding the implementation of efficient practices of encouraging and stimulating economic activities and attraction of investments.

8 Development of agencies of regional development should be encouraged as the unprofitable and unbudgeted institutions that will help local government to implement the regional strategy of development on the principles of public-private partnership.



TARGET POINTS:

- The stimulating impact of the decentralization reform on the development of communities should be ensured;
- Optimal balance of powers between the territorial levels of control

as the basis for reforming territorial organization of power should be achieved;

- The reliance of communities on the state budget should be reduced and conditions for the capitalization of the endogenous potential of territories should be created;
- The coordinating, integrating and concentrating impacts of institutions of the regional level on the development of territories should be strengthened.

IV. NEW INSTRUMENTS

9 The State fund of regional development is to be reorganized into a separate special financial institution with a network of regional offices; this institution should administer the corresponding budget program with further extension of sources of funding.

10 A mechanism has to be formed for effective and responsible attraction of investments and credit resources as well as of technical assistance from international financial organizations in order to fulfill targets of systemic rehabilitation of regions of Ukraine through programming the development, coordinating activities of state government bodies, local government bodies, communities, enterprises, institutes and organizations, creating of the corresponding supervisory Council that will carry out control of implementation of programs and targeted allocation of funds.



TARGET POINTS:

- The investment-based nature of state financing of development of territories should be ensured;
- A stimulation system for implementation of joint interregional projects with partial budgetary financing on the principles of public-private partnership should be created;
- The concentrated point-based impact of resources of foreign aid on the development of communities should be ensured.

Institute for Social and Economic Research (ISER) is a non-governmental think tank specialising in the state policy analysis. The Institute is located in Kyiv, Ukraine. In late 2014, independent experts have united a team of like-minded people to provide the intellectual support for reforms in the country. Today ISER is a think tank which works at the regional, central and international levels. In 2017, ISER has identified eight priorities in foreign policy, economics, public finance, regional policy, social policy, energy and housing policy.

The main directions of activity of ISER: analytical studies, their advocacy, the state policy analysis and monitoring of the current situation, including support of the legislative activity, draft laws analysis and the provision of conclusions and amendments to the draft laws.

Strong analytical and advocacy teams provide the tasks fulfilment; together they achieve planned projects' results from an idea to its implementation.

Among the main results of activity of ISER are:

Analytical studies (The Policy of Economic Pragmatism, Budget Policy: pragmatic approaches to strategic decisions, The Policy of Social Pragmatism, and other);

More than 900 draft laws were analysed, and conclusions to them were published (on the web-site of ISER vysnovky.com.ua); more than 60 amendments to draft laws were provided;

Participation in the development of 18 draft laws and 14 draft other legal acts, such as the following: Draft Law of Ukraine "On securing a major export expansion of Ukrainian producers through insurance, guarantee and export credit cheapening", Reg. №2142a – the draft was accepted, there is a preparatory work for the creation of the export-credit agency in Ukraine; Draft Law of Ukraine "On Energy-efficiency Fund", №5598, it was developed to create an efficient mechanism for attraction and use of funds of international organizations for the objectives of energy efficiency in Ukraine;

ISER provided proposals to draft state budgets and government programs; they were taken into account, in particular, our analytical materials were included in the Annual address of President to Verkhovna Rada on "Internal and External Situation of Ukraine in 2016";

A series of roundtables on topical issues of state policy in the Verkhovna Rada of Ukraine were organised; they were supported by the Committees on Foreign Affairs, on Budget, Economic, Cultural and Energy policies, involving the main stakeholders;

Within the active cooperation with regional and national think tanks, it was implemented a number of advocacy projects.

Also, in 2017, ISER launched a joint project with the EBRD, aimed at improving the payment system in the heat supply.

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