

9. The research of the regional development trends in Ukraine

The OECD Territorial Review of Ukraine, published in February 2014, identified amalgamation, decentralization and regional development as mechanisms that can help address a number of interrelated problems at the territorial level. These problematic aspects include regional disparities; significant changes in productivity; high unemployment and informal employment; demographic changes; poor quality of services; and centralized vertical multi-level governance structures that have remained in place since before Ukraine's independence [158]. In addition, the conflict in the east of the country, which began in 2014, exacerbated the problematic territorial aspects and the need to build state resilience. The OECD also emphasized the need for territorial reform, primarily to ensure national capacity to perform administrative and service responsibilities through comprehensive decentralization.

In 2014, the Cabinet of Ministers of Ukraine approved the Concept of Reforming Local Self-Government and Territorial Organization of Power in Ukraine [154]. This step launched a multi-level governance reform based on a strategic decentralization process. In a relatively short period of time, successful steps have been taken towards the amalgamation of local self-government and increasing the scale of fiscal, administrative and political decentralization. However, there are obstacles and implementation problems in the reform process that need to be addressed.

In addition, the adoption of the Land Code in Ukraine in 2001 determined a liberal way of development of land relations, but the country did not create the necessary conditions for the full functioning of the land market [150]. The moratorium on land sales was introduced immediately after the adoption of the Land Code. Government representatives stated that the moratorium was introduced as a temporary measure, and further legislation aimed at developing the land market would be adopted later. There were fears among some political and civil society stakeholders that full-scale land privatization would open the door to concentration of land in the hands of large private enterprises and would be detrimental to the majority of Ukraine's agriculture and rural

population. After the moratorium, land lease became the main (though not the only) means of land control in Ukraine. Immediately after land privatization, a large land lease market was formed. Due to the huge number of available plots, lease prices were very low. The lifting of the moratorium on the sale of agricultural land carries a number of problems and risks associated with the uncertainty of long-term prospects for agricultural development in Ukraine. These problems and risks should be comprehensively investigated.

In the domestic scientific literature, the problems of socio-economic development, decentralization, rural development and land reform are widely studied. In particular, O. Samborska [162, p. 119] in the study of indicators of socio-economic development notes the need for clear and precise actions on the part of the state and local self-government. The way of improving life and strengthening the economic development of the country is possible taking into account the transformation processes, but achieving this involves solving a set of goals and objectives facing governments at all levels. The elaboration of development strategies for a certain period helps to improve the situation in the regions of Ukraine, but this phenomenon is temporary and, in some cases, is not manageable. In addition, [161, p. 346] emphasizes the need for social protection, which includes various types of protection of citizens in case of temporary disability for various reasons, unemployment, occupational diseases, industrial accidents, pension system. Regardless of the type of community, the priority directions of their development should be the transfer of expenditure powers to the regions and the right to independently establish local taxes and fees, increase revenues, employment and social protection. For the rational use of available resources and assets for rural communities it is important to regulate the use of land resources, communal property, infrastructure development and provision of quality services to the population of rural areas. It is also necessary to strengthen the legal, organizational and material capacity of territorial communities, local governments, conducting their activities in compliance with the principles and provisions of the European Charter of Local Self-Government [163, p. 64].

Over the past ten years, we have been witnessing the transformation processes taking place in the global economy, which are rapidly changing the nature of relations between the subjects of governance and modifying them. In this context, the state as a closed economic space for the activities of subnational entities is gradually losing its meaning, while the importance of regions is growing significantly. In other words, the emphasis of economic transformations from the national level is shifting to the regional level, and therefore the role of the state in economic management is steadily declining, and the transition from a single "management center" of regional development to a multi-centric regional policy and capable local self-government is inevitable. In this context, the issues of studying the essence of regional development, the growing importance of the regions in the context of unstable macroeconomic trends, as well as due to dynamic changes in the socio-economic life of the country are of particular importance and require additional research. The timeliness of this issue is dictated by the need to deepen the theoretical and methodological foundations of research under the influence of globalization, European integration and decentralization of power.

In the works of G. Kaletnyk the state of development and use of land resources by different owners is widely studied, taking into account the structure of agricultural land. In numerous scientific works, in particular, proposals on the use of world experience of agricultural land use in Ukraine are given, proposals for improving the legislative framework in the field of agricultural land turnover are developed [159, p. 566]. In addition, G. Kaletnyk is a co-author of the draft Law of Ukraine "On the Land Market" 9001-d of 07.12.2011, which, unlike the Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine on the Conditions of Agricultural Land Turnover" No. 2178-10 adopted in 2020, provided for the introduction of an exhaustive list of norms for the turnover of agricultural land.

In the study of the experience of European countries in the development of local self-government, I. Furman emphasizes that now the topic of reforming local self-government in Ukraine is quite acute [155, p. 57]. The author proposes directions for the introduction of foreign experience in the work of local self-government bodies of

Ukraine, in particular: ways to implement foreign experience of decentralization of management and world experience in the development of local self-government.

Formalization of the labor market is also an important aspect of further development of decentralization in Ukraine. In particular, S. Bereziuk and N. Yaremchuk emphasize that informal relations in the labor market are a destructive factor of economic development [157, p. 18]. The authors determine that the most corrupt sector remains the public property sector, where the process of privatization of state-owned enterprises was deliberately slowed down by management structures for corruption purposes. Scientists support the theory of hypothetical dependence of GDP growth on the corruption perception index.

V. Todosiychuk [164, p. 58] emphasizes the fact that rapid socio-economic changes in the labour market of Ukraine require increasing the efficiency of employment services by restructuring them, defining the necessary modern goals and functions and reassessing current practices in order to increase the competitiveness of the domestic labour market, as well as motivating and activating the unemployed to find a job.

C. Bereziuk, L. Pronko and O. Samborska consider political power as an integral part of the development and stability of society and emphasize that it is now necessary to develop our own effective policy model that would combine the success and experience of international associations, Ukrainian history, traditions and customs. The success of the state in the international political arena depends primarily on the experience and professionalism of its own political management. The main reason for the crisis phenomena in Ukrainian society is the lack of a clear development strategy and the lack of professional competence of politicians in state-building [156, p. 498].

Also, in the context of decentralization research, scientists pay attention to the problems of state regulation of rural development. In particular, V. Baldynyuk substantiates the need for effective state regulation of rural development, since overcoming the crisis requires both the mobilization of significant resources and the introduction of effective regulatory methods. The author emphasizes that the effectiveness of regulation of rural development depends on the mechanisms of state influence on their development. The peculiarities of state regulation of rural

development are in the real unity of their main structural elements: economic base, social and environmental spheres. The need for state regulation of rural areas involves the use of a functional-territorial system of public administration, which will ensure optimal interaction between public authorities and local governments [149, p. 66].

Accordingly, land reform remains an important aspect of decentralization. It should be noted that in the development of the concept of land relations, private ownership of land becomes one of the most important elements of the protection of civil rights, state guarantees of entrepreneurial and investment activities. These phenomena are the result of Ukraine's transition to a market economy. This, in turn, was inevitably accompanied by transformation of the economic mechanism, changes in forms and methods of management. It is the process of land reform in Ukraine that is focused on providing a legal basis for the implementation of the requirements of international law on economic freedom and independence [165, p. 55].

The aim of the article is to study the trends of regional development in Ukraine, taking into account the implementation of land reform and to develop recommendations for strengthening the regional development policy aimed at realizing the productive potential of the regions of Ukraine.

With increasing territorial disparities in Ukraine, it is becoming increasingly clear that it is necessary to continue modernizing approaches to regional development policy. It can be argued that there are potential opportunities to obtain greater positive effects from economic agglomeration by focusing on the development of functional urban areas and horizontal cooperation across administrative boundaries. Accurate spatial indicators, in particular population statistics and connecting flows, are essential in adapting infrastructure and spatial planning to ageing and declining populations. Improving the efficiency of labour markets, modernising transport infrastructure and increasing the transparency of the authorities can also contribute to further growth in regional development indicators.

Ukraine's regions have faced significant challenges over the past decade. After a significant economic downturn during the global financial crisis of 2008-2009, a weak and short-lived recovery gave way to an even more severe recession in 2014-2015,

triggered by the Euromaidan events, the annexation of Crimea and the outbreak of conflict in the eastern part of the country. Meanwhile, the crisis has exposed the inherent fragility of Ukraine's economy, which consists of an over-reliance on commodity exports as a driver of economic development, persistent delays in implementing structural reforms to improve the business environment, and weaknesses in the integrity and efficiency of state institutions.

By 2018, the government had introduced a series of measures to strengthen public finances and return the economy to a more sustainable development trajectory. The signing of a four-year program with the International Monetary Fund (IMF) and the Association Agreement with the European Union contributed to further progress in structural reforms and allowed the economy to return to growth, which reached 2.3% in 2016 according to the IMF. Ukraine's real GDP contracted by 4% in 2020, with nominal GDP, i.e. in actual prices, amounting to UAH 4.194 trillion. At the same time, the World Bank raised its forecast for the growth of Ukraine's gross domestic product in 2021 from 3% to 3.8%. The Ministry of Economy forecasts that Ukraine's economy will grow by 4.6% of GDP in 2021. In order to ensure a sustainable economic recovery in the long term, concerted efforts are needed to increase productivity, diversify the export base, attract foreign direct investment and strengthen public administration institutions at the national and local levels.

Population ageing and decline are changing the economic geography of Ukraine. Eighty percent of Ukraine's cities are experiencing population decline due to low birth rates and net migration outflows, which is particularly pronounced in eastern and north-central Ukraine. Regional and local authorities should take this into account in their development programs and urban development plans. The planning system should aim to mitigate the negative side effects of population decline while adapting infrastructure and services to the needs of an ageing population. Conversely, several urban agglomerations with growing populations - Kyiv and some cities in Central and Western Ukraine - must plan for the development of public services and infrastructure to accommodate new residents. In light of these changes, it is crucial to improve the accuracy of population statistics, including data on commuting. Consequently, it is

critical to conduct a population census. Distortions in the country's population statistics lead to inaccurate distribution of public funds between local budgets, as subsidies, transfers and fiscal equalization mechanisms are linked to the official population. There is also a need for gradual reform of the residence registration system, as shortcomings in this system lead to discrepancies between official statistics and the actual population in many regions.

The index of geographical concentration of Ukraine's population in 2015 was 19%, while the median according to the OECD was 37%. The annexation of Crimea and the conflict in eastern Ukraine led to numerous forced displacements of the population, especially active in the first years of the conflict. Since 2017, displacement from the non-government controlled areas of Ukraine has somewhat stabilized, and the number of internally displaced persons (IDPs) has been around 1.5 million, with slight fluctuations. As of October 2019, 1.4 million IDPs were registered with social protection agencies. Most of them are located in Donetsk (up to half a million) and Luhansk (up to 300 thousand) regions and the city of Kyiv and Kyiv region (up to 200 thousand together). There are also numerous IDPs in Kharkiv, Dnipropetrovska, Zaporizka regions (Fig. 1) [151, p. 8].

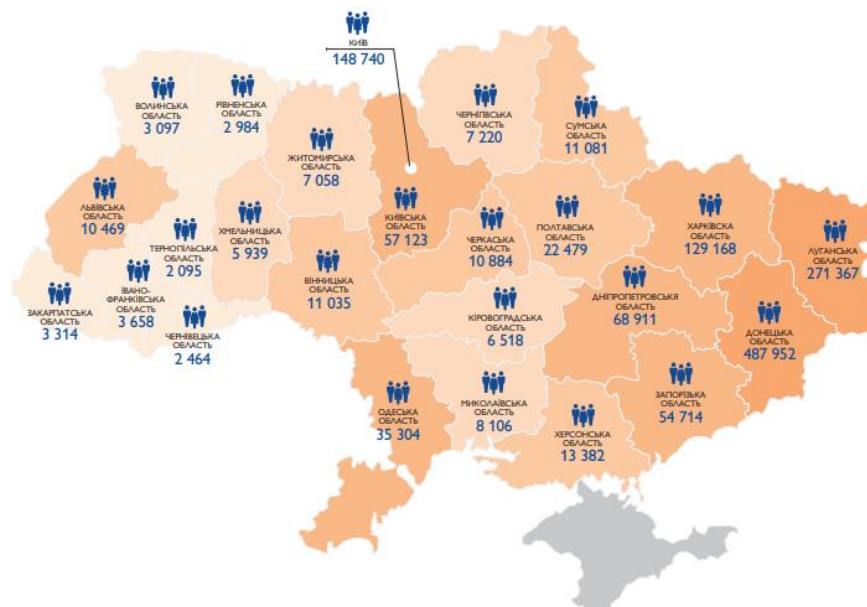


Figure 1. Accommodation of internally displaced persons on the territory of Ukraine (thousand people)

Source: compiled by the authors according to [151, p. 8].

We can talk about the existence of a trend towards further concentration of population in Kyiv and the most dynamic urban agglomerations. If managed effectively, this can increase productivity and ensure economic growth. Given that the largest urban agglomerations cross administrative boundaries, the government needs to focus on functional urban areas rather than administrative entities. Defining urban areas as functional economic units can help to improve public policies in urban agglomerations, including the transport sector, infrastructure, housing and schools, as well as cultural space and recreational areas. It can also facilitate the necessary horizontal cooperation between large cities, neighbouring districts and villages.

According to OECD standards, territorial heterogeneity in Ukraine is high. This heterogeneity is reflected in gross domestic product (GDP) per capita, household disposable income per capita and living standards. Ukraine inherited significant regional imbalances from the Soviet era, which were exacerbated during the transition recession of the 1990s. Inter-regional disparities have continued to widen since the turn of the century, with a marked increase after the outbreak of the conflict in Donbas. The rapid economic development of the Kyiv agglomeration is a major factor in the growth of territorial disparities: the city of Kyiv and the adjacent oblast (region) accounted for almost 60% of national GDP growth in 2004-2014. At the same time, in 2020, Ukraine's real GDP declined and amounted to 88.6% in the second quarter (Fig. 2). In 2021, the Kyiv region will continue to play a leading role in the economic growth of the country, so the possibility of increasing interregional disparities should not be excluded [152, p. 3].

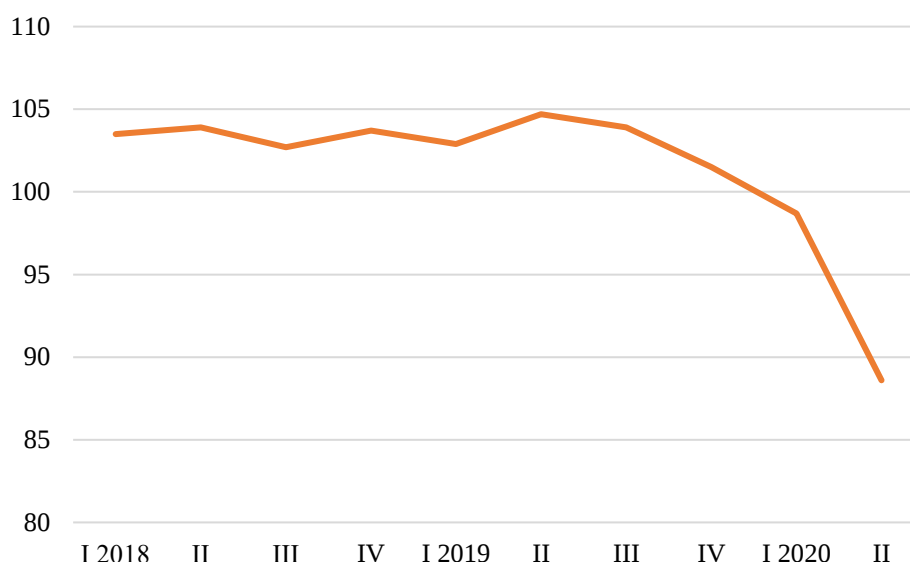


Fig. 2. Real GDP of Ukraine

Source: compiled by the authors according to [152, p. 3].

At the same time, some central and western regions demonstrate relatively high growth rates and form a central growth cluster expanding to the west and south of Kyiv. This trend reflects positive changes in agricultural productivity as well as elasticity of light industry during the economic crisis. At the same time, heavy industry and mining, which are heavily concentrated in Eastern Ukraine, have been underdeveloped since 2010. Also, the decrease in trade with the occupied territories, rising energy prices and increasing restrictions on access to the Russian market have further worsened the prospects for the development of Ukraine's heavy industry. Meanwhile, Western and Central Ukraine are well positioned to benefit from more concentrated integration into EU cross-border production supply chains.

The recession of 2014-2015 caused a drop in business activity and, consequently, the official unemployment rate increased to 9.3% - the highest level since 2005 - with youth unemployment reaching 16% in 2016 (Figure 3). It is assumed that, as in previous years, in 2021, more than 40 % of the total staffing needs will be concentrated in Kyiv, Dnipropetrovska, Kharkivska, Poltavaska, Lvivska and Ivano-Frankivska regions [153].

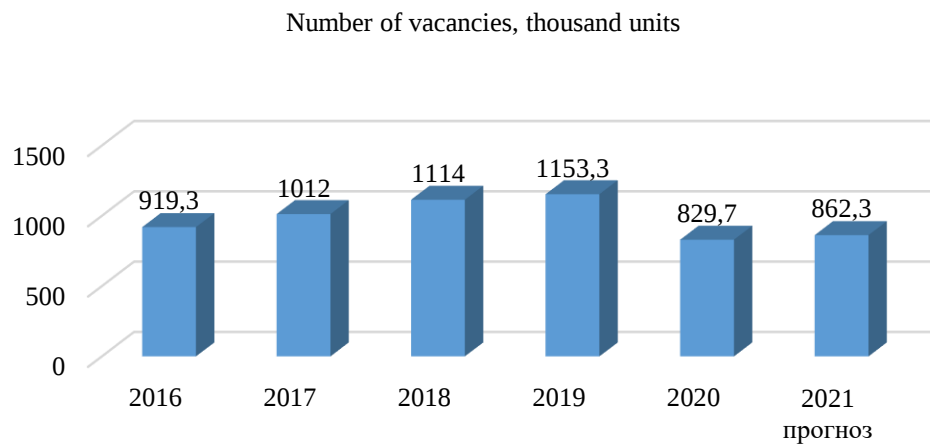


Figure 3. Preliminary estimates of the additional need of employers for workers for 2021

Source: compiled by the authors according to [153]

Therefore, the functioning and economic integration of regional labour markets becomes a major issue. Integration of internally displaced people into the labour market is a problematic aspect for many regions, especially in government-controlled areas of Donbas. In order to increase the efficiency of the labour market, the authorities should ensure that the mismatch between the skills required in the workplace and those provided by formal education and training systems is bridged, and that the informality inherent in the Ukrainian labour market is reduced. High levels of informality can affect fiscal sustainability, especially at the level of local budgets, which rely heavily on income tax revenues. The government should refrain from any further increase in the minimum wage, as this could jeopardize the functioning of small and medium-sized enterprises in some less developed regions of Ukraine and push them into informality.

The level of participation of the Ukrainian population in elections is low and characterized by strong spatial dependencies. Western regions are characterized by a higher voter turnout, and there is a negative correlation between the participation of the population in local elections and the level of bias of city administrations. The results of the Ukrainian municipal survey conducted in 2017 indicate positive trends in the

level of perceived quality of administrative services and in the level of citizens' satisfaction with local administrations. If this trend continues, it may lead to an increase in the level of trust in the government and strengthen the involvement of citizens in social processes at the local level.

Meanwhile, while politicians remain uncertain about further development prospects, business has adapted to changes and reforms. Access to cheap rental land immediately after the reforms in the early 2000s encouraged entrepreneurs to establish farms that operated on large plots of land. However, due to the uncertainty of tenure (among other factors), the risks associated with access to land pushed agricultural enterprises towards shorter-term business models: grain and oilseed production.

We summarize a number of problematic aspects of land reform in Ukraine and provide recommendations for their solution in the conclusions.

The distribution of conditional land shares took place rapidly within one decade, creating about seven million landowners by 2009. Ukrainian landowners are a poorly organized and heterogeneous group of people who are often not interested in working on their plots and are characterized by insufficient awareness of general land relations in the country [160, p. 1644]. With less than 10% of private land owners cultivating their plots, few have the potential to commercialize their agricultural activities if the moratorium is lifted and the business environment improves.

In addition to privately owned land, 10.5 million ha of land is still owned by the state. About 1.08 million ha (10.2% of total state agricultural land) is cultivated by state agricultural enterprises, which are widely criticized for inefficient land use.

The current environment is difficult to reform. The Ukrainian government provides a rather vague picture of how it wants to see domestic agriculture in the future. The vast majority of private landowners in Ukraine have a strongly negative attitude towards lifting the moratorium. At the same time, they also want to be able to sell their land. Policy and institution building initiatives are hampered by widespread misuse of state resources and can be easily discredited in the current political climate.

The abolition of the moratorium on the sale of agricultural land by the Law of Ukraine on Amendments to Certain Legislative Acts of Ukraine on the Conditions of Turnover of Agricultural Land No. 2178-10 (the Law) is complex. The Law is not a separate comprehensive law and only amends other legislation. Due to the relatively weak "rule of law" in Ukraine as a whole, other laws should be adopted in the near future to make the above Law more effective. The lifting of the moratorium on the sale of agricultural land is possible only after the adoption of a separate law on the land market, and not a law amending other legislative acts. The law was adopted during the COVID-19 quarantine. This means a violation of the civil right to protest. The law was adopted under strong pressure from the International Monetary Fund on the Ukrainian authorities. The law promotes the transformation of land resources into a commodity, speculative asset. This creates preconditions for controlling agricultural land by financial and other non-agricultural institutions.

Ukraine lifts the moratorium on land sales and launches the land market without a clear strategic vision of the future of Ukrainian agriculture. So, the launch of the land market is a tool, not a goal. It is a tool for achieving another strategic goal of a higher level of governance, which could be, for example, the development of an agricultural system based on family farms, as in the EU or countries that have successfully implemented land reform aimed at improving the quality of life in rural areas.

Also, the launch of the land market in the current conditions is characterized by risks associated with the acquisition of land ownership rights by entities that are not citizens of Ukraine, territorial communities or the state. From January 1, 2024, Ukrainian legal entities will be allowed to acquire land ownership with a concentration of no more than 10 thousand hectares. Such a rule creates risks for small family farms and creates conditions for the constant expansion of large farms. Commercial banks are also allowed to acquire ownership of agricultural land as collateral for a period of up to two years until they sell the land at auction. This provision also creates additional risks, as the allowed period of land ownership is too long and the auction mechanism has not yet been developed, so it remains unclear what conditions and restrictions will be imposed on buyers. A more general problem is that no special institution (such as

the State Land Bank) has been established to perform important regulatory and intermediary functions on the land market. Such an institution should provide guarantees to commercial banks in accordance with the terms of their collateral loan agreements with farmers. If necessary, it should also redistribute land in accordance with such agreements. The possibility of purchasing agricultural land by foreign citizens remains open, if the respective decision is taken at a national referendum.

Also, currently in Ukraine there are no real restrictions to prevent the concentration and seizure of land. From 1 January 2024, the sale of land in one hand will be limited to 10 thousand hectares, while legal entities will be allowed to acquire land ownership. It is unrealistic to expect that Ukrainian small farmers and peasants will be able to meet their demand for land during the period of restrictions for legal entities, even with state financial support to compensate for part of the interest rate on new commercial loans for land purchase. Small farmers have to service their current loans and do not have sufficient financial resources to service additional ones. In addition, most of the private agricultural land will remain under lease agreements with large commercial farms in the coming years. This also makes it impossible for small farms to acquire land during the period of restrictions for legal entities. When the restrictions are lifted, legal entities will be able to easily win the competition for land because priorities for small local farmers, young farmers and new local farmers are not defined. In addition, former tenants, which are usually represented by large agricultural holdings in Ukraine, have priority in land purchases. There are currently no restrictions in place to avoid concentration of land in local communities created as a result of the decentralization reform in Ukraine. This means that monopolistic control over agricultural land is possible at the level of small territorial communities. The previous draft law contained a provision on concentration of no more than 35 percent of agricultural land within a local community, but it was removed before the second hearing of the law in the Ukrainian parliament. Currently, large agricultural holdings can control more than 35 percent of agricultural land (essentially forming monopolies) in local communities under lease agreements. There is a high risk that one individual/legal entity can buy all the land in a local community whose total

agricultural land area does not exceed 10 thousand hectares. There are no conditions for new land buyers such as education, experience in agriculture or local residence. This opens the door for land concentration, for example, for dummy buyers who lease land to large agricultural enterprises.

Individuals and legal entities leasing agricultural land will be granted a pre-emptive right to purchase it from the original owners. Lessees may sell or transfer this right to other parties for speculative purposes or transfer the right to affiliated parties to retain control over the land. At the same time, land purchase priorities for small local farmers, young farmers, new local farmers, local residents and other buyers who are important for sustainable agricultural and rural development are not set. In such circumstances, there are significant risks associated with the rule that former tenants, which in Ukraine are usually represented by large agricultural enterprises, can transfer their pre-emptive rights to purchase land to third parties. Former tenants are obliged to inform only the actual owner of their decision, but this cannot prevent undesirable transactions, nor can it help to control land concentration in the interests of the local economy and local communities. This norm makes local small farmers less competitive as potential buyers on the land market.

It is also worth noting the lack of real state support for small and medium enterprises in the context of land reform.

Conclusions. Strengthening the policy of regional development of Ukraine provides for the implementation of the entire production potential of the regions of Ukraine and should contribute to the overall economic development.

To ensure regional development, the government needs to strengthen the economic agglomeration of Kyiv in the following areas: consideration of functional urban areas as the basis for the development of urban policy (transport, infrastructure development and spatial planning); promotion of horizontal cooperation between large cities, neighboring districts and cities.

Updating the urban planning system to mitigate the negative effects of ageing and population decline should be done by: adapting infrastructure and service provision for the ageing population; conducting the next census to improve the accuracy of

statistics; reforming the residence registration system to align statistics with actual patterns of internal migration.

In order to overcome territorial inequalities and promote regional growth, it is necessary to: strengthen efforts to integrate internally displaced persons into the labour market through targeted introduction and implementation of labour market development programs (access to registration of the unemployed); reduce the informality inherent in the labour market by overcoming the mismatch between the skills required in the workplace and those developed in formal education and training systems; refrain from any further increase in the minimum wage

The Ukrainian land market and, in particular, the management and privatization of state-owned land should be facilitated by well-functioning institutions, taking into account the national context and needs of the country. In general, an approach based on the creation of strict rules may be more suitable for the Ukrainian environment with dysfunctional administrative bodies characterized by low public trust. This implies that centralized institutions, which were previously able to dispose of state land at their own discretion, should transfer this function to local governments, which have incentives to manage their own resources more efficiently. However, any benefits from decentralization of state land management depend on building the capacity of local public services, which is likely to require significant public investment. Transparent procedures, including publicly available information on price levels, are needed to create synergies. Finally, the land consolidation process, which will naturally be facilitated by a liberal land market, should carefully consider the interests of all stakeholders. Voluntary land consolidation projects, as opposed to compulsory schemes, are more likely to minimize potential welfare losses to landowners.