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## WAYS OF ECONOMIC DEVELOPMENT INTENSIFICATION IN THE RURAL MOUNTAIN AREAS OF UKRAINE

### ABSTRACT

The article dwells on the ecological, economic, social, demographic and ethno-cultural challenges suffered by rural mountain territories in Ukraine. The authors analyze the legislative provisions and conclude that orientation at direct state support for the social and economic development of mountain territories through budget allocations is inefficient and requires addendums. Special attention is paid to the elaboration of the state program of Ukrainian Carpathians sustainable development. The creation of the priority development territories in mountain territories is suggested as another efficient way to overcome their problems. The need and advantages of participation in the programs of EU technical assistance in order to improve infrastructure and increase employment in rural mountain areas are highlighted.

**Key words:** rural mountain territories, state program of Ukrainian Carpathians sustainable development, priority development territories, EU technical assistance.

**JEL Classification:** R11.

### 1. INTRODUCTION

The issue of protection and maintenance of mountain territories sustainable development in Ukraine has been gaining peculiar attention lately. Mountain territories have their own special problems, namely legislative and economic marginalization, poor accessibility, bordering location, cultural variety and environment diversity. Special attention is also paid nowadays to the ways of overcoming the permanent crisis in the rural mountain territories, which covers almost all the economic activities and pushes these villages to the sidewalks of social progress.

Nowadays a village, including the mountain one, is a major source of population reproduction; so it is the main donor of cities' and regions' development. It is almost impossible to realize regional advantages in the key economic spheres, like agriculture, forestry, recreation, etc., without the full-fledged existence of mountain villages. Moreover, the economic profile of mountain villages is more and more distinctly projected into the socio-economic development field. Main social and

recreational resources are concentrated in mountain villages. It is obvious that in the absence of the economically developed mountain village and its production and social infrastructure, the efficiency of this sphere functioning decreases significantly.

However, the economic environment, by its structure and development level, does not secure economic welfare for the local population. It is characterized by high unemployment level and aggravation of social problems, like ageing of population and loss of cultural heritage. In fact, the mountain territories in Ukraine are the problematic depressed territories almost everywhere. Thus, it is important that the issues of mountain territories and rural mountain territories in particular are not spontaneously addressed, but through the development of new management mechanisms at local, regional and national levels.

## **2. MATERIAL AND METHOD**

In order to analyze the rural mountain territories development issues, a range of methods were used, namely observation, analysis, synthesis and generalization. The information sources used in the research were Ukrainian legislation on mountain policy, international documents with Ukraine being party to them, the data on Ukraine's participation in the projects of International Technical Assistance Programs, as well as the literature on economics, agricultural economics, nature management, etc.

## **3. RESULTS AND DISCUSSIONS**

These basic directions of mountain policy are represented in the range of international documents with Ukraine being the party to them, in particular the Framework Convention on the Protection and Sustainable Development of the Carpathians (Carpathian Convention) adopted in 2003, acting according to the Law of Ukraine "On Ratification of Carpathian Convention" № 1672 as of April 7, 2004.

In addition to Carpathian Convention, nowadays the mountain policy in Ukraine is subject to three basic regulative acts: Law of Ukraine "On the Status of Mountain Settlements in Ukraine" (as of February 15, 1995), Resolution of the Cabinet of Ministers of Ukraine "On the List of Settlements with the Mountain Status" (as of August 11, 1995 № 647), Resolution of the Cabinet of Ministers of Ukraine "On the Remuneration of Labour of the Persons that Work in Mountain Regions" (as of August 11, 1995 № 648). The above-mentioned Law declares two forms of state maintenance of mountain settlements.

Article 3 of the Law provides for state guarantees for the social and economic development of settlements with mountain status. Among them, we can mention the allocation of budget funds for the development and strengthening of the material and technical basis of passenger transport, road facilities, communication, electric networks, television and radio communication systems, gasification and

exploitation of gas and oil reservoirs, education, health protection, cultural, household and trade services as well as financing of measures for land fertility improvement, development and exploitation of tourism, recreational and healthcare possibilities in the mountain regions; implementation of measures over construction of production objectives and social infrastructure.

Article 6 of the Law establishes incentives for the citizens who have the status of person living, working or studying on the territory of the locality with mountain status.

The analysis of the Law in action shows that the state guarantees of social and economic development of mountain territories stipulated by Article 3 of the Law are not granted and orientation at direct state support of social and economic development of mountain territories through budget allocations is inefficient and requires addendums concerning introduction of incentives for the inflow of investment from non-budgetary sources, creation of favorable conditions for entrepreneurship activity in order to solve the problems of local residents' employment.

In general, the solving of the complex of problems of mountain territories development in Ukraine, represented by the Carpathian region in the first place, requires the elaboration of the state program of Ukrainian Carpathians' sustainable development. In fact, the mountain territories of Ukraine are economically depressed and fall in the category of problematic areas according to the EU norms. Therefore, the aim of such a program should be seen as maintenance of sustainable and balanced development of Ukrainian Carpathians territories, increase of their economic competitive ability and of the local population's living standard, environmental protection and preservation of natural resources of the Carpathians and of their rich ethno-cultural heritage.

Introducing a special regime of investment attraction from the non-governmental sector in complex with the use of direct state investment, local self-governmental bodies' resources, international programs funds, in particular EU regional programs directed at the sustainable development of the European Carpathian macro-region are the main tasks on the way of achievement of the Program objective.

The Program should be directed at the following ways of problem solving and activities:

1. Creation of favorable conditions to overcome economic depressiveness of mountain territories:

– introduction of special economic and investment regime in the mountain territories with the establishment of special tax and custom regime and other incentives for those investors fulfilling tasks measures according to the directions stipulated by the Program;

– determination of territory limits, economic activity types list and program measures subject to the special regime of investment activity;

– increase of infrastructural attractiveness of the region through state support to the development of transport network, communication and telecommunication systems, land engineering, etc;

- promotion of traditional and most perspective types of economic activity in the region – forestry, mountain agriculture, recreational and tourism and ecologically adaptable types of entrepreneurship activity, including processing of local raw material resources and development of alternative energy forms;

- development and maintenance of the most important regional goal-oriented economic programs («mountain animal breeding», «organic production», «forest cluster», «recreational centers», «green tourism», «mineral resources of the Carpathians», «renewable energy», etc.), considering the ecological restrictions stipulated by the natural specificities of the mountains;

- development of market infrastructure in the region – wholesale-retail markets, service cooperatives, territorial development agencies;

- development of cross-border and intra-regional economic cooperation.

2. Upgrading social maintenance standards and improvement of local population living conditions:

- renewal and development of social infrastructure objects in the rural settlements of Ukrainian Carpathians with their bringing to the standards of neighbouring European countries;

- development of community facilities in the region (water supply, sewerage and disposal systems, recycling and storage of wastes);

- support to the development of public utility companies and other public services enterprises in the rural localities;

- development of local road facilities, reconstruction of inland road network, construction or bringing up to modern standards the interconnecting roads between rural settlements and administrative centers.

3. Preservation and development of ethno-cultural heritage:

- reconstruction and proper maintenance of the network of cultural establishments as well as the organization on their basis of the cores of local communities' cultural life;

- renewal and protection of the objects of historical, natural and cultural heritage in mountain territories;

- promotion and development of folk artistic crafts;

- preservation and restoration of the unique wooden sacral architecture of the region.

4. Maintenance of environmental protection and technogenic and ecological security:

- forest renewal and conducting the ecologically oriented forest management;

- optimization of the structure and prevention of landscape degradation;

- further enlargement of regional ecologic network into the single national and European system;

- prevention of air and water basins contamination;

- conducting of flood-protection activities;

- solving the problems related to the disposal, recycling and utilization of industrial and domestic waste, and avoidance of territory contamination;

- introduction of erosion-preventive measures.

The Program should also pay special attention to the concrete problems of rural mountain territories and address the following issues:

- creation of favourable social and economic conditions for the mountain village to perform its social and economic functions;
- dynamic development of rural economy, increase of economic efficiency in its priority spheres;
- improvement of the employment level, slowing down labour migration scales, creating a favourable business environment in the rural settlements;
- stimulation of natural population growth, retaining young people in the countryside;
- overcoming existing disparities in the levels of rural and urban population living conditions;
- preserving and increasing the village cultural potential.

The program implementation will contribute to the growth of economic competitiveness of the region and to overcome the problems of its social and economic depressiveness, to enlarge the sphere of local population employment and to address the unemployment problems solution, to upgrading social standards and improvement of local population living conditions, to prevent the progressing depopulation of mountain territories and preserve the unique ethno-cultural heritage of local population and to solve the urgent problems of environmental protection and improve the ecological situation in the Ukrainian Carpathians.

Taking into account the considerable capital capacity of most tasks for the achievement of the sustainable regional development objectives in the Carpathians, as well as considering the extremely low economic development and investment activity indicators in the Carpathians mountain areas, the implementation of the above-mentioned tasks cannot take place in reality in the absence of the introduction of a special economic regime, first of all the investment activity with establishment of tax, custom taxes and other incentives in the course of realization of tasks and measures by directions stipulated in the Program.

The Ukrainian legislation (Economic Code of Ukraine, Article 415) provides economic and legal solution of the tasks of investment activity stimulation in separate regions with the introduction of special investment activity regime for the *priority development territories*. Such economic and legal programs underwent practical probation in Ukraine in 1999–2004. However, starting with 2005, its activity was stopped, which should be considered as a wrong decision. The practice of granting preferences to investors that allocate funds in the development of problematic mountain territories has to be renovated and expanded.

By their economic development level, the mountain territories in the regions of Ukraine concede considerably to flatlands. The economic development indicators of the administrative regions, all the settlements of which are considered mountain territories – Volovets and Mizhgirya areas of Zakarpattia region, Verhovyna area of Ivano-Frankivsk region, Skole and Turka areas of Lviv region as well as Putyla

area of Chernivtsi region, are extremely low. They require implementation of the instruments that secure the increase of investment activity in the first place.

At the same time, the economic environment in the mountain areas of Ukraine not only is not improving, but also demonstrates tendencies to further retardation.

The creation of priority development territories with the introduction of a special investment activity regime will promote overcoming the range of negative social and economic tendencies that have become typical for the mountain territories in Ukraine.

The introduction of the special investment activity regime should be directed at the development of mountain regions economy with orientation at the production sectors that are related to the local raw material base and labour skills of local population and corresponding to high ecologic standards and sustainable development targets.

The following directions of economy development that lead to efficient sustainable economic growth in terms of mountain regions should be regarded as a priority:

- road facilities, communication systems, public services and nature protection infrastructure;
- agro-production and processing of agricultural production;
- forestry, woodwork production, processing of non-wood forest production;
- tourism-recreational activity – location objects, sports and entertaining objects, infrastructure of recreational centers;
- services sphere;
- development of traditional folk crafts;
- organization of the production of new types of highly ecologically friendly production;
- use of non-traditional energy sources;
- construction;
- reconstructing existing productions while converting them to ecologically friendly technologies.

The basic conceptual approaches to the development of economic and legal mechanism of priority development territories functioning in the mountain territories of Ukrainian Carpathians are the following:

1. The incentives system should serve both as the instrument of compensation of low investment attraction indicators in the mountain territories and the mean of their relative advantages realization that lie in the uniqueness and social role of natural, resources, demographic and ethno-cultural mountain potential.

2. The preferential regime of investment activity has to cover the types of economic activity that:

- are directed at job creation for the local population;
- are oriented at the efficient use of local natural resources;
- correspond to high ecological standards and do not threat natural mountain eco-systems;
- secure the production of competitive goods and services and promote pumping up local budgets.

3. The creation of priority development territories has to be directed at achieving the accelerated economic development effect in the mountain territories and leveling the social and economic living conditions of the population from the mountain and non-mountain territories in Ukraine, while securing the maintenance of demographic, ethno-cultural and ecological mountain potential.

The basic notion of preferential investment regime in the priority development territories should be stipulated by special custom taxes and other tax facilities tested earlier and supplemented by the mechanisms of indemnifications and donations in the approved investment projects (partial indemnification to the investors of funds and donations allocated into implemented projects for the creation of new jobs) corresponding to the principles of public-private partnership. The need for priority development territories creation and elaboration of their operation mechanisms in the Carpathian region of Ukraine is outlined in details in the publications (Kravtsiv, Zhuk 2013, Zhuk 2012).

The coherence with the European territorial cooperation programs is another utterly important direction of sustainable development implementation in the Ukrainian Carpathians.

Within the limits of cross-border mountain regions, the economic, social and ecological problems are linked or close by nature and can be efficiently solved due to joint efforts of neighbouring countries, through the combination of possibilities and confined cross-border cooperation. On the one hand the border is the barrier – the change of legal environment complicates the solution of the range of common problems, on the other hand the current development of the new forms of cross-border cooperation and emergence of European programs for technical assistance have created additional possibilities to overcome the above-mentioned problems.

Therefore, the attraction of international technical assistance as the instrument directed at regional development gains special attention. Such assistance is usually aimed at solving urgent economic issues, including promotion of close cooperation and deep economic and regional integration due to encompassing the broad range of cooperation spheres, development of democracy and rule of law, observance of human rights and fundamental freedoms, prevention of conflicts, fighting against the consequences of natural disasters, promotion of political stabilization in the post-conflict countries, etc.

According to the Decree of the President of Ukraine as of June 01, 1999 № 596/1999 “On International Technical Assistance”, such assistance is defined as the resources that according to international agreements of Ukraine are granted by the donors on non-refundable basis to Ukraine in order to implement programs and projects of international technical assistance with the aim to conduct reforms and implement programs of social and economic development of Ukraine. Moreover, a similar definition is provided by the Resolution of the Cabinet of Ministers of Ukraine as of February 15, 2002 № 153 “On Creation of the Joint System of Attraction, Use and Monitoring of International Technical Assistance”. This Resolution also stipulates basic forms of international technical assistance attraction: any property necessary for the accomplishment of the goals of projects

(programs) that is imported or acquired in Ukraine; works and services; intellectual property rights; financial resources (grants) in national or foreign currency; other resources not forbidden by the legislature of Ukraine, including scholarships.

At present, the European Union is the main donor of international technical assistance. The European Neighbourhood and Partnership Instrument is the most large-scale cooperation mechanism in the EU by the volume of funding that covers Ukraine. It has operated since 2007 on the basis of EU Regulation № 1638/2006, adopted by the Parliament and Council of Europe on October 24, 2006. Such instrument aims at promoting economic and deeper political cooperation between the EU and partnership countries as well as granting assistance in order to solve the problems of the countries that have joint border with the EU countries or are located geographically close to the EU neighbor countries.

Ukraine participates in four Programs: Poland-Belarus-Ukraine, Romania-Ukraine-Moldova, Black Sea Basin and Hungary-Slovak Republic-Romania-Ukraine. They cover the largest part of the territory of Ukraine, excluding some northern and eastern regions. Each of them covers mountain territories and to a greater or lesser extent it is directed at overcoming their problems. But some projects of each program concretely concern mountain regions. In particular, tourism development stimulation in the Carpathian region by tourism services and security improvement and enhancement of the environmental protection systems by creating the cross-border system of natural hazards management (pollution, floods, fires), purchase of new equipment for rescue services and organization of trainings were conducted under the Poland-Belarus-Ukraine Program.

It also funded the project “Geo-Carpathians – Creating a Polish-Ukrainian Tourist Route”. Under the Hungary-Slovak Republic-Romania-Ukraine program we can list such projects as “Carpathian Tourism Road” and “Harmonization of Tourism Development in Rural Areas of the Carpathian Region” directed at improving the cross-border tourism development level in mountain territories and therefore promoting the social and economic development of bordering regions, while preserving their natural and cultural heritage and focusing on their uniqueness. The project “The Carpathian Region as an Attractive Tourist Destination” stipulates the development of a joint strategy of tourism management and creation of tourism cluster with unofficial status. Moreover, it is worth mentioning the projects aimed at introducing alternative energy sources, youth and ethnic minorities employment increase and prevention of natural disasters as well as the projects “Carpathian Culinary Heritage Network” and “Children – our Future: the New Wave in Pre-school Education of the Carpathian Region”. Ukrainian participation in the ENPI programs is presented in details in (Mikula, Zhuk, Tsybul's'ka, 2011, Demedyuk, Tsybul's'ka 2012).

In total, the participation in the Programs of the European Neighborhood and Partnership Instrument opens significant possibilities for solving the mountain territories and rural development problems in the cross-border space due to access to EU Funds, equal status of participating countries at the program and project levels as well as considering the fact that the priorities of each program have been



developed on the basis of a thorough analysis of the concrete local problems. However, Ukraine should take a more active position in the preparation of project proposals not only in tourism and ecologic spheres but other projects as well, directed at problems that are not less urgent for the mountain territories, namely: infrastructure improvement, employment increase and upgrading the competitive ability of the traditional industries in the mountain areas.

#### 4. CONCLUSIONS

The rural mountain territories in Ukraine enjoy favourable pre-conditions for economic growth, namely vast agricultural land areas for stockbreeding and organic farming, large reserves of forestry resources, the largest hydro-energetic resources in Ukraine, mineral resources, relevant economic skills of local population in agriculture, forestry, and construction sectors, traditional crafts and tourism and recreational services, availability of transport network, including the entries to international transport corridors. However, the design and improvement of mountain policy and outlining the ways of its implementation in Ukraine remain urgent issues.

The authors believe that the investment maintenance mechanism in the rural mountain territories economic development and a more complete use of their natural and resources potential require considerable strengthening in the first place.

Obviously, the development of rural mountain territories economy is doomed to retardation and their social and economic situation will not escape depressiveness in the absence of preferential mechanisms, adoption of relevant state programs for their development and participation in the European technical assistance and territorial cooperation programs.

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