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**REGIONAL POLICY AND SUPPORT
OF REGIONAL DEVELOPMENT:
COMPARISON OF GERMAN,
THE EU, AND UKRAINIAN EXPERIENCE**

Abstract

The problems of the theory of regional policy which are related to the globalization processes and the European Union enlargement are discussed, the experience of regional development support in Germany and the European Union is characterized, the regional policy in the EU and in the candidate countries is discussed. Preconditions of building up of current regional policy and the policy of support of regions in Ukraine are systematized. Urgent problems in this area are determined, and the ways to meet these challenges in the context of the EU and German experience are shown.

Key words:

The EU experience, policy of regional support, regional policy, regions with poor structures, support of regional development in Germany.

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Introduction

Present regional policy and the problem of regional development support is determined rather by political pragmatism than by political concepts. Within the context of the EU enlargement to the East in 2004, and the intention of Ukraine to integrate into the EU in some later period, the above issues are urgent both for the EU member countries and for the applicant countries. The challenge is becoming more acute from the view of the consequences of regional policy and regional development support in Germany, which particularly refers to leveling of life conditions in the former and new federal lands after reunification, eliminating of regional disproportions, that still exist among the EU countries. On the one hand, having applied right criteria and right instruments some measures of support especially these for structurally poor regions justified themselves. On the other hand, we can not underestimate time limits and structural stability, especially when government is lacking required budget funds for support of regional development throughout Europe.

Scientists dedicated a number of their researches to the issues of regional policy and regional development support [1, 2, 3, 5, 7, 9, 10, 11, 20, 24]. In particular, V. Pavlov highlighted theoretic and methodological aspects of a regional policy development in the conditions of a market transformation [11], S. Romanyuk analyzed the formation of state regional policy in developed countries [20], K. Polishchuk characterized historical and political, and administrative aspects of regional policy formation in the European countries [21], M. Yankovyi presented main ways for regional policy improvement in the context of the Message of President of Ukraine to the Supreme Rada of Ukraine «Conceptual principles of the strategy for economic and social development of Ukraine» for 2002–2011 years [23].

Nevertheless, these problems were not studied within the context of comparisons among the EU countries and the first rate candidates for entering the EU out of the CEE countries, neither they were researched with reference to Ukraine including its challenges, development of the theory, policy, methods and instruments.

A region within an economic policy: disputable theoretical problems

Since 1970s the importance of scientific analysis and political discussions of the restructuring of territorial concepts of administration became more and more urgent for the European regions. Nevertheless, real development of organizational principles of regional policy is lagging behind the postulates of required regionalization, which besides other reasons is because of institutional incompetence.

The challenges of regional policy organization lie in undeveloped theoretical base concerning links between well-regulated and unregulated communicative processes in a region, also in absence of communication among administrative structures, communities and businesses in the region. In connection with this discussion a question rises of regionalization of political approach [1]. Incidentally, the possibility of regional orientation formation is meant in general, also «selection» of the region and sticking the region to the policies of economic development of the country. The following issues demand analyzing as follows: a region as a place of organization in a globalization process; the role of regions for labor market policy; a process of a region formation.

Increasing importance of regions as subjects for researches, also for political concepts and disputes (thesis: Europe of regions) is explained by various effects. On the one hand, it is connected, first of all with the globalization process. On the face of it, it seems rather loss of organizational powers, since the concept of globalization itself includes deterritorialization for business activities and employment. Within the ideal theoretical model of complete deterritorialization a region would not be identified as one, which could be separated, and regional institutions would mean nothing for economic development, employment development, as well as for local and regional concentration of labor and capital.

From this viewpoint urgency of importance of regions is becoming fictitious. Regional approach is considered as the responsiveness to loss of importance, it is considered to be a means of rearranging and enlargement of living space. In this case a region acquires not ever growing role with its own though limited, because of external relations, organizational possibilities, but the role of rather symbolic character [2; 5].

On the other hand, a region is considered from the angle of globalization as a special and functional unity, which should be organized and administered. Globalization of manufactures and services, internationalization of business processes the development of which is due to participation of industrial countries through liberalization of world trade and export of capital, anticipates fundamental independence of individual entrepreneurs in their decisions where to locate their businesses. Depending upon the available capital concentration, they have sales and buyers' markets worldwide in their disposal, and they can apply their

own criteria for business sites selection, and develop respective strategies. But since strategic calculations refer to various regional locations, economic and social properties of the regions are important to be taken into account including the structures, infrastructures, established subdivisions of enterprises and their economic contacts.

Nevertheless, a region should not be viewed like an isolated island of production. Globalized economy as an initial reason does not allow it. Regions will become economically world worthy places for business locations under condition when acting entrepreneurs have foreign relations. The latter are required for the regional conditions of development because foreign contacts prevent backward inner structures, which considerably diminish innovative capacity.

Global trade space of world economy has different effects on regions. The key factor is the economic ties available in a region, what areas they pertain to, and how foreign contacts have been organized. In general it proves that these regions are competing which have on the identical level comparable structures. It refers both to comparable branchwise structures and to existing agglomerations which effect respective regional development. The consolidated economic theories are more attractive in the above sense for locating new businesses in the regions with specific innovative climate, which alongside with increased competitiveness influences employment and profit rates.

Therefore, globalization does not contradict regionalization, and regions with their resources become the more important the more international character is the activity of businessmen because a business location is becoming a strategic aspect. In this respect globalization foresees the wider range of organizational powers for regions and for the subjects acting in these regions.

Different regional and cluster surveys provide different evaluations of the importance of regions as areas which should be formed and administered from social, economic and functional standpoint [1]. A stress is laid on specific industrial and cultural formation of the region, which creates the social culture where specific regulatory mechanisms promoting innovative activity can be developed [10]. Regions are viewed as the environments with specific innovative potential, where the processes of corporate learning, and transfer of knowledge and competence among businesses are concentrated. The region which starts interactive educational and innovative process is characterized by a «set» of market, transaction and cooperative links. Consequently, due to spacious and time combination of potential of manufacture, service and education areas synergy is set to the given region. Knowledge and interactive employment of regional resources encourage the interactive learning processes and develop economic culture which promotes innovations.

Regions play special role on a labor market. Not a single area is as much effected by the consequences of globalization as a labor market policy. It could be proved from different standpoints. First, a critical point for qualitative and quantitative development of employment in a region is its strengthening rate of becoming an area of international economic activity. Besides, international com-

petition has stronger effects on regional labor markets. It depends upon comparative immobility of labor force against capital mobility. In this respect, for a region as an economic area and a living space it is critical how effective a starting business will be from the view of employment. Globalization could bring about either specific concentration on some labor markets in a region, additionally enhancing regional ties, and consequently, having positive effects on a regional labor market, or it will cause de-localization, migration, and job decrease. Second, available labor force supply provides itself an effect factor on business location. Third, the essence of regional labor market policy in the conditions of globalization is being actualized. For a long time the question has been under discussion how to integrate a labor market policy into actual economic and functional interconnections of a region, and on the basis of numerous regional political measures this idea is tried to be implemented. At the same time the European scientists note, that so far a «region» did not provide a single territorial and functional unit involved in economic policy and labor market policy, and at which programs, concepts and strategies were directed.

Proceeding from the above, the question arises how a region is being formed. In general, one can adhere to the concept that space can be determined by its properties, and in such a way different regions are defined depending upon geographic, economic, political, cultural and social factors. Incidentally, regions are more and more viewed as social structures, at that actions of economic actors are viewed as spacious and determinative. From this standpoint positions, behavior and convictions of economic actors are very important for the construction of the region. On the other hand, it is evident that a region as a single important area for actions can develop only on the ground of the actions of individuals which are linked to real context. Therefore, a region with its problems should find response in conscious, thinking and actions of the actors to become really such (i. e. really political). Hence, identity of a region is based on identification of involved people with a region as an area for actions.

In the above consists the problem complexity. On the one hand, a region should exist, it should have its own identity to become individually able to function effectively. On the other hand, it is formed due to involvement of economic actors, who on their part are forming regional identity.

In general the following four stages of an institutionalization of a region can be distinguished: development of a territorial form; development of conceptual and symbolic form; development of regional institutions, and development of regional awareness. These linked stages of regional formation prove, that a formation of a region is dialectic process between the formation of regional awareness, and practical and effective adjustment of regional spacious correlations. Consequently, a structure «region» implies an identical region, development of regional awareness of involved individuals, and which not only meets political, economic and social tasks, but should become a constituent for formation of interests and actions. On the basis of the above consensus a regional and political vision, and determinative principles of regional policy can be developed.

Tasks, objectives, and methods for regional development support in Germany

Regional policy in German Federative Republic is a part of overall economic policy. Its task consists in provision assistance to the regions with poor economies to eliminate drawbacks in locating economic subjects and objects, and keeping up the current level of economic development. According to clause 30 of Fundamental Law a regional economy is within the competence of Federal Lands. To support sites of economic subjects and objects location the regions are provided both with state funds within the framework of Joint Task for the Center and the Region, and funds of the EU support program.

For long term perspectives of the regional development advanced technologies and powerful infrastructure are of vital importance. Federal Lands and the Center's, as well as the EU's support of regional development provides an opportunity to distribute investments in technological sphere. Investments could be made within both programs of support into research area, development of technologies, and elaboration of informational and communicative services. The taken measures should meet initial objectives of regional development support, in particular, creation of jobs in the regions with poor structures.

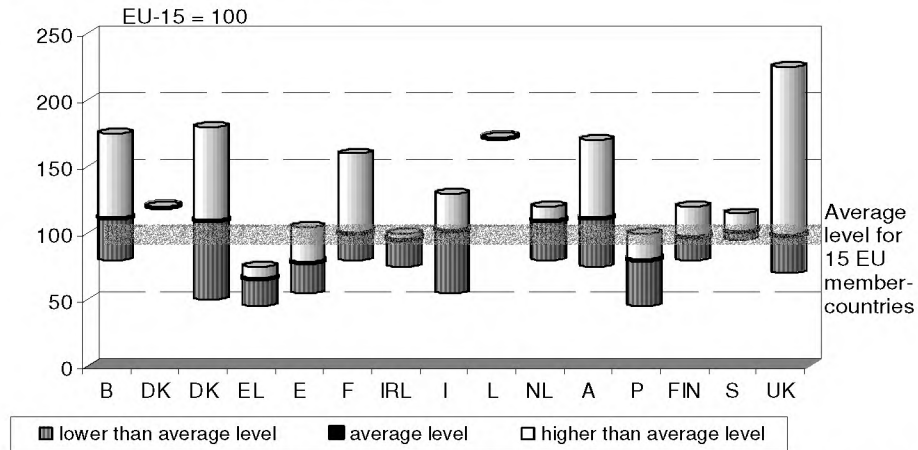
Importance and rightness of regional economy manifested itself just after reunification of Germany. Out of all member countries of the EU Germany ranks the second place in the indices of regional fluctuations of parity of buying capacity (GNP per capita), and the third place in unemployment rate (see Fig. 1 and 2).

In compliance with clause 91 of Principal Law a federal center takes part in supporting the regions of federal lands through Joint Task for the Center and the Regions (JTCR) «Improvement of Structure of Regional Economy». The above JTCR «Improvement of Structure of Regional Economy» provides financial support to investment projects in private businesses including foreign tourism, also to create new and provision available jobs, and to develop relevant economic infrastructure in the regions with poor structures. Investment support in the area of private businesses directly contributes to creating and ensuring constant and competitive jobs, and to increase income rate in these regions. Creation of adequate economic infrastructure is a precondition for locating industrial enterprises and private businesses, also increasing competitive capacity in the regions with weak structures.

The Federal Center and the Lands financially support investments by 50% to 50% ratio. Framework plan which is crucial for the Joint Task for the Center and the Regions to be carried out, is being developed each year jointly by the Center and the Lands.

Fig. 1

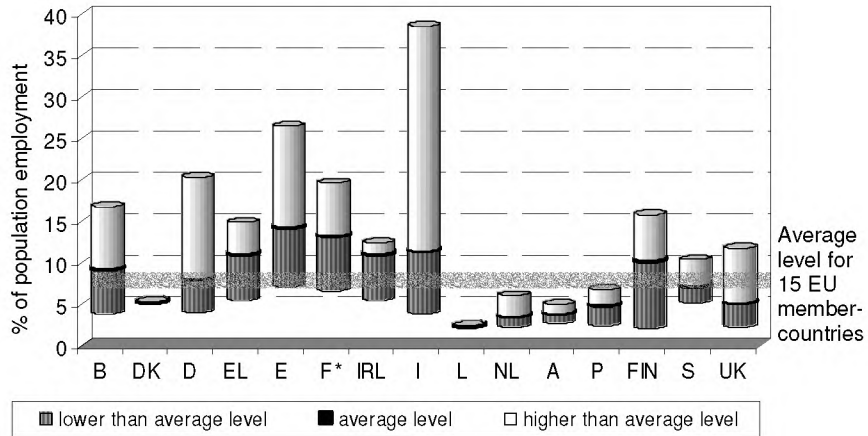
Regional differences in GDP per capita in the EU member-countries in 1997
(according to purchasing power)



Notes. Given regions illustrate correspondingly the lowest and highest levels of GDP per capita in every EU member-state.

Fig. 2

Unemployment level in the EU member-countries with the highest and lowest regional indicators (April, 1999)



Note. * Without French territories overseas.

Approved by the Planning Committee which consists of representatives of the Federal Center and the Lands, the clauses stipulate preconditions, kinds and intensity of support (part II of a Frame Plan № 31). JTCR supports investments into some enterprises, and formation of economically corresponding infrastructure. Moreover, non - invested projects of private businesses, as well as regional concepts of development, and regional management is also supported. The JTCR support covers strictly defined territories which should be submitted to the European Commission for checking the grounding for provided support.

The territory which enjoys support within the framework of the JTCR including Berlin has 19 202 053 residents. New Federal Lands are completely included into the supported territories. At that, the support of the territories with the poorest structures is differentiated by regions.

Boundaries of the territories supported within the framework of the JTCR are corrected every three or four years. For this purpose extensive package of regional indices is required to be submitted. The indices referring to labor market and incomes. The indices having impact on the development also include a comprehensive index of infrastructure. Some partial indices reflect theoretically clear factors of regional development processes, in particular geographic situation and proximity, qualification and innovation, as well as advantages of agglomeration.

The EU regional policy is characterized by the following principles:

- a concentration principle, i. e. a support concentrated on the communities in the poorest regions;
- a partnership principle, that is partnership between the UE Commission and a member state of the EU country on different levels of power and administration, as well as cooperation with economic and social partners on the level of regulations of relevant institutions and realities of a certain the EU member country;
- an additional principle (i. e. the EU support is provided to the regions additionally to that of the EU member countries, and it can not substitute the latter).

The EU regional policy is based on the principle of financial solidarity. A part of the EU member countries' revenues to common budget is re-distributed for the benefit of the regions with unfavorable conditions, and for the most wanting social groups. With this purpose one third of the common EU budget funds amounting 213 bln. Euro is allocated for the period of 2000–2006, including 195 bln. of four structural Funds (European Fund of Regional Development, European Social Fund, Financial Instrument for Fishing Development, Branch of Organization of European Fund of Development and Guarantees for Agriculture), and 18 bln. for Cohesion Fund.

The structural Funds are directed at the set primary tasks, like following: 70% of funds are assigned for structural adaptation of the backward regions with 22% of the Union population (task 1). From the viewpoint of Germany, it is very important that all the regions in new Federal lands are proclaimed the territory of task 1 carried

out within the framework of the program of structural the EU support for the period of 2000-2006 (see fig. 3), 11.5% of funds are assigned for economic and social restructuring of structurally problematic territories with 18% of population (task 2). 12.3 of funds are assigned for modernization of educational system, professional training, and for employment support (task 3) beyond the regions, with program «task 1» implemented, where these measures constitute a part of adaptation strategy.

The four initiatives, which are common for the Center and the regions are to promote joint solution of specific problems. For this purpose 5.35% of structural funds is assigned for:

- transborder, international and inter regional cooperation (interreg III);
- continuous support of cities and the city regions affected by any crises (urban II);
- development of rural territories through local initiatives (leader +);
- combating inequality and discrimination on a labor market (equal).

For adaptation of structures in fishing industry special means of «task 1» are assigned amounting 0.5% apart from the program of regions. Moreover, 0.51% of funds are assigned for innovative measures directed at arising and controlling of new ideas of development.

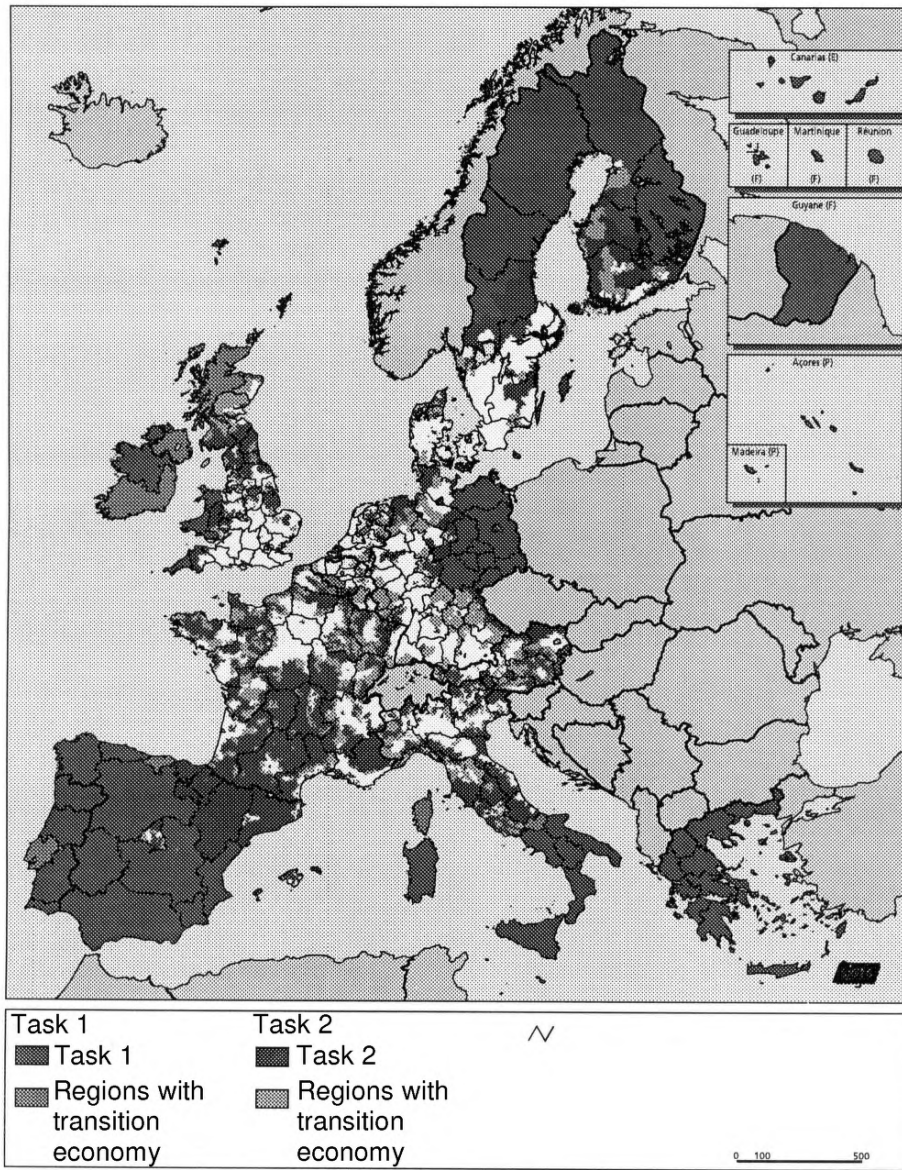
Structural funds are financing the programs designed for a few years. Such programs or strategies of development are accepted by concerned regions, the EU member states, and the European Commission on a partnership basis. In this case the determinant principles adjusted by the European Commission act the EU wide. The programs are directed at economic and social structures with the aim of:

- building up infrastructure in transport and energy sectors;
- enlargement of communication sector;
- business support, encouragement of professional education, and qualification improvement of employed workers and office workers;
- dissemination of instruments and knowledge required in information society.

The initiatives financed by structural funds are to meet the urgent needs, which are precisely estimated by particular regions or states. These initiatives are realizing the approach based on environment protection, and ensure equalization of chances. The initiatives are implemented decentralized, which means, that first of all national and regional bodies of power are responsible. Thus, the Cohesion Fund was created specifically for financing ecologic and transport infrastructures in Spain, Greece, Ireland, and Portugal since these countries face challenges in wiping out the lag. Ten countries of Central and Eastern Europe intending to enter the EU should adhere to structural and political tools developed for preparing the countries for the EU integration (ISPA), and which act on the principle of the Cohesion Fund. The fundamental rule of it consists in the fact, that the European support should not, irrespectively of its form, substitute national support, but complement the latter.

Fig. 3

Concentration of structural funds in the EU according to the tasks



Aspects of the EU regional policy in new Eastern European countries – candidates to enter the EU

Before radical social changes took place in the Eastern European the countries regional inequalities had been equalized by respective state investments. It implied that periodically new businesses of different industries, which were not optimal from the viewpoint of long term perspectives of development were sited.

In the course of reforms the role of the state significantly shrank. Because of high inflation and debts during the first years of reforming, the newly elected governments directed their efforts at economic stability and rigid fiscal and monetary policy, which at the beginning lessened the possibilities of the regional policy development. Available finance was concentrated in the centers and growing sectors. Besides, there the viewpoint existed, that market factors would foster acceptable equilibrium for distribution of economic activities in the regions. Consequently, while reorganizing bodies of power in late 1980s (Poland and Hungary), in 1990s (Baltic states and Slovenia), in 1993 (Czech Republic and Slovakia) the issue of regional policy was regarded restrictedly. Moreover, most of Central and Eastern European countries came to better understanding of importance of regional policy. Due to economic stability the policy of development (first of all on a state, and also on a regional level) acquired greater significance, which brought about admittance of necessary contraction to ever increasing regional disbalance. Administration became partially decentralized, the role of regional bodies was strengthening, which in some countries led to complementing the state policy with a regional constituent. Wish to acquire membership in the EU and support provided by structural funds became for Central and Eastern European countries effectual stimulus for creating required bodies and institutions. To meet the above challenges the measures for regional development started to be implemented. So far these measures come to nothing more than a few projects directed at particular regions or territorial communities. In majority of the CEE countries thorough strategy of regional development still is at the starting point. At present some Eastern European countries are lacking sufficient legal bases for regional policy implementation, though the latter needs specific efforts.

Average GNP in Central and Eastern European countries is much lower than that in nowadays EU members. Actually, out of 105 mln. people of these countries 98 mln. live in the regions with GNP accounting for less than 75% of average indices of enlarged Union per capita. Specific necessity to improve all economic and social spheres in these countries, i.e. industry, service sector, transport, environment, agriculture, as well as attestation of employed workers and office workers is enormous. Level of transport infrastructure development, for example is significantly lower than average level in the EU both quantitatively

and qualitatively. Considerable efforts are needed, especially for the development of state transport networks, and their integration into trans European systems, also for increasing of intermodality.

The most acute problems were concentrated in the sphere of environment. They include water and air pollution, also the problems of utilization and recycling. 40% of the population in the candidate countries are not linked up with the water supply system, and only 42% of sewage waters are purified, at that only in some cases the indices are achieved to conform to the EU standards.

The structural policy instruments for preparing the countries to enter the EU (IPSA) were developed by the European Commission. Like the instruments peculiar to the Cohesion Fund these ones have in their disposal budget totaling *Euro* 1040 mln. per year (in 1999 prices). The main point of the instruments lies in taking regional competitive advantages. The integral part of the means for taking regional competitive advantages is regional management of major opportunities and competences. Strong with their competitive capacities regions determine their potential of development, and mobilize their opportunities and competences of paramount importance. The above regions are not automatically strong with their structures, and the regions with poor structures depend upon powerful introduction their advantageous locations on the market. It also refers to the regions in Central and Eastern European countries which are candidates to enter the EU. Similar approach should also be applied to attracting resources for support and employment of appropriate funds.

In that way the region can purposefully respond to the dynamic of changes in the process of globalization, and ensure the perspective of development which has a reliable future. The one who wishes to act in the domain of economic policy, he should discuss and actuate the common against the well known partial interests. To hit the above target the agreement should be reached on the objectives, and on one of these obligating ways of work which demands political management.

Preconditions for regional policy formation in Ukraine

A regional policy formation in Ukraine has its prehistory and a number of political, economic and organizational preconditions. From historic viewpoint we can single out the following three significant stages:

a) «Khrushchov thaw», which implies increasing of the role of territory, formation of administration bodies for regional development ensuring (Rady (Councils) of national economy in economic regions, called «radnarhosp»). Economic outcome of the above was increase of NSP (National Social Product) growth rate, and considerable enlargement of infrastructure;

b) «Brezhnev centralization», which implies turn for centralization and branchwise administration. Economic outcomes were growing inequalities of economic and social developments of the territories (republics and oblasts);

c) «Horbachov democratization» implying development of territorial cost accounting. Economic outcome was the regions' greater concern to the problems of self sufficiency and cost accounting in spite of grew economic contradictions among them, and in a number of cases blockage of commodity flows.

Being in the environment of searching the model of combining branchwise and territorial administration, in fact the USSR did not elaborate a precise model of the regional policy as a relatively independent sphere of economic policy of the foreign countries' pattern. A system of economic regions was formed. Within the framework of planned administration plans of economic and social development of union republics were developed.

Having gained the right for political independence, Ukraine for a long time did not have the legally admitted policy of economic development. As a result it brought about disproportions in a present structure of national economy; loss of territorial labor division advantages; inadequacy in employment of natural, resource, labor, research and production potential of the regions; hampering taking (lead-time) decisions on environmental problems; vague distribution of power between the center and the regions.

Necessity of working out a precise regional policy and a policy of regional support, in particular, was caused in Ukraine also by nature of economic relations of the regions with these of the adjacent countries, actualization of globalization and regionalization world economy wide, wish of the regions to be more economically independent of central administration, sharpening of the division «East-West», the matter of which consists in increasing disparity of economic and competitive capacities of the Ukrainian regions.

Response for the given situation was the following:

- activation of regional scientific researches. The researches of M. Dolishniy, A. Chumachenko, O. Alimov, M. Palamarchuk, M. Zastavniy, O. Shabliy, V. Kutsenko and others are dedicated to the problems of a regional policy and regional development. The Institute of Regional Researches of NAS of Ukraine was founded in Lviv;
- initiation of designing and passing the Concept of a state regional policy. At first the project « Concept of regional policy in Ukraine» was submitted by the Institute of Industrial Economy of NAS of Ukraine in October 1994 (Project Director Academician Chumachenko M. H.). Actually it was in May 2001, that after numerous versions of the document had been considered and discussed, President of Ukraine with his Decree approved the «Concept of State Regional Policy» [11];

- implementation of tasks referring to a regional policy and a regional cooperation, which provide a Program of Integration of Ukraine into the European Union approved by the Decree of the President of Ukraine in 2002. Within the context of realization of the Strategy of integration of Ukraine into the EU, and taking into account the tendency to transfer some of state power authorities from a national level on a sub-national, the regional aspect of Ukraine's integration into the European structures acquired a particular significance. The Program determines short-term (2000–2002), medium-term (2002–2003), and long-term (2004–2007) priorities concerning regional policy, and the priorities of regional cooperation till 2007 in Ukraine, as a whole, and in Ukrainian separate regions;
- development of normative and legal base for governing regions. The nowadays practice of regional government is ensured by the «Constitution of Ukraine», Ukrainian laws «On local self-government in Ukraine», «On local state administrations», which implies, on the one hand, preserving Ukraine as a unitary state, and on the other – possibilities to transfer a part of authorities to the regions concerning their social and economic development. To make the conditions for the state regional policy realization in Ukraine, it is important to speed up passing of a Tax Code of Ukraine, and Laws of Ukraine «On communal property», «On administrative and territorial structure», and «On territorial community»;
- making state and legal experiments. In accordance with the Decree of the Cabinet of Ministers of Ukraine on 3.06.1999 № 951 the Council of Ministers in the Crimean Autonomous Republic, local bodies of executive power were empowered to administer state corporate rights of 2598 enterprises. The Decree of the President of Ukraine started an experiment in governing economic complexes via transferring it for the period till December 31, 2002 to Dnipropetrovsk regional administration right for governing the subjects of state ownership, and the state corporate rights in the economic entities shares. In 2000 two regional (oblast) administrations (Dnipropetrovsk and Donetsk) were delegated some authorities of the central bodies of executive power. State and legal experiment of the local self government in the city of Irpin', the villages of Bucha, Vorzel', Hostomel', Kotsyubyns'ke in Kyiv region was conducted with the aim of experimenting in practice alongside with traditional, new forms of organization of local self government ;
- development of trans-border cooperation including the one within the framework of the Euroregions «Buh», «Nyzhniy Dunai», «Verkhniy Prut», «Karpatskiy Euroregion» in organization and coordination actions for support of cooperation, promotion of establishing contacts with international organizations and institutions, founding of joint foundations and associations, concluding of interregional agreements,

which will ensure development of potentials in an integrated space of Euroregions;

- formation of methodical base for regional government, and its information provision. The Ukrainian Ministry of Economy (2001) developed «Basic principles of the state strategy of a regional development», «Methodical recommendations for a strategy elaboration for a regional development», «Methods for accounting of gross domestic product and gross surplus value by regions», also regional statistics, and regional and information models were formed [15, 16];
- intellectualization of administration personnel in local power bodies. In the context of the administrative reforms realization the program is carried out of training Masters for local bodies of executive power and local self-government, regional centers are open for advanced training of public officials and municipal servants.

Present regional policy in Ukraine and support of regional economies

Implementation of administrative reform, realization of the Concept of a state regional policy, and a number of other normative and legal documents are creating a new situation in political and administrative aspect of governing economy and social processes in Ukrainian regions.

Regional policy in Ukraine is regarded both to be a state policy concerning the development of the regions, and the regional policy of the regions themselves. The main objective of the state regional policy is to create conditions for dynamic, balanced social and economic development of Ukraine and its regions, to increase the quality of life, to provide for every one with the state guaranteed social standards irrespective of his/her place of residence, also to intensify the processes of market transformations of the governmental bodies, and bodies of local self-government [14]. According to the Concept a state regional policy is viewed as a constituent of a national strategy of social and economic development in Ukraine. It is closely associated with administrative reform realization, and regulation of administrative and territorial system. In order to attain the main objective of the state regional policy, priority is given to more profound study and evaluation of each region's internal potential and development of means to utilize it effectively; there should also be provided innovation-based structural transformation of regional economies according to their particular potential; stepwise reduction of territorial differentiation of regional economic development and citizen social provision level; strengthening of regions economic integration on the basis of cooperation and further fiscal policy improvement.

Improvement of state regulation in the sphere of social and economic development of regions, as well as improvement of local authorities and local governmental bodies' role and responsibility for their authorities and assignments are priority directions to solve these tasks.

In fact changes have occurred in the four main directions: 1) in task, competence, and responsibility distribution between the center and regions; 2) in the degree of regulation decentralization; 3) in financial mechanisms of regional development provision; 4) in approaches to structurally (economically weak) depressed regions support.

Following constitutional distribution of executive power authorities and re-birth of the institution of local government, the old branch-wise government system has crashed, and a system of local government bodies with a new two-level model «center-region» was created. Division of state property into national and communal (1992), adoption of the Constitution of Ukraine (new) and the Law «On local government in Ukraine, that is an institution of public property creation has become an economic basis of these processes. Institutionally after authorization of Regulations about Ministries and General Regulations on branch-wise and functional Departments of Regional State Administrations, the basis of more precise division of tasks, concepts and responsibilities between the center and regions have been created. However, while distributing functions between the central government and the regional governmental bodies the priority was given to the benefit of the first ones. For example, the central organs of power were authorized 227 functions in the area of education, science, health care, economy, labor and social policy, and agricultural sector, while local bodies – 180. If the central bodies of executive power were mainly authorized the tasks of a state policy formation in a particular branch or sphere of activity, the regional authorities were to ensure its realization.

Moreover, the analysis proves, that normative and legal base of the power division between central and local executive bodies is not yet perfect. Because of the absence of basic legal act determining the activity of central executive bodies, their tasks, duties, and responsibilities are not clearly limited, which unlike the European model makes the model formation of function division between the center and regions not yet completed. Rather centralized functions are specifically in economic regulation. In particular, out of 60 kinds of economic activities 30 are defined to be licensed by central executive bodies, 16 – by some state institutions, and only 4 by the Council of Ministers of the Crimean Autonomous Republic, regional, Kyiv, and Sevastopol city district administrations. The authorities of the central and regional bodies are vague in governing education and science concerning organization of psychological service and pedagogic patronage in education system, taking measures to improve material and housing conditions of students, educators and researchers, and organization of their medical and public services. The model of a regional power in Ukraine evaluates rather hypertrophied role of local state administrations for regional development, formal and insufficient activity of regional self-government bodies (regional and district Radas), which brought about the expected bipolar

model of regional government of the European standard has not yet been formed.

The Concept implies measures in a financial mechanism optimization allowing to create the financial capacity of the territories, which would ensure effective regional development [16]. The instruments for attaining the set goals include: improvement of the system of strategic budget planning and financial equalization based on minimal budget security amount, and on tax capacity of the territories; introduction of the mechanism for providing budget transfers, that will guarantee the delegated authorities for social and economic development regulation of particular territories to be fulfilled by local executive bodies; employment of effective mechanism for inter-budget division of tax revenues; improvement of a local tax system; encouragement of local governmental bodies in shifting local budgets' revenue bases; stimulation of local authorities to pool financial resources on contractual basis for meeting local, regional, and inter-regional challenges; application of program and targeted cost financing tools; clear differentiation of costs for the fulfillment of delegated powers to the local executives [19].

In spite of this mechanism realization being problematic, some progress having been made, like introduction in Budget 2002, and in a Budget Code elements of a new system for inter-budget relations, which foresees: precise evaluation of revenue and expenditure authorities on different levels, a formula transfer system, and a system of purposeful subsidies for providing certain social services [17, 18]. Nevertheless, the problem of financial mechanism of regional policy still is urgent. It is closely connected with the challenges of a new Ukrainian Tax Code passing, regulation of administrative and territorial system respectively self-sufficiency increase of the territories, and the given problem can be a matter of a special research. Moreover, the unsettled problems cause significant deformations in regional development, which is proved by different criteria analysis. In particular, region ranging by the methods designed by State Statistics Committee and the Board of Productive Force Study of the NAS of Ukraine proves, that Ternopil oblast (as a depressed region) by human development index ranked fast 10th place in the state (due to high health indicators), while by human development financing – 27th respectively [22]. Among other constituents a financial constituent of human development reflects to a greater extent a state regional policy direction. Support of structurally depressed territories is for Ukraine the most crucial (table 1, fig. 4). The Concept defines that the development of depressed territories should be stimulated by introduction of special mechanisms of budget, price, monetary, innovative, and investment policies relevant these territories. But the power actions as for definition of depressed territories is hampered by lack of respective normative and legal provision, specifically by postponed passing of Ukrainian Law «On measures to stimulate development of regions and depressed territories». The European Union, for example, to differentiate its depressed territories applies the indices of GDP volume per capita, unemployment rate, proportion of agriculture and traditionally depressed («outdated industrial») industries, dynamics of migration flows, individual income rate, demographic indices, etc.

Table 1

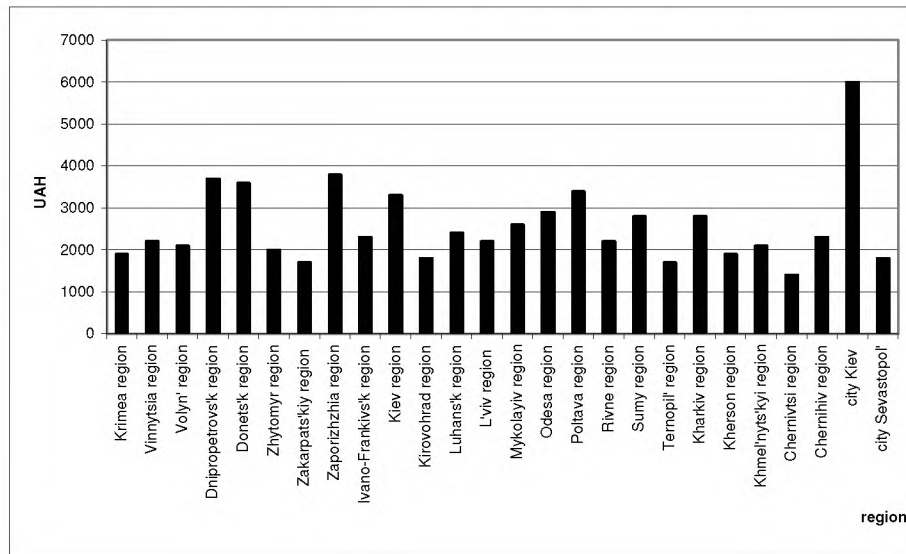
Gross value added cost per capita by regions in Ukraine
(in current prices, UAH)

	1996	1997	1998	1999	2000
Total amount by regions (oblasts)	1356	1532	1647	2081	2788
Crimean Autonomous Republic	986	1124	1205	1576	1937
Vynnytsia	1145	1239	1326	1551	2104
Volyn'	942	1024	1117	1417	2077
Dnipropetrovs'k	1706	1858	2036	2568	3562
Donets'k	1646	1799	1952	2552	3509
Zhytomyr	1199	1249	1304	1567	1987
Zakarpattia	723	796	884	1216	1677
Zaporizhzhya	1821	2071	2305	2955	3795
Ivano-Frankivs'k	1012	1092	1216	1583	2142
Kiev	1597	1751	1899	2301	3255
Kirovohrad	1069	1124	1190	1424	1860
Luhans'k	1253	1389	1437	1885	2439
L'viv	1095	1141	1229	1560	2159
Mykolaiv	1299	1425	1484	1849	2563
Odesa	1371	1563	1651	2136	2828
Poltava	1718	1936	2149	2696	3423
Rivne	1171	1259	1338	1671	2118
Sumy	1364	1524	1600	1876	2631
Ternopil	930	980	1066	1269	1605
Kharkiv	1410	1610	1763	2180	2799
Khmel'nyts'k	1048	1288	1271	1507	1925
Kherson	1233	1347	1371	1624	2028
Cherkasy	1357	1485	1526	1747	2203
Chernivtsi	893	976	978	1142	1411
Chernihiv	1296	1385	1475	1845	2407
City of Kiev	1937	2868	3146	4227	5965
City of Sevastopol'	843	968	951	1157	1682

The marginal criteria to distinguish status of depressed regions in the Ukraine's conditions the Ministry of Economy and European Integration recommends to apply such indices as: volume of VAT (GDP) per head; unemployment rate; number of people employed in a separate branch of economy, including industry and agriculture; indices of industrial products (till 1990); unemployment rate of those having no jobs for over 1 year; average duration of unemployment; average monthly wage; natality; density of population; number of criminals per 1000 people.

Fig. 4

Added value per capita by the regions of Ukraine in 2000



Analysis of the factors, that bring about depressed state of territories, and peculiarities of various types of depressed (problematic) territories prove, that the criteria system should be completed with the indicators of entrepreneurial activity efficacy; demographic potential (sex and age structure of population); indicators of infrastructure provision of people and a territory; indicators of environment quality; settlement criteria (like agglomeration level); social, ethnic and cultural criteria. The Law, which now is being designed in Ukraine «On the principles of the stimulation of regional development» and «State program of regional development», which now are being designed will clear the matter, and make it more detailed and precise.

The Ministry of Economy and European integration views facing the challenges of depressed (structurally poor) regions support through concluding agreements between the center and regions on infrastructure creation, and on inter-regional cooperation in joint projects.

So far the measures of territorial support, like creation of special investment regime (special economic areas), and concluding inter-regional agreements (Agreement on partnership and cooperation between the Western Ukrainian regions: Volyn', L'viv, Ternopil', Zakarpattya, Ivano-Frankivs'k, Chernivtsi, Rivne, Khmel'nyts'k) were not as successful as expected. The experience of Special Economic Zones creation in Ukraine proves, that the formation of

pointed SEZ, adjustment of special investment and innovative regime specifically for managing subjects, who implement projects in priority areas of economy is feasible in the regions with poor structures. Application of inter-regional agreement mechanism demands:

a) preliminary monitoring of regional structures, and tendencies for their transformations on the basis of determined common criteria. The latter would include indices of branch-wise economic structure, coefficients of structural transformations, classification of branches by technological systems, indicators of privatization processes effectiveness, indicators of capital aggregation, and growth limits;

b) evaluation of regional common problems requiring cooperation (attraction of foreign investments, technical aid, creation of regional funds, introduction of innovations and technologies, employment of human resources);

c) formation of proper infrastructure of interregional cooperation.

The experience of Germany proves, that the main elements of infrastructure could be the following: task force in coordinating foreign investments, international trade forum, Interregional Tourist Board, cooperative union of research institutions, interregional transport union, interregional association of agricultural marketing, and conference of regional planning.

Probable major directions of future state regional policy in Ukraine

German and European experience corroborate the necessity of comparatively independent political area of «regional policy» as a constituent of a state economic policy directed at equalizing of drawbacks concerning locations and regional peculiarities of development.

In accordance with the basic documents on a regional policy passed in Ukraine, the probable directions of further development of its state regional policy can be charted.

1. Application of equalization function. Support of creation and development of competitiveness in the regions with poor structures, the economic capacity of which is lower than the country's average (for example, in rural regions), or in the problematic regions because of sector structural changes (mostly old industrial regions). The equalization function is feasible both economically and socially because it will allow a) to avert dubious supporting purposeful subsidies in the branches under threat, or unpromising companies; b) to contribute into creation equivalent life and work conditions, and improvement of life conditions in the areas and regions of the country.

From this standpoint, support of structurally poor («depressed») regions in Ukrainian probable law is not only desired but critical.

2. Formation of economic principles of a state regional policy. Each country adjusts the economic principles of a state regional policy by appropriate Constitution and legal regulations. In Germany, for example, regional policy according to the Constitution is in the competence of federal lands (regions) and communities. They are supported by the federation («center»), which participates in settling some tasks and measures in the regions («subsidiary principle»), but selection and execution of the tasks and measures is purely business of the lands (regions/communities). That is the way the necessary awareness of the territory and its problems could be applied, and sufficient regional efforts and initiatives including inter regional competitiveness mobilized.

Undoubtedly, it follows that in due course the administrative and territorial reform would be critical in Ukraine to create fundamental framework conditions for regional policy.

3. Creation and coordination of effective regional and political tools. The example of so called common task (CT) in Germany firmly proves, that there exists not «this» regional policy or «this» regional and political tool for support and development, but a differential tool is offered for support and promotion of the factors and processes of regional development, which foremost implies efficient coordination and exploration of synergy effect among various policies and their mechanisms. Actually it refers to each country regardless of either it is or not the EU member at the moment.

In Germany the cooperation between the federation («center») and lands (regions) formed a model of CT according to clause 91a, b of Fundamental Law of Federal Republic of Germany to common settling the tasks of active regional policy. The common tasks represent the most important instrument for governing or influencing the regional processes of development. This instrument gives the federation an opportunity through constitutional responsibility of common framework planning to participate in realization of particular tasks in lands concerning both planned measures, and financing. In particular, three following common tasks were defined: improvement of regional economic structure (GRW); improvement of agrarian structure, and seacoast line protection (GAK); development of school of higher learning, and building of new higher educational institutions. In a proper way and in various impetus they promote support of economically poor and depressed regions, and conform the level of the latter's development to that of more succeeding regions.

Regional effect of support and promotion is achieved not only through mentioned common tasks GRW, GAK, and higher education/science, but also through a number of other actual effective branchwise policies, and a branchwise planning, which have a considerable effect on the regional development in Germany. They include, first of all, policy of financial equalization (for example, via national transfers; Foundation of German Unity, etc.); transport policy covering vast territories (federal planning of means of communications); policy of labor

force market; policy of urban development, and housing policy; the EU additional measures in structural policy (structural fund).

An important example of rational and proper cooperation is a close interaction between a regional support of labor force directed at an individual, which is oriented at investments allowing to increase efficacy of employment, and structure of all allocated funds in the regions.

Of course, there are some contradictions and concept imperfection of legislation for the formation and realization of regional policy in Ukraine. To overcome them, as well as to work out the framework conditions providing administrative and territorial, and budget reforms will allow to form effective regional policy. For practical approbation of the concept of regional support and its influence, pilot projects should be initiated, and consequently legal regulation should be adapted and improved.

In general, further development of regional policy in Ukraine on the basis of foreign lessons would make the desired Ukraine's approach to the level of the European regional policy possible.

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