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## APPROACH OF SUSTAINABLE AND INCLUSIVE REGIONAL DEVELOPMENT IN THE AGRICULTURAL SECTOR IN UKRAINE

## Fenntartható és átfogó regionális fejlesztési szemlélet a mezőgazdasági ágazatban Ukrajnában

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#### Összefoglalás

Az európai uniós csatlakozás előtt, az integráció felé haladó úton az ukrán kormánynak számos fontos feladatot kell megoldania. Ezek között szerepel:

- kormányzati intézmények és a fő társadalmigazdasági tevékenységek közötti kapcsolatok reformjai,

- a nemzeti, regionális és helyi szintű fenntartható fejlődés alapelveinek meghatározása,

- a régiók fenntartható társadalmi-gazdasági fejlesztése és versenyképességük növelése.

E feladatok gyakorlati végrehajtása megkívánja a nemzeti rendszer regionális igazgatásának fejlesztését és a reformok végrehajtását a kulcsfontosságú gazdasági ágazatokban, helyi kezdeményezésekre támaszkodva.

A regionális politika fejlesztése és javítása során hasznos lehet más országok, különösen az Európai Unió (EU) tapasztalataiból tanulni. A regionális politika ezekben az országokban sikeres és célja, hogy elsimítsa a regionális különbségeket, fejlessze a depressziós térségeket, és biztosítsa a tagállamok gazdaságának nagyfokú versenyképességét.

Meg kell említeni, hogy hosszű ideig Ukrajnában a regionális fejlesztés nem volt következetesen szabályozva; mindez lassította az összetett társadalmi-gazdasági fejlődést, gyengítette a kormány stabilitását, negatív hatással volt Ukrajna nemzetközi gazdasági kapcsolataira, lassította a piaci reformok végrehajtását, valamint számos meglévő társadalmi, gazdasági, környezeti és egyéb problémát tett súlyosabbá.

A regionális fejlődés jelenlegi helyzete a következőkkel jellemezhető.

- A régiókon belüli egyenlőtlenségek problémáját nem ismerték el, mivel az a nemzetbiztonságot fenyegette volna. Inkább a makrogazdasági mutatók és a pozitív trendek kaptak nagyobb hangsúlyt. Még a depressziós terület fogalmának bevezetése után sem kínálkoztak megfelelő eszközök arra, hogy a problémát fokozatosan megoldják. E régiók mesterséges támogatása viszont új problémához vezetett csökkent a munkakedv, így még jobban visszaesett a gazdasági fejlődés.

- A hiányos intézményi adatok a központi kormányzat végrehajtó szerveinél, az önkormányzati testületekben, illetve a gyorsan változó szerepkörök az irányító hatóságoknál, akadályozzák a stratégiai programok megvalósítását és a tervezett célok elérését.

2001 óta az ukrán kormány a regionális fejlesztési politika egy új megközelítését vezette be, melynek célja, hogy az ország aránytalan gazdasági fejlődésének égető problémájával foglalkozzon.

Mindez a helyi és regionális önkormányzatok decentralizált rendszerén alapszik, tehát kiemelt szerep jut a nemzeti szint alatti hatóságoknak, hogy gazdasági, társadalmi és környezeti kihívásokra válaszoljanak.

Az elmúlt évtizedben Ukrajna erőfeszítéseket tett annak érdekében, hogy a központi, regionális és helyi önkormányzatokban a kapcsolatok, a hozzáállás és a viselkedés jellege a felülről lefelé irányuló, központilag tervezett, éves költségvetési programozás felől a többéves és több forrásból támogatott, helyi fejlesztési kezdeményezések irányába mozduljon.

A regionális szerződés a Regionális Fejlesztés Ösztönzését célzó törvénynek talán a legfontosabb újítása.

Ez egy megállapodás a Minisztertanács és az egyes régiók államigazgatásai között, mely a regionális fejlesztési kezdeményezések és az infrastruktúra költségmegosztását célozza.

A regionális szerződés intézményesíti az átláthatóság és az egyenlő partnerség kettős alapelvét a kormányzás nemzeti és regionális szintjei között, és emellett gyakorlati eszközt nyújt a regionális stratégiai tervek befektetési csomagokká és konkrét projektekké történő átalakítására.

#### Kulcsszavak:

regionális fejlesztés; fenntartható és átfogó fejlesztés; mezőgazdasági ágazat; kormányzati politika.

#### Abstact

On the way of European integration, the Ukrainian government poses the number of priority tasks which need to be solved before entering the European Union. Among them is:

- reforms in relations between government institutions and main socio-economical activities,

- definition of the principles of sustainable development at the national, regional and local levels;

- adherence of sustainable socio-economic development of the regions and enhance their competitiveness.

Practical implementation of these tasks requires the improvement of the national system for regional management and implementation of reforms in key sectors of the economy, relying on local initiatives.

During development and improvement of regional policy it is important to learn the experience of other countries, especially of the European Union (EU). Regional policy in these countries is successful, and aimed at smoothing out regional disparities, development of depressed areas, and ensures a high level of competitiveness of their economies.

It is necessary to mention that during a long period in Ukraine there was no systematic regulation for regional development that affects in slowing of complex socio-economic development and stability of the government, complications in conditions for strengthening position of Ukraine in the international economic cooperation slowing implementation of market reforms in the field, the emergence and worsening of many social, economic, environmental and other problems.

The current situation on regional development can be characterized with the next features: - the issue of disparities within the regions was never accepted before like threat to national security. Bigger attention was given to the macro economical indices and their positive trends. Even after the introduction of the concept of depressed regions it was not offered adequate tools that would enable to gradually overcome. Artificial subsidizing these regions led to a new problem - the reluctance to work on their economic development.

- the weak system of collection institutional data in central government executive organs and municipality councils as well as fast flowing of positions for managing authorities don't give possibility to any of them to realize strategic programs and reach target goals.

Since 2001, the Government of Ukraine has been rolling out a new approach to regional development policy intended to address the country's pressing issue of disproportionate economic development in the regions.

It is based on a decentralized system of local and regional self-government, which establishes a stronger role for sub-national authorities in reacting economic, social and environmental challenges.

Over the past decade, Ukraine made efforts to shift the nature of relations, attitudes and behaviours between central, regional and local governments away from top-down, centrally planned, annually budgeted programming, towards more locallydriven development initiatives based on multiyear and multi-sourced funding.

The Regional Contract instrument is perhaps the single most important innovation of the Law on Stimulating Regional Development.

It is an agreement between the Cabinet of Ministers and individual oblast state administrations for costsharing of regional development initiatives and infrastructure.

The Regional Contract institutionalizes the twin principles of transparency and equal partnership – between national and regional levels of government while providing a practical tool for transforming regional strategic plans into investment packages and concrete projects.

(Regional development tools in Ukraine, manual/Volodymyr Vakulenko;)

#### Keywords:

regional development, sustainable and inclusive development; agricultural sector, government policy.

# Introduction

Agricultural sector in most of the Eastern Partnership (EP) and Neighbourhood (NP) countries includes a large number of households reliant to some degree on small and fragmented land plot for subsistence with limited links to markets and limited resources and growth potential. (FAO REU, "Assessment of the Agriculture and Rural Development Sectors in the Eastern Partnership countries, Budapest, Hungary).

That makes agricultural sector **vulnerable and unprofitable**. These factors have strong influence on increasing number of *Depressed Areas*<sup>1</sup> and villages with dying status.

The influence of post-soviet regime is still exist in these countries its reflection can be noted first of all in the definition of the administrative unit "village", like *area with low level of life* and social services, and with one main source of income from producing agricultural products and selling it with not competitive prices to the market.

Also, the process of production is built up on the extensive work without using "innovative technologies", the main reason of it - it is lack of knowledge about technologies that can make production more profitable for economy and environment and with less inputs from the financial and human capital. One more factor which made strong influence on slowing of regional development it is low desire to participate in cooperation with other farmers.

This problem is also the cause of the effect after "Regime time", where the main output from cooperation was not equal distribution of profits and assets between farmers. Nowadays cooperation of farmers will lead to creation of networks between their organizations and also it will help to decrease the cost of production and avoid the increasing number of fragmented lands.

To change the situation of agricultural sector in the EP and NP countries, the system need to be rebuild with new approaches and must be based on inclusiveness of all factors of global, regional and local levels.

The fundamental approach for this restructuring can be strategy for rural development which is used for Central European Countries, and mainly *based on the sustainable and inclusive development*.

# Sustainable and inclusive regional development

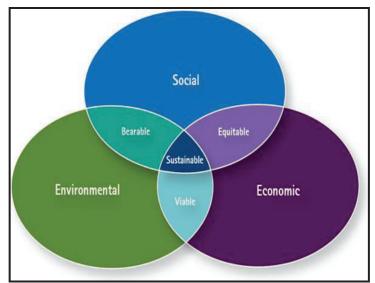
In the Communication from the commission on a Sustainable Europe for a Better World a European Union Strategy for Sustainable Development the next definition for sustainable development can be found:

<u>Sustainable development (SD)</u> it is development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development the "Brundtland Commission", 1987), in other words ensuring that today's growth does not jeopardize the growth possibilities of future generations. SD it is the result of harmonious inter-relations between economy, social and environment sectors.

These harmonious inter-relations lead to a:

- **Equitable** (intersection between economy and social);
- Viable (intersection between economy and environment);
- **Bearable** (intersection between social and environment) development; (Picture 1)

<sup>&</sup>lt;sup>1</sup> Depressed area it is region where unemployment and a low standard of living prevail.



*Picture 1: Model of sustainable development* IzReal.eu, Socially Sustainable Development, <u>http://izreal.eu/tag/sustainable/</u>

# **Inclusive development**

Approach of inclusive development is emerging in 'Europe 2020' strategy with its leitmotif of 'smart, sustainable and inclusive growth'. The three arms of the strategy are intended to define a growth model in which a first emphasis is on innovation as a driver of competitiveness, with the 'knowledge' economy seen as an especially promising ambition for the EU insofar as high educational levels are perceived to be EU strengths.

While 'sustainable' is most often associated with 'green' and, latterly, with action to counter climate change, a social dimension has also been prominent in the EU approach to sustainable development. The inclusive element in the Europe 2020 strategy is intended to encompass a higher level of employment, alongside 'social and territorial cohesion'.

The Commission (2010) spells out a range of **'inclusion' challenges**. These can be split into **four main classes:** 

- 1) Making full use of labor potential, an orientation that is directly linked to the 'grand challenges' of adapting to the ageing of the population and intensifying global competition.
- 2) Combating poverty and its consequences.
- 3) Advancing social inclusion, notably by paying greater attention to opportunities and obligations over the life-cycle.
- 4) Ensuring territorial cohesion in the sense of preventing or reducing the extent of regional disparities.

**Inclusive development** is a process that should lead towards the goal of an inclusive community. It recognises that diversity is a fact of life and that differences are normal within society. Differences are due to a range of factors, some universal, some cultural and some context specific. Inclusion is thus about society changing in order to accommodate differences and combat discrimination amongst its members. The aim is equalization of opportunities.

## Background of the state of regional development in Ukraine

Since 2001, the Government of Ukraine has been rolling out a new approach to **regional development policy** intended to address the country's pressing issue of disproportionate economic development. The objective of this approach is to create conditions for enhanced regional competitiveness, to stimulate sustained economic growth, and to reduce disparities among regions.

It is based on a **decentralized system of local and regional self-government**, which establishes a stronger role for sub-national authorities in governing economic, social and environmental challenges.

Over the past decade, Ukraine made efforts to shift the nature of relations, attitudes and behaviours between central, regional and local governments away from top-down, centrally planned, annually budgeted programming, towards more locally-driven development initiatives based on multiyear and multi-sourced funding.(I.Dolzhenko, National University of Life and Environmental Science of Ukraine, Faculty of Economics, Kiev, Ukraine).

The Regional Contract instrument is perhaps the single most important innovation of the Law on Stimulating Regional Development. It is an agreement between the Cabinet of Ministers and individual oblast state administrations for cost-sharing of regional development initiatives and infrastructure. The Regional Contract institutionalizes the twin principles of transparency and equal partnership – between national and regional levels of government – while providing a practical tool for transforming regional strategic plans into investment packages and concrete projects. Such enabling actions are driven by regions empowered to push forward their economic development goals.

One of the problems that create obstacles for applying the **sustainable development approach** it is regional inequality. The country in transition to market economy is an increasingly important subject for the research on spatial inequality. The existence of regional disparities in the Central and Eastern European countries has been shown in a number of studies; however few analyses have been done on regional inequalities of the post-Soviet countries, and particularly on Ukraine.

#### Sector-specific SWOT analysis of agriculture in Ukraine

The agricultural production sector is vulnerable to a series of risks and tendencies of both natural and anthropogenic character with potential for a strong, negative impact on agriculture.

**Sustainability of rural economy**, its competitiveness in domestic and foreign markets, the guarantee of food security for the country and preservation of the peasantry as the carrier of Ukrainian identity, culture and spirituality are the major goals of the current rural development strategy of Ukraine.

The development of this strategy utilised a SWOT table which was created by the research of FAO team during preparation report "Assessment of the Agriculture and Rural Development Sectors in the Eastern Partnership countries, Ukraine".

# Table 1: SWOT analysis of agricultural sector in Ukraine

<ul> <li><u>Strengths</u></li> <li>- comparative advantage in agriculture and food, with huge areas of fertile arable land;</li> <li>- strong natural capacity for export of primary agricultural commodities: wheat, sunflower, and other crops;</li> <li>- as compared to EU countries, a lower cost labour force;</li> <li>- agro-holdings capable of organising effective production and export;</li> <li>- access to large CIS markets and WTO membership;</li> <li>- an agriculture development policy with an emphasis on enterprise development;</li> </ul>	<ul> <li>Weaknesses</li> <li>- unemployment in agriculture sector what provoked (figure 1): <ul> <li>labour migration;</li> <li>worsening demographic situation;</li> <li>decrease the moral-psychological conditions;</li> </ul> </li> <li>vulnerability of sector to a number of risks including soil erosion, drought, flood and heavy rain and frosts; <ul> <li>uncompetitive products and insufficient development of the higher value products demanded by external markets;</li> <li>low productivity in comparison with EU countries;</li> <li>state funded support programmes have limited transparency, favouring agro-enterprises which accentuates inappropriate policies and non-sustainable agricultural practices;</li> <li>a semi-subsistence type of agriculture is practiced on the many millions of small and fragmented land plots;</li> <li>undeveloped market infrastructure including handling, storage, packing, processing, cooling and distribution;</li> <li>incomplete land reform;</li> <li>absence of rural development policies;</li> </ul> </li> </ul>
<ul> <li>encourage access to new international markets for higher value products;</li> <li>the EU Association Agreement and DCFTA<sup>2</sup> will open new markets;</li> <li>increasing demand for agricultural products;</li> <li>improvement of the investment and business climate will allow for an increase of investments in the sector from both local and foreign sources;</li> <li>completion of land reform and formation of efficient land market will create new opportunities in the agricultural sector;</li> <li>improvement of the rural infrastructure by developing the roads and social structures will support</li> </ul>	<ul> <li>cultivation;</li> <li>reliance of livestock producers on communal pasturelands with no incentives to commercialise;</li> <li>possible failure to improve business and investment climate thereby preventing further development and competitiveness;</li> <li>slow progress in adoption of international standards into national regulations;</li> <li>weak linkages in the supply chains and lack of success to markets by the small primary producers;</li> <li>no pure national livestock breeding base, dependence on imported breeds and crosses;</li> <li>intention to implement integration simultaneously in various directions (DCFTA with EU, Customs</li> </ul>

The table was created on the base of FAO REU report, "Assessment of the Agriculture and Rural Development Sectors in the Eastern Partnership countries, Budapest, Hungary, 2012, p.31-32.

<sup>&</sup>lt;sup>2</sup> DCFTA- Ukraine Deep and Comprehensive Free Trade Agreement

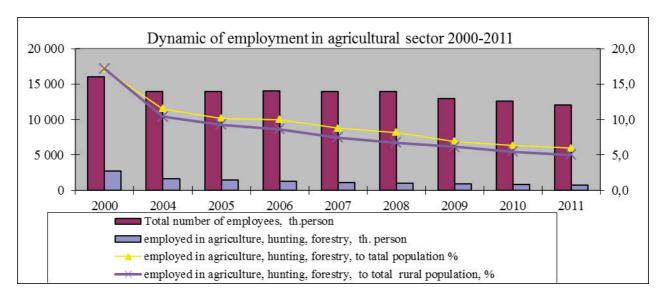
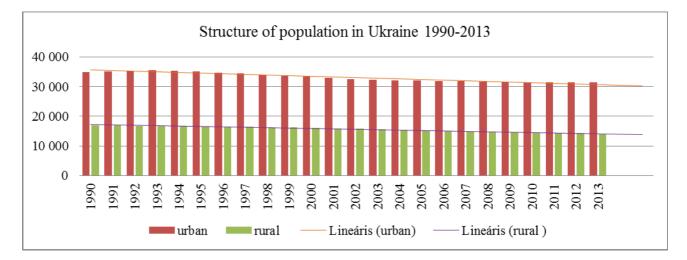


Figure 1: Dynamic of employment in agricultural sector 2000-2011

Data: State Statistics Service of Ukraine, <u>http://www.ukrstat.gov.ua/</u>, figure: own editing, 2013



# Figure 2: Structure of population in Ukraine 1990-2013

Data: State Statistics Service of Ukraine, <u>http://www.ukrstat.gov.ua/</u>, figure: own editing, 2013.

In the SWOT table, one of the mentioned threats we can see expressed in the figure 2, is changing the structure of population with negative slop. This tendency leads to decreasing of the number of working force in country and as well to ageing population. One of the main factors of this trend is the migration process among young people to European countries with searching future opportunities for building successful life. People not sure about their security and prosperity life inside the country.

The weaknesses mentioned above in the table 1, have constrained the emergence of a more sustainable model of development, where economic growth would benefit the wider society, while remaining environmentally-neutral, if not friendly. Time frames tend to be short term and actions speculative.

In general, there is a need to promote the multifunctional role of agriculture as a more **sustainable model of rural development** including an agriculture system that is better

connected to the markets and offers families and farmers a more rewarding lifestyle and level of income.

These needs should be addressed by a **comprehensive Rural Development Programme**, which will ensure that services and support is available to small farmers while at the same time investments are undertaken in rural infrastructure as a means of creating a living environment providing at least a minimum comfort level, so that the rural youth see a future and remain in rural villages.

At the same time the Rural Development has to be positioned within an **Agriculture Policy** which includes improvement in the functioning of the land market, opens up international markets through trade agreements, improves certification and quality control standards at all levels, and promotes environmentally sound agricultural practices.

Specific proposals include the following:

- Development of the National Code of sustainable agriculture to regulate good agricultural practices;

- Support programmes to develop food markets and competitiveness of agricultural production;

- Promoting the development of SMEs and cooperation in agriculture as a means to encourage job creation in rural areas;

- Drafting a Law on Agriculture giving legal effect to the foregoing proposals.

## **Conclusion and Recommendations**

Nowadays Ukraine just on the step of formation of effective legislation in the sector of rural development of areas which have in their property rich natural resources, economic and cultural potential and can serve for providing full employment and make higher level of welfare among rural community.

Strategic goal of financial security of rural development is the formation of economic efficiency, ecological safety and social equality in the village.

But previously established socio-economic situation in the village allows to suggest, that agricultural areas are now in the permanent structural crisis, the main manifestations of which we can find in *low level of income of rural population, high level of usage of production utilities, especially in the sector of the housing, transport, health care, low level of production infrastructure, low level of development in small and medium business, decreasing level of the living conditions and poverty of population.* 

To create the necessary conditions for transition rural communities to the permanent and complex socio-economic development it's necessary to create long-term strategy with taking to attention all possibilities that can be provided by the financial institutions of the EU-bodies and taking example of strategy implementation methods in EU countries.

Accepted strategy for future development rural areas will allow rise-up quality of life within rural areas and will give baseline for rising up the willingness of people built their life in the rural areas.

The next recommendations can be given for building agriculture and rural development strategy in Ukraine:

1) Rural Development (RD), must be identified like of the main priorities for Ukraine under the National indicative programme, because country have a big resource potential, which should be used and can give the growing profit.

2) Due to the current situation of most of the rural areas in the country (limited access to safe drinking water, basic social infrastructure, extensive agricultural production etc.) Rural

Development should be one of the priorities for the country. However, for the time being, Ukraine spends more than one billion US\$ on the agriculture, sector, with a very limited funding for the rural development. Therefore, it is recommended that any ENPARD<sup>3</sup> support provided by the EU is aimed predominantly at RD. In addition, the support should be provided on a basis of matching funds provided by the government. This would effectively double the impact at half the costs, without severely affecting the support system for the large scale agriculture.

3) Although there is a declarative consensus (inclusion in strategic documents, elaboration of specific programmes) on the need for improvement in both government policies and funding for Rural Development, in practice most of the government programmes are not funded or underfunded. While the rural development inclusion advocacy is generally donor driven, the final decision making rests with the executive authorities.

It is recommended that ENPARD approaches are based only on adopted Governmental policy documents and in line with support programmes developed by the Ministry of Agrarian Policy, as it appears that it has sufficient capacity to meet at least the initial needs for administering of such initiatives.

4) While discussing the sector there were very different opinions in regards to agricultural output and productivity versus rural livelihoods, as well as rural areas versus urban centres. Also there are a big gap between number of big agricultural producers and small farmer's households.

Opinions in this regard are quite divided on which category should be supported more or less through the budget, usually by emphasizing the low cost/benefit when supporting the lower categories and the lack of social dimension when supporting the upper categories.

5) The existing setup for funds disbursement seems credible and effective enough, especially taking in consideration the amount of funds disbursed annually. Testing the system through a standard rural development support scheme would probably need capacity building; given the size of the country a regional approach for this capacity building might be more recommendable. The Establishment of payment agencies is not recommended or needed in the current situation of the RD sector (level of funding, capacity of the current administration, existing support structures such as registers and databases).

(FAO REU report, "Assessment of the Agriculture and Rural Development Sectors in the Eastern Partnership countries, Budapest, Hungary, 2012, p.31-32

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