

Khrystyna PRYTULA, Vitaliy KRUPIN

*Institute of Regional Research of the National Academy of Sciences of Ukraine
prognoz_ird@ukr.net*

RURAL REALITIES IN UKRAINE – SOCIO-ECONOMIC ASPECTS

ABSTRACT

Ukraine' rural area is confronted with many social and economic problems, which have remained unsolved for decades, thus creating a significant gap between the rural area development and the conditions present in the densely populated areas. The development of rural territories is a difficult task, as it requires larger investments, which at the same time turn to be less efficient because of the lower population density. Yet, rural territories cover most of the land and host a large percentage of the population and therefore an active policy aimed at improving life quality and at creating equal opportunities for the rural and urban residents is a must.

Key words: rural territories, rural development, agriculture, Ukraine.

JEL Classification: O01, R11.

1. INTRODUCTION

The modern territory of Ukraine covers an area of 603,700 square km, out of which the rural territories account for 90%, inhabited by 31.5% of Ukraine's population. At present, Ukraine's rural area is characterized by the depopulation of rural communities, low quality of life, high unemployment, primarily monofunctional type of labour use in villages, low efficiency in agriculture, underdevelopment of industrial and social infrastructure etc. For 55% of the rural population, agricultural activity on homestead lands became the main income source. The importance of rural territories is intensified by their exceptional input to food security and formation of country's export potential. Therefore, the development of rural territories is meant to become one of the priority goals of Ukraine's state policy.

Taking into account the relatively recent introduction of the term "rural territories" into the scientific economic circulation, it still does not have a clear and monosemantic definition and is object of discussions among scientists. It is often used as a synonym for such terms as village, rural area etc. At present, there are three approaches to its definition: territorially-spatial, sectoral and functional. In our opinion, the territorially-spatial definition of rural territories or their agricultural connection is not as important as their functional meaning. While the conclusive goal of agricultural development is the country's food security, and the goal of villages development is the improvement of living conditions for people residing

on their territory, the aim of rural territories development is the improvement of the quality of people's life, based on effectiveness increase of agro-industrial complex and development of non-agricultural types of economic activities, under the conditions of preservation and renewal of natural ecosystems. It is the level of rural territories that is crucial to the resolution of aforementioned complex of problems, with the preservation of balance between economics, ecology and society. At the same time the balance of such system is the pre-condition for sustainable development, which is promoted by the world society.

2. ANALYSIS OF LATEST RESEARCH AND PUBLICATIONS

Most of the researchers of the given problem are not unanimous in the questions of definition, structure, means of development of rural territories, etc. Certain aspects of rural territories development and their problems are investigated by such scientists as Gubeni Y., Baranovsky M., Boyko Y., Onyshchenko O., Orlaty M., Pavlov O., Pashaver B., Popova O., Prokopa I., Sabluk P., Tretiak F., Shepot'ko L., Yurchyshyn V., Yakuba K. and others.

The goal of this research is the definition of perspective ways of development of rural territories of Ukraine, based on the analysis of their current state and results of questionnaire survey among rural experts and inhabitants.

3. THE CORE MATERIAL OF THE RESEARCH

Ukraine and Romania are neighbouring countries, having similar historical backgrounds, characterized by constant divisions between various empires, as well as a long period of application of administrative command economy system under the rule of communist regimes in the 20th century. As a result, most social and economic problems these post-socialist countries have experienced in general, as well as in the development of their rural territories, are similar. They also received their independence (Romania in 1989, Ukraine in 1991) and began their journey to social and economic transformations almost at the same time.

The main indicators used for the comparative analysis of the development level and trends for both Ukraine and Romania are presented in Table 1.

Despite the same development goal – transition to the market economy, the means and activity of political, structural, economic and social reforms that occurred in these two countries differed significantly in intensity, as well as in persistence and consistency of government activity during their implementation. Therefore the results of these reforms significantly differ, materialized into considerable differences in the development of the economic environment in the investigated countries, intensity of business activity, quality of population's life, percentage of grey market in GDP, corruption level, etc. These differences are present in the development of rural territories as well, and are visible through the effectiveness of agricultural activity, agricultural output, rural people's quality of life and their incomes.

Table 1
Comparison of the levels and trends of socio-economic development in Ukraine and Romania

| Indicators | Ukraine | | | Romania | | |
|---|---------|-------|-------|---------|-------|--------|
| | Years | | | Years | | |
| | 1990 | 2000 | 2010 | 1990 | 2000 | 2010 |
| Total area, in thou. km ² | 603.7 | | | 238.4 | | |
| Agricultural land, million ha | – | 41.8 | 41.6 | – | 14.9 | 14.7 |
| Population, million people | 51.6 | 49.1 | 45.7 | 23.2 | 22.4 | 21.9 |
| Average life expectancy, years | 69.3 | 67.9 | 69.3 | 69.0 | 69.9 | 74.0 |
| Population density per 1 km ² | 86.0 | 82.4 | 76.0 | 96.0 | 94.1 | 90.0 |
| Rural inhabitants, in % of total population | 33.3 | 32.8 | 31.5 | 46.8 | 46.5 | 45.6 |
| Agriculture in GDP, in % of total value | 24.4 | 12.0 | 9.8 | 15.0 | 23.0 | 12.8 |
| GDP in current prices, in billion U.S. dollars | 185.6 | 31.5 | 136.8 | 38.2 | 37.3 | 158.4 |
| GDP per capita, in U.S. dollars | 3.6 | 0.6 | 3.0 | 1.6 | 1.7 | 7.2 |
| Average gross salary in agriculture, U.S. dollars | – | 20.6 | 178.8 | – | 82.8 | 340.0 |
| Population employed in agriculture: | | | | | | |
| – million people | 4.8 | 5.5 | 3.5 | 3.1 | 3.5 | 2.8 |
| – in % of total population | 19.0 | 24.0 | 15.8 | 28.0 | 36.5 | 29.7 |
| Output of the agricultural industry, billion U.S. dollars | – | 14.4 | 12.5 | – | 7.7 | 20.7 |
| <i>including:</i> | | | | | | |
| – crops | – | 8.0 | 7.3 | – | 4.7 | 13.7 |
| – livestock | – | 6.4 | 5.2 | – | 2.8 | 5.2 |
| Agricultural productivity, in U.S. dollars per hectare | – | 344.3 | 300.5 | – | 516.8 | 1408.2 |

Source: Eurostat, State Committee of Statistics of Ukraine, CIA World Factbook, IndexMundi.com.

However, the problems of rural territories in Ukraine and Romania, despite the differences in the degree of their resolution, are still quite similar, therefore the means for their improvement are much alike and require further implementation of support for agricultural producers, increasing the efficiency of agricultural sector, introducing measures to enhance the diversification of economic activities (agricultural and non-agricultural), infrastructure development and improvement of living standard in rural areas.

It is also worth noting that Ukraine still has to work on the development of rural territories only with its own domestic financial resources, which are significantly limited, while Romania has the ability to raise large amounts of funding from the common sources of the European Union. In 2007–2013, Romania is supposed to receive 5.5 billion euros for direct payments to agricultural producers, as well as 8 billion euros for rural development in general¹. Such financial support is exactly what it is necessary for the benighted development in agricultural industry of post-socialist countries.

¹ Dachin, Anca (2008), *Prospects for the Agricultural Income in Romania*, The Annals of the University of Oradea, Tom XVII, Volume I, p. 253–258.

Let us take a closer look at the present state and peculiarities of rural territories of Ukraine in order to define the main problems and perspectives of their development. Special attention will be paid to the legislative and regulatory base of the rural area development, demographic and migration aspects, issues in agriculture, as well as identifying the necessary conditions of livelihood and further development according to the opinions of rural experts and inhabitants of rural areas in Ukraine.

4. NATIONAL LEGAL FRAMEWORK FOR THE DEVELOPMENT OF RURAL TERRITORIES IN UKRAINE

At present, this is underdeveloped: there is only one document that directly affects rural areas, which is the “Concept of National Program for Sustainable Development of Rural Territories until year 2020” enacted on February 3, 2010. The Concept was intended to serve as a basis for a detailed Strategy for the Development of Rural Territories, although it hasn’t been finished yet.

The state policy for investment attractiveness of rural territories is called to promote and support investment activity on these territories and create proper conditions for dwelling and labour of rural residents. Despite sporadic steps towards formation of such a policy, this process is characterized by inconsistency, failure to fulfil the legal, organizational, scientific, financial and other measures, included in the official documents, which are aimed at ensuring the sustainable development of rural territories.

In particular, it is the Law of Ukraine “On the priority of social development of villages and agricultural sector in the national economy” that primarily describes the organizational, economic and legal measures that are required by the rural territories. The same law specifies the level of minimal funding for rural development: the size of centralized state capital investments aimed at strengthening the social material base of villages and agricultural complex should not be less than one percent of the gross domestic product of Ukraine.

These investments, according to this law, should be singled out in the State Budget of Ukraine as a separate line. And at least 50 percent of state centralized capital investments under this article should be used for the construction of non-industrial objectives in rural areas. However, most articles of this law remained purely declarative, particularly concerning the preference for the needs of villages compared to the cities (defined per capita) concerning construction needs in housing, educational, cultural, sports, healthcare, welfare and trade facilities, gas, water and electricity supply, telephone and communication systems, other public utilities, radio and television services. The needs of villages in the supply of industrial and food products, as well as health, cultural, sports, utilities, transport and trade services are supposed to be met at a level equal to the scientifically grounded standards for urban areas. The solutions to questions concerning housing construction

and availability of preferential loans with state compensation of 25–35% of the loan amount are present only on paper. Most of other legislation regulating the rural development is just as declarative as well.

All necessary steps towards ensuring a comprehensive development of rural territories are formulated and disclosed in the existing legal documents. All that is needed is to put them to work.

5. DEMOGRAPHIC DEVELOPMENT PECULIARITIES ON THE RURAL TERRITORIES

The past decades created specific conditions for population's livelihood in the rural territories. While in developed countries the standard of living is constantly increasing due to the active direct and indirect state support, especially for the territories with complicated conditions for living and development of economic activities, in Ukraine this process is quite opposite. Thus, the tendencies in the demographic area are unsatisfactory and are manifested primarily by a general decrease of the population. The number of inhabitants of rural territories in Ukraine decreased from 17 million in 1990 to 14.3 million in 2010, i.e. by 15.5%. At the same time, the total decrease of the population of Ukraine amounted to 11.7% in the same time-period; therefore the rural territories are losing their residents at a faster rate compared to the country in general.

The fast aging of Ukraine's population is also noticeable; in the period 1990–2010, the number of people under 14 years old significantly decreased (from 11 to 6.5 million, i.e. by 41.5%), while the number of people aged over 65 increased from 6.2 to 7.2 million, i.e. by 16.1%.

While the most common demographic tendencies for the economically developed countries are the diminution of fertility and mortality, but with a simultaneous increase in life expectancy², in Ukraine these processes are characterized by lower fertility rate (from 657.2 thousand in 1990 to 497.7 thousand people in 2010), increase in death rate (from 629.6 thousand in 1990 to 698.2 thousand people in 2010), and variable results in the average life expectancy, which fast decreased in the 1990s (from 69.3 years in 1990 to 67.9 years in 1999), and only in the year 2000 it started to grow again, to reach 69.3 years in 2009.

It is also important to point out the differences by gender in this respect, since even in the investigated period 1990–2009, the average male life expectancy declined, and while women life expectancy increased. In 2009, the average life expectancy in Ukraine was 63.8 years for men (with retirement age set at the age of 60 years) and 74.9 years for women (with retirement age set at 55 years). Yet life expectancy in the rural areas is on average over 2 years shorter than the general indicator for

² Rural Demographic, Settlement Base and Labour Resources (2010), Agrarian Sector of Ukraine Website, <http://agroua.net>.

Ukraine (62.1 years for males and 74.1 years for females), which affects the rural development in a negative way. At the same time, a pension reform is being discussed and already going through the legislation process this year, which, among other changes, is supposed to raise the state pension age for both males and females.

A significant negative impact on the demographic situation, among other economic factors, is represented by a low level of mechanization in rural areas, and as a result human labour is often involved in carrying out heavy work instead of operating proper agricultural machinery. Difficult working conditions in agriculture lead to higher morbidity and lower life expectancy of the population that carries out such activities.

The deterioration of the natural basis for the demographic development of Ukrainian villages leads to the disruption of the optimal sex ratio. In the contingent that forms the basis of demographic reproduction in rural territories, there are fewer women than men. There are 49% females among the children aged up to 14 years, and 48.8% in the generation of their parents.

Yet there are even fewer women in the most fertile part of rural population (aged 20–29 years) – only 48%. The number of children under 15 years of age in the period 1970–2007 was virtually unchanged, while the number of people aged 15–49 years decreased by 6.6% in this period, including the decrease in the number of people in the age group 20–29 years by 6.7%³.

This is caused not only by the unfavourable situation of the birth rate, but also by the active migration process of women towards the nation's cities and abroad, as well as by the length of stay outside the home area, which can vary between several months or years, or could mean no return home at all.

Migration has been a major problem of Ukrainian rural territories since the beginning of the 1990s, when the country's borders were opened and allowed many citizens to look for better living conditions, even if illegally. This has influenced the rural territories in two ways, both negative and positive. The negative side of the process was the decrease in local population, primarily of young age, educated and with some work experience. The negative social consequences were break-ups of families, increased number of divorces and raise in deviant youth behaviour due to improper upbringing of children.

At the same time international migration lessened the pressure upon local labour markets by decreasing the number of unemployed population, especially at the time of economic crisis and lack of jobs. The income of labour emigrants helped supporting their families left in Ukraine, increasing their welfare, and influenced the local development by raising the purchasing power and stimulating development of basic business environment. Nevertheless, it didn't stop the factual pauperization of most of the rural population.

³ Agrarian Sector of Ukraine (2010).

6. ECONOMIC ASPECTS OF RURAL DEVELOPMENT

Ukraine belongs to one of the most ploughed countries in the world. In the structure of its land, the agricultural territories cover 70.9% of total area, while the arable land accounts for 53.8% (as of January 1, 2010). There are 0.9 hectares of agricultural land per capita in the country and 0.7 hectares of arable land per capita (in Europe these figures are 0.37 and 0.21 respectively). The tendency to reduce the agricultural land area is maintained primarily by reducing the area under hayfields, pastures and perennial crops. The arable land, on the other hand, has constantly increased again, starting with the year 2007. Such situation is an environmental threat and requires additional control from the part of government regulators.

As regards the structure of planted areas, the most noticeable tendency is the increase of areas used for industrial crops (due to the high external demand and positive price conjuncture) and a decrease of land used for forage crops, which is a result of the inefficient state policy in livestock sector development, leading to non-profitability of the industry and significant diminution of livestock farms.

In particular, by comparison with the year 2000, the land area under industrial crops increased 1.6 times, while the area under fodder crops decreased 2.7 times. The livestock sector decline not only undermines the foundations of food security, but does not allow the production of the required amount of organic fertilizers needed for the land.

Another feature of Ukrainian rural development is also a high share of agricultural land owned by individual owners. At the end of 2009, it accounted for 37.7%. This affected the high rate of agricultural production by individual farms: in 2010 more than 55% of the commodities were produced by small farms (54.9% of crop production and 55.3% of animal products). Such data indicates the lack of development of alternative economic activities in the rural area, high dependence of most rural residents in the welfare issues on the state policy in the agricultural sector, aiming to offset potential losses from adverse weather conditions, the impact of price factors, formation of needed storage and trade infrastructure for agricultural products.

At the same time, such a production structure does not allow for a proper food balance of the country, since most farms are not legal entities, and so their products are not taken into account. This greatly reduces the possibility of influence on the production of necessary agricultural products from the food security standpoint. According to a World Bank research study, agriculture in Ukraine does not fully use its production capacity, producing only 22% of the possible production volume.

The growth of external demand for agricultural products contributed to the increase in profitability for the agricultural enterprises (as of 2010 it equalled 20.6%). However, this tendency is not caused by the increase in the efficiency of agriculture: almost all types of crop products in 2010 experienced a drop in productivity, which can be explained by the non-compliance with the new production technologies, insufficient use of new machinery, lack of new approaches to production processes, wearing out of fixed assets (the current level is 45.7%), mostly extensive production methods.

The favourable geographical position and the high-quality black soil (Ukraine owns 30% of the world's black soil) are major reasons for investors to contribute to the country's agriculture. However, frequent changes of investment and agricultural legislation, freezing the agricultural land market, do not allow investors to consider agriculture in Ukraine as a reliable long-term investment.

An important risk factor for the current state of rural territories development is an incomplete land cadastre and the expected creation of agricultural land market. Lack of information concerning the operating conditions of such market increases the pessimistic moods among market participants, especially residents of rural territories.

At present, the studies of rural development processes are complicated by the lack of proper statistical information: rural territories are not an object of statistical observation. In Ukraine, there's only one scientific and analytic publication⁴ that provides indicators of rural territories development. However, it comes out only every five years and it is characterized by inconsistencies in statistical data. Such situation forces to search for other sources of adequate and accurate information. One of these sources of statistical information is a statistical observation.

7. RESIDENTS' OPINION ON RURAL DEVELOPMENT

In order to study the rural residents' and experts' opinions concerning the problems, the main objectives and available resources for the development of their areas, the team of scientists from the Department of Forecasting and Modelling of Region's Development of the Institute of Regional Research under the National Academy of Sciences of Ukraine conducted a survey in the rural territories of Ivano-Frankivs'k and L'viv regions, both being a part of the Carpathians region in Ukraine.

The analysis of the results of this survey allowed estimating the current state of rural territories development, identifying the main obstacles to their development and primary objectives needed to be addressed in rural territories, as well as basic resources required to solve up the defined problems in the given territories.

To evaluate the rural people's living conditions, the respondents were asked to list 16 indicators and five possible answers to each of them to choose from, which were "completely satisfied", "more satisfied than dissatisfied", "more dissatisfied than satisfied", "completely dissatisfied" and "difficult to determine".

The majority of respondents were completely satisfied with the quality of such services as village Council services (49.5% of respondents), the availability of school education (42.7%) and quality of telephone communication (35.4%).

⁴ Development of Ukraine's Rural Territories (2006), State Committee of Statistics of Ukraine, 751 pages.

The results of the survey were ranked according to two groups of indicators: those that were most acceptable to residents (assigned weighted coefficient from 0 to 1), and those that were most unacceptable (assigned weighted coefficient from -1 to 0, from the most unacceptable to less acceptable). The results are presented in Figures 1–2.

Among the most acceptable conditions to rural residents we can list the services provided by the local village Council, quality of electric power supply, availability of school education, quality of trading and consumer services, availability of transportation, etc. The most unacceptable conditions on rural territories include lack of Internet connection services, unavailability of pre-school facilities and agricultural machinery for land cultivation and harvesting, bad road conditions and impossibility to sell agricultural products close to their production sites.

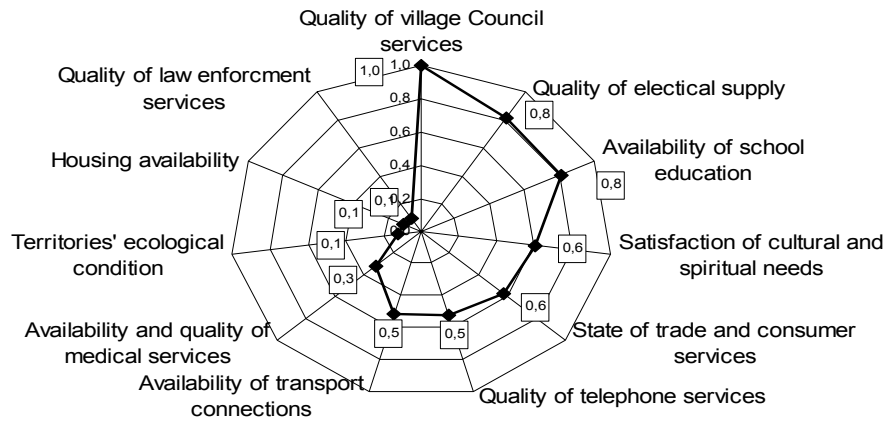


Figure 1. Ranking of living conditions, the quality of which is acceptable by residents.

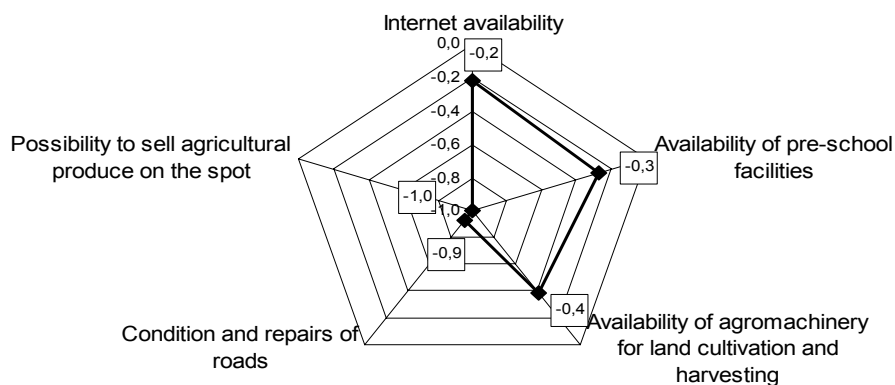
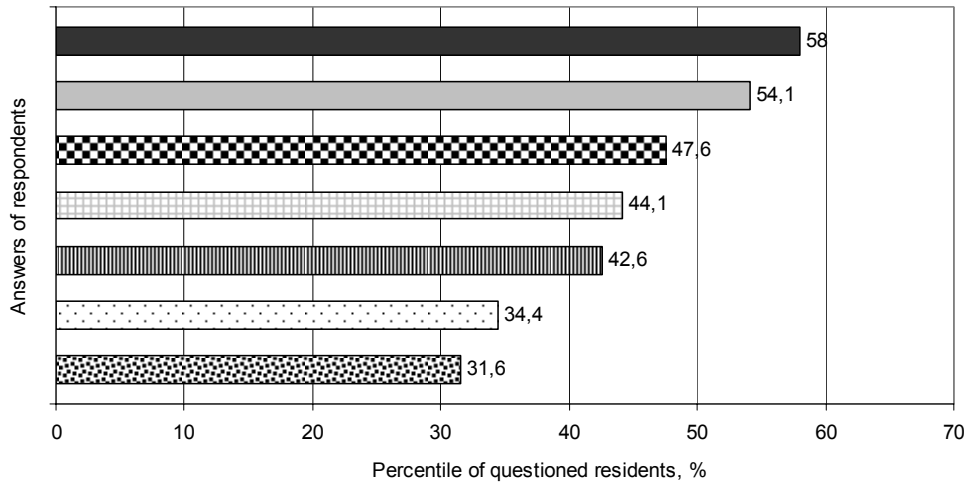


Figure 2. Ranking of living conditions, the quality of which is unacceptable by residents.

The survey results concerning the factors that influenced the development of rural territories are presented on Figure 3.



- Unemployment
- Absence of local companies for processing of agricultural products and their storage
- ▣ Spread of alcoholism and drug addiction
- Absence or inefficiency of the mechanism of purchasing agricultural products from the local population
- ▤ Absence of companies providing mechanized services of land cultivation to the local population
- Loss of economic interest to agricultural activities
- ▥ Crime level

Figure 3. Factors that have influenced the development of rural territory in a negative way, according to most residents' opinion.

During the survey, residents' opinions regarding the possibility of free trade with land were also investigated. The results are presented in Figure 4.

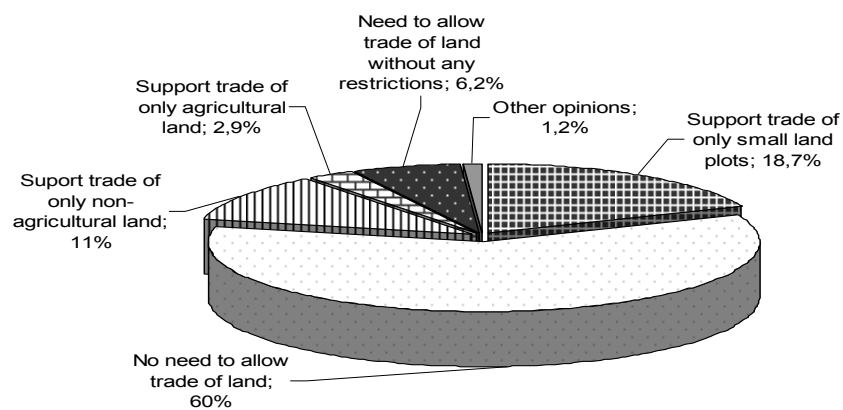


Figure 4. Distribution of respondents' opinions regarding consent for the trade of land in Ukraine.

The vast majority of rural residents believe that it is unnecessary to allow the trade of land in present conditions, and only 6.2% of respondents support the idea of such trade without any restrictions.

8. CONCLUSIONS

The lack of adequate state regulation of agricultural area and the unavailability of financial resources for its development result in poor efficiency of agricultural production, which is maintained only at the expense of cheap labour and ruthless exploitation of the land. However, this situation cannot last indefinitely. The labour productivity increase, crop efficiency and profitability of the sector are possible only under the condition of using modern production technologies and machinery, application of new approaches to the production process, which are possible only by attracting both domestic and foreign investments. The creation of favourable and stable conditions for investments in the country's agriculture on a mutually beneficial basis for the state, investors and lessors will make full use of the existing potential for agricultural development in Ukraine.

The main components of rural territory development policy should include:

- separation of support measures for agriculture and rural territories;
- support for rural territories with low level of agricultural development and adverse weather conditions;
- proper allocation of state support for the rural territory in order to increase the quality of its arrangements as a sphere of life, work and welfare of the rural inhabitants;
- development of alternative types of economic activities in the rural territories;
- regulation of issues concerning the proper use and protection of natural resources in rural territories;
- motivation of agricultural development and agrarian market by stimulating a substantial increase in the population's purchasing power through higher wages and pensions, as well as replacement of all privileges and discounts with direct state subsidiary payments;
- development of efficient and transparent system of state support to agriculture, which should be manifested not only by the decrease in the taxation level for this type of economic activity, but also by the use of grants, subsidies or reimbursement of agricultural activities, etc;
- ensuring equal support to all farmers regardless of their kind, type, size, ownership and management. Such support is currently received mostly by agricultural enterprises, while farmers and household agricultural producers practically don't receive any of such support. At the same time, 50% of crop production and 60% of livestock production in Ukraine is produced by small household farms;
- gradual convergence of state agricultural support to the WTO and European Union standards;

- elimination of the existing disparity in prices for industrial products, consumed by agriculture, and prices for agricultural products;
- approval of minimal guaranteed prices for basic agricultural products based on standardized costs, which should take into account the productivity of land, farm animals and the rate of return from resources used in production, including land;
- conduction of systematic forecasting of the conjuncture of world agricultural market on the medium and long term;
- formation of the balance of agricultural products in the country and its regions, determination of the self-sufficiency level and necessary import volumes, etc;
- creation of incentives for increasing exports of agricultural products, primarily with a high degree of processing;
- creation of favourable and stable conditions for investments in the country's agriculture on a mutually beneficial basis for the state, investors and lessors;
- settlement on the issue of adequate state income distribution between sectors of the economy, in which the main recipients of income would be the producers, including the farmers, who would be able to direct the earned money to the stimulation of expanded reproduction processes.

9. ACKNOWLEDGEMENTS

The authors would like to express their gratitude and pay final respects to the former Head of Department of Forecasting and Modelling of Region's Development of the Institute of Regional Research of the National Academy of Sciences of Ukraine, Prof. Dr. Boyko Yevgen Ivanovych, under whose leadership most of the scientific results for this article were obtained.

REFERENCES

1. Law of Ukraine "On the status of mountainous settlements in Ukraine" (№56/95 enacted on 13/12/2005).
2. Law of Ukraine "On stimulation of regional development" (№2850-IV enacted on 05/09/2005).
3. Law of Ukraine "On the priority of social development of villages and industrial complex in the national economy" (№400-XII enacted on 17/10/1990).
4. State Program for Development of Ukrainian villages until 2015 (№1158 enacted on 19/09/2007).
5. Law of Ukraine "On the main principles of state agrarian policy until 2015" (№2982-IV enacted on 18/10/2005).
6. *Economic mechanism of expanded reproduction in agriculture* (2006), Kyiv, 288 pages.
7. CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook>.
8. Baker, Olesya (2002), *Ukraine in the 1990's: Achievements, Disappointments and Lessons Learned*, UCLA Undergraduate History Journal, University of California, Los Angeles, <http://www.sscnet.ucla.edu/history/undergrad/pat/journal2002/baker.pdf>.