

**Khrystyna PRYTULA, Yaroslava KALAT, Natalia VYNAR**

*State Institution "Institute of Regional Research named after M. I. Dolishniy of the NAS Ukraine"*  
*khrystynka.prytula@gmail.com*  
*syaya@ukr.net*  
*vinarnata@ukr.net*

## EURO-REGIONAL COOPERATION AS AN IMPORTANT FACTOR IN OVERCOMING THE DEPRESSION OF RURAL UKRAINIAN-ROMANIAN BORDER AREAS

### ABSTRACT

The rural areas along the Ukrainian-Romanian borderline, by the activation of Euro-regional cooperation, receive incentives to overcome their depression and to stimulate sustainable social and economic development. The present paper studies the features of the rural development of Chernivtsi and Ivano-Frankivsk regions and the main directions of their development in the context of Euro-regional cooperation intensification. The analysis of these areas has been made using indicators such as gross regional product (GRP) per capita, share of agriculture in the gross value added at regional and country level, share of agricultural products sales in the structure of cash income of households, share of agricultural products in the commodity structure of exports and imports of the regions. Such analysis makes it possible to reveal not only the available resource potential, but also the main negative trends in their development, mainly depopulation of settlements and human capital degradation. The authors have described the current situation of cross-border cooperation in the Ukrainian-Romanian borderline, taking into account the results of the expert survey of local authorities on cross-border cooperation. The promising areas of rural development in the framework of activating the Euro-regional cooperation in the next programming period of 2014–2020 have been outlined.

**Key words:** cross-border cooperation, Euro-regional cooperation, Euro-region "Upper Prut", rural areas, diversification of economic activity.

**JEL Classification:** F 290, R 110, O18, O13, R11.

### 1. INTRODUCTION

The economically developed and socially oriented rural areas is the foundation of stability and security for sustainable development. The significance of rural areas is increased by their exceptional contribution to the food safety and export potential, maintenance of spatial integrity of natural ecosystems, balanced regional development and so on. Accordingly, the vector of their development is aimed to become a priority direction of state policy implementation in the areas of economy, regional development, local government, etc.

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## 2. MATERIAL AND METHODS

The aim of our investigation is the search for effective tools to overcome the rural development depression of the Ukrainian-Romanian border areas. For this purpose, various research methods have been used, including: economic analysis, comparison, synthesis, expert surveys, statistical analysis, graphs, etc. The information base of the research is the Ukrainian and international legislation related to the research topic, the official materials of the Ukrainian State Statistics Service, regulations of local governments and scientific literature of Ukrainian and foreign experts in regional development, agricultural economics and cross-border cooperation.

## 3. RESULTS AND DISCUSSION

### 3.1. MODERN FEATURES OF RURAL AREAS DEVELOPMENT IN UKRAINE

The absence of a focused policy on rural areas development, financing needs of these areas by the residual method, leaching of money from the rural areas through deregulation of pricing policies for agricultural and non-agricultural products, etc. resulted in the emergence of a number of problems.

One of these problems was the aggravation of depopulation and degradation processes of rural areas. On 01.01.2014, there were 27,385 registered villages, out of which 369 had no population, which had not been removed from the register. Over the last 10 years, 204 settlements disappeared from the maps (most of the settlements in Sumy region: 59; 57 settlements in Poltava region and 41 settlements in Kirovograd region). The share of villages with a population less than 100 inhabitants is 27.7%, from 100 to 200 inhabitants is 14.5%, from 200 to 499 inhabitants is 25.6%, more than 500 inhabitants is 32.2%.

The most critical situation regarding the depopulation of settlements was noticed in Sumy region, where the proportion of settlements with population of less than 50 persons is 38.5%, in Chernihiv region this proportion is 32.5%, in Kharkiv region it is 30.5%. The most crowded are the rural settlements of the Western region, in Chernivtsi region the share of settlements with more than 1000 inhabitants is 51.5%, in Transcarpathian region it is 47.2%, in Ivano-Frankivsk region it is 39.4%. In terms of population pressure (people aged 60 and over in 1,000 of resident population aged 16–59 years), the “leaders” are Chernihiv (616), Khmelnytsky (502) and Sumy (483) regions, compared to the average of 386 persons in Ukraine. Transcarpathian, Rivne and Odessa regions are characterized by the best value of this index: 256, 313 and 314 persons respectively. Mostly mono-functional rural development, lack of alternative economic activities, low investment attractiveness of the area resulted in a low level of economic activity of

the inhabitants in the area. Only almost half of the employed resident population in the rural areas, are actually working in the place of residence (Fig. 1).

The highest share of rural population employed elsewhere than the place of residence has been tracked in the Lviv, Ivano-Frankivsk and Transcarpathian regions (69.1–76.5%), out of which 16.6% and 23.3% from the Ivano-Frankivsk and Transcarpathian regions respectively are working abroad. The lowest value of this indicator has been found in the regions Kherson (28%) and Mykolaiv (37.1%).

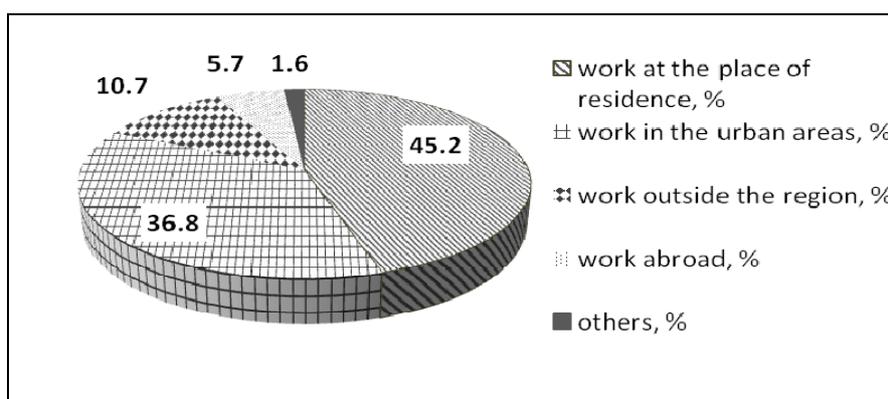


Figure 1. Structure of the employed resident population in the rural areas, %.

The lack of employment opportunities aggravates the human capital degradation process in rural areas. The share of rural population aged 16–59 years that was neither working nor studying was 34.7% (2926.8 thousand people) on January 1, 2014. The share of people in this age group, who are activating only in private peasant (subsistence) agriculture is 28% (59% in Rivne and 7% in the Kiev region). Overall, about 3181.1 thousand villagers are activating only in peasant (subsistence) agriculture.

This situation is due to the low economic activity in the territories: in about one-third of rural areas there are no business operators, and on the territory of 71% of villages there are no industrial and agricultural facilities. The largest number of settlements without economic operators have been found in Kharkiv, Zhytomyr and Lviv regions, 924 (56% of settlements), 770 (48%) and 768 (41%) of rural settlements respectively.

Taking into account the high proportion of households involved in the production and sales of agricultural products, it is important to promote local initiatives and cooperation in the area. However, at present, there is no functioning agricultural services cooperative on 97% of rural areas territory.

This situation requires the adoption of measures in order to reach the rural development objectives. Depending on the selected criteria, several types of objectives can be differentiated: strategic (future oriented) or tactical; goal-oriented

(environmental, cultural or financial, etc.); level-oriented (at which level the goal should be achieved – national or local level, etc).

In 2014, the employed rural population totaled 5,292.4 thousand people, out of which 43.4% were informally employed. Having in view the limited employment opportunities for rural residents and the functioning of the informal employment sector, which is mostly the main income source, it is necessary to create conditions to foster the development of alternative non-agricultural economic activities.

An important factor and goal (at the same time) in the development of rural areas is the rural economy diversification, as opposed to the mono-functional rural development and high share of agricultural employment that are prevailing today.

### 3.2. THE DEVELOPMENT OF UKRAINIAN–ROMANIAN BORDERLINE RURAL AREAS

The unbalanced territorial development of Ukrainian regions results in an asymmetry of social and economic development levels, which often leads to underdevelopment of certain areas. These territories become economically depressed as they have no resources of their own to overcome negative tendencies.

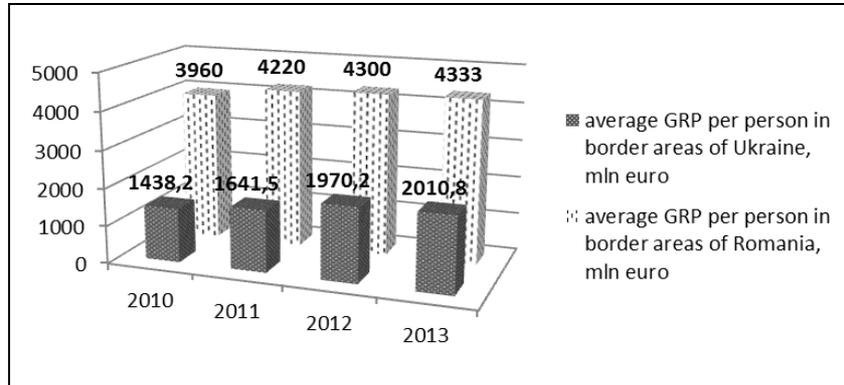
Currently, the border regions of Ukraine significantly lag behind the other regions of the country by their development level. Particularly,

- by the gross regional product (GRP) index per capita – by 35–36%,
- by the average monthly salary – by 19%,
- by the average level of pension – by 10%,
- by the investments per capita – by 35%.

At the same time, asymmetry in the development levels between adjacent border territories of Ukraine and neighboring countries persists and continues to increase. Moreover, such unevenness in development is much higher, depending on the cross-border region:

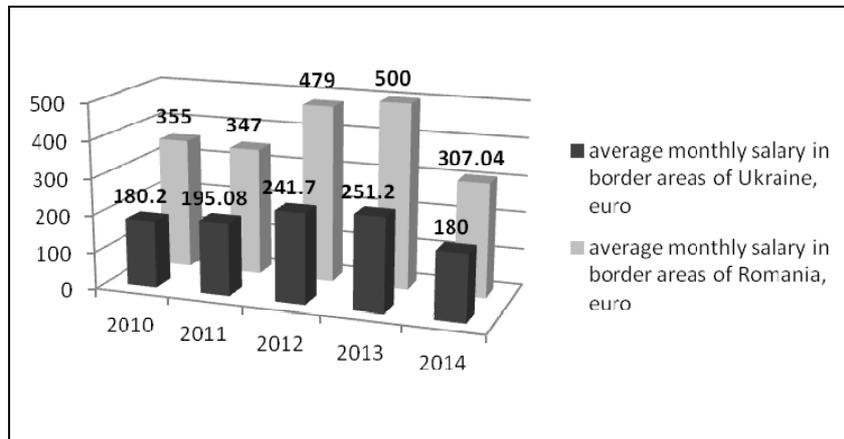
- the GRP index per capita – 3-5 times,
- average monthly salary – 2-3 times,
- average level of pension – 2-3 times,
- number of enterprises in 10,000 persons – 3-4 times,
- investments per capita – 4-5 times.

The comparison of adjacent border regions of Ukraine and Romania shows a strong asymmetry in terms of social and economic development. In particular, the GRP per capita in Romanian border areas is more than twice higher than GRP per capita in Ukrainian border regions (Fig. 2), while the average monthly wages are almost twice lower (Fig. 3).



Source: State Statistics Service of Ukraine and Romania.

Figure 2. Dynamics of GRP per capita in the border regions of Ukraine and Romania in 2010–2014.



Source: State Statistics Service of Ukraine and Romania.

Figure 3. Dynamics of average monthly wages of border regions of Ukraine and Romania in 2010–2014.

The border regions lag far behind in their development from the rest of the country. Thus, the gross regional product (GRP) per capita, a key indicator of economic development, shows that Chernivtsi and Ivano-Frankivsk regions lag behind the average GRP per capita in Ukraine in absolute terms, as well as in relative terms (yearly growth rate). In 2005, GRP in the Chernivtsi region was 4,654 UAH/capita, in Ivano-Frankivsk region it was 6,916 UAH/capita, while the gross domestic product (GDP) in Ukraine was 9,709 UAH/capita. By comparison, the same indicators in 2010 were the following: 10,939 UAH/capita, 14,814 UAH/capita and 24,798 UAH/capita; in 2014 it was 16,555 UAH/capita, 27,232 UAH/capita and 36,904 UAH/capita respectively.

The share of agriculture in the gross value added (GVA) of these regions is also quite different from the average in Ukraine. Thus, in the Chernivtsi region, its value ranged from 22.4% in 2009 to 18.7% in 2010; in the Ivano-Frankivsk region, the average in the last seven years was 12.6% of the regional GVA and 9.72% of the national GVA. However, in terms of added value of the agricultural sector, Ivano-Frankivsk region far outstrips Chernivtsi region: for instance, in Ivano-Frankivsk region it reached 2,347 mln. UAH in 2005, 2,347 mln. UAH in 2010 and 4,288 mln. UAH in 2014, while in Chernivtsi region it was 894 mln. UAH in 2005; 1,800 mln. UAH in 2010, and 3,149 mln. UAH respectively.

By comparing the development level of Ivano-Frankivsk and Chernivtsi regions, the first region significantly outstrips the second one. According to Article 9, Paragraph 1 of the Law of Ukraine “On stimulating regional development” of September 8, 2005, the Chernivtsi region can be considered a depressive region (particularly with regard to rural areas), since in the last five years, its GRP per capita was the lowest in the country.

The activities related to the implementation of the Association Agreement between Ukraine and the EU had a significant impact on the potential of rural areas. This impact will be significantly noticeable starting with 2016, when part IV of this Agreement (on establishing a free trade area) comes into force, which until now had been carried out unilaterally. On the one hand, the implementation of the Agreement in the future will ensure the compliance with the agri-environmental regulations for agricultural production, the improvement of the Ukrainian products quality, the access to advanced technologies and techniques, etc. On the other hand, in the coming years it will rather have a negative impact, mainly for the functioning of households.

In 2013, the amount of household cash income was 3501,5 UAH; in its structure, the share of revenues from the agricultural products sale was 10.6%, while the share of incomes from entrepreneurship and self-employment was 3.5%. In the structure of household cash income, wages accounted for 60% in the urban areas and 43.5% in the rural areas. Thus, the income from business activities and from the informal sector is a significant component of rural residents’ total resources.

In 2013, the total resources of households in rural areas amounted to 4,104.3 UAH. Meanwhile, the share of the value of consumed products obtained on personal subsidiary farms and from self-produced foodstuffs was 10.2%. In general, in the structure of the total resources, the share of agriculture-related resources was about 20% in the rural areas and 1.6% in the urban areas.

The main agricultural products obtained on the households are milk and dairy products, meat, potatoes, vegetables, fruits and berries. The prices of agricultural products obtained on the households are not competitive compared to their European counterparts because of the low productivity and inefficient pricing.

Competition caused by increased imports in Ukraine, especially of meat and vegetables, is putting pressure on domestic producers. Consequently, there is a need to develop a system of measures oriented to mitigating potential risks. In particular, this means the possibility of granting temporary state support under the form of access to information, consultancy services, training, etc. in order to avoid further sharp rise in unemployment in rural areas. Education and training can help workers in areas with decreasing demand for labor to retrain and get a job in areas where there are opportunities for new export flows (Ryzhenkov *et al.*, 2013).

The economy of the Ukrainian Regions on the Ukrainian-Romanian borderline is characterized by a high share of employment in agriculture. The average value of this indicator in 2010–2014 was 27.27% in Chernivtsi region and 26.95% in Ivano-Frankivsk region. Moreover, one can notice an increasing trend of the agricultural employment share in both regions, which is not characteristic for highly developed regions.

According to the 2014 data, the share of food and agricultural products in the export commodity structure of Chernivtsi and Ivano-Frankivsk regions was 13.9% and 19.8% respectively; and the share of agri-food products in imports was 9.16% in Chernivtsi region and 2.6% in Ivano-Frankivsk area. In particular, milk and dairy products, poultry eggs and natural honey (11.26%) and cereals (5.19%) are in the top ten most exported goods by Ivano-Frankivsk region in 2014. In the same period, Chernivtsi region mostly exported meat and edible meat products (6.65%), edible fruit and nuts (5.85%) and cereals (4.23%). It should be noted that five products exported by Chernivtsi region and six products exported by Ivano-Frankivsk regions are among the ten Ukraine's most exported goods.

Regarding the structure of imports, it should be noted that except for edible fruit and nuts, agricultural products are outside the top ten Ukraine's most imported goods, which suggests a relatively high self-sufficiency in these products.

The export and import of these regions are mainly focused on the CIS and the EU countries, and to a lesser degree on Asia, America and others. Chernivtsi region mostly exports products to Romania (15,556.1 USD), and mostly imports from Turkey (8,738.1 USD) and Poland (8,316.8 USD). The exports of Ivano-Frankivsk region, the same as of Chernivtsi region, are mostly directed to Romania (51,358.2 USD), whereas the imports are mostly originating from Germany (45,784.1 USD) and Poland (33,290.7 USD). Romania ranks third as regards the share of imports in both regions (22,951.3 USD for Chernivtsi region and 7,486.8 USD for Ivano-Frankivsk region). In general, Ukrainian trade relations with Romania are strong enough, though these countries cannot be called important trade partners, as the imports from and exports to Romania account for 2.07% and 0.98% respectively<sup>1</sup>.

<sup>1</sup> Data of Central Statistical Office of Chernivtsi region and Central Statistical Office of Ivano-Frankivsk region for January–August 2016.

### 3.3. EURO-REGIONAL COOPERATION AS A TOOL IN OVERCOMING THE ECONOMIC DEPRESSION IN RURAL AREAS ON THE UKRAINIAN–ROMANIAN BORDER LINE

Nowadays, cross-border cooperation is an effective tool to implement the state regional development policy in the borderline rural areas, which is essential to foster the economic development of these regions, to improve the access of Ukrainian goods on the European markets, to expand the labor market and so on. The rural areas included in the cross-border cooperation get more opportunities for private employment of residents, business development, provision of infrastructure in the areas; and the formation of growth poles becomes possible by the new forms of TCS.

In the Ukrainian realities of today, cross-border projects as a non-institutionalized form of cross-border cooperation are the most effective according to the results of expert survey of local authorities on cross-border cooperation, held in preparation for the annual scientific analytical report “Development of cross-border cooperation” (Prytula *et al.*, 2016).

Expert survey addressed to the representatives of local authorities on issues of cross-border cooperation, conducted by the “Institute of Regional Studies named after M. Dolishniy of National Academy of Science of Ukraine”, shows that the Euro–regions, which are the most effective forms in the EU, took only the fourth place here. This means that the role of Euro–regions in the development of border regions, including rural areas, is underestimated because the appropriate conditions for the effective operation of cross-border structures have not been created and their functioning in these conditions appeared to be ineffective (Fig. 4).

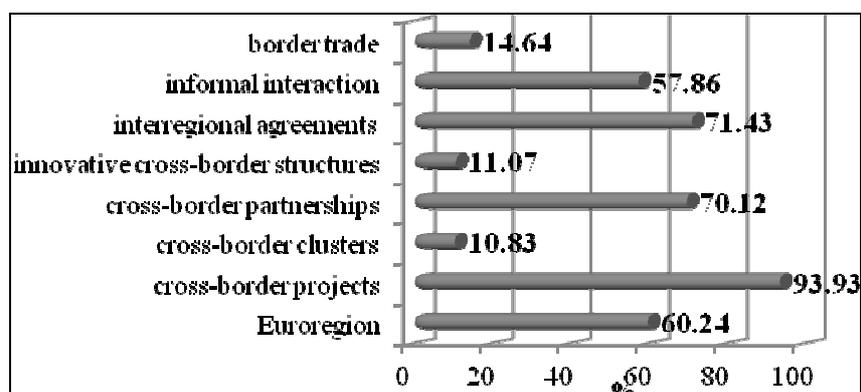


Figure 4. The effectiveness of cross-border cooperation forms as regards their impact on regional development in the cross-border Ukrainian–Romanian region<sup>2</sup>.

<sup>2</sup> Survey conducted in accordance with the Decision of the Bureau of Economics of the National Academy of Sciences of Ukraine of October 29, 2013, №11), 2015.

The same applies to cross-border trade, whose influence on the development of the border region according to experts is not defining (14.64%). However, with the signing of the Agreement on local border traffic (of 02.10.2014) between Ukraine and Romania, the number of border crossings has grown (Table 1) and informal border trade intensity has increased as well. A deterrent factor of cross-border cooperation in the Ukrainian–Romanian borderline is a poor border infrastructure: the border length of Ivano-Frankivsk region and Romania is around 50 km, with no checkpoint; the border length between Chernivtsi region and Romania is 226.4 km, with one rail, one road and one pedestrian crossing point.

Active participation in regional cross-border cooperation makes it possible to generate incentives for economic growth at local level in border areas. This applies to the participation of Ukrainian border regions, mainly the Euro-region “Upper Prut”, which enables raising additional funds from the EU structural funds, as well as financial support at the state level necessary to solve common problems of cross-border regions on the Ukrainian-Romanian borderline.

*Table 1*  
Influence of the Agreement<sup>3</sup> on small border traffic upon border crossing intensification

Indicators	Years				
	first half of 2014	second half of 2014	first half of 2015	second half of 2015	first half of 2016
The amount of Ukrainian–Romanian border crossing to leave Ukraine (in thousands)	219.1	291.1	266.2	403.8	408.6
The amount of Ukrainian–Romanian border crossing to enter Ukraine (in thousands)	324.8	322.9	427.8	405.7	412.9

One of the tools used by the border regions on the Ukrainian–Romanian borderline is the involvement of financial resources from the EU structural funds, Cross-border Cooperation Program of the European Instrument of Neighbourhood and Partnership (CBCP EINP). In the previous programming period CBCP EINP “Ukraine – Romania – Moldova” (2007–2013), 6% of the projects implemented by the Ukrainian side were aimed at the development of agriculture, forestry and fisheries, which shows the rural development importance for the Ukrainian regions. From the part of the Ukrainian state, the support for the development of border regions consists in the adoption of the new State Cross-Border Cooperation Program for 2016–2020, where the priority cooperation areas with the Romanian border regions have been identified.

<sup>3</sup> The Agreement was signed on October 2, 2014 and came into force on May 14, 2015.

These areas are the following: infrastructure, which is the basis for the development of the whole region, including rural areas; environment protection; increased cooperation in education, research, technological development and innovation<sup>4</sup>. State financial assistance may be available to certain designated projects, among which are those implemented in Chernivtsi and Ivano-Frankivsk regions. Although these projects are mainly focused on the conservation of heritage and the development of infrastructure and are not directly related to agriculture, they will help anyway the development of rural areas.

A promising opportunity for the development of Ukrainian–Romanian borderline is CBCP EINP “Ukraine–Romania” 2014–2020, which should amount to 60 mln. Euros of financial resources for its implementation. According to the first draft of the program, 30% of funds will be used for large infrastructure projects. The remaining funds will be allocated to projects in the following areas: education, research and innovation (6%), culture and historical heritage (10%), availability of regions (20%), security (24%). The remaining 10% will be used for technical assistance.

Ivano-Frankivsk being the main region, and Chernivtsi being the secondary region, they have the opportunity to raise additional funds under CBCP EINP Hungary – Slovakia – Romania – Ukraine, 2014–2020, the program budget amounting to 73.952 million Euros.

#### 4. CONCLUSION

The heterogeneity of rural communities makes it possible to accommodate the systemic and institutional approaches in the study of rural areas. In order to smooth such heterogeneity, the state regional rural development policy measures based on the effective realization of their potential should be promoted; they are the following:

- allocation of rural areas as a separate object of state statistical observations and elaboration of a monitoring system for their development;
- involvement of rural communities and rural public institutions to actively participate in the elaboration of rural development programs; establishing partnership relations between participants in the design of rural development policies (government, NGOs, local authorities, etc.) in order to establish priorities and specific development measures. The initiative from above must be actively complemented from below, which would allow finding adequate and effective instruments able to influence the improvement of the current village status;

<sup>4</sup> State Cross-Border Cooperation Program for 2016–2020 (<http://zakon3.rada.gov.ua/laws/show/554-2016-n/page>)

- establishment of an individual approach to solve the development problems of each rural area, taking into account the characteristics of its economic, social and environmental development;
- elaboration of an incentive system to attract businesses in setting up new production activities in the rural areas;
  - creation of well-functioning markets for agricultural products, raw materials and food, aiming to ensure the profitability of agricultural production and infrastructure development of the market;
  - ensuring information availability (creation of information centers) on input and output current prices, supply and demand; markets; new technologies in agricultural production, etc.;
  - development of a set of measures aimed at improving the quality of education in rural areas, in order to ensure the rural residents' competitiveness on the labor market; raising the professional level of staff working in local government; providing soft loans for vocational or higher education of rural youth (with its repayment after graduation);
  - involvement of public procurement system in job creation in depressed rural areas;
  - establishment of legal, financial and information basis for green tourism promotion as an important component of social and economic regeneration of rural areas;
  - improvement of the system of land relations, aiming at overcoming the existing differences between the current estimated and market land value; strengthening of land management control;
  - development of environmental legislative framework and strengthening the administrative, criminal and property liability for damage to the environment.

In order to increase the efficiency of the Euro-regional cooperation and its impact on rural development in the Ukrainian–Romanian border the following actions should be taken:

- Euro-regional cooperation intensification through networking, signing of inter-regional partnership agreements, development of cross-border projects, etc. between border rural areas of Ukraine and Romania;
  - creation of associations of local authorities operating within the “Upper Prut” Euro-region on each side of the partner borders and promoting the participation of residents in the development of rural areas in their territory;
  - creation of consulting and coordinating centers for providing services, for the elaboration of cross-border projects, for partner search, and for implementing these projects to the benefit of border residents of rural areas in the “Upper Prut” Euro-region.

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