

# PRACE NAUKOWE

Uniwersytetu Ekonomicznego we Wrocławiu

# RESEARCH PAPERS

of Wrocław University of Economics

Nr 394

## Local and Regional Economy in Theory and Practice

edited by  
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Publishing House of Wrocław University of Economics  
Wrocław 2015

Copy-editing: Marcin Orszulak  
Layout: Barbara Łopusiewicz  
Proof-reading: Magdalena Kot  
Typesetting: Agata Wiszniowska  
Cover design: Beata Dębska

Information on submitting and reviewing papers is available on  
the Publishing House's website  
[www.pracnaukowe.ue.wroc.pl](http://www.pracnaukowe.ue.wroc.pl)  
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Wrocław 2015

**ISSN 1899-3192**  
**e-ISSN 2392-0041**

**ISBN 978-83-7695-512-4**

The original version: printed

Publication may be ordered in Publishing House  
tel./fax 71 36-80-602; e-mail: [econbook@ue.wroc.pl](mailto:econbook@ue.wroc.pl)  
[www.ksiegarnia.ue.wroc.pl](http://www.ksiegarnia.ue.wroc.pl)

Printing: TOTEM

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## MODERNIZATION OF REGIONAL POLICY OF UKRAINE IN EUROPEAN INTEGRATION CONDITIONS

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## MODERNIZACJA POLITYKI REGIONALNEJ UKRAINY W WARUNKACH INTEGRACJI EUROPEJSKIEJ

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DOI: 10.15611/pn.2015.394.09

**Summary:** The problem of Ukraine's regional policy modernization in the conditions of globalization processes activation is studied in the present paper. The influence of global factors and changes in the EU regional policy on the transformation of regional policy in Ukraine is determined. In the context of the development of Ukraine's regional policy the problems are defined with respect to economic development and welfare of the citizens in the regions of Ukraine; also the areas of cooperation between Ukraine and the EU are outlined.

**Keywords:** regional policy, globalization, income convergence, inter-regional cooperation.

**Streszczenie:** Celem badania prezentowanego w artykule jest analiza problemów modernizacji ukraińskiej polityki regionalnej w warunkach aktywizacji procesów globalizacji i integracji z UE. Określono wpływ czynników globalnych i zmian w polityce regionalnej UE na transformację polityki regionalnej Ukrainy. Przeprowadzono ocenę istniejących związków regionów Ukrainy i UE. Określono właściwości funkcjonowania euroregionów na Ukrainie. Zbadano bariery, które hamują współpracę na poziomie regionalnym pomiędzy Ukrainą i UE. Scharakteryzowano perspektywy wzmocnienia regionalnego wektora integracji europejskiej Ukrainy. W kontekście rozwoju polityki regionalnej Ukrainy zaproponowano perspektywy jej modernizacji.

**Słowa kluczowe:** polityka regionalna, regionalny rozwój ekonomiczny, konwergencja realna, współpraca międzyregionalna.

### 1. Introduction

The activation of world globalization processes, into which all countries are involved, makes each individual country face the necessity for strategic rethinking of their

development philosophy to find resources for economic growth and solutions to social problems. At the stage of the global economic crisis exacerbation, in the conditions of acute shortage of financial resources, the conducting of organic changes at the regional level may become one of self-sufficient sources for economic and social development. In this context the European practice of the regional development solution is noteworthy, also the modernization of regional policy with regard to the impact of global factors, assessment of opportunities for further implementation of international practices and standards in accordance with the priorities of Ukraine's policy of the European integration.

A number of works by foreign and national scientists are dedicated to the problems of regional development in the EU and Ukraine, namely: Jacques Miller, D. Bill, J. Mark, P. Hildrit, I. Hladii, W. Chuzhikov, N. Mikula, A. Mokii, O. Reut, M. Ombrebalsky, M. Dolishnii, L. Prokopenko and others. Although the issues affecting regions, the establishment of regional policy in the EU and Ukraine, mega-regional contradictions within the common European economic space are touched upon in the economic literature, scarce attention is paid to assessing the challenges generated by modern processes in the global environment, to risks diagnosis of regional development in Ukraine, which makes relevant the proposed topic of the scientific research.

## **2. The EU regional policy: factors of development and modernization**

The EU regional policy was formed and implemented under the influence of globalization factors, the increasing complexity of the "regionalism–globalism" relationship, transnationalization of economy, peculiarities of present global market regionalization, and the formation of a new model of spatial world market architecture.

The European Union, which like the European market was the result of those effects, is an example of a regionally-centrist development model that originally united countries with the developed market economies whose gradually expanding market joined the countries with medium and low levels of development. Meanwhile, the European Union is seen as the practice in structuring of transnational space [Proxorenko 2011, p. 111].

This is because in the past two decades two parallel processes occurred in the European Union, i.e. formal regionalization, within the administrative-territorial structure; informal regionalization, which is due to the transformation of the global space, forming the poles of economic growth and distinguishing regional markets. As a result, three types of regional economic systems have been formed in the EU: a) formal, standardized, b) functional (concentrated around a focal center, i.e. a large company, a shopping center, a research center), c) perceptive (determined by human attitude towards territories). Four multifunctional centers have been created in Europe

whose economies are characterized by diversified structure, i.e. – “Big London,” “Amsterdam–Rotterdam” region, “Big Frankfurt” with the Rhine surrounding territories, and “Big Milan” [Gladij 2006, p. 320].

The discussion of “Europe of regions” – “Europe of market” resulted in the adoption of the EU regional policy aimed at supporting the administrative and territorial regionalization, promoting socioeconomic convergence of nations and regions that is leveling territorial disparities through supporting uncompetitive regions.

The core of the EU regional policy is the principle of subsidiarity, the meaning of which is defined by two bases of the EU functioning, namely: social doctrine of Catholicism and the principle of proportionality, which is the ability to choose the level of the decision and its implementation in the area of mixed competence. The EU takes necessary decisions and actions at the supranational level only in case they cannot be properly carried out by Member States [Etnyn 2009, pp. 86–88]. However, countries themselves are able to solve problems not only at national but also at regional and local levels. In other words, this implies the implementation of the concept of multilevel governance in the EU.

The interaction of regional authorities with the EU institutions and bodies is organized in a different way. It is carried out both indirectly and directly in the course of planning and implementation of the EU regional policy through the Committee of the Regions, during the annual Cohesion Forum held by the European Commission in the framework of the Brussels Offices of the Regions. Formed in 1994, the Committee of the Regions, which is a special advisory body composed of representatives of local and regional authorities of Member States, replaced the Advisory Council in the regional and local authorities created in 1988 by the European Commission, whose task was to provide advice in the formation and implementation of regional policy. The Committee of the Regions, based its activities on the principles of subsidiarity, and as close as possible approach to the interests and needs of EU citizens, as well as partnership in governing of various levels in the process of all-European decision-making, to some extent, coordinates work in the field of regional policy.

The Lisbon Treaty produced a certain impact on the replacement of the institutional architecture of the EU regional policy. The Lisbon Treaty did not recognize the Committee of the Regions as one of the elements of the EU institutional mechanism. However, the Committee was able to seek an appeal to the Court of the European Union to protect its prerogatives in violation of the subsidiarity principle.

Despite positive steps towards institutionalization of the EU regional policy, its measures aimed at economic development equalization have not fully achieved the set goals. Primarily, this is because the same contradictions of globalization are inherent to the EU as to the world as a whole, i.e. irregularity, asynchronicity and disproportionality. As noted by Lukyanenka and Chuzhykova, practically all the asymmetries of development which deepened under conditions of the EU enlargement are inherent to the Euro-centrism as a modern integration process [Lukyanenka, Chuzhykova 2007, p. 32].



The development of regions and, consequently, the EU regional policy is influenced by such megatrends as follows: increased pressure of multinational companies to national and regional markets, increasing integration and partnership relations between competing actors for successful functioning on the market; activation of traditional industries convergence; the formation of super-powerful corporate structures in the new branch-wise organization; growing disparities in the concentration of capital; competitiveness aggravation and so on.

Ultimately, we can state several major problems of the European space, namely: the uneven development of the regions (countries) (e.g. Germany – Greece); lack of fiscal consolidation (in particular, positions difference, the discussion on the EU budget policy); unresolved fiscal problems of individual countries; institutional problems associated with the lack of a single coordination center; the struggle of contradictions between the desire for centralization (defined by V. Heiits) and the attempts to obtain regional autonomy.

These and other EU problems complicate the redistribution mechanism in the regional policy aimed at leveling and they actualize the application of the “new regionalism” to support the competitiveness of regions. In such circumstances, the regional policy should be seen, and this has already taken place, not only as a way to compensate for regional disparities, but as the competition policy and comprehensive policy of development. It updates the following definition: regional policy is a policy that provides for the creation of conditions that would allow regions to fully use their existing potential to gain competitive advantages.

The main problems of regional development of the European Union have a “territorial” dimension, which requires appropriate actions at the regional and local levels. With deepening of the global contradictions in the EU there is a more relevant need to find solutions to these problems both by means of internal (organizational, institutional, informational and financial) and external resources. This is one of the reasons for the fact that after the expansion the EU regional policy includes two components, namely: internal regional policy, which covers EU Member States, ensures cooperation between the regions across internal EU borders, and the EU regional policy, which provides for cooperation with the countries outside the EU.

As the latter case, the regional policy towards Ukraine was pursued, which is integrated into the European regional process through the European Neighborhood Policy (ENP). “The Neighborhood Policy” is based on two pillars, i.e. the coordination of general principles and a differentiated approach that takes into account the geopolitical and geo-economic situation of a country, and its participation in the EU programs in terms of cross-border and transnational cooperation. While implementing such a policy, the EU proposed a new financial program to support partner countries that is the European Neighborhood and Partnership Instrument. Since 2007 it has replaced the TACIS Programs (for Eastern European countries) and the MEDA (for Mediterranean countries). In fact, the neighborhood policy moved from the policy of changes in the partner countries to the policy of using administrative and institutional capacity in these countries.

### **3. Regional development and regional policy in Ukraine: problems of institutionalization and financial support**

For Ukraine, the problems of regional development, regional policy adaptation to the challenges of globalization is much more acute than in the countries of the European Union.

In Ukraine against the background of economic inequality of the regions, which to some extent is due to differences in economic potential, there is a significant regional differentiation of human development. Since 1990, the UNO has been publishing an annual global report on human development. According to the 2013 data, Ukraine was in the 76th place out of 198 countries, and among the four groups (very high, high, medium, low) it is among the countries with a high rate of human development. According to the method proposed by a group of Ukrainian scientists led by Academician E. Libanova, the regional level of human development is measured. Calculations of the integral index conducted by this method indicate that in some regions it is not appropriate to their economic potential. This indicates that the use of the latter does not have a proper social orientation.

Given the above, we focus attention on three important aspects of Ukrainian regional policy, in particular, the following:

1) in the framework of regional integration (the country) not only nominal convergence of economies of regions (countries) is important, but also real, implying a process that objectively defines a true approximation of their economies due to minimizing differences in key macroeconomic indicators to approximate population income;

2) real convergence income criteria are not only labor productivity, income and living standards of people, but also employment, unemployment, taxation rate, the development of foreign and national trade, the level of social benefits, government compensations and subsidies for socially vulnerable groups of population;

3) new empirical studies show that the trend of income convergence is obligatory present in a homogeneous group of countries “which is characterized by close economic cooperation, similar in economic and social development and geographical location” [Gladij 2006, p. 280] and it is completely absent in the case of its differentiation. This suggests that all possible mechanisms for raising income levels, regional indices of human development and quality of life should be used in Ukraine, as far as failure of real convergence criteria may be one of the barriers to integration in the EU.

First of all, changes should take place in the possibilities of placing certain budgetary resources for implementation of reforms. As a result of decentralization of powers, the majority of the components of the human development index are provided by local budgets. In reality, the formation process of local budgets means that proceeds go to local budgets, and if the latter are revenue-short, then they are replenished by transfers. If based on the criteria such incomes are recognized in the state as excessive, they are removed. As far as the Ukraine’s economy is formed in

such a way that in order to save resources the vertically integrated structures are built, where head offices (head offices of banks, credit unions, investment funds), that is, major taxpayers in the financial sector are concentrated in Kyiv, it is this city that is the most serious donor to state budget. However, the local budgeting system does not contain the proper motivation for tax payers. In this regard, scientists come to the idea of major changes in the administrative-territorial division and the formulation of local budgets to make them self-sufficient. Given the practice of administrative-territorial structure in the EU countries, the pilot projects have been developed on the administrative-territorial reforms in Ukraine, which begin since 2015.

Administrative-territorial reform that is being launched will create a foundation for this by strengthening local communities. Under such circumstances, methods of municipal financial management will be more widely used in the management of local finances, in particular, gradual introduction of medium-term (two-, three-year) financial planning; budgeting implementation as a set of technologies for planning accounting and control of cash funds and financial results in the municipality; practice spreading of financial controlling; practices revival of municipal bonds; improvement of control over the form of public-private (according to the legislation of Ukraine – public-private) partnership (concessions, contracts, leases, production sharing agreements); practice replication of the European countries concerning anti-recessionary municipal administration, including the bankruptcy mechanism.

The combination of systemic effects of endogenous and exogenous risks in disparity of regional development, which became chronic, poses challenges to Ukraine and strategic objectives regarding the development and implementation of a new state regional structural policy. A new quality of regional economic development includes the following: mobilization and utilization of available resources in a region for the needs of increasing development potential and provision of incentives for economic growth; creating incentives for the formation of regional economic “growth points,” and strengthening of their relationships with the periphery, involving into this process existing local material, financial and human resources; creation – at the regional level – of effective economic structures oriented at the intensification of the use of regional economic potential (regional and interregional clusters, industrial parks, etc.) as a basis for innovation and investment structural changes, creation of new jobs; improving the investment climate in the regions; building developed infrastructure at the regional level (transport, production, investment, social, communication) and others.

A new state regional structural policy in view of the EU practice must be focused on streamlining of “center–regions” relations, maximum assistance to learn and use their own regional economic potential, and enhance their self-development, removal of significant regional development disparities, improving of its institutional support, improving of regional socioeconomic subsystems convergence.

Among the priorities of the state regional structural policy the following one are worth stressing: the state participation activation in regulating interregional relations; revival of investment activity in the regions; improvement of institutional support for the structural transformation of the national economy on a regional basis.

The government involvement in the regulation of inter-regional relations is necessary for strengthening the integration of the internal socioeconomic space of the country. The integration of regional economies, in its turn, requires the development of adequate mechanisms of regulation of new forms of relationships that are developed among the regions, harmonization of interests and strategic management, and the interaction between the regions themselves.

Intensification of investment activity in the regions primarily requires relevant legal provision aimed at creating in the regions a developed institutional framework. In recent years, in the legislative area a number of significant steps have been made: the adopted conception of the economic program for the investment development and the approved program of the investment and innovation activity development in Ukraine. But these documents, despite all their positive features and tools for effective regulation of investment activity, do not contain provisions to enhance the role of self-administration organs and local executive authorities to stimulate the flow of investments, also they do not contribute to the formation of regional industrial and infrastructural framework for the inflow of these resources either; that is, they are not related to the formation of the investment potential of the regions.

While solving the issues of regional economic structure transformation, limited financial resources still are a great problem. In this regard, it is important to ensure the legal use of the potential of international financial institutions that deal with regional development, in particular the European structural funds, which within the implementation of their basic objectives in regional policy (convergence, regional competitiveness, employment and territorial cooperation) are able to provide a significant assistance. However, such assistance could be delivered to Ukraine in terms of determining – at the level of the state – a special national institution capable to administer large volumes of international aid funds (for example, the State Regional Development Fund). In addition, the internal interests of Ukraine create a need for improving legislation with respect to obtaining international technical assistance.

#### **4. Cooperation between Ukraine and the European Union in the process of regional policy implementation**

The cooperation between Ukraine and the EU in the field of regional policy currently focuses on the following areas: 1) the implementation of the Memorandum of Understanding to establish a dialogue on regional policy; 2) establishment of collaborative engagement between representatives of Ukrainian local and regional authorities and the EU in the framework of the EU Committee of the Regions; 3) participation in the implementation of the pilot program of regional development “Eastern Partnership” (PRDPEP); 4) implementation, at the regional level, of projects allowing for the EU financial instruments (European Neighborhood and Partnership Instrument, the European Investment Bank, Investment Tool of Neighborhood

Policy); 5) involvement of Ukraine in the implementation of the EU Strategy with respect to the Danube Region; 6) the promotion of the Ukrainian regions to the European regional associations, such as the Assembly of the European Regions, Association of the European Border-line Regions, the Council of the European Municipalities and Regions, Conference of the European Foreign Assemblies, Conference of the Peripheral Maritime Regions, the European Association of Local Self – administrations of Mountainous Regions and European Cities, Conference of Presidents of the Regions with Legislative Powers.

Using the EU practice in the area of regional policy is to distinguish important issues or problems of that policy which are to be taken into account when developing and implementing a strategy of cooperation. The main areas of such cooperation should be the following: strategic setting of objectives; activation of public administration and local self-government reformation; implementation of the EU experience on the development of the European regions, especially Poland and Germany, the Czech Republic and Germany, Slovenia and Italy; support of business development or individual projects.

Based on international legislative power, Verkhovna Rada of Ukraine adopted the Law “On Ratification of the Protocol No. 3 to the European Framework Convention on Trans-border Cooperation between Territorial Communities or Authorities concerning the Associations of European Cooperation (AEC)” of 16.05.2012 aimed at promoting cooperation between territorial communities or authorities of various countries according to political and administrative structures and the international obligations of States to prevent difficulties which are possible because of differences in national legislation in the field of cross-border and interregional cooperation. The Protocol stipulates that the territorial communities or authorities and other organs may establish a body of cross-border cooperation in the form of Association of European Cooperation (AEC) on the territory of the Member States of the Council of Europe which are the parties of this Protocol. The ratification of the Protocol will facilitate the cross-border cooperation with regard to the principles and priorities of the regional policy.

Increased interregional cooperation will allow using the Protocol as a tool for the regions of Ukraine’s approximation to the EU structural funds. Along with the strengthening of the legislature, measures of organizational and economic problems are worth mentioning, in particular the following: development of information and consulting infrastructure of inter-regional cooperation; development of innovative – investment trans-border clusters; designing of a strategic program of logistic system development in Ukraine; creation and implementation of cross-border logistics clusters; development and implementation of cross-border energy-efficient projects; creation of a network of centers for exchange of practices; intensification of works on construction of railroad transitions.

## 5. Conclusions

The evaluation of global factors the EU “new policy,” and the problems of regional policy in Ukraine allows outlining challenges Ukraine has to face:

- the emergence of risks (geo-economic, economic, energy, demographic) stemming from the polarization of the economic growth poles, the choice of alternatives, implying either open competition of Ukrainian goods and services on the European market or competition in the CIS markets, the need to correct a branch-wise and sectoral structure of the regional economy;
- the necessity for separation of important issues and problems of regional policies that need to be considered when developing and implementing a strategy of cooperation. The main areas of that cooperation should include the following: determination of strategic goal; implementation of the CEE countries’ experience in the development and functioning of the European regions, primarily Poland and Germany, the Czech Republic and Germany, Slovenia and Italy; support for integrated programs to improve the quality of infrastructure;
- the need to modernize the mechanisms of regional policy, in particular: choice of mechanism priorities, funding mechanism of structural changes in regions, strategic mechanism, the mechanism of investment reorientation in priority industries and sectors of economy;
- further improvement of institutional support for regional development, in particular: involvement of new forms of cross-border cooperation and the development of interstate regional clusters.

The EU practice in the field of medium-term budgetary and financial planning also needs replication. The strategy of borderline development of the Ukrainian regions coordination with the strategies of neighboring regions of Slovakia, Hungary, Romania and Poland; the implementation of measures to improve the efficiency of cooperation within the Euro-region of “Bug,” “Upper Prut,” “Carpathian Euro-region,” and “Lower Danube.” Another noteworthy problem is to stimulate the creation of innovative regional infrastructure development between the EU neighboring regions in terms of expected concluding of an agreement on a deep and comprehensive free trade area between Ukraine and the EU.

The success of the response to the challenges facing Ukraine in acute global and megaregional differences will depend on real ability for cooperation of regional and local authorities, implementation of initiated forms of cooperation with European partners in the area of development and implementation of interregional investment, innovation, infrastructure, and educational projects and programs, building of a network of inter-regional centers of innovation development, solving problems of illegal immigration.

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