**DECENTRALIZATION AND RURAL DEVELOPMENT: CASE STUDY OF UKRAINE**

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**Abstract**

The formation of state-building processes requires the development of various sectors of the economy, and agriculture is no exception. In Ukraine, administrative-territorial reform was carried out, which led to the formation of administrative-territorial regulations (decentralization) – the creation of amalgamated territorial communities. Such formations are concentrated in cities, urban-type settlements and rural areas. The decentralization process has actively influenced the rural development in Ukraine. The aim of the study is to determine the directions of rural development in the decentralization process in Ukraine. It is based on the analysis of the current regulatory framework of Ukraine and the results of monitoring the decentralization process, as well as the assessment of the spheres of rural development in Ukraine (economic, social, environmental). The number of amalgamated territorial communities and residents, including ones in rural areas of Ukraine was analyzed. An assessment of the dynamics main indicators of agricultural activity in Ukraine was carried out, positive and negative trends were identified. A comparative analysis was conducted of the existing concept of rural development, based on state subsidies and the new one – through active investment in agriculture, development of promising activities in rural areas, attracting more actors and their collaboration. The results of study are the justification of current paradigm of rural development in Ukraine and the formation of appropriate concept. Prospects for rural development in decentralization are the introduction of entrepreneurship, diversification of agricultural production, investment in agriculture, increasing the economic entities in rural areas, increasing of employees and wages, introduction of organic agricultural production.

**Key words:** rural areas, development, decentralization, agriculture, amalgamated territorial community.

**Introduction**

The need to optimize the activities of administrative-territorial entities in Ukraine at all levels requires a fuller disclosure of socio-ecological, sectoral-technological and territorial-economic features of their development. The dynamic nature of the formation of public sector relations in the context of decentralization arose the need to determine fundamentally new approaches to administration. Specific conditions of the natural and social environment of rural areas in Ukraine, the formation of which is accompanied by ideological, political, social and economic factors and macro- and micro-levels, is characterized by instability, increasing asymmetries and imbalances, which requires certain socio-economic and administrative-informational influences to maintain the viability and management of the developing population. Strengthening integration processes in the world economic and political space determines the vector of national economic development, and a balanced domestic and foreign policy in the socio-economic sphere contributes to the realization of domestic potential, building sustainable strengths, including within local economies – rural areas.

Features and nature of changes in the current challenges in rural areas in Ukraine are the result of a significant number of subjective and objective aspects. Rural development is accompanied by a number of negative trends that indicate gaps in economic policy. This forces to intensify activities in the direction of decentralization of power and implementation of modern principles of economic reform of rural areas, because today a significant transformational aspect that determines the direction of socio-economic development of rural areas is the decentralization of governance.

The role of decentralization of management in the processes of socio-economic development of rural areas in Ukraine is crucial. The most important tasks of decentralization are to overcome economic disunity, deintegration processes, asymmetries and imbalances in rural development, which have affected a significant part of them, and that the relationship between public authorities and rural communities remains unbalanced and unsettled. As a result, most community initiatives to improve the efficiency of rural management have faced serious challenges. In this aspect, it is important to study the role of decentralization of management in the processes of socio-economic rural development.

The strengthening of this problem characterizes the process of Ukraine’s integration into the European Union and requires a systematic solution to the problems of rural development. After all, the current state of the socio-economic situation of agriculture in Ukraine is characterized by declining living standards of the rural population, its partial degradation and impoverishment, low profitability of agricultural producers, reduced rural infrastructure, lack of financial support for small farms, etc.

Therefore, in modern conditions there is a need to develop conceptual provisions for rural development in Ukraine based on decentralization, search and attraction of financial resources necessary for continuous reproduction of the production process.
and comprehensive rural development, which should be addressed through government, economic entities and directly rural residents. For the practical implementation of this task, an important and relevant issue is the coverage of theoretical and practical aspects of securing rural development in the context of decentralization in Ukraine.

**Materials and Methods**

The research methodology is based on the assessment of statistical data of the State Statistics Service of Ukraine (2017-2021) on the state of rural development in Ukraine and the Ministry of Community and Territorial Development of Ukraine on the implementation of decentralization and monitoring the results of local government reform. The study of the dynamics of territorial reform and the formation of amalgamated territorial community (ATC) was carried out using the methods of statistics, analysis and synthesis based on the principle of determinism. Comparative and structural research methods were used in the process of scientific research of rural development in Ukraine.

Defining the problem of research and ways to solve it is based on a comprehensive approach to the elaboration of scientific achievements of scientists, historical experience of rural development, regulations and author’s developments. So, Parker considers the problems of reducing poverty in rural areas through decentralization and rural development programs. In the paper, Parker analyzes the level implementation of rural development programs and points to the need to assess their components of decentralization. The author proposes conceptual model that combines elements of political, fiscal and institutional decentralization and indicates that it will promote rural development (Parker, 1995). In research, the literature on decentralization and rural development is analyzed the concept proposed and methods of decentralization identified; participants in the process and types of participation in rural areas indicate obstacles to participation in decentralization processes in rural areas. (Shakil & Noraini, 2011). Craig explores the problem of implementing decentralization for the development of poor rural areas. The author notes that the bureaucratic system of hierarchy hinders the introduction of decentralization in poor rural areas, points to limited access to information for rural residents, states that there are problems with control over the implementation of decentralization processes; democratic institutions and political activities need to be improved (Craig, 2001).

**Results and Discussion**

Ukraine has always had significant potential in agriculture. Rural areas in Ukraine provide raw materials and agricultural products for the city. Employment in agriculture has always been high, the process of urbanization has shown a high rate, but since the early 90’s of the twentieth century, it has virtually stopped. Ukraine is experiencing a protracted economic crisis, accompanied by declining activity, deteriorating socio-economic indicators, cities are losing part of their traditional economy, which is replaced by imports of goods and services, reducing the need for new labor due to lower living standards and migration. The deterioration of the crisis in Ukraine’s economy has also affected rural areas. The collapse of collective farms with their inefficient, labor-intensive production has led to sharp decline in employment among the rural population, degradation of the social sphere of the village, sharp decline in population, especially in remote and small villages.

In this situation, many attempts have been made at the state level to support the village, starting with the very old, still essentially Soviet Law of Ukraine ‘On State Support to Agriculture of Ukraine’, but no positive changes have taken place (June 24, 2004). The reasons were different, the main role being played by the ratio of prices for industrial and agricultural products, as well as weak state financial support for producers of agricultural products. Examples of the significant level of state subsidies for agriculture in EU countries have always been cited as explanations for this. This is partly true, but rather large subsidies to agriculture in the EU have not led to stable development of rural areas, stopping their depopulation. The results of research by leading European researchers and the focus of EU governments on solving problems of development of their territories through the creation of smart city concepts, have led to transformation of approaches to rural development.

Rural development in Ukraine focuses on three components of rural life: economic, social and environmental (Figure 1).

In order to ensure the effective development of territories and improve local self-government, maintain decent standard of living, organize and provide quality public services, harmonize the interests of local communities and the state, decentralization reform was introduced in Ukraine.

In Ukraine, decentralization reform was launched in 2014 through the adoption of the Concept of Local Self-Governance and Territorial Power Reforming in Ukraine (April 1, 2014), Laws of Ukraine ‘On Cooperation of Territorial Communities’ (June 17, 2014), ‘On Voluntary Amalgamation of Territorial Communities’ (February 5, 2015), amendments to the Budget and Tax Codes on financial decentralization.

This process in accordance with the provisions of the European Charter of Local Self-Government (European Charter, 1985) allowed to form an effective
The economic sphere includes:
- introduction of innovations in agriculture, forestry and fisheries and in rural areas;
- financial support for producers in areas with unfavorable climatic conditions (for example, in the mountains);
- development in rural areas activities not related to agriculture;
- strengthening small farms, their cooperatives and young farmers;
- compensation for damages caused by natural disasters;
- granting tax preferences to farmers developing rural areas.

The social sphere includes:
- investment in rural infrastructure;
- development of rural green tourism;
- investment in education;
- development of advisory programs and consulting services;
- providing rural residents with information on the financial possibilities of rural development programs;
- implementation of programs to support and increase cultural heritage.

The ecological sphere includes:
- development of programs for the rational use of natural resources;
- transition to organic agriculture;
- encouraging farmers to green their activities and adhere to the principles of good agricultural practices;
- modernization management of rural landscapes;
- conservation of biodiversity.

Figure 1. Spheres of rural development in Ukraine (authors’ vision).

In accordance with Law of Ukraine ‘On Amendments to Certain Laws of Ukraine Concerning the Definition of Territories and Administrative Centers of Territorial Communities’ (April 16, 2020), the Cabinet of Ministers of Ukraine in 2021 identified administrative-territorial centers and approved the territories of 1469 capable ATCs. Of these, 882 urban-type settlements and 28,372 rural settlements were formed (Table 1). The number of territorial communities in Ukraine has increased 6.8 times in 5 years. Due to the consolidation of settlements in cities and districts of the country, the number of urban-type settlements and rural settlements decreased by 3 and 5 units, respectively. Dnipropetrovsk, Zhytomyr, Cherkasy, Zaporizhia and Volyn showed the best results in the overall ranking of Ukrainian regions in terms of ATC formation, while Kharkiv, Donetsk and Zakarpattia regions showed the lowest results.

The reform of decentralization has created driving force for the formation of a viable and closest to the citizens institution of power – local self-government. Voluntary association of territorial communities allowed the newly formed local governments to obtain the appropriate powers and resources that previously had cities of regional importance. The interests of citizens living in the united community are now represented by the elected chairman, deputies and executive bodies of the community council, which ensure the exercise of statutory powers in the interests of communities. As a result of the formation of ATC, rural areas now have a direct impact on rural areas in terms of ATC formation, while Kharkiv, Donetsk and Zakarpattia regions showed the lowest results.

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Table 1

<table>
<thead>
<tr>
<th>Years</th>
<th>Territorial communities</th>
<th>Cities</th>
<th>Areas in cities</th>
<th>Urban-type settlements</th>
<th>Rural settlements</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>216</td>
<td>460</td>
<td>111</td>
<td>885</td>
<td>28377</td>
</tr>
<tr>
<td>2018</td>
<td>458</td>
<td>461</td>
<td>108</td>
<td>883</td>
<td>28378</td>
</tr>
<tr>
<td>2019</td>
<td>686</td>
<td>461</td>
<td>108</td>
<td>883</td>
<td>28376</td>
</tr>
<tr>
<td>2020</td>
<td>841</td>
<td>461</td>
<td>108</td>
<td>882</td>
<td>28376</td>
</tr>
<tr>
<td>2021</td>
<td>1469</td>
<td>461</td>
<td>108</td>
<td>882</td>
<td>28372</td>
</tr>
</tbody>
</table>

Source: created by authors based on Monitoring of local government reform and territorial organization of government for 2021.
of the community. In the settlements that are part of the united community, the right of residents to local self-government and the provision of services to citizens is guaranteed by their elected elders. According to the Law of Ukraine ‘On Voluntary Amalgamation of Territorial Communities’, the increase and unification of communities was carried out through voluntary unification, taking into account the opinion of citizens. When planning for the creation of communities, it is mandatory to identify the potential resource opportunities of the community for economic and social development and the ability to provide quality services to the population.

The population of ATCs in Ukraine, including rural areas and its share is presented in Table 2. Over the past five years, the population of Ukraine has decreased by 996,2 thsnd. persons or 2.34%. The population of rural areas for the corresponding period decreased by 473,4 thsnd. persons or 3.61%. During the period under study, there was a decrease in the share of rural population, in 2021 its share was 30.37%.

The key indicators of agriculture in Ukraine are presented in Table 3. During the study period, the number of enterprises engaged in agricultural activity in Ukraine decreased by 3,225 units or 4.21%. There is negative dynamics of decreasing the number of enterprises engaged in agricultural activity in Ukraine every year. Agricultural lands have similar dynamics, which in 4 years decreased by 906 thsnd. ha (2.18%). The number of people employed in agriculture in Ukraine decreased by 139,5 thsnd. persons. In 2020, the share of those employed in agriculture was 17.19% of the total number of people employed in the country’s economy. A positive trend in agriculture of Ukraine is an increase of average monthly nominal wage – it increased by 61.09%.

The volume of activity in agriculture depends on sown areas, crop yields, production technologies, natural and climatic conditions, the cost of material resources, etc. Output in agriculture in Ukraine increased by 26.15% for four years. The increasing of gross value added in Ukraine is due to higher selling

### Table 2

<table>
<thead>
<tr>
<th>Years</th>
<th>Population – total, persons</th>
<th>Share of population, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban and rural areas</td>
<td>Urban area</td>
</tr>
<tr>
<td>2017</td>
<td>42584542</td>
<td>29482313</td>
</tr>
<tr>
<td>2018</td>
<td>42386403</td>
<td>29370995</td>
</tr>
<tr>
<td>2019</td>
<td>42153201</td>
<td>29256696</td>
</tr>
<tr>
<td>2020</td>
<td>41902416</td>
<td>29139346</td>
</tr>
<tr>
<td>2021</td>
<td>41588354</td>
<td>28959536</td>
</tr>
</tbody>
</table>

Source: created by authors based on Monitoring of local government reform and territorial organization of government for 2021.

### Table 3

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of enterprises engaged in agricultural activity, units</td>
<td>76593</td>
<td>76328</td>
<td>75450</td>
<td>73368</td>
</tr>
<tr>
<td>Agricultural land, thsnd. ha</td>
<td>41489,3</td>
<td>41329,0</td>
<td>41310,9</td>
<td>40583,3</td>
</tr>
<tr>
<td>Employment, thsnd. persons</td>
<td>2860,7</td>
<td>2937,6</td>
<td>3010,4</td>
<td>2721,2</td>
</tr>
<tr>
<td>percentage to total</td>
<td>17,73</td>
<td>18,12</td>
<td>18,25</td>
<td>17,19</td>
</tr>
<tr>
<td>Average monthly nominal wage, UAH</td>
<td>6057</td>
<td>7557</td>
<td>8856</td>
<td>9757</td>
</tr>
<tr>
<td>Output in agriculture, fact prices; mln. UAH</td>
<td>707792</td>
<td>847587</td>
<td>842767</td>
<td>892852</td>
</tr>
<tr>
<td>Gross value added, fact prices; mln. UAH</td>
<td>303419</td>
<td>360998</td>
<td>356563</td>
<td>388428</td>
</tr>
<tr>
<td>percentage to total</td>
<td>12,15</td>
<td>12,08</td>
<td>10,41</td>
<td>10,85</td>
</tr>
<tr>
<td>Financial results before taxation, mln. UAH</td>
<td>68606,5</td>
<td>70770,2</td>
<td>93553,6</td>
<td>81596,7</td>
</tr>
<tr>
<td>Net profit, mln. UAH</td>
<td>68276,8</td>
<td>70461,8</td>
<td>92892,9</td>
<td>81032,6</td>
</tr>
<tr>
<td>Profitability level of all types of activity, percentage</td>
<td>16,52</td>
<td>14,24</td>
<td>16,68</td>
<td>13,93</td>
</tr>
<tr>
<td>Profitability level of operating activities, percentage</td>
<td>23,23</td>
<td>18,94</td>
<td>19,82</td>
<td>19,06</td>
</tr>
</tbody>
</table>

Source: created by authors based on Agriculture of Ukraine for 2020.
prices for agricultural products. In 2020, gross value added increased by 28.02% compared to 2017. In 2020, gross value added amounted to 10.85% of total in the country’s economy. Financial results before taxation in 2020 decreased by 18.93% compared to 2017. In 2019, we note the maximum value of this indicator, which is associated with rising prices for agricultural products. Taking into account production costs and other operating costs, we get positive result in agriculture for the study period; net profit increased by 18.68%. In 2020, the profitability level of all types of activity and operating activities is 13.93% and 19.06%, respectively. During the study period, negative trend is the decrease in profitability. Changes in key indicators in agriculture of Ukraine in 2019-2020 are due to fluctuations in agricultural markets, changes in supply and demand for agricultural products, the price situation in connection with the COVID-19 pandemic.

Decentralization in Ukraine has formed the current paradigm of rural development, which has diametrically opposed characteristics to the past paradigm (Table 4).

In terms of development opportunities, rural areas in Ukraine differ from urban areas in the following ways: low population density; small number of enterprises and entrepreneurs; focus of people on employment in agricultural production; insufficient mobility of rural residents; low level of the implementation of innovation and scientific research; less accessible public services and services needed by people at the place of residence.

These differences are extremely important for deciding to start business, because in market environment, it is important for businesses to make the most profit. In rural areas with the above characteristics, businesses that require a large number of employees or are focused on local markets, work is not as comfortable and profitable as in large cities or urban areas with high population density. Therefore, traditional approaches to rural development policy have been reduced (and still used) to essentially subsidize agricultural production in order to raise farmers’ incomes not through market instruments but through the state aid.

Often such subsidy was calculated per hectare of land / arable land for the farmer. Over the years, subsidies per hectare of arable land have given rise to the experience of misusing such subsidies. So the farmer who has in addition to a small farm, 20-50 hectares of arable land, some other service station, sawmill or hotel, the surcharge from the state per hectare of land was very satisfying and he often just stopped cultivating land, and spent the money on other activities that are unrelated to agriculture. Such cases became not uncommon and only confirmed the ineffectiveness of subsidies per hectare of arable land for rural development.

The artificial increase in farmers’ incomes through subsidies did not stop the depopulation of rural areas, as technology increasingly penetrated agricultural production and led to natural reduction in the number of people employed in such production, it also did not improve the social situation in such areas. The formal increase in farmers’ incomes through subsidies did not deter people in rural areas, as the level of services and social security in these areas remained lower than that received by urban residents. In order to improve public services to rural residents, local authorities used equalization tools in addition to subsidizing farmers.

However, the rapid development of technologies, which on the one hand reduces the need for people for certain types of production, on the other hand, these technologies allow people to find themselves in other areas of activity that were previously closed to them. The latest technologies, design and technological solutions that have emerged in recent years, both in agriculture and in other sectors of the economy allow to do business in areas with lower population density.

Table 4

<table>
<thead>
<tr>
<th>Current and past paradigm of rural development in Ukraine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Past paradigm</td>
</tr>
<tr>
<td>Objects</td>
</tr>
<tr>
<td>Sphere of activity</td>
</tr>
<tr>
<td>Support tools</td>
</tr>
<tr>
<td>Key actors</td>
</tr>
</tbody>
</table>

Source: authors’ generalization.
in agricultural production allow to raise labor productivity here and achieve greater competitiveness of the agricultural sector in open global markets. In the conditions of the new paradigm caused by decentralization, the agricultural sector needs fewer subsidies, which is positive for the budget, but the highly productive agricultural sector will also need fewer employees, which is negative for rural areas. That is why the policy of support is changing: from targeting support through subsidies to the agricultural sector to supporting integrated rural development. Thus, subsidies per unit of arable land are replaced by investment in specific projects; the priority of increasing farm incomes through subsidies is replaced by the priority of strengthening the competitiveness of territories, and the focus on the agricultural sector in rural areas is inferior to the formation or development of multisectors that exist in rural areas.

Another key difference between the past and the current paradigm of rural development is the change of the main actor in politics. If in the past it was the national government, in the current paradigm it is public authorities at all levels, and the role of local authorities will now be constantly growing. Partnerships between the government (local authorities, rural communities, local activists), business and academia are now involved in shaping and implementing rural development policies in the new paradigm.

The quality of rural development in Ukraine in the conditions of decentralization significantly depends on local government structures. Therefore, cooperation with the EU within the framework of the Association Agreement is designed to introduce best practices of local self-government for the development of local initiatives (Association agreement between..., 2014).

It will also facilitate the decentralization process of decision-making taking into account the needs of rural development in Ukraine.

As a result of the implementation of On Approval of the Concept of Rural Development, the following goals are achieved:

1) an increase in the number of rural population and reduction of the mortality rate of rural population to the corresponding indicator in cities;

2) an increase in the level of wages in agriculture; over the last 4 years, the average wage in agriculture increased from 6,057 UAH in 2017 to 9,757 UAH in 2020 (Table 3);

3) an increase in the number of jobs in rural areas to 1 million persons. In February 2020, the Government of Ukraine announced plans to create 200,000 new jobs in rural areas over the next 5 years and equalize the level of wages in rural areas at the national average from 85% to 100% (Programme of Activity ..., 2019);

4) an increase in the number of employed rural population by 1.5 times (Programme of Activity ..., 2019). According to the State Statistics Service of Ukraine and the Pension Fund of Ukraine, the number of employed people aged 15-70 in rural areas during the last 4 years fluctuates within 53.61% (Agriculture of Ukraine..., 2021);

5) an increase in the share of income in rural households from entrepreneurship and self-employment to 15%. By 2024, more development opportunities are planned for rural residents through attracting direct investment in agriculture; increase the list of state support programs; creation of special fund; business incubators for 5,000 participants who are ready to create small and medium enterprises; new mechanisms for cooperation; support for organic producers; ATC measures to increase the comfort of residents (Programme of Activity ..., 2019);

6) an increase in the share of organic certified agricultural land to 7%, of which arable land – up to 5%. By 2024, the number of state support programs should increase and the support of organic producers should improve (Programme of Activity ..., 2019).

Conclusions

1. Based on historical research, the factors that inhibited the rural development in Ukraine have been identified. The characteristic of economic, social and ecological spheres of rural development in Ukraine is defined and given.

2. Based on the analysis of current regulatory framework of Ukraine, the decentralization process and its impact on rural development were studied. Using the statistical information of monitoring the decentralization process in Ukraine, the administrative-territorial structure of the basic level was determined. An assessment of dynamics of the number of ATCs and the number of urban-type and rural settlements was carried out. The number of residents in rural areas is analyzed and the dynamics of their reduction and the share is determined.

3. An assessment of the key indicators of agriculture in Ukraine for 4 years is made. Positive and negative tendencies are revealed in indicators: the number of enterprises engaged in agricultural activity, agricultural land, employment, average monthly nominal wage, output in agriculture, gross value added, financial results before taxation, net profit, profitability. The main changes relate to the volume of agricultural production, production costs and pricing system, market conditions of agricultural products and more.

4. It is established that positive direction of decentralization in Ukraine to form the current
paradigm of rural development, which involves ensuring the competitiveness of rural areas through more efficient use of agricultural resources, diversification of rural activities and active entrepreneurship, investment, attracting more actors – public authorities, private business, NGOs and scientists. On this basis, the effective direction is collaboration between different actors (including public-private partnerships) for fuller use of resource potential, development and implementation of socio-economic projects and strategies, involvement of rural residents and rural development.

5. A comparative analysis of the rural support system was conducted according to the old paradigm, which provides subsidies for agriculture in rural areas and the new paradigm through the active introduction of investments and modern technologies for managing production processes. In the future, given the available resource potential in agriculture and favorable opportunities for agriculture, the implementation of the concept of rural development and further decentralization in Ukraine will provide investment from domestic and foreign investors in the latest communication technologies, biotechnology, new energy, which will provide gradual development of rural areas. Active involvement of large agricultural holdings in the process of rural development will have a synergistic effect.

6. Prospects for rural development in Ukraine can also be achieved by organizing production in rural areas according to European principles of farming (family type with a small number on private property), promoting agricultural cooperation by establishing production and service cooperatives, implementing support programs for local agricultural producers, ensuring competitiveness and improving the quality of agricultural products and raw materials, expanding the product range, introducing new types of services provided by financial-credit institutions and local governments.

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