

**Strategies of regional development:  
how they reflect the changes of economic situation?**

The contemporary floating world enhances the needs in midterm planning for country and its regions. One of the planning mechanisms is strategy for social and economic development of region. In general, the strategy combines the complex of goals and certain scheme of how to reach them. It is plan for strategy realization.

Aims of regional strategies are defined on the basis of problems which are crucial for regions. The main problems of regions are: depressiveness of territories, unemployment, poorness, and absence of stimulus to recover and involve the internal territorial potential, bad ecological situation etc.

Three moments should be accounted in mid-term strategies:

1) strategies are the sole statement documents, helping to regulate and correct the regional development;

2) strategies are able to account the various other instruments, because they are developed by local authority, business bodies and society;

3) strategies are the most actively used documents and their execution is obligatory at the whole territory of region.

There are 27 regional strategies (according to number of regions) which have been implementing in Ukraine, and currently, they constitute the only institutive document, giving the basis for regional development. Most of these strategies were developed in 2006-2008, and thus, there is a need in their reconsideration and renewal.

Next negative tendencies should be considered in planning of regional strategies:

- concentration of attention at local narrow interests and absence of integration in the common strategic plan of the country;

- substitution of term “strategic regional development goal” by “goal of development of one sector of regional economy” which makes the strategies of certain regions similar and prevents formation of strategic view of development;

- inability to account the change of economic internal and external conjuncture as a result of static approach and directive forecasting when forming the strategies.

The renovation of strategies should account the above mentioned issues.

I. The overcoming of narrow interests of separate regions could be fulfilled on the base of renovation of the State strategy for regional development, and on its base it is necessary to forward the working out the regional strategies.

The State strategy as the main mechanism of regional development should form the common view on goals for all regions. These goals can be: maintenance of stability of regional economy, formation of multi-sector structure of production, keeping the parameters of the sustainable development, providing the evenness in the development of internal territories, compliance of balance of enclave character and openness of regional economy. These goals can contradict one another, thus, the regional authority will face the decision which of goals should be reached first – economic effectiveness, social fairness or environmental balance? The choice depends on the strategic view on the region’s behavior. One integrated purpose for every region should be defined by the State strategy.

The diverse aims should be coordinated since their fulfillment should not deteriorate the level of development of every region.

In estimation of effectiveness of regional policy (based on the defined developmental aims of every region), it is advisable to use the Pareto efficiency criterion reflecting operability of regional policy.

Status of development of the economy and its further estimation we tried to measure with the help of index of Gross Regional Product per capita (GRP per capita). Let the levels of GRP per capita in basic year confirm the Pareto efficiency criterion, which means that according to the theory the

indexes of GRP per capita of one separate region cannot be raised while the indexes of GRP per capita in other regions falls down. In other words, any next increase of this index should lead to the deterioration of indexes of GRP per capita in other regions.

Let random value X be such that its allocation can be pose as equation:

$$P\{X < x\} = 1 - \left(\frac{x_0}{x}\right)^\alpha, \quad x > x_0, \alpha > 0$$

Then X has the Pareto allocation with parametres  $x_0$  and  $\alpha$ .

However, while in practice the GRP per capita indexes only increase and do not reflect the whole spectrum of human wellbeing, we can say that the Pareto efficiency criterion should not be applied to this index, and allocation of resources (reflecting the effectiveness of the regional policy) could not be estimated by GRP per capita.

Another general index of development is the Human Development Index (HDI). These indexes change every year, they are deteriorated in some regions and improved in others. According to the simplified methodic, the index has three sub-indexes – index of health (life expectancy at birth, years), index of education (mean years of schooling of adults, years), index of income (Gross National Income per capita in PPT terms – we replace it by the GRP per capita).

$$HDI = \frac{I_{HEALTH} + I_{EDUCATION} + I_{INCOME}}{3}$$

Mentioned indexes fluctuate a lot every year, and they fully reflect **the** level of regional economic and social development; thus, we consider that it is possible to include them into the model defining effective allocation of resources. Government should adjust these indexes with the complex of measures regulating these parameters – health, education, income.

Estimated Pareto effectiveness criterion helps to correct the development goals, defined in regional strategies. Formation of strategic view on regional development can avail this process.

II. The strategic view on regional development could be formed by common efforts of local and central authorities, while the central government refracts the regional goals and formulates them from the viewpoint of the State which is based on national-level goals. For instance, the authority of Eastern developed regions can define the next goals of development: increase of export potential, solving the problem of employment, solving the ecologic problems. And the Center allows correction of these purposes in a following way: creation of import substitution production, formation of comfortable human life and solving the problem of depopulation of certain territories, supplying the population with high-quality drinking water. The economy of the West of Ukraine has a lack of developed industrial manufacturing and faces huge labor drain, and local authority could form the main goal such as returning of working force. And appropriate correction of this goal provided by the Center could change it for the renovation of labor and demographic balance by the creation of working places for returned employees.

<b>Goals of development formed by Local authority</b>	<b>Goal of development corrected by The Central authority</b>
increase of export potential	creation of import substitution production
providing the employment	formation of comfortable human life and solving the problem of depopulation at the certain territories
solving ecological problems	supplying the population with high-quality drinking water
returning of working force	renovation of labor and demographic balance through creation of working places for returned employees

It is appropriate to correct goals at the stage of strategy's work out and public discussion as well as after the determination and calculation of Pareto efficiency criterion.

III. The regional strategy should be flexible and able to react to the change of economic conjuncture (internal and external). It could be reached by means of forecasting. Previously, we could move from the directive to indicative planning. Predicted indexes should be calculated for the main types of economic activity and social wellbeing.

These indexes are following: output of industrial products, gross agricultural output, construction operations, investment into fixed capital, foreign direct investment, innovation products output (innovation output of products which are new on market), special grants from the State budget to local budgets, financial result from ordinary activity before taxation, export / import ratio, number of employed, unemployment rate, rates for migration increase / decrease for population.

In all forecast's models which will be used, it is appropriate to take into account the random parameter; it is responsible for the unexpected, unpredictable changes. For more indexes of economic activity it is appropriate to use the trend methods of forecasting, especially for Gross Regional Products and Unemployment Rate.

Analyzing the number of indexes, for example GRP per capita, we can conclude that the modeling of dynamics of these indexes could be done on the base of formula for quadratic equation which more than others reflects the dynamics of indexes:

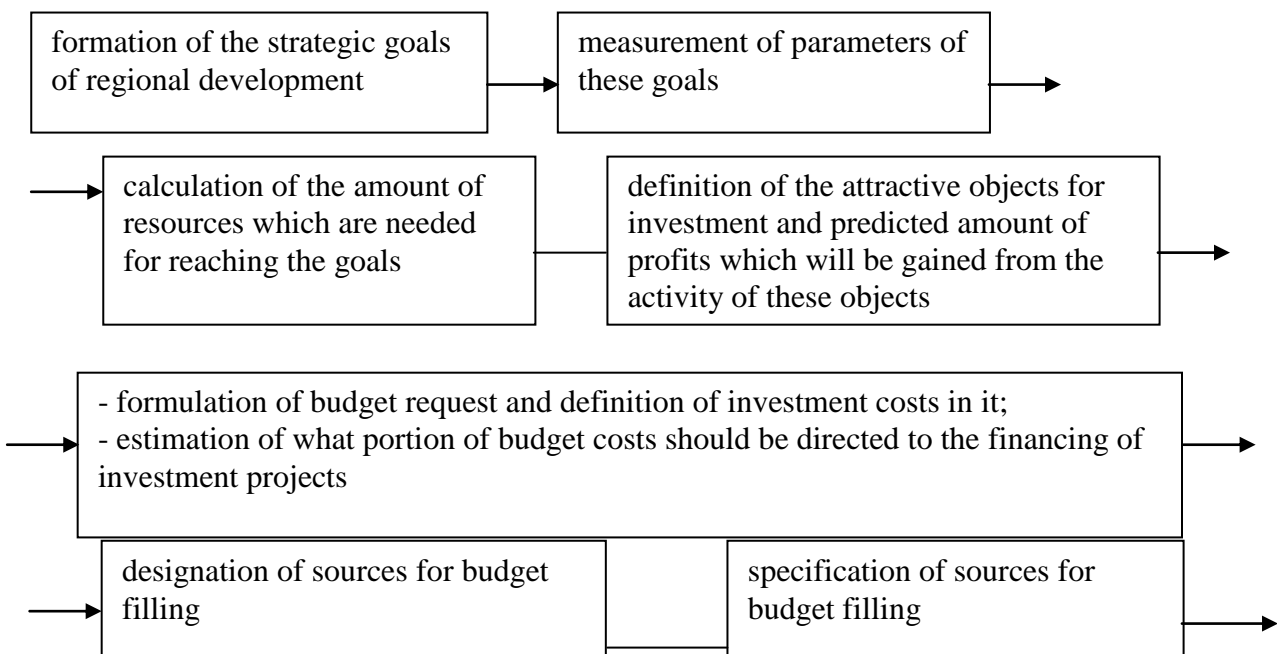
$$Y = a_0 + a_1t + a_2t^2$$

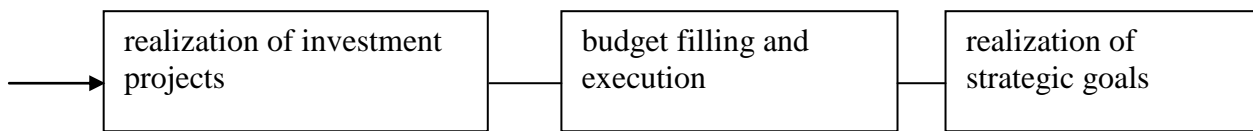
Statement:  $y$  – the function of reliance of GRP per capita from a year,  $a$  – value of GRP per capita or HDI,  $t$  – year.

Regional strategy will be more effective for adjustment of regional social and economic development if it acts together with other mechanisms – budget and investment. For their complex action it is appropriate to implement the common institutional (organizational and personnel) securing of creation the regional strategy, budget of region and investment roadmap (list of investment propositions).

Apart from the above mentioned indexes of economic activity and social development it is necessary to define the budget parameters and investment propositions of the region.

The combination of these mechanisms will take place both parallel and gradual, thus, we can display it in the next scheme:





The current problem is that these mechanisms have different time scale. The strategy and investment passport are developed for 5-7 years, but the budget is created only for 1 year. Only recently, the program target method of budget planning and its execution for 3 years started to be implemented in Ukraine. But its implementation concerns budgets of sub-regions and big cities of 4 regions only and not the local communities' budgets. Therefore, involvement of budget planning and forecasting into the common mechanism regulating regional development is still an open question.

Through above mentioned instruments, the regional strategies become more efficient in terms of answering the contemporary challenges.

The overcoming of these obstacles and implementation of above mentioned measures enable to improve the strategic planning of regional development and make regional strategies more effective and operative.