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## About InterRegioNovation

**InterRegioNovation** is the International Association devoted to the transfer and exchange of knowledge and innovations at all regional levels (country, region, city, community etc.) between knowledge transfer professionals (business, research institutions, policy makers, government agencies, individuals, others) in all countries of the enlarged Europe, CIS countries and from other continents for stimulating and enhancing economic and social growth in the regions.

This is a policy and research association that brings together all knowledge transfer professionals who are interested in delivering efficient, flexible, innovative and cost-effective services across the private and public sectors. We work closely with business, research and educational institutions, government agencies, policy makers, NGOs, media, individuals and other stakeholders to promote the interests of their industries.

Our members understand the changing needs of the transfer and exchange of knowledge and innovations and through continuous professional development, marketing and networking opportunities offered in this association, we keep current with the latest knowledge trends and issues that challenge people in their work and life journey. We also offer expansive opportunities for partner connection through our networks.

Journal "Regional Innovations" is one of the Association's tools for innovators and everybody who is interested in any aspects of innovation development.



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## About journal

On behalf of the Editorial Board, it gives us a great pleasure to welcome you to the third issue of the Regional Innovations Journal.

The Regional Innovations publishes original research papers, policy analyses, review papers and book reviews in order to establish an effective channel of communication between business, research institutions, policy makers, government agencies, and individuals relative to the analysis of various aspects of knowledge and innovations transfer and exchange within regional dimensions.

This is an independent, peer-reviewed, Internet-based international journal devoted to publishing original research papers of highest quality, sharing ideas and discussing innovation sector within regional dimensions. Normally, four issues are prepared each year. The journal welcomes to submit research papers by exceptional innovators, leading universities, globally recognized business, government agencies, policy makers and political leaders.

We intend that our readers will be exposed to the most central and significant issues in innovations development. We wish to publish papers that exemplify the highest standards of clarity, and that promise to have significant impact on existing front-line debates or to lead to new ones. The journal explores key priorities of the knowledge and innovations transfer and exchange in terms of critical aspects of human life (economy, law, science, business, health, education, culture etc.). We therefore welcome submissions not only from established areas of research, but also from new and emerging fields and those which are less well represented in existing publications, e.g. engineering studies, biomedical research etc.

We also strive to ensure that being under expert evaluation, each submission will receive developmental and supportive comments to enhance the article. Our refereeing process will involve that each submission will be reviewed by one or more specialists in the relevant field. Articles will be added to the volumes and the journal audience will receive e-mails updates to encourage them to the new articles.

We are delighted with, and immensely grateful to the large numbers of colleagues, both members of the Associations InterRegioNovation and FranceXP (France), representatives from many universities in France, Ukraine, Latvia, UK and other institutions, who have supported the editorial process. And we are very proud of the expertise that they collectively bring, which we believe is unsurpassed by any contemporary innovative journal.

We are immensely grateful to our colleagues for their support and advice through the process of setting the journal up, and for the confidence they have placed in us in supporting this initiative at a time of economic uncertainty.

In the development of the Regional Innovations to date, we would like to enlist the support of a number of organisations who wish to promote this online journal to their experts. To ensure its sustainability, we would also like to invite other organisations, networks, conferences and meetings to associate themselves with the Regional Innovations. We therefore aim for the Regional Innovations to become the leading online forum to globally disseminate outstanding research papers on innovation sector in regional dimensions. Being an online periodical, the Regional Innovations is also a forum for exchange of imaginative ideas readers wish to share. Contributions of articles on innovations sector and your comments about this issue are very welcome.

To this end, if you lead, represent, or are a member of any such organisation, please contact us to offer your support and commit to promoting the Regional Innovations as a publication outlet for research undertaken by your experts.

We do hope you enjoy and benefit from the Regional Innovations!

**Jean-François Devemy**  
**Publishing Director**

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## EU ABSORPTION CAPACITY AT ITS MODERN EDGE: CAN THE CANDIDATE COUNTRIES REALLY COUNT ON MEMBERSHIP?

### **Abstract**

*Current political background shows strong will of the counties in Eastern Europe to become members of the EU. However, EU-enlargement is not so simple and very responsible process. In this paper the question of reasonable and economically safe absorption capacity is revealed from different angles. Statistical analysis shows explicit dependencies between economic growth and EU enlargement. The main challenges, traditionally considered along with EU expansion, are revealed. The paper reviews enlargement of EU considering real chances for candidates to become the part of European countries family.*

**Keywords:** *absorption capacity, enlargement, eastern partnership, economic growth*

The European Union, including 28 members at present, endured seven expansion stages, each of which was a result of complex multi-year negotiations and hard preparatory process. Even today, the most convinced Euro skeptics believe that the EU has reached its optimal state and further expansion will only worsen the situation. However, as the name of this international organization implies, all countries geographically located in Europe have the right to apply for membership. There are 50 states (counting "partially" European countries, such as Russia and Turkey) totally present on European part of Eurasia, so there is more than enough area for expansion.

However, each stage of the new members adoption was not accidental. European Union is not just a political union (like the UN), but the unite system, which is demonstrating more and more signs of statehood. Compliance to its own interests is one of the key tasks for the EU to perform as a single organism. Term "*absorption capacity*" is often surfaces in official's rhetoric, which describes a state of the European Union when it is ready to adopt specific candidates. The wording is very vague and specific answers to the question "when exactly the EU is ready to take next candidate in?" is absent.

Nevertheless, analysis of the EU enlargement practice in the past can give quite objective conclusions. This paper reveals the process of EU enlargement in retrospect and tries to determine the condition under which the candidate countries, associated members and other European countries can join to the EU.

The motto of the EU "agreement in diversity" is realized in the form of substantial heterogeneity of member countries. Level of economic development of different states in the union varies from 5,500 euro GDP per capita (Bulgaria, 2013) to 83,000 euro GDP per capita (Luxembourg, 2013). Significant differences were observed in all areas of trade, at the labor market, in the structure of the economy, politics, religion, and others. There are two opposite trends arise:

- On the one hand - with the enlargement of the European Union member countries diversity increases.
- On the other hand - the European Union is showing more and more signs of statehood, gradually evolving into a kind of federal state.

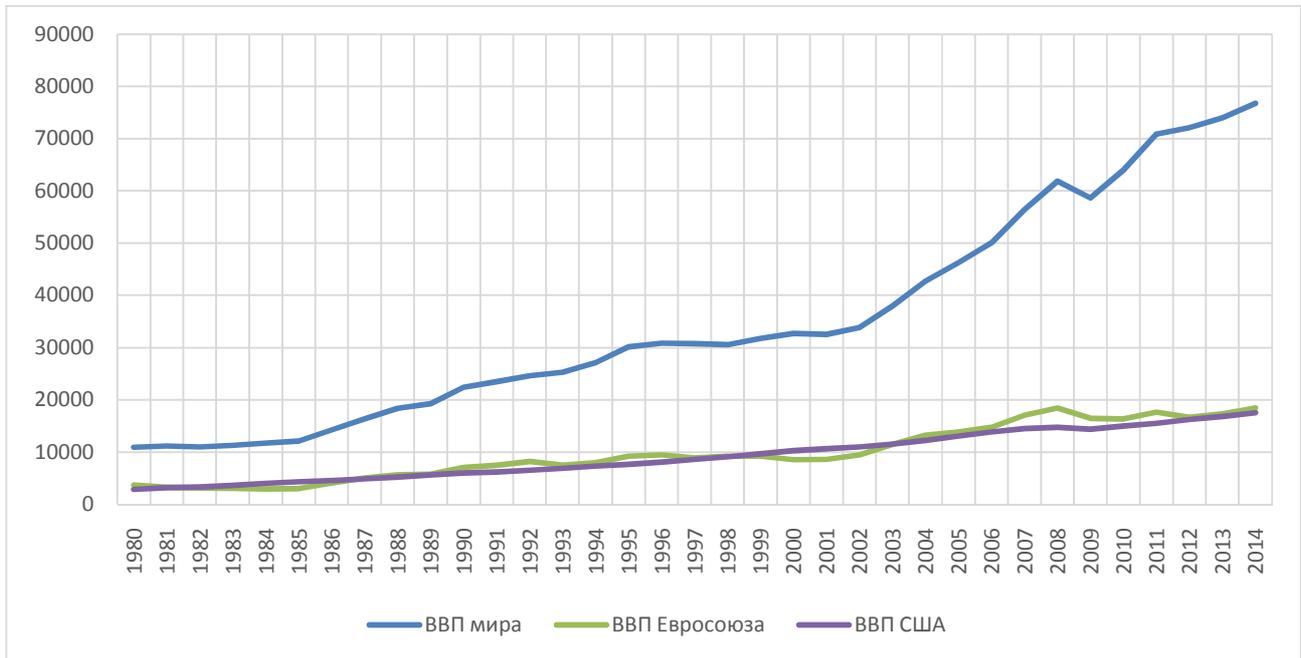
That is why the task of the EU leadership is to create the conditions to achieve the "agreement in diversity". Moreover, speaking of absorptive capacity, we are talking

just about the ability of the EU to settle the new territories within union.

**Do not forget about the origins**

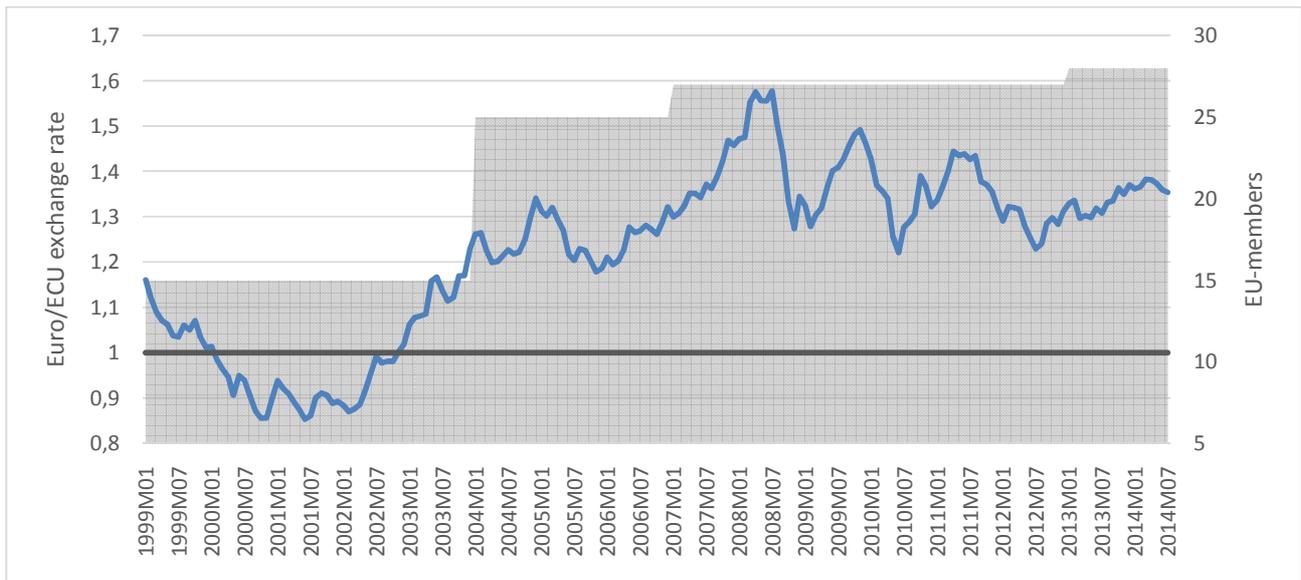
Initially, it was all about a federal state in Europe. Recognition of the need to provide effective tools to deter aggression by world's leaders shortly after WW II provided an idea of creating the United States of Europe using well-established United States of America federal model. Formation on the European continent was about to serve as a geopolitical counterweight to quickly developing America.

However, Europe was much more variegated than North America, which is why its unification took much longer and required much more diplomatic efforts. Still, the diplomatic process mainly driven by two key countries in Europe, France and Germany, gradually and systematically moved to it's goal. Economical counterweight to the United States has been successfully created; the European Union all the long years after the war kept its level right up with the United States (see Picture 1).



**Picture 1. GDP of the World, the European Union and the United States**

The Euro, in turn, became an important counterweight to the dollar. Since 2003, the price of one Euro exceeded the barrier of 1 USD, then the rate would never go back to this point. Thus, the European currency has proved an effective solution designed to counterbalance the hegemony of the dollar in the world (Picture 2).



**Picture 2. The exchange rate of EUR / USD**

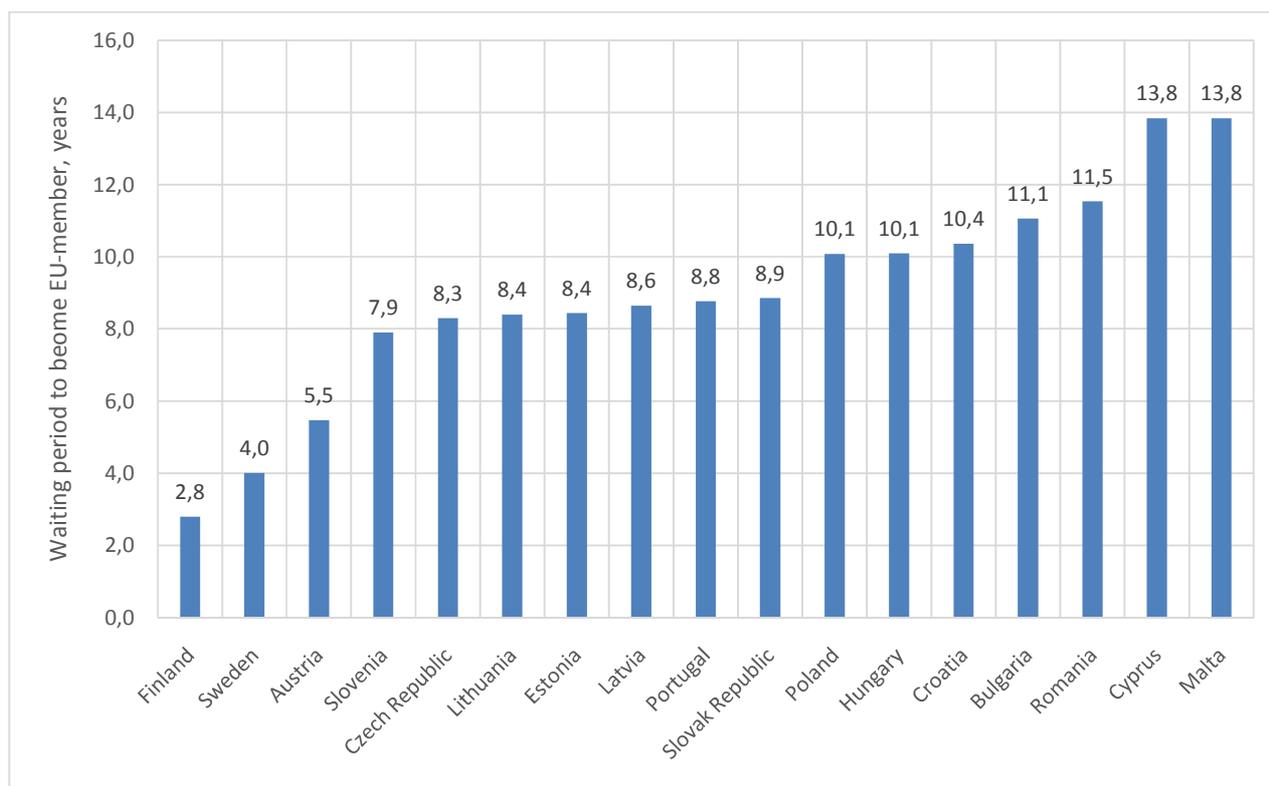
Long period the trend of continuous growth of the euro against the dollar was present, and only the 2008 financial crisis could break this tendency. Because of the diversity in Europe, some of the political and economic fragmentation (see, it is still not a federal state like the United States), the crisis has hit the individual countries much harder than the United States as a whole. Therefore, trends in the foreign exchange market abruptly changed. Now there is movement of the exchange rate in a specific corridor, the market reaches a certain point of balance at the level of 1.3 – 1.4 USD for one Euro.

The attentive reader will note that in Figure 1 can be traced quite another disturbing trend. Europe and the United States still make good competition for each other, but they both began to lose role in whole world scale. While in 1980 the share of the United States and the European Union was almost for 27% of world's GDP (in total more than 50%), then by the end of 2013, it

decreased to 22%. This indicates a gradual change in the geopolitical picture of the world. United States and Europe falling behind the pace of China, India, Brazil and other developing countries progress, the economic impact of “The Western World” is shrinking. Therefore, it is necessary to understand that the new era is approaching, when Europe and America will need to find a new format to achieve a balance in the macroeconomic arena and the ways to check in with rapidly rising economic power of Asian competitors, rather than compete with each other. That is why approaches to EU enlargement in such conditions can significantly transform.

**EU enlargement: the art to maintain a balance**

EU enlargement took place in several stages, and this process never was fast and easy. Current members of the EU (except the six founding countries) have gone through a long and complex negotiation process, which lasted for an average of 9 years (from 2.8 to 13.8 years) (Picture 3).



**Picture 3. Waiting period to become EU-member, years**

In this case, the completion of the series of the European Union took place steps, in which the number of member countries increased (Table 1). Only twice EU enlarged for one country, in other cases there was adopted 2-3 countries at once. The most ambitious and large expansion took place in 2004, 10 countries at once became EU-members.

**Table 1**

**Table 1 Stages of EU expansion**

Date	Country	Total number of members
March 25, 1957	Belgium, Germany, Italy, Luxembourg, Netherlands, France	6
January 1, 1973	United Kingdom, Denmark, Ireland	9 (+3)
January 1, 1981	Greece	10 (+1)
January 1, 1986	Spain, Portugal	12 (+2)
January 1, 1995	Austria, Finland, Sweden	15 (+3)
May 1, 2004	Hungary, Cyprus, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Czech Republic, Estonia	25 (+10)
January 1, 2007	Bulgaria, Romania	27 (+2)
July 1, 2013	Croatia	28 (+1)

Three key factors underpin the political will within the EU to admit new members:

- Regional dominance. Pursuing the objectives of regional dominance and creating an image of an influential player on the international market, the EU is interested that as many areas of population and production facilities were united as it can afford.
- Geopolitics. European Union is not only economic but also cultural formation that supports the dissemination of European values on the continent. Eastern promotion ambitious plans dictated by cultural and political dominance.
- Viability. How much new members are aligned with current interests and objectives of the European Union? When is the best time to expand?

It is the latter factor, the economic justification, includes determination of the current "absorption capacity". Clear criteria listed in the regulations is not available, but if you look at history, it is clear that the EU has never taken the decision to expand to harm itself. The lack of stated readiness criteria for the EU to expand is understandable and can be justified: if such criteria existed, the candidate countries would have every reason to demand on the adoption referencing to the criteria. In the current model, each candidate is adopted in the course of individual negotiations. However, this does not mean that it's impossible to track the logic of EU-leadership decision-making.

Approaching the matter from the positions of ordinary logic, question arises. What changes entails the adoption of a new member of the EU? These are:

- Enlargement of the "United States of Europe" territory.
- Increase in the total population, the impact on the unemployment rate.
- Addition of new capacities.
- Restructuring of domestic and foreign trade, the impact on the European currency market and the Euro in particular.
- Institutional shock: the transformation of new territory to the standards of the European Union can be tricky.

- Cultural and ethnic interaction risks.
- Additional risks associated with potential recessions. The more EU members, the higher probability that one of those will show negative processes that will affect the whole Europe.

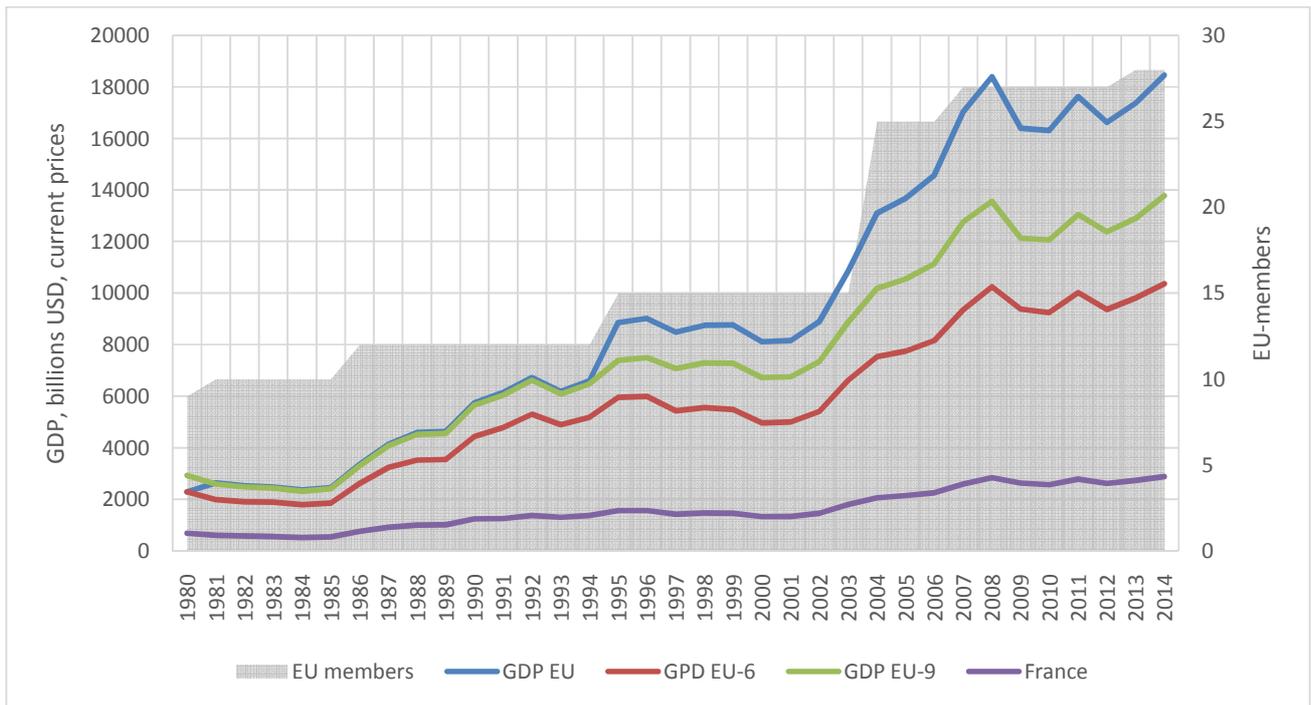
Simplifying, here is the following principle: gaining additional territory, population and political influence, the EU "dilutes" its economic power, connecting to the less developed countries of Eastern and Southern Europe. It is at first glance. But analysis of statistics shows some different tendencies.

In this study, it is considered two groups of countries which are potential candidates for EU membership. These are:

- EU + 6: FYR Macedonia, Turkey, Iceland, Montenegro, Serbia, Albania. This group of countries has a long history of relations with the EU, all except Iceland, have the status of a candidate by 2014.
- EU + 3: Ukraine, Georgia, Moldova. Countries that have signed an association agreement in 2014 and, of course, have European ambitions and aspirations.

To illustrate possible scenarios for the macroeconomic situation in the EU following the adoption of these countries, scenarios are developed under assumption that in 2007, one of these groups of countries was adopted in the EU. This assumption illustrates possible disastrous consequences of irresponsible enlargement exempling the crisis of 2008.

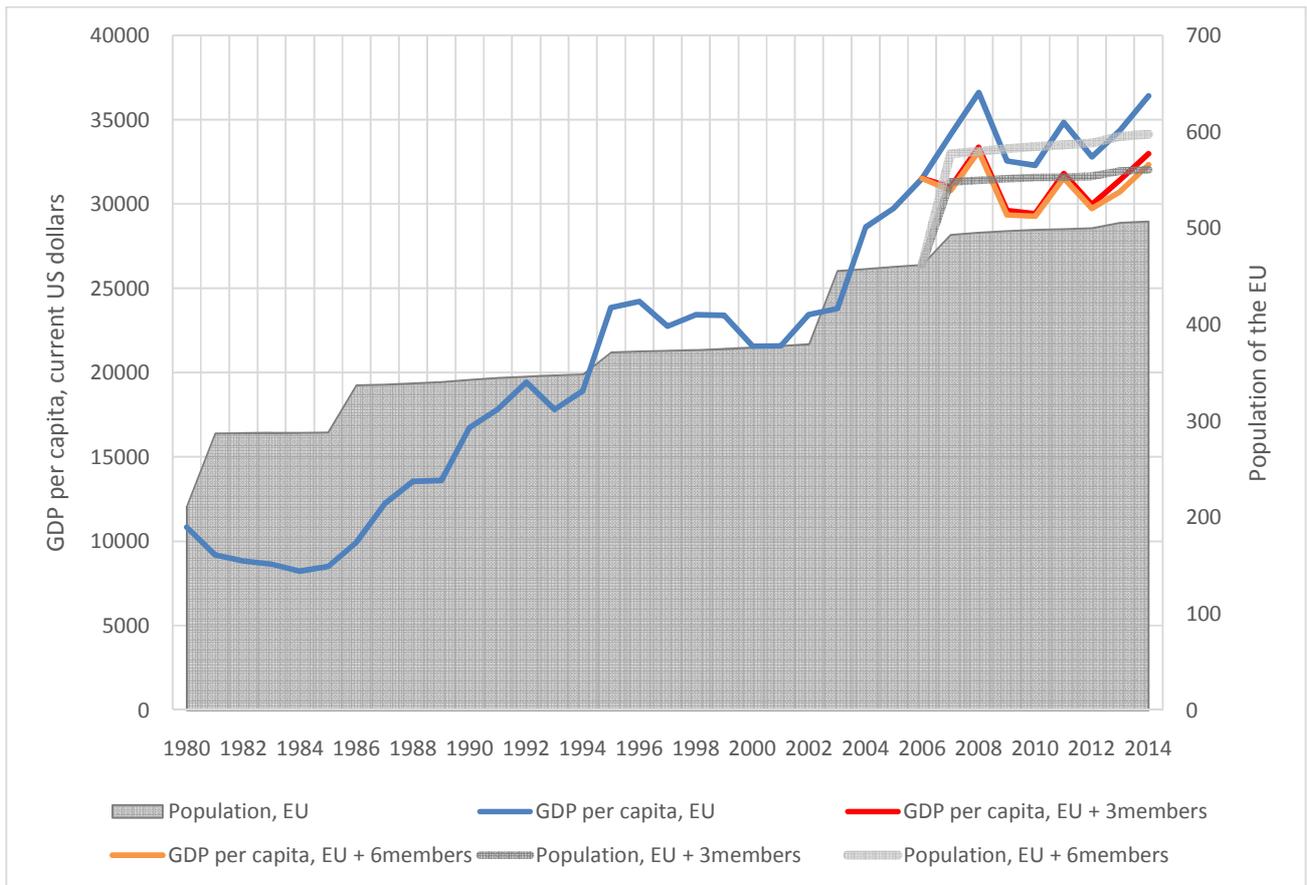
Therefore, analysis begins from the dynamics of GDP growth (Picture 4) of the EU as it expands. The graph shows that the most ambitious expansion in 2004 triggered the largest increase in GDP. You should also pay attention to the dynamics of the countries that were already in the EU GDP at the time of enlargement. For example, France, as one of the founding members, has a much more stable GDP growth than the European Union as a whole. Nevertheless, even the level of EU-9 have shown some volatility.



**Picture 4: GDP and the number of EU member states from 1980 to 2014**

Especially explicit is the crisis of 2008, showing those "additional risks", which were discussed above. If one of the most developed countries in Europe, France, felt only a slight decline, at the level of EU-6, EU-9 and especially the EU-28, this decline is very considerable (in particular, because of the great difficulties in Greece, one of the oldest EU countries).

For better understanding of boundaries extension mechanics, characteristics that are more representative should be considered. It is a GDP per capita (Picture 5) and GDP per square kilometer (Picture 6).

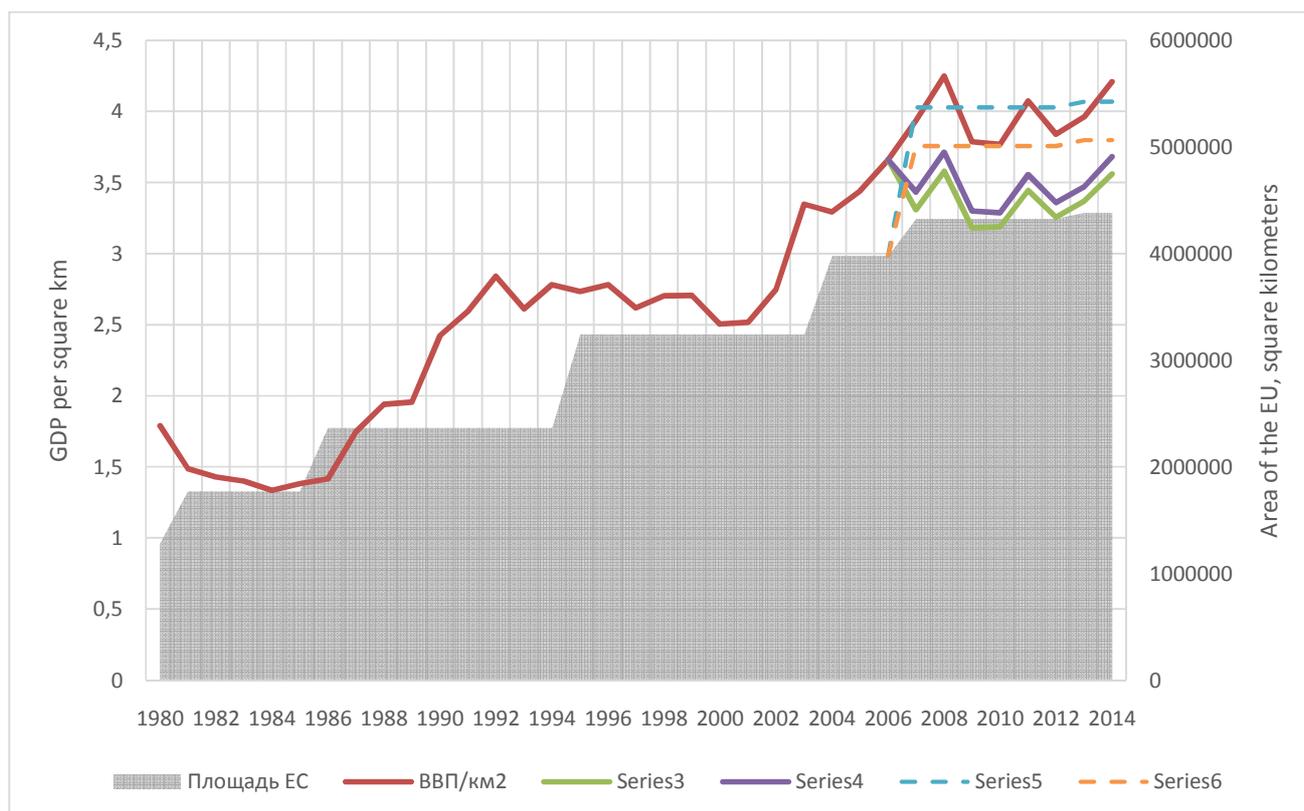


**Picture 5: GDP per capita and possible scenarios for the EU enlargement**

Dynamics of European Union GDP per capita clarify that no rapid decline immediately after the enlargement is not observed. There is question: why the EU adopted a country with a low GDP per capita, but the total figure is still growing? The whole point is to choose wisely the moment for enlargement.

All enlargements coincide with the period of economic growth in most developed countries of the European

Union. That is why it is possible to compensate the stress of the initial infusion of new, less developed States. In particular, the 2004 enlargement coincides with the period of the peak growth rate of GDP per capita in Germany, France and other developed countries of the EU. This is the "tip of the iceberg" of the absorption capacity: if the EU can adopt the state with the expectation that the level of GDP per capita was at least at the same level, there is possibility to enlarge EU.



**Picture 6: GDP per square kilometer in the EU and possible scenarios for the EU enlargement**

Trends in Picture 6 showing the distribution of gross national product by territory, confirm all conclusion above. The EU has extremely simple principles to determine the absorptive capacity:

- time has to be favorable: the most developed countries should be in the growth or peak phase;
- The new territories and new populations that are about to become EU members, should adequately

provide themselves with wealth (have enough GDP).

For each acquired unit of the population and territory, the European Union must obtain a sufficient increase in GDP. Look at Table 2, which shows the share of GDP and the share of the EU population, which was increased because of expansion.

**Table 2**

**GDP growth and population in the European Union as a result of extensions**

Year of enlargement	For the time of adoption to the EU		For 2014	
	Population of adopted countries, % EU population	GDP of adopted countries, % EU GDP	Population of adopted countries, % EU population	GDP of adopted countries, % EU GDP
1981	3,39	1,88	2,18	1,35
1986	14,40	7,75	11,27	8,92
1995	5,90	7,04	4,68	7,02
2004	16,27	4,69	14,60	6,33
2007	5,92	1,25	5,61	1,40
2013	0,85	0,33	0,84	0,32

The most "unprofitable" was an extension of 2004, when the population grew by 16.27%, while GDP only for 4.69%, showing more than 350% of the difference. However, considering a scenario with joining a group of three or six candidate countries, it becomes clear that this extension is contrary to current trends. In particular, the inclusion in the EU countries of "EU+3" with imbalance between population growth and GDP at the level of 900%, or the group of "EU+6" with difference of 500% contradicts current practice. The bare eye can see that scenario with the inclusion of these countries lead to a drop in the total value of the GDP per capita in Europe. Existing conditions of uncertainty and lack of a clear trend in the growth of the leading EU countries also make it impossible to compensate the effects of the adoption of these countries.

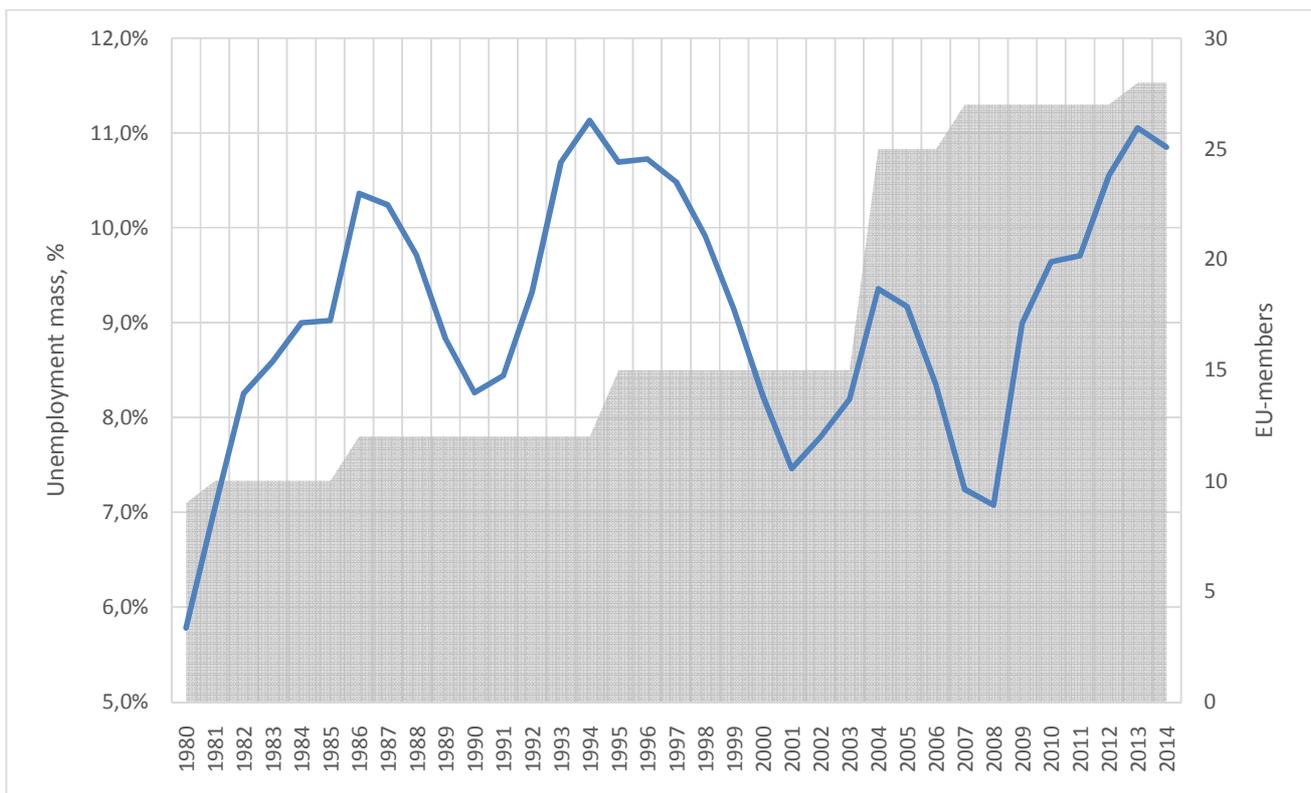
Accordingly, the conclusion is following: the candidate countries face years of hard work aimed at accelerating economic growth. In particular, countries such as Ukraine, Georgia, Moldova, and Montenegro almost have to double their GDP to make EU enlargement economically secure.

Depending on the economic situation in the EU itself, sufficient absorptive capacity and the level of development of the candidate countries will develop after 20-30 years of hard work.

Another interesting conclusion that can be drawn from **Table 2** is the presence of synergy effect for the countries that joined the European Union. During the years of membership, the "newcomers" have managed to expand their share of the EU GDP by 1-2%, which proves a marked acceleration and economic growth after the adoption. Access to the European single market, the rise of the moral, as well as positive institutional reforms let economic development to accelerate and to realize the potential that is outside the EU could never find the application.

**Schengen, unemployment and labor migration**

One of the most discussed issues related to the entry of new members into the European Union, is the issue of labor migration. Changes in the level of unemployment (Picture 7) can tell the story.



**Picture 7. Unemployment and EU enlargement**

Dynamics are not too volatile (fluctuations are within 7% - 11%), which indicates the absence of dramatic changes in the structure of the labor force because of EU enlargement. Examining the dynamics, we can detect the characteristic tendencies of expansion in 1986 and 1994 correspond to the peak levels of unemployment and the 2004 enlargement was accompanied by a significant increase in unemployment. Then there are the periods of gradual decline in this indicator. This suggests that the EU enlargement leads to an increase of supply on the labor market and as a result an increase in unemployment.

Then, in the course of migration, there is a self-regulation market algorithm:

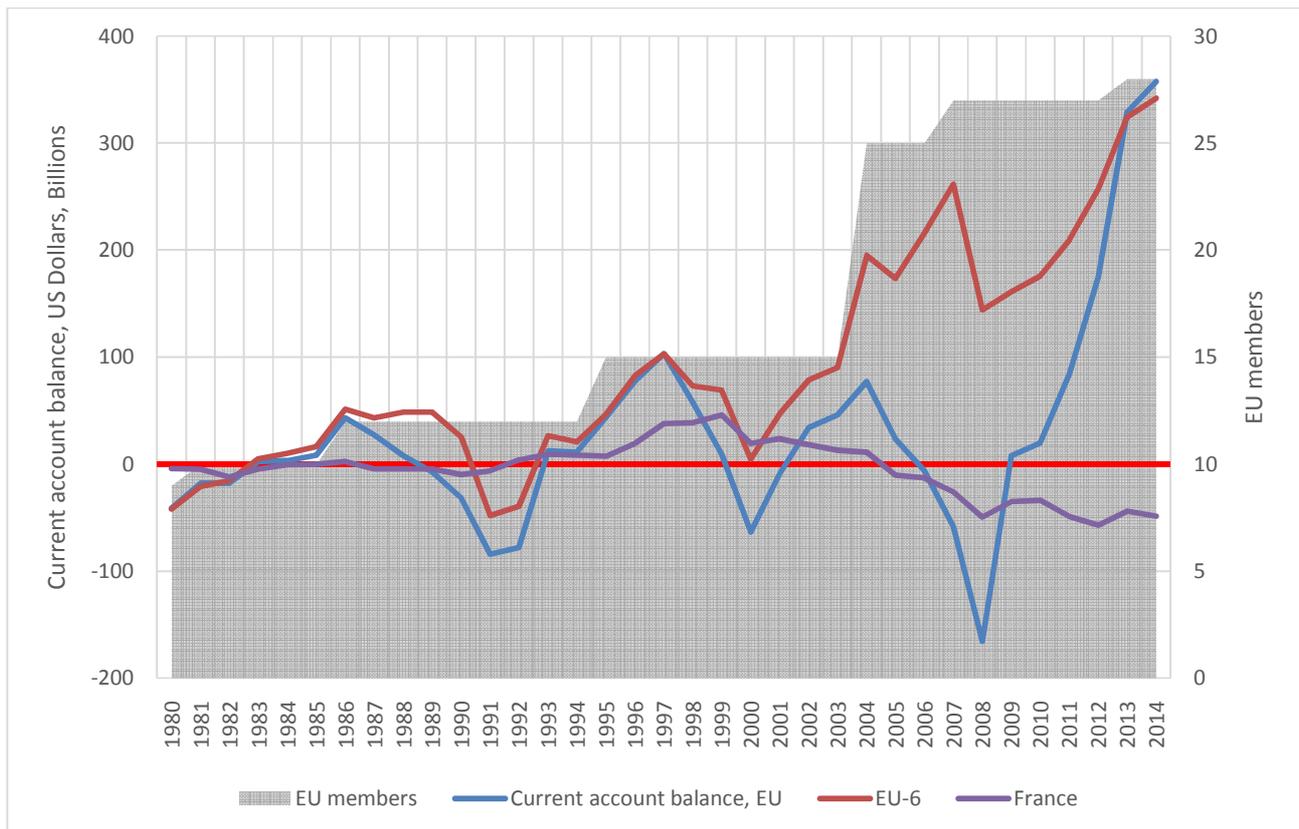
1. Attracted by higher wages in developed countries of the EU, the labor force leaves the country.
2. In the "zone of higher wages" competition for jobs increases, while in countries that have recently joined the EU, competition is reduced due to the vacuum of applicants for jobs.

3. There is a market self-regulation; the level of labor supply and demand is gradually leveled when emptiness of newly adopted country labor market fills in.

Moreover, it gives a new impetus to expand the labor market, stimulate the activity and mobility of the workforce, leading to a gradual decline in unemployment. As of 2013 the unemployment rate reached a new peak after adoption of Croatia to the EU. Picture 7 also demonstrates a certain recurrence: such peaks occur about every 10 years, which may also serve as a kind of characteristic for absorption capacity of the EU. This means that the "window" for the entry of new members of the Union can be expected not earlier than in the 2020 - 2025 year.

### Fair trade

The next element undergoes a shock change during the expansion of the EU is international (and intra-EU) trade. Analyzing the balance of payments (Picture 8) at the critical points shows some recurring dependencies.



Picture 8. Current account balance and EU enlargement

The dynamics of the current account balance in the long term is strongly correlated with the dynamics of unemployment, describing the overall cyclical nature of economic development in the EU. The main feature is a significant separation of the EU trade balance. Six founding countries even in the most difficult periods for the entire Union demonstrate a stable surplus, dropping below zero only once, during the crisis of 1992.

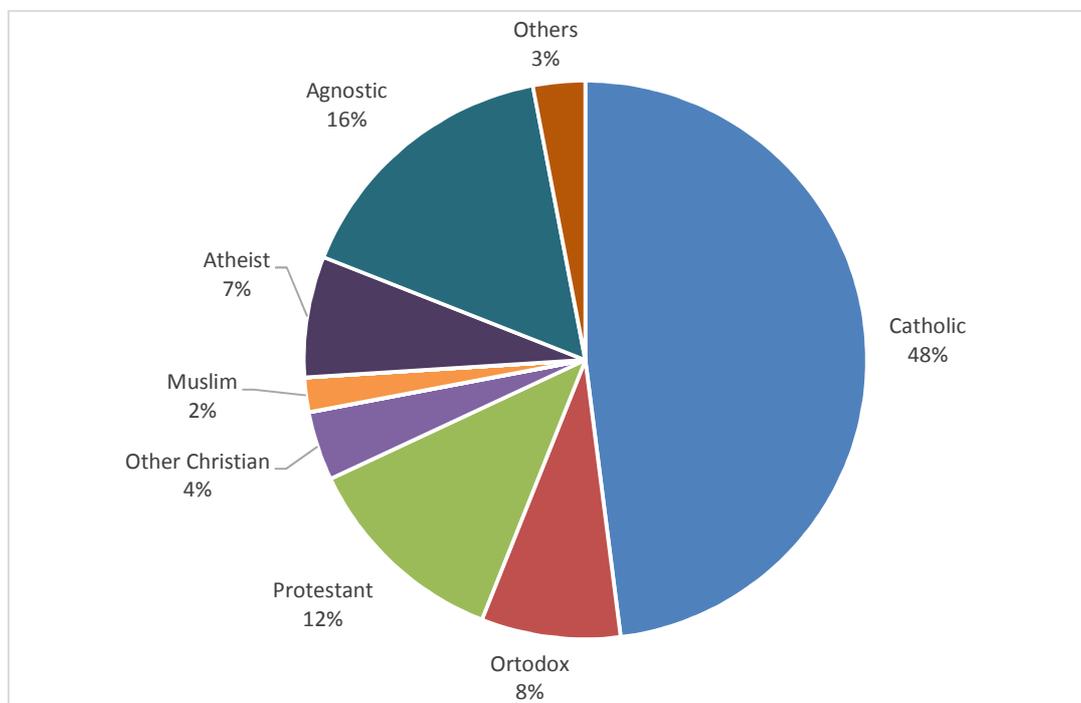
All the periods of the EU enlargement characterized by a small increase of current account balance surplus. This indicates a positive effect of opening up new markets for the existing EU member states. “Newbies” do not have enough economic strength to make tough competition from developed countries, while the developed countries themselves get alfresco market that simultaneously profitable throughout the Union. On the one hand, developed countries improve the state of its current

account balance and receive an additional stimulus for the economy. On the other hand, the new countries get a signal for the economy development and for competitiveness improvement. In addition, the population has access to better quality goods at cheaper prices.

Accordingly, fears about the entry of new members into the EU is about to throw current account balance in a significant deterioration are groundless. In practice, the expansion has a positive impact on the state of international trade.

**Culture shock or Europe as a Catholic club**

One of the important issues raised in the discussion of European integration is a cultural interaction within the EU. The most telling factor is religion, as belonging to a particular religion is an indicator of belonging to a certain society, cultural indicator.



**Picture 9. Structure of the EU population by religion**

Historically Europe was forming as a Christian society (Picture 9). Indeed, the percentage of Christians (Catholics, Orthodox, Protestants, and others) is 72%. However, current trends related to cultural exchange and tolerance for all religions as well as the active migration of the population have led to a decrease in the proportion of the Christian (and Catholic in particular) influence. Growing popularity of agnosticism and atheism, which are

beliefs common to all industrial society diminishes role of religion itself. From this point of view, the most problematic of all the nine countries-candidates in this study is Turkey because strong Islamic culture. In all other cases, explicit cultural shock from the confluence with the EU is not expected.

### **Is there any hope for those who want to join the EU?**

Is there any hope for countries-candidates to get a welcome place in the European Union? Of course there is. The question is the timeline. When will next enlargement happen? Well, based on objective facts, you can make the following assumptions:

- Based on the average processing time of applications, the current candidates can look forward to the entry no earlier than the 2018 - 2020.
- Given the current state of the most developed countries of the European Union economy, the current phase of the economic cycle does not allow a harmonious expansion. Change in the situation can be expected not earlier than 2017 – 2020 by the most optimistic point of view.
- Judging by the level of economic development of the candidate countries as well as countries with European integration ambitions, in order to achieve an acceptable level it may take from 10 to 30 years.
- For all countries except Turkey, there is no cultural and ethnic barriers to European integration. Nevertheless, there is institutional ones. For instance, all-wide reformation of countries like Georgia or Ukraine to meet European standards can take decades.

Thus, the reasonable and the most probable date of the next enlargement of the EU is 2020. However, it is difficult to predict what country will join the EU in 2020, since it depends on not only their economic situation, but also the political will to follow the course of rapprochement with Europe. For EU officials enlargement is the question of responsibility. Expanding the borders of the EU must not harm existing members, because minimal negative influence of EU-membership to the local economies could launch dangerous process of Europe disintegration. The example of Greece has shown that people prefer to blame EU for economic and social problems as long as country relates on the EU.

In conclusion, it should be noted that the process of EU enlargement is a win-win for both existing members and candidates for membership. For now, tactics of enlargement resulted in growth of the EU-area and population, but also in the growth of GDP per capita. Current expansion course gives excellent results and activates the region's economic development. Responsible approach to enlargements makes the process slow but sustainable. That is why there is a hope that the countries of the Eastern Partnership vector, like Ukraine and Georgia, for the next five to ten years of close collaboration with the European Union make a thorough preparation and can get both economy and institutional system to a sufficient level for EU efforts.

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**REGIONAL INEQUALITY'S REGULATION: HOW TO COMBINE  
STRATEGIC PLANNING AND ADJUSTMENT OF INVESTMENT ACTIVITY**

**Abstract**

*Strategic planning and adjustment of investment activity are among mechanisms by which regional development is regulated. Regional policy in Ukraine proves that in spite of using some mechanisms, regional inequality and weakness of regional policy and depressiveness of territories continue to be huge. Thus, there is a need to estimate the effectiveness of these mechanisms – investment adjustment and strategic planning, and provide ways for improving their quality. Author proposes how to combine these two instruments and enhance the stability of regional wellbeing.*

**Key words:** regional inequality, regional strategy, strategic planning, adjustment of investment activity, mid-term regional planning.

**Introduction.** In world practice, there are many regulative tools and mechanisms for regional development, for example, budget assignment, preferential credit and tax regime, special regime for entrepreneurship and investment activity, transborder cooperation. Strategic planning and adjustment of investment activity are among mechanisms by which regional development could be regulated. Contemporary regional policy in Ukraine proves that in spite of using the most of the mechanisms, such factors as regional inequality, weakness of regional policy and depressiveness of territories continue to be huge. Thus, there is a need to estimate the effectiveness of some of the above mentioned mechanisms in particular, – investment adjustment and strategic planning, and provide ways for improving their quality and effectiveness.

The necessity of improving the mechanism of investment regulation both for capital investments and foreign direct investments is caused by unevenness in indices of economic and social regional development. The need of improving strategic planning (reconsideration of regional mid-term strategies) resulted from the floating economic internal and external conjuncture as well as from the changes of priorities of regional development. It is interesting to know and investigate how to combine theoretically (in formula) and on practice (providing

complex of instruments) these two instruments and enhance the stability of regional wellbeing.

**Research and results.** The overgrowth of regional inequality is the main consequence of crisis period. Now it is early to say about contemporary situation and the present overgrowth of inequality. But in Ukraine it was the similar situation during the previous crisis in 2008-2009, thus it is useful to analyze the regional inequalities in that period. All indices in Ukraine worsened in that time notably in all branches of economy and social sphere except of agriculture which could be explained by the long productive cycle (more than one year). In the table 1 the inequality of regional development before, during and after the crisis in some indices is presented.

It could be said that the crisis influenced inequality among regions in a different way. Some indices of inequality in social and economic regional development were reduced during the crisis (among them GRP per capita, amount of industry production per capita, export / import ratio, unemployment level, average wage). But this reduction occurred due to the certain approach of regions-leaders to less-developed and transition regions. Thus, the crisis affected high-developed regions more than others.

However, the inequality has been growing. We can see this through the indices of amount of agricultural production per capita, house construction, foreign direct investments per capita, unemployment level, and average

wage. And the general tendencies of regional development remain stable – industry oriented regions have speed the paces of activity, capital city Kiev and 4-5 regions show growth of foreign direct investments.

**Table 1**

**Indices of social and economic inequality in regions of Ukraine  
(before, during and after the crisis)**

Index	Inequality (maximum/mimimum), Times					
	2008	2009	2010	2011	2012	2013
GRP per capita	6,3	6,5	6,4	6,0	6,1	6,7
Investment into fixed capital per capita	6,8	7,9	6,1	5,9	13,04*	14,01*
Construction (houses) per 1000 inhabitants	8,4	26,4	10,8	18,0	8,7	12,2
Foreign direct investments per capita	93,6	115,6	115,1	132,2	158,7	167,3
Export / Import ratio	14,9	14,6	15,9	9,3	8,5	9,3

\* Capital investments per capita

**Source:** Composed by the author on the base of data provided by the State statistic service of Ukraine, [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua).

Crisis influenced both branches' indices of social and economic development and unevenness between the regional indices. It is necessary to investigate the development of economic branches during the crisis and after crisis period in context of the question – which branches renewed their status faster and which were influenced by the crisis most of all.

After the crisis, industry, banking, services and consulting have replaced their status. However, some of other branches continue to be in stagnation. Among them – construction, social sphere (delay in payment of social funds and wages) and investment which have not revived their pre-crisis level. Reduction of number of profitable enterprises and accumulation of negative foreign trade balance are negative trends.

There are various causes for economy recovery in the regions [1]:

- download of productive capacities and decrease of industrial production;
- fluctuation of market conjuncture and increase of trade of industrial goods;
- optimization of foreign trade structure and enlargement of trade income;
- improvement of financial results of enterprises activity;
- increase of amount of peoples' and business bodies' short-term bank savings and therefore, growth of investment resource;

- increase of amount of investments in house construction;
- intensification of small enterprises activity, increase of employment rate and as a result – increase of local budgets' revenues;
- activation of consumption demand and raise of turnover in retail trade due to increase of employees wages in the certain spheres.

But, the regional inequality is now huge and there is a danger for further development. Non-regulated inequality of social and economic regional development causes the escalation of following dangers for development and economic unity of the country: decrease of number of profitable enterprises and thus, the tax potential of territory, shortage of sufficient amount of resources for investment and construction in less-developed regions, reduction of production and raise of unemployment rate, drain of labor potential from less-developed territories, declination of population in some territorial units and their gradual breakdown, inadequacy of budget revenues and costs per capita caused by incorrect grant policy, reduction of intensity of productive links inside the country, stepping back from solving the internal common problems of the whole country in some regions, enterprises' orientation on external markets during the formation of production and trade strategy, increase of negative balance in foreign good trade, escalation of social strain, absence of interest in high-developed regions to finance less-developed regions.

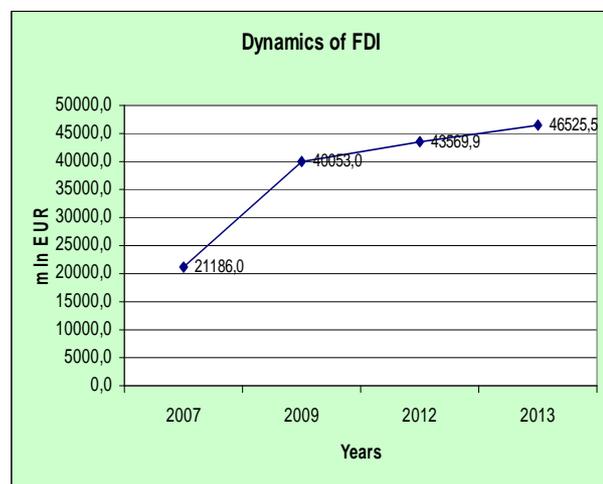
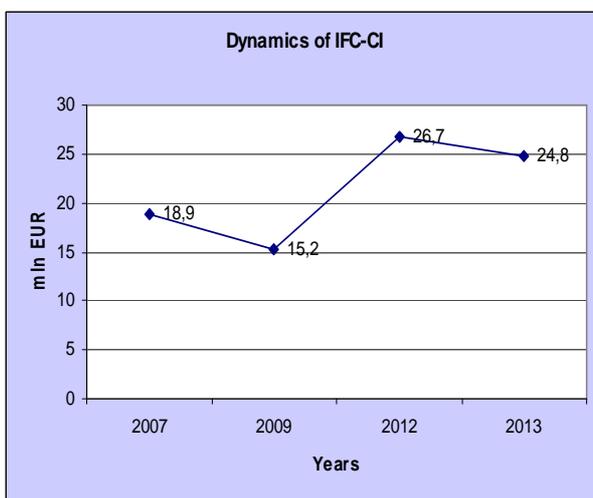
The Ukrainian state conducted some measures for prevention of inequality overgrowth [2]. Some of these measures were effective; they were aimed at the equalization of separate indices such as local budgets' costs per capita, amount of investments in fixed capital, reduction of wages debts. Also, the state raised the social standards (minimal wages, minimal retiring pension) five times per year and that allows to form a base for gradual equation of social and economic indices. But it was not enough.

The huge fluctuation on the market was caused by the crisis and first of all, it influenced the regional inequality as to the indices of social and economic development and the most of all – in the construction sector and sphere of investment. Therefore, in the context of this research it is interesting to analyze the indices of investment activity most of all and in its changes. It is need to start from the

study of investment activity at the regional level before, during and after the crisis, and it is necessary to evaluate the regional inequality in those rates.

Beforehand, it is possible to say that the distribution of investment resources among regions in Ukraine before and after the crisis was the same – Kiev city and 3 other regions occupy the largest part of both domestic investment (Investment into fixed capital, IFC, and from 2012 – capital investments, CI) and foreign direct investments (FDI). It is necessary to investigate if it possible to change the leadership hereafter.

Firstly, the crisis demonstrated the restriction of investment resources in the whole country and its certain regions. Gradually, the leader regions start to renew their portions, especially this is true for indices of FDI. The general dynamics of investment activity is presented in the graphs 1 and 2.



**Graphs 1 and 2. General tendency in investment activity among regions in Ukraine in 2007, 2009, 2012 and 2013.**  
**Source:** Calculated by the author on the base of data provided by the State statistic service of Ukraine, [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua).

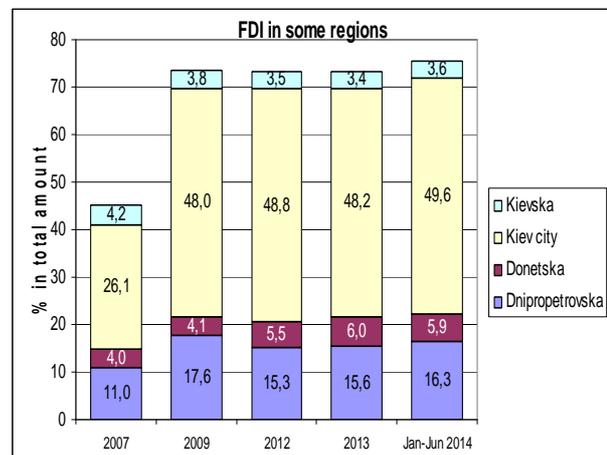
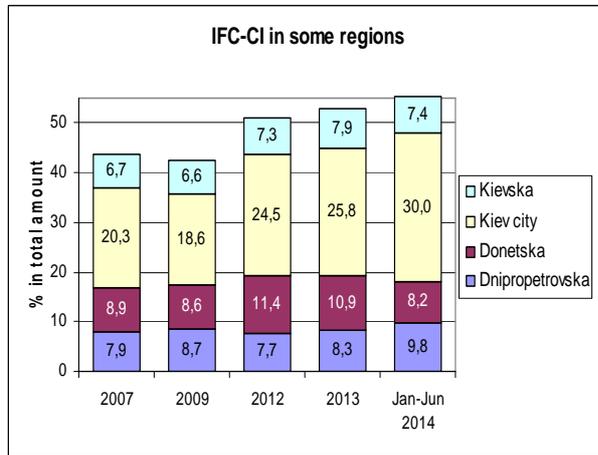
The increase of IFC-CI in 2012 compared to 2011 was noted in 22 regions, the size of accretion was 8,3 %. In 2009, no region demonstrated the increase of investments, and in 2007, increase was observed in all 27 regions. The total amount of FDI during the 2012 increased on 8,2 % and the increase was observed in 26 regions. In 2009, compared to 2008, the accretion was only in 4 regions, and in 2007 compared to 2006 – in 24 regions. In other words, according to the indices of FDI, all regions show the reactivation of investment activity. And in terms of investments into fixed capital, the renovation of pre-crisis positions does not occur.

In 2013, the situation worsened. As a result of 2013, the amount of CI in Ukraine was 88,9 % (11,1 % decrease), the increase was only in 6 regions: Vinnytska, Zhytomyrska, Luganska, Mykolayivska, Chernigivska oblasts and Sevastopol city<sup>1</sup>. In 2014 the tendency worsened: in January-June 2014 the indices of CI was 82,5 % comparing with January-June 2013 p. (decrease was 17,5 %), the increase was only in 3 regions: Ivano-Frankivska, Khersonska and Khmelnytska oblasts. At the end of 2013 the amount of FDI in Ukraine was 56789,4

<sup>1</sup> Here and further - data of the State statistic service of Ukraine, [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua)

mln USD, which in at 5,2 % more than at the end of 2012. In 2013 the decrease of investment activity was observed only in Vinnytska and Volynska oblasts. In January-June 2014 the amounts of FDI huge declined and was 50021,8 mln USD, the decrease was 13,5 % and was observed in

all regions. Secondly, there was a concentration of investment resources in the same high-developed regions. The general situation in distribution of investment resources is reflected in the diagrams 1 and 2.



**Diagrams 1 and 2. Distribution of IFC-CI and FDI among four the highest-developed regions in Ukraine in 2007, 2009, 2012, 2013.**

**Source:** Calculated by the author on the base of data provided by the State statistic service of Ukraine, [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua)

As it was mentioned the highest fall down during the crisis was observed in high-developed regions. And now, the total increase was took place at the cost of leader regions. The leader regions renewed their positions in accumulating the huge amount of investment resources. Before the crisis, during and after the crisis, the gradual concentration of resources in economically powerful regions (both for the IFC-CI and FDI) was distinctive. Then, 4 regions have concentrated 52,9 % of investment into fixed capital in 2013 and 73,2 % of FDI. Excluding Kiev city, these portions will be 27,1 % and 25,0 % accordingly. Thus, the tendency of accumulating the investment resources in the same economically developed regions is continued.

In return, the regions-outsiders haven't taken advantages searching for new niches for investment and for investor involvement.

The distinct factors which hinder the accumulation of resources in less-developed regions are the following [4]:

1) formation of closed circle of investment process in less-developed regions. There is a need in large amount of resources for the intensification of manufacturing which could be accumulated only by materialization of

investors' expectation for huge economic effect received from the investment. However, economic structure of less-developed regions does not facilitate the attraction of resources for business processes' activation in these regions;

2) absence of investment proposition on the market, weak promotion of investment potential and the absence of information support of investment process. Local authority weakly propagandize the investment resources and productive human and natural capital;

3) exclusion of huge amount of potential investment resources out of the process of production. Underdeveloped character of stock market, small number of credit organizations, not transparent and risky type of their activity, limited opportunities for mortgage lending, low portions of savings in the amount of investment deprive regional economies of ability to accumulate the essential part of investment resources.

Uneven allocation of resources – has bad consequences which resulted in: restriction of aggregated demand on capital (producer) goods; decrease of amount of population incomes and savings which could be invested in the future; deceleration of dynamics in construction

sphere and reduction of demand of investment resources; further increase of regional inequality in amount of involved investments.

According to this, the following risks of investment process appear in regions:

- outrunning development of some regions during the stagnation of others, the escalation of concentration of investment streams around the administrative centers of regions;
- orientation on foreign markets in regions with appropriate investment securing, further decline of competitiveness of import-substitutive production;
- creation of barriers for regions to become competitive subjects in foreign investment activity;
- the absence of funds for high-quality structural changes in regional economy;
- weakening of interregional production links.

In order to regulate the investment activity and to combine strategic planning and investment mechanism the general construction of the “investments’ allocation future” should be shaped: reflecting whether the further movement of investment capital from Kiev city and other high-developed regions to other regions will take place. And in order to answer the question of how the crisis and its consequences influence the long-term allocation of investment resources some measures for leveling the investment activity indices and uniform allocation of investment resources should be proposed. These measures could be divided into three variations.

**Variation 1.** Forcibly take portion of resources from Kiev city and from the most developed regions. It should be done by not permitting the registration of enterprises at the territory of high-developed regions if the main companies are allocated in these regions but the basic production assets are located in other regions. The unity of legislative field lets to do so.

**Variation 2.** Forcibly take out the portion of received resources from high-developed regions and allocate it to other regions. The consequences of these actions will be the outgoing of business into shade, social discontent, protests, distortion of tax potential and declination of budget incomes. This is not good way in market economy.

**Variation 3.** Create the conditions for forming the powerful investment potential in less-developed regions and for its full disclosure at two levels – at the central and at the local. And this alternant is much more effective.

Mostly, the crisis affected the investment activity and least of all, it affected strategy realization (market conjuncture rather influences the strategies for long-term period and this impact is intangible during the mid-term period).

The second mechanism of interest is the strategic planning. One of the planning mechanisms is the strategy for social and economic development of region, because the contemporary floating world enhances the needs in midterm planning for regions. Strategies of regional development reflect the changes of economic situation in more prolonged period [5, 6].

In general, the strategy combines the complex of goals and certain scheme of how to reach them (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: strategies are the sole statement document, helping to regulate and correct the regional development. Strategies are able to account the various other instruments, because they are developed by local authority, business bodies and society; strategies are the most actively used documents and their execution is obligatory at the whole territory of region.

However, the 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 the regional strategies:

- (1) concentration of attention at the local narrow interests and absence of integration in the common strategic plan of the country;
- (2) 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;
- (3) 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.

(1) 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 work 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 the following: 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 or every region should be defined by the State strategy.

The diverse aims are to 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 Pareto efficiency criterion reflecting operability of regional policy.

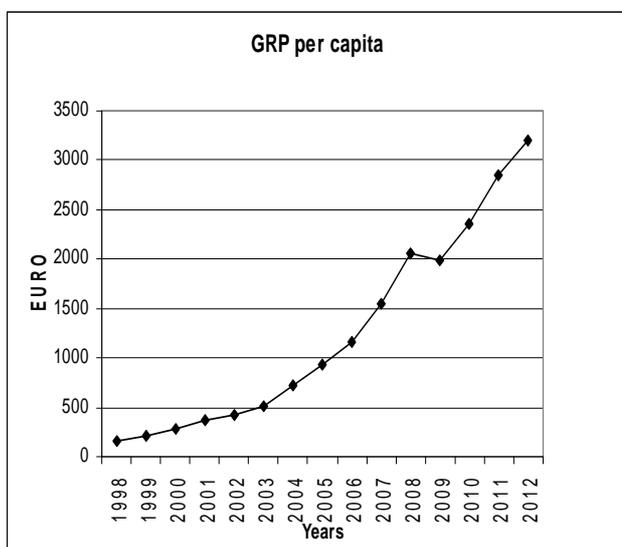
Status of development of the economy and its further estimation can be measured by the index of Gross Regional Product per capita (GRP per capita). Let the levels of GRP per capita in basic year confirm the Pareto efficiency criterion, which means that according to the theory the indices of GRP per capita of one separate region cannot be raised while the indices of GRP per capita in other regions fall down. In other words, any next increase of this index in one region should lead to the deterioration of indices of GRP per capita in other regions.

Let random value X be such that its allocation can be pose as equation (formula 1, general formula for Pareto Efficiency):

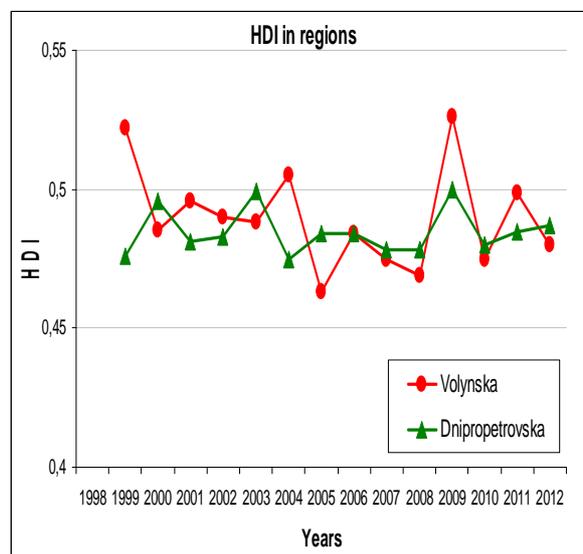
$$P\{X < x\} = 1 - \left(\frac{x_0}{x}\right)^\alpha, \quad x > x_0, \alpha > 0 \quad (1)$$

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

However, while in practice the GRP per capita indices only increase (except for crisis years) and do not reflect the whole spectrum of human wellbeing (graph 3), thus 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.



**Graph 3. Gross Regional Product in Ukraine, in EUR**



**Graph 4. Human development index in regions of Ukraine**

**Source:** Calculated by the author on the base of data provided by the State statistic service of Ukraine, [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua).

Another general index of development is the Human Development Index (HDI). These indices change every year (graph 4), they are deteriorated in some regions and improved in others. According to the simplified methodic, the index has three sub-indices – 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) (see formula 2 – general formula of Human Development Index).

$$HDI = \frac{I_{HEALTH} + I_{EDUCATION} + I_{INCOME}}{3} \quad (2)$$

Mentioned indices fluctuate a lot every year both, in less-developed (Volynska) and high-developed (Dnipropetrovska) regions, and they fully reflect the level of regional economic and social development; thus, it is possible to include them into the model defining effective allocation of resources. Government should adjust these indices 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.

(2) 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 (table 2).

For instance, the authority of Eastern industrial regions can define the next goals for development: increase of export potential, providing the employment, supplying the population with high-quality drinking water. 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, solving the ecologic problems. The economy of the West of Ukraine suffers from 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.

**Table 2**

**Refraction of regional (local) goals by the Central Organ of Regional Policy**

<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
supplying the population with high-quality drinking water	→ solving ecological problems
returning of working force	→ renovation of labor and demographic balance through creation of working places for returned employees

**Source:** created by the author

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

(3) 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, the authority could move from the directive to indicative planning.

Predicted indices should be calculated for the main rates of economic activity and social wellbeing. These rates 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 of population.

It is appropriate to use the trend methods of forecasting for more indices of economic activity, especially for Gross Regional Product and Unemployment Rate.

Modeling the dynamics of these indices, for example GRP per capita, could be done on the base of formula for quadratic equation (formula 3 – general formula of quadratic equation) which reflects the dynamics of indices more than others:

$$Y = a_0 + a_1t + a_2t^2 \quad (3),$$

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

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

Thus, contemporary regional theory and practice gives two main mechanisms for regulation of regional development – strategic planning and adjustment of investment activity. Each of them regulates certain sector of regional wellbeing, however, the rational combination of these mechanisms is important.

There are following purposes of such conjunction: assignment of integrity of system which regulate regional development, involvement of possible spectrum of problems which can be regulated from both, the central and local levels, more frequent achievement of the defined development parameters. With the help of these mechanisms it is possible to regulate the next problems: post-crisis situation, excessive inequality of indices for economic and social development, lack of investment resources, depressiveness of territories and absence of strategic view on further evolution.

Connection and incorporation of these mechanisms are determined by the next factors:

1) the same time scale for these mechanisms (strategies are developed for 10 years and implementation of investment projects also continues 10 years);

2) investments are required for working out and implementation of regional strategies, strategic plan of territorial development is needed for investment activity;

3) the common goal of regional strategy and investment activity can be presented from general view as raising of life quality in all regions, reaching the parameters of sustainable development, increase of amount of ecologically oriented manufacturing.

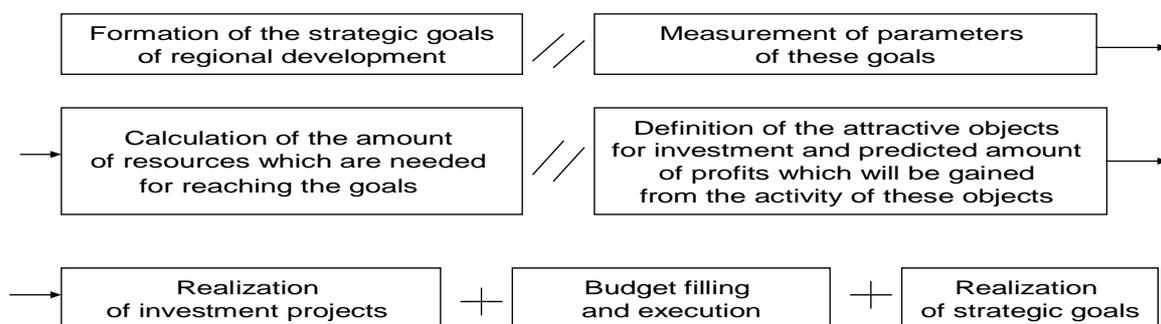
These common features of two above mentioned mechanisms allow creating the model for their harmonized action.

Functional model presents conjunction of these two mechanisms. It is appropriate to take into account the random parameter responsible for unexpected, unpredictable changes caused by fluctuations of economic conjuncture. Crisis is one of those changes [7].

Also, there is another mechanism – budget regulation or assignment. Regional strategy will be more effective for adjustment of regional social and economic development if it acts together with the mechanisms of investment adjustment and budget regulation. For their complex action it is appropriate to implement the common institutional (organizational and personnel) securing of regional strategy, budget of region and investment passport (list of investment propositions). But before, it is necessary to define the budget parameters and investment propositions of the region.

The current problem is that these mechanisms have different time scale. The strategy and investment passport are developed for the period from 5 to 7 years, but the budget is created only for 1 year. Only recently, the result-oriented method of budget planning and 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 issue.

**Conclusions.** There are two main instruments for regulation of regional development: strategic planning and adjustment of investment activity. The combination of these mechanisms – investment and strategic planning – will take place both, parallel and gradual; and can be displayed in the next scheme (figure 1):



**Figure1. Coordination of budget and investment mechanisms in realization of regional policy.**

Source: created by author

Two mechanisms – strategic planning and adjustment of regional activity could be combined with the help of additive function (see formula 4 – formula of combination of mechanisms regulating regional development, created by author). And the precise attention should be paid to the definition of variable rate.

$$MRR = \sum f(Gs; Pi) + \omega \quad (4),$$

where MRR – mechanisms regulating regional development, Gs – goals which were defined in regional strategies, Pi – investment projects (which also is the goal for development),  $\omega$  – variable rate (market fluctuations).

**Proposals.** The general direction in improving both mechanisms and to introduce them into the whole scheme could be provided on the base of the next steps: equalization of regional unevenness, regulation of indices of investment's allocation, combination of these two mechanisms – strategic planning and adjustment of investment activity.

In order to regulate the regional inequality the state should:

- use the inequality effectively for cross-moving the capital and labor resources through creation of new enterprises and working places;

- allocate investments directly among less-developed regions by signing the treaties between the government and private enterprises for purchasing the goods by the government;
- maintain the economy of those regions which show weak speed of after-crisis revival by the means of state borrowings and loans for separate enterprises in these regions;
- work out the common interregional projects offering the stimulus for less-developed countries to renovate or recover their latent potential;
- deepen the productive cooperation between enterprises of different regions;
- use direct and indirect levers of state adjustment for different branches: direct tools of regulation (money input) – for financial results of enterprises activity, rates of taxes, indices in social sphere (for instance, quantity of employees); indirect levers of regulation (taxes, loans, favorable conditions) – for enhancement of industry and agricultural production, construction, export-import of goods and services, consumption prices, unemployment level;
- gradually reorient the direct general budget financing to specific grants' maintenance. Those resources should support projects with potentially multiplicative effects. Financial support of these projects will give the possibility to stimulate regional development. For example, road construction stimulates building of hotels, motels, restaurants, recreation centers, market places. New workplaces will appear, budget revenues

will grow, and thus, the local social and economic development will receive motives to grow;

- stimulate enterprises and local budgets in high-developed regions (by providing them with favorable loans, borrowings, bigger portion in profit sharing etc.) to support the aid to other (less-developed and transitive) regions.

The main task in regulating the investments' allocation is to form the complex of measures for stimulation of more effective allocation of resources.

Conditions which should be created by the local authority are the following:

- reduction of narrow specialization of enterprises in regions that enables diverse earnings of resources; use of resources in those economic sectors which can create the multiplicative effect for the development of related sectors in long period;
- facilitating the investment in following projects and spheres: construction of garbage processing plants, road repair, gasification of settlements, agricultural production support, implementation of energy efficiency projects;
- clear definition of the demand of resources in budget request in order to shape the priority sphere of investment;
- providing investment grants for the components of productive, commercial and social infrastructure in regions. It maintains their development, assigns the part of grants to the construction of social objects, road construction etc;
- financial support of investment projects (realized in real sector) with the help of preferential or low-rate credits, and involvement of budget resources, private business, non-bank financial units, international organizations, enterprises and people, promotion of share investment funds;
- enlargement of mechanisms of public-private partnership in realization of investment projects;
- implementation of wide informative support of regional investment potential with the help of investment passport on the web-sites of local authorities.

Conditions, regulating the regional policy which should be created by the Central organ can be presented as the complex of steps:

- providing local authorities by power to work out the main directions of investment policy in the region. These directions means the involving of money for perspective projects which gives the impulse for further development, definition of main priorities for investment, coordination of projects;
- enforcement of control over the activity of special (free) economic zones and territories of priority development, conversion of their profile if necessary; reconsideration of the status of special economic zone in order to form the long-term positive effect;
- searching and stimulation of growth poles at the local level – growth poles are the economically powerful local enterprises which rework local resources and satisfy needs of both own region and other regions and the whole country;
- application of state contracts to the strategically main enterprises at the local level; widespreading of direct investments to these enterprises, setting up production of separate kind of goods which are in demand at the local level;
- simplification of the access to credit markets for local authorities.

With the help of these above mentioned instruments it is possible to reach more effective allocation of investment resources to regions. Combination of strategic planning with adjustment of investment activity should be realized in common planning of regional authority and Central organ which is responsible for the implementation of regional policy. The overcoming of all obstacles and implementation of above mentioned measures enable to improve the regulating mechanisms of regional development and will make regional development more effective and operative.

The State should undertake more measures for prevention of inequality overgrowth. Instruments of regional policy should be aimed not only at the liquidation of consequences of crisis and not only at the post-crisis revival of regional economics. Also, it is necessary to stabilize the economic in those regions, which are able to provide the sufficient level of stability for the whole country even during the market fluctuation. The government should create the possibilities for activation of the internal potential of development. And those instruments can affect the inequalities' overcoming indirectly.

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**COMMUNITY DEVELOPMENT FOUNDATIONS AS  
A TOOL FOR LOCAL DEVELOPMENT FINANCING  
UNDER THE CONDITIONS OF BUDGET DEFICIT**

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**Abstract**

*In this article a foreign experience of community development foundations is analyzed in order to use this financing tool for local development in Ukraine. Definitions of community development foundation, its functions, structure and sources of financial resources are considered. The difficulties of creation of community development foundations and prospects for their functioning both in Ukraine and in the world are analyzed.*

**Keywords:** *community development foundation, local development, grant, endowment.*

**General overview of the problem.** In different countries, the mechanisms used by the representatives of local communities for implementation of local development practices and charity are constantly being transformed and complicated. Communities create new types of organizational associations, participate actively in managing activity, combine and accumulate financial and other resources. Members of local communities analyze their own needs, increase the awareness about them in the society and upgrade the programs, which are directed on solving them, formation of community leaders and intensification of civil society institutions.

International experience in socio-economic development of local communities demonstrates that nowadays one of the most effective forms of community organization at the local level is community development foundation. The use

of community foundations in terms of budget deficit is especially urgent. This is the exactly situation in Ukraine, where local budgets are often barely enough to keep the local authorities.

Community development foundations are applied tool for financial management. It is used by international organizations that deal with local socio-economic development. Table 1 shows the most widespread definitions of "community development foundation", accepted by organizations involved in the development of community foundations (European Network of Community Foundations, the World Bank and Worldwide Initiatives for Grantmaker Support (WINGS), and also the definitions accepted at governmental level of separate countries.

Table 1

## Definitions of community development foundations [3]

Organization or country	Definition
USA	Community foundation is a non-profit, autonomous, irreligious, charitable organization that is supported by the community and exempted from the taxation. Its long-term purpose is to form permanent funds, established by separate donors in order to achieve their charitable purposes and for common weal of residents of particular geographical area, which is mostly less in size than one state.
Canada	Community foundation is a charitable organization that mainly focuses on the accumulation of endowment, which is aimed to solve long-term problems and meet the current needs of the community.
Australia	Community foundation is an independent, charitable organization that operates at the particular geographical area and with some period of time forms the endowment by the donations from many donors in the community. It provides services to community and its donors, gives grants and plays the role of a leader and partner in community in order to meet a wide range of needs at their territory.
European Network of Community Foundations	Community foundation is a local organization – grant maker which operates at a particular geographic area and provides services to the residents of the community (grantees).
World Bank	Community foundation is a local organization that mobilizes local donations with the purpose to support community development projects through giving grants.
Worldwide Initiatives for Grant maker Support (WINGS)	Community foundation is an independent, unprofitable, charitable organization that operates at a particular geographic area and with some period creates own capital (endowment) from the donations of local donors.

Among the studies of scholars devoted to the analysis of the origin and functioning of community development foundations, in our opinion the works of O.Vinnikov [2], V.Karpenko [5], P.Hull [15] and B.Tsyriulnikova [13] should be mentioned.

**The aim of this article** is to sum up the experience of the functioning of community development foundations in the world and prove the feasibility of using this tool for financing local development in the countries where the territorial communities live in conditions of local budget deficit.

**Main idea.** The first development foundation of the local community (community foundation) was found in Cleveland (USA) in 1914 [12, 10], when a local banker Frederick H. Goff established first organization in order to systematize the use of charitable resources and to meet the needs of the community. As a representative of banking area, he made an important conclusion that the needs of the community residents are constantly changing and grant foundations of that days that were created from the inheritance of patrons with rigid invariable purposes, lost their effectiveness with changes of the prior problems of

the community. At the same time, Frederick H. Goff noticed that banking institutions and large enterprises give a significant number of small grants from their own funds and it was uncomfortable to manage and monitor their results.

Thus, a new type of grant foundations needed a built-in mechanism in order to correct the purposes and increase the managing effectiveness. According to Frederick H. Goff such mechanisms had to be: representative bodies of foundation that included various community members; regular monitoring and updating of community needs; competitive selection of the projects.

Based on these conclusions Frederick H. Goff established the first foundation of the local community in Cleveland, trust fund of which is over a billion dollars now [12, 12]. Since then, this social technology has become widespread in the world. Nowadays, over thousand foundations exist in more than hundred countries and prove the effectiveness and versatility of this form of local charity [16].

Especially rapid dissemination of community development foundations has been acquired in recent decades. Thus, from 2000 to 2010 their number in the world increased by 86% [16]. In Ukraine, the community development foundations began to appear in the late 90-es of XX century [10, 7].

Number of factors, including the following, can explain tendency of dissemination of number of community development foundations: flexible organizational model and multifunctionality; availability of international organizations and programs that support the development of local communities; global trend to strengthen civil society institutions [14]. General premise of community development foundations is a transformation from perception of local community as an abstract "municipal formation" to more systematic understanding of the local community, which has hidden resources and unites the residents with the goal to improve their human environment.

As any form of local charity, local community development foundations create the mechanisms of mutual assistance in community by using present conditions. Altruistic inclination to help each other, according to number of studies of behavioral economics refers to the natural inclinations, which are observed in all cultures. However, the organizational forms, based on such inclination are different in all cultures.

Gradually the practice of using of local community development foundations diverges from the traditions of the developed countries of Western Europe and North America that focus on the requirements of donors and affects by the traditions of developing countries [15]. Local self-organization and charity become much more flexible. Most innovative practices are formulated and tested in countries of Asia, Africa and Latin America. In these countries community development foundations solve the problems, which are not appropriate for developed countries and are not apologist of previously established specific concepts of self-organization of local communities [12, 13].

Distribution of community development foundations both in Ukraine and in the whole world has led to clarification of clear factors of this form of charity. The reasons for this were popular models of community development foundation and its dissociation from the adjacent practice of local charity. As the factors of the foundation are not standardized and closely related to the legislation, the state of public activity and established practice of charity, it is necessary to specify only the basic characteristics of

community foundations, the presence of which is mandatory and appear in most definitions.

The definitions of community development foundations listed in Table 1 have common elements that characterize the obligatory characteristics of community foundations.

The first feature is connection of community foundation with a specific geographic area. It means that all programs supported by the foundation are carried out at the particular territory (housing estate, city, district or region). In this case the term "community" is considered in the sense of community that is formed by geographic criteria, rather than religious, political, cultural or any other feature [12, 18].

The second feature is endowment (goal-oriented capital). Accordingly, an important goal of the foundation is to create, accumulate and develop the assets that can be used to meet the needs of the community. The endowment is the result of the received financial or other material resources given to community development foundation under the condition not to be spent during a specified period of time (or never be spent at all) [4]. This is made in order to use the foundation resources during a long period but not to spend immediately. The resources of endowment are usually the donations of local businesspersons, individuals, governmental institutions or in some cases are formed by the foundations if those are involved in business activity. Herewith, the formation of endowment is a long lasting process that occurs in close connection with the development foundation.

The third feature is the reallocation of financial resources in accordance with the grant procedure. Foundations of local community development make great efforts to encourage other partners for actions. Most definitions emphasizes that the achievement of the foundation purposes mainly occurs not through the implementation of its own operational programs but through the grants giving to public organizations, initiative groups or individuals on implementations of the projects that were previously selected in the contest [1, 10]. In some definitions, it is also pointed out that among the activities of foundation one is to provide services to business structures by themselves or by third-party organizations: administration of charitable programs, development of charity strategy and development of social partnership and promotion of charitable programs [10, 15].

The fourth common feature of the foundation development is that the compulsory result of its activity is assistance in solving the local problems. Most definitions indicate that all aspects of the principal foundation activity

(cooperation with governmental representatives, business and community, monitoring of community problems, training for staff, formation of the endowment and giving grants) are aimed to strengthen the community and meet the needs of its members [1, 6].

Thus, the community development foundations are non-governmental charitable organizations that exist at a particular territory and operate the endowment. The forms of their activity are giving of grants to grantees and providing of services to its donors and the main results of their activity are solving of the socially important local problems and improvement of the life quality.

The main functions of community development foundations can be divided into the following: formation of foundations and subsequent allocation of grants, the philanthropy and charity development and leadership in local charity [1, 9].

**Consider them in details:**

1. Attraction of financial resources and community members and establishing of procedures for granting the initiative groups and community members is the most important operational activities of the community development foundation. Coordination of these two processes provides the opportunities for foundation with determination the most urgent problems of the society and their subsequent solution. Active members of foundation determine the prior social issues and grantees by interviewing of the community and by the decisions, which are made by the expert bodies of foundation.
2. Community development foundations are the organizations, which initiate the development of a wide range of charity practices and philanthropy at the local level. Community development foundations work on involving the public community residents to large charitable activities and attraction of community members' resources. Having relevant information about the needs of the community members, the foundations not only work with grantees, but also form potential donors and encourage them to allocate the finances for projects that the community need.
3. Community foundations are social institutions with leadership characteristics. Systematic activity in selected areas, monitoring the project results, transparency and accountability to the community representatives delegate authorities to community development foundations. It leads to the fact that these

organizations are full-valued participants of the social dialogue with local authorities and self- government.

Community development foundation is established as a public organization, and may contain different units [12, 21].

Board of Founders is the highest governing body of the community development foundation, which has the right to make and approve decisions related to long-term plans of the organization's functioning. It usually consists of one representative from each organizations or individuals who is the founder. Board of Founders operates in cooperation with another body - Board of Trustees, delegates some responsibilities to it. Authority is set empirically and may vary.

Board of Trustees is the strategic executive board of community development foundation. Its main functions are to control the foundation activity, follow the legal requirements, use the endowment feasibly and effectively and to develop the long-term strategic programs for foundation development and present them to the Board of Founders.

Except functional differences, the Board of Trustees differs from the Board of Founders because its meetings occurs more often, which means that the Board of Trustees members should pay much more attention to the issues of organization development. This should be taken into account because usually the Board of Trustees members are the heads of government, businesses and influential local community organizations who have other responsibilities.

Managing Board is a permanent executive body the main function of which is to allocate the financial resources for implementation of programs and grant projects of the community. Among the other functions there are: approval of plan for administrative expenses of organization, regular preparation of report, forming of foundation units, determination of their functions and staff. The Managing Board may include a wide range of people, in particular the representatives of the organizations-founders, benefactors, local authorities and social experts.

Other units of community development foundation are controlling and auditing committee, and (in the case of large-scale activities and an extensive foundation activity) committees, which work in areas that are usually, defined as used tools of the foundation.

As the instruments of community development foundations are rather various, it is worth to figure out only the most widespread [10, 17; 12, 13-14]:

1. The total grant fund, which is formed by large number of donations from private, business and budgetary sources. The financial resources of the general grant funds are used to support a wide set of innovative and socially important priority projects of local community organization. General funds generate different donations in a single pool which then allow to distribute the resources for selected areas.
2. Thematic grant foundations, which are formed by community development foundation to solve the selected problem. Usually these are cultural local events or urgent for the local community environmental or public welfare problems. The peculiarity of these projects is the awareness of citizens and their repetition.
3. Personalized foundations of private benefactors or corporations. These foundations can be established to form the image of the company or to eternalize the benefactor or family.
4. Scholarship programs or program for covering tuition fees for students at educational institutions. Donors of such programs are the enterprises which have lack of qualified personnel in certain specialties.
5. Donations programs which are raised by the enterprises. Firstly, the donations can be raised from the consumers of local enterprises goods who are informed that the profits from sales (or its part) will be directed at charity. Secondly, the donations may be raised from employees of the enterprise who transfer the part of the salary for the implementation of programs selected by the employees. In such cases the funds are raised for certain public non-profit institutions that provide social services or help certain social categories of the community. Community development foundation in both cases performs the limited mediatory functions, which include administration of costs, monitoring the effectiveness of their use, data collection and report preparation.

The exact structure of the units is defined during the foundation formation and includes several stages [13].

At the first stage an initiative group of interested people is formed, the main task of which is to understand the concept of the foundation and its promotion among business, government and civil representatives. At this stage the meetings with representatives of existing foundations take place and during the consultations the proposals on the structure and activities of the foundations are specified.

The second stage includes the development of the foundation regulations and involvement of local organizations that will become founders of the foundations. As such organizations it is reasonable to involve business associations, commercial enterprises and most experienced non-profit organization. The founders cannot be the state authorities.

Later, during the registration the Board of Founders is formed from the representatives of the organizations-founders as well as government bodies – the Board of Trustees and Managing Board of the foundation. The two last boards may include the representatives of local authorities and community, who are not the founders of the foundation.

At the third stage the foreground tasks of the local territory are determined. With this purpose the studies are carried out that accurately determine the community needs. It allows to make the foundation activities clear for population and facilitate the receiving of funds from local donors.

The fourth stage provides the arrangements of competitive procedures for allocation of grants. For selected purposes the funds from various sources are involved and then an open project competition is held. Transparent competitive procedure and media coverage allows to create a positive image in the community, get the trust of donors and increase the competition among projects for getting grants.

The last fifth stage of the foundation establishment is preparation of a report that is presented to all interested parties and the general public. It should be mentioned that during all these stages the foundations face a number of specific obstacles.

Firstly, the difficulties appear with the establishment of the foundation structure and recruitment. It is necessary to conduct initial negotiations with possible contributors of the foundation and to study the situation in the local community in order not to feel the counteraction and lack of interest later. As the community development foundation is created with long-term purpose, it is necessary to pay attention to employees who represent it and fulfil the appropriate functions. On the positions of administrators are always invited those who have management experience in non-profit organizations or managers of businesses or government institutions. According to the foundation officers, there is lack of employees experienced in the development, selection, monitoring of grant projects in many areas, so it is

common practice to hire interested people, who undergo specialized training then [13].

Secondly, an obstacle, which all newly formed local development foundations have to overcome, is attraction of financing for the first grant competitions and initial administration activities.

Thirdly, from the initial stage of the functioning, the foundation should avoid outside influence and control from the government or businesses that provided support while establishing the foundation, as the neutral position of the foundation in the region depends on it, as well as neutral decisions during competition and further independence.

Significant obstacles for stable community development foundations, especially at the initial stage of their existence is non-established culture of charity and local self-organization as well as low level of the confidence of citizens in non-profit organizations. Because of this, the part of private financial donations in the CIS (Commonwealth of Independent States) countries is less than 10% [6]. Additionally, the media is able to maintain the confidence to community foundations by providing accurate information about their activities.

For example, social organizations in Poland that can get from the population 1% tax on physical person incomes began to form various types of media to promote their activity. Community organizations, which are connected with media, receive more money. It also increases the transparency of community organizations activities. The state in its turn is able to stimulate the cultural development of charity by setting the standards that support the charity and financing of local development projects in the form of taxes and other benefits.

In Poland, the taxation office advertises the ability of citizens to participate in the expenditure of their taxes. Since, to use this possibility it is necessary to fill in a tax declaration and to select the appropriate community organization from the list. It increases the number of people who fill the declaration, as it has to be done only by authorities.

Community development foundations, which include managing units of representatives of all leading sectors in society, are able to support all social and labor resources of community members and volunteers, administrative resources of governmental bodies and businesses, financing resources of donors. However, the most typical and reliable source of funds for projects implementation of community development foundation is endowment- an

established untouchable fund given to the community foundation by the donors or saved by the foundation during its activities. The endowment itself is not spent, but only invested with the aim to receive the income, which in its turn is used to provide statutory activity of the foundation [4].

It is necessary to point out that the term "endowment" is mentioned in the Taxation Code of Ukraine (Article 170.7.5, the Taxation Code of Ukraine, 2011) and means "the amount of funds or bank stock which are paid by the benefactor to the bank or non-bank financial institution, so the acquirer of charity receives the right to use the interest or dividends accrued on this endowment. "The endowment may be heterogeneous by the structure and consist of funds deposited at the accounts in financial institutions, bankrolls, fixed assets, etc. Taking into account the structure of the endowment, the income from it can be obtained in the form of interest, dividends, rents, etc. [2].

Availability of endowment provides guaranteed financial incomes for community development foundation and determines its financial stability and independence. In Ukraine, endowments are usually presented in the form of deposit accounts in foreign currency, as this is the least risky and relatively reliable way to make profit on capital. However, in domestic conditions it is not easy to establish untouchable specialized fund, but organizations that plan to provide sustainability of the existence and development, should gradually establish it. But, community development foundations usually face to prolonged formation of endowment. To make the saved income from the endowment capable to cover the annual expenses of community development foundation, its amount should be at least several tens of thousands USD. Accumulation of such funds in Ukraine requires a long period of time [9].

Sources of endowment formation of community development foundations are sufficiently branched and their diversification is a constant task of foundation. In Europe the foundations activity depends largely on the support of businesses, but in North America, a major source of funding is private individuals [8].

As about Ukraine, according to a study of V. Karpenko [5] in 2008 the domestic community development foundations raised funds from the following sources: 81.5% – donations of individuals, 72.7% – donations of commercial establishments; 45.5% – grant funds of international organizations; 18.2% – grants of local organizations and local budget.

As to the sources for the funds formation it is necessary to refer to the survey [6], the results of which indicate that among the most effective methods of forming the endowment in Ukraine the leaders of community development foundation mention the following: 1) grants from international organizations (85% of respondents); 2) funds of domestic foundations or organizations (68% of respondents); 3) governmental grants (33% of respondents). These results show not only the priorities of the foundations but also the financial capacity of the donors, clarity and transparency of the procedure of funds allocation.

Also among the widespread but less effective ways of raising funds in this study the traditional methods of fundraising were mentioned: appeal letter, personal meetings and negotiations, calls to sponsors, boxes for donations, charity auctions, cultural events etc. Another feature of the endowment formation in the abovementioned study is low use of such kinds of independent business activity of community development foundations as their own commercial or social enterprises and dissemination of their own periodicals in Ukraine.

**Conclusions.** Current worldwide trends of dissemination of the community development foundations confirm that in recent decades they have become not just an element of social activity in many countries, but the factor that influence on the formation of a global community. This can be considered as an exaggeration, taking into account that fact that foundations are the local

organizations that connect local activists and organizations and solve the problems within a clearly defined territory. However, taking into account the increasing number of community development foundations, their correlations and widespread in the world, community development foundations become the organizations that allow solving the global issues locally and sharing the experience lessons gathered from different parts of the world. Foundations unite their activities in order to find solutions for local or global problems jointly. «Think globally – act locally» this is the motto of the Club of Rome, an independent expert group for assessment of the long-term consequences of the problems and prospects of development of humankind. Community development foundations are guided by this motto in practice. As a proof of this there are some cases when the donors initiate the funding of local projects that are the part of international programs or are involved in projects in other countries. These practices are being observed during the companies aimed at solving of global problems such as poverty prevention, the consequences of environmental or natural disasters.

It means that currently the community development foundations of separate organizations which were involved in local philanthropy, has transformed into a powerful global network that creates charity infrastructure, based on the use of horizontal interactions between local communities in different countries and cultures.

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## CROSS-BORDER COOPERATION AS A FACTOR IN THE CONSOLIDATION OF COUNTER INTEGRATIONS

### **Abstract**

*The paper explains the conditions and factors of cross-border cooperation in the projection of the Russian-Ukrainian Borderland. In the border area has appeared structural shifts towards the consolidation of an innovative infrastructure as result of globalization and European integration influence. Counter integration should not be accompanied by confrontation. Borderlands should be considered as a potential arena of de-escalation of the military conflict and agree on common interests on Sustainable Development of the European Continent*

**Key words:** *European Union, Eurasian Economic Union, Russian-Ukrainian Borderland, cross-border cooperation, innovations, sustainable development of borderland, euroregions.*

Pan-European processes basically are integration processes directed to the consolidation of political, economic and social spaces of the European Continent. In the context of global and inter-regional competition for investment and resource support a special role as a factor in the spatial dimension, providing connectivity, accessibility and attractiveness of territories for investment and the application of skilled labor.

Regions come forward the actors of connectivity of socio-economic space of the European Union. Cohesion policy aims to promote harmonious development of the European Union and its regions by reducing regional disparities (Article 174 of the Treaty). The EU Treaty sets as objective for Cohesion Policy to reduce economic, social and territorial disparities, providing particular support to less developed regions [1-3].

Counter integration project - Eurasian Economic Community was created in 2000 in the era of disintegration and systemic financial crisis of the post-Soviet space.

The next step was the creation in 2010 of the Customs Union of Russia, Belarus and Kazakhstan, and then the Single Economic Space (SES), contract design which took place in 2012. The transition from the Customs Union to

the Single Economic Space means creating a capacious market with more than 165 million consumers with a unified legislation, free movement of labor, capital and services. The new integration project on the NIS space begins operation with the January 1, 2015 - Eurasian Economic Union (EAEU) assumes full participation of Armenia, Kyrgyzstan, and from the middle of 2015 of Tajikistan. In this case the EAEU domestic market expands to 180 million people and significantly strengthens Russia's position as a trading nation [4,13].

In the foreseeable prospects it is a matter of adapting Ukraine's legislation to the European legal system, reforming state institutions, intensifying democratic principles and extending civil freedoms. At the same time there is the implication of stable growth in economy, its modernization and upgrading to satisfy the EU Association Agreement requirements. In this context the direct interregional connections start to play the key role in Ukraine's expectancies for European integration.

In the epoch of «Cold War» the borders reflected a conflict among countries or “curtains” among competitive ideological systems. Now the Geopolitical analysis of borders is associated with culture, language, nationality and other socioeconomic characteristics of border regions [5].

At present, the Russian-Ukrainian border was the focus of the European identity of Ukraine and geopolitical processes of formation of the Eurasian Economic Union. Russian-Ukrainian border gradually becomes a key element in the European Border system, because it reflects two different geopolitical models related to the European Union – a partnership model, selected by Russia, and an assimilation integration model – a strategic direction for Ukraine.

Naturally it can be assumed that in the future with the consolidation of the new integration association will work out mutually acceptable formula of cooperation between the EU and the EAU. This formula, which is based on economically logical and balanced system of partnership between the EU and the Eurasian Union, aims to change the geopolitical and geo-economic configuration of the continent with a positive global effect. In the case of the most favorable scenario, we will focus on creating a harmonious community of economies from Lisbon to Vladivostok [6].

However, the processes in the Eurasian region are closely monitoring global leaders - the USA and China. The presence of global players in Eurasia provokes rivalry between Brussels and Moscow for the most favorable options for future cooperation. These processes are directly affected by the largest western neighbor of Russia - Ukraine, which in 2014 covered the deep social and economic crisis. Military actions in the south-east of Ukraine led to numerous casualties, destruction of infrastructure and the emergence of refugees. De-escalation of the conflict, the peace talks and the economic recovery will require a concerted international effort. In the case of a political solution to resolve the conflict have a question about the mechanisms and tools to restore confidence and the resumption of cooperation within the EU - Ukraine - EAU. Therefore, it is advisable to consider the potential of cross-border cooperation as a

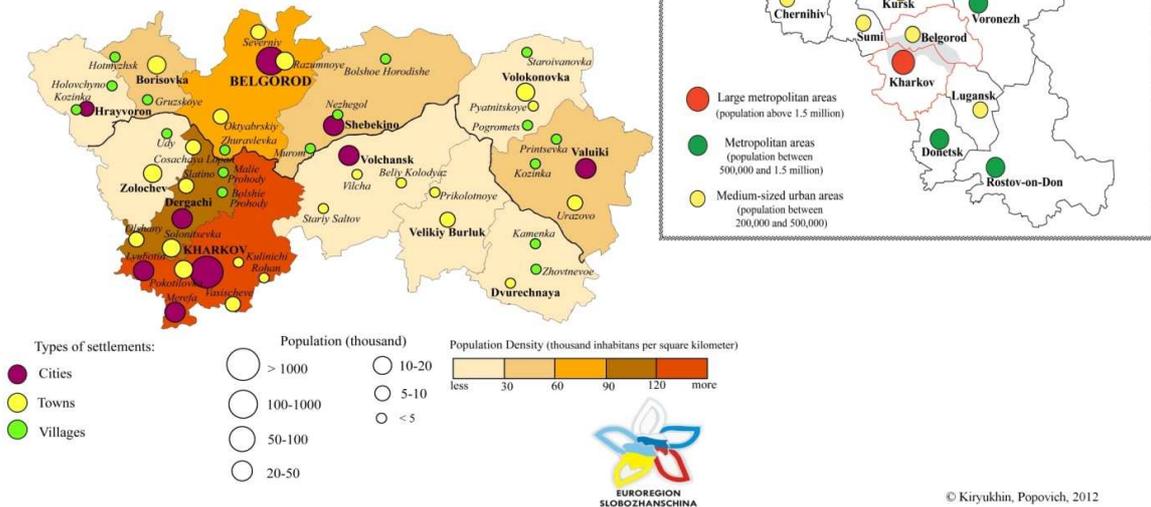
factor in the return of mutual trust and the subsequent consolidation of the counter integrations.

Any political international boundary is considered theoretically and practically in the coordinates of the barrier and transparency, providing a certain level of permeability flows into the interior of the country. The situation at the borders may reflect in a different way at the level of national politics, mass media, migration or local cooperation politics. The network of border and cross-border regions in Europe has become a powerful force in the development of cross-border cooperation on all European borders, the enhancement of the European integration and the development of European aid programmes in favors of the border regions in the whole of Europe [7].

On the one hand, the arrangement of the boundaries between the two economic blocs dictated by the need of economic security and the prevention of terrorist threats. On the other hand, none of the NIS countries can't afford in terms of economic slowdown are real costs that are required to create a full-fledged border infrastructure. At the time of the Russian-Ukrainian border adjacent areas (districts) were in one state as internal, with a single existing system of resettlement and economic ties formed. Border formalities at the border caused considerable difficulties and as a result provoked a precipitous reduction of inter-regional flows of goods and people.

The Council of Heads of Border Regions of Republic Belarus, Russian Federation and Ukraine was set in 1994 as a tool to adapt to the emerged barriers of new state borders. The Council Executive Committee initiates and constantly implements on the systematic level an integrated approach to forming a consolidated cross-border space through preparing and implementing big inter-regional programs and sets up a continuous grid of compact euroregions along the Russian-Ukrainian Border.

## EUROREGION SLOBOZHANSCHINA



**Picture 1. Similar system of settlements on both sides of the border in the Euroregion Slobozhanschina**

Increase of inter-regional and cross-border cooperation (in contemporary European practices it has a general term “territorial cooperation”) could be possible in the conditions of constant improvement of state and regional regulatory and legal frameworks, emergence of new cooperation tools on the regional and local levels. The problem of cross-border cooperation is multi-sided and is realized as a specific sphere of foreign economic, political, social, ecological, cultural-educational and other types of activity, which are realized on the regional level and are marked by a number of peculiarities, the main of which is the presence of borders [6].

Recent history of the contact zone of Russia and Ukraine can be represented as a sequence of five distinct stages of change.

### Stage I (1993-2002)

- Establishment and operation of the Council of Heads of Border areas as the only joint body coordination development of border regions of Russia and Ukraine.
- The signing of intergovernmental agreements on cross-border cooperation and in the tourism sector.
- The adoption of a long-term intergovernmental framework for inter-regional and cross-border cooperation in the 2001-2007 years.
- In 2001, launched the concept and rationale of the project of filling the first Russian-Ukrainian Euroregion. The choice fell on the Belgorod-Kharkov plot with a

cross-border auto line and the proximity of the two regional centers - Kharkov and Belgorod (80 km only). In these cities with regional administrations placed the Executive committee of the Council of Heads of border regions.

### Stage II (2003-2006)

- characterize the process of formation of the Russian-Ukrainian Euroregions and inter-sectoral programs CBC (environmental rehabilitation Seversky Donets River Basin and the Border University Consortium).
- As a result of the executive committee of the Board appear first communication platforms ([www.crossborder.org.ua](http://www.crossborder.org.ua), international "round tables" "The border as an environment of innovation").
- Adoption of the Law of Ukraine "On cross-border cooperation" in 2004 and the first medium-term cross-border cooperation program in Ukraine at the regional level (Kharkiv region) in 2005 meant the transition to multi-level governance of cross-border cooperation.

### Stage III (2007-2010)

- Creation of the Business Council of Chambers of Commerce of the Belarusian-Russian-Ukrainian Borderland.
- Development of communication platforms (Internet portals [www.euroregion.ru](http://www.euroregion.ru), [www.dstpp.com](http://www.dstpp.com)), the expansion of international sectoral themes "round tables" "The border as an environment of innovation", the launch

of new communication tools (strategic cross-border debate, interregional school for cross-border cooperation).

- The Executive Committee of the Council carries out activities together with Border University Consortium. The adoption of individual CBC programs (Kharkiv and Lugansk regions, regional cross-border cooperation programs in Dergachevsky, Zolochinsky and Volchansky districts) provides a basis for the formation of a continuous network of Euroregions along the perimeter of the land international border.
- Established an AEBR Task Force on external borders and opened an information office in Kharkov, Ukraine.
- October 29, 2010 signed the founding documents of the Euroregion Donbas.

#### **Stage IV (2011-2012)**

- Transition to the project and programming principles in the CBC, the formation of information and communication environment in the Russian-Ukrainian Borderland.
- Adoption of the symmetrical target regional programs of cross-border cooperation (Kharkov and Belgorod region), long-term strategies for the development of Euroregions (Euroregion Donbas 2020 Strategy), the creation of joint institutions of innovative development (Russian-Ukrainian University, the Russian-Ukrainian Techno park "Slobozhanschina") [10].
- Transition expert communication platform "Border as an environment of innovation" from the format of "round tables" to the format of the international forum.
- The emergence of international youth school project management "Pegasus".
- For the first time outside the EU held the General Assembly and Annual Conference of the Association of European Border Regions with the agenda of "Sustainable development of the border regions: innovation, infrastructure, knowledge economy" (Kursk, 2011). Euroregions Yaroslavnna, Slobozhanschina and Donbas participate in the AEBR already as full members.

#### **Stage V (2013-2020)**

- By order of the Eurasian Development Bank was held in-depth socio-economic analysis of the potential of cross-border cooperation of regions of Russia, Belarus and Ukraine from 2000 to 2012 years [12].
- According to preliminary estimates in this programming period involves the formation of a polycentric network of multilevel model of cross-border cooperation in the context of increasing globalization and counter-speed integration (European and Eurasian).
- Predict the transition to international financing CBC, including by the Eurasian Economic Union.

- It is likely to strengthen the role of the EU and the transfer of the financial support to support cross-border projects of Russian-Ukrainian Euroregions.
- Established the Institute of cross-border cooperation and integration ([www.icbci.info](http://www.icbci.info)) in Belgorod, Russia.
- Established the Expert Council on cross-border cooperation of representatives of Russia, Belarus and Ukraine.
- Institute for Cross-Border Cooperation and Integration held a series of videoconferences in format Russia – Ukraine – EU and International Integration Forum Borderland 2014 (1 December, 2014).

#### **Conclusions**

Ukraine, aspiring towards the EU, is focused on the European cross-border cooperation model – euroregions, although it does not have sufficient financial resources to implement it in full. Russia considers cross-border cooperation primarily as a tool of bilateral interstate relations, maintaining its influence in neighboring countries, as well as a pragmatic extension of economic ties. At the same time, it supports education and communication projects. The extension of the European model of cross-border cooperation in the context of adjacent regions of Ukraine and Russia and its use over the past ten years, as well as participation in the Association of European Border Regions as permanent full members formed the basis for the sustainable development of the Russian-Ukrainian borderland. The presence of shared history, including the 20-year history of cross-border cooperation, this can be considered as a promising social institution in a de-escalation of the conflict. Euroregions as a common development tools can be used to stabilize the socio-economic situation in the border area. Curtailment of cross-border cooperation in 2014 will require further training and training seminars and trainings for writing and design of cross-border projects. In accordance with the European experience the cross-border strategy has improved cooperation with neighbouring countries, serving as a platform for the future. This opportunity to experience EU policies and processes, in common activities, should also be part of future work. The partnership – EU and non-EU countries can work together on the basis of mutual interest and respect [16]. Taking into account the positive effect of the Danube, Alpine and Baltic EU Strategies that have a cross-border nature, should prepare a macro-regional strategy for the Belarusian-Russian-Ukrainian Borderland [17]. This is an important step for co-understanding and further sustainable development of the European continent in accordance with the Europe 2020 Strategy, as well as the economic interests of the Eurasian Economic Union.

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**Abstract**

*The establishment of direct links between research activities and processes of production, the introduction of funding of basic research on a competitive basis, stimulating the development of priority sectors of innovation are the key tasks of the state in scientific field. Innovative development is one of the priorities of the national economy today. Thus, the establishment of research centers on the basis of existing research institutions with the aim of meeting the specific needs of the private sector in innovation and application developments in Ukraine is able to accelerate greatly the innovative development and enhance the competitiveness of domestic products on the international market. It worth to note, that promotion of development of small business on the basis of universities gives the opportunity not only to create jobs for young people and to give them an incentive for further career and also to motivate young scientists to the invention activities after graduation. Small businesses on the basis of universities can access a self-sufficiency system and create a source of income for the universities in the long run. An important role in this process also play fiscal stimulus and the system of state support of inventions by identifying national priorities of technical and technological development.*

**Keywords:** *innovation, funding research activities, public-private partnerships, government fostering innovation.*

Optimization of funding of inventions, scientific and innovative activities has a particular importance nowadays. In pursuance of the objectives of the Cabinet of Ministers of Ukraine dated 10.09.2012 # 691-p the Concept of Reforming State Policy in the Area of Innovations was adopted, according to which priority allocation of budgetary funds on implementation of state target scientific and technical programs and state order should be provided. Herewith, a necessary condition is optimization of government expenditures on financing basic research and development on the basis of their practical value in accordance with the relevant area.

In the context of resolving the issue of optimizing the use of budget funds, the approval of the Concept of reforming the system of financing and management of scientific and technical activities was one of the most important aspects. It was aimed at improving the efficiency of defined state budget and reforming scientific and scientific-technical activity.

It should be noted that the fundamental research and development are part of all areas of government spending - defense, education, health care etc. Today innovative development is one of the priorities of the

national economy, in particular, optimization of funding of research, invention and innovation. Financing of innovation through public-private partnership (PPP) and its impact on economic growth was examined by such foreign scientists as Alexander Valley, Link, AN, Rodriguez-Fernandez JM, Scott Dzh.T., J. Hicks. Among Russian scientists who examined some aspects of public-private partnership in the area of science, we should mention H.A. Voskolovich, A.I. Ivanov, A.M. Babich, I.V. Ishynu. Special role of the PPP and technology parks in the state of innovation was emphasized by I.N. Molchanov [1]. Among Ukrainian scientists who examined PPP as a driving force of innovation we should mention V.M. Heyets, T.I. Yefymenko, I.V. Zapatrina, A.I. Sukhorukov and others [2, 3, 4].

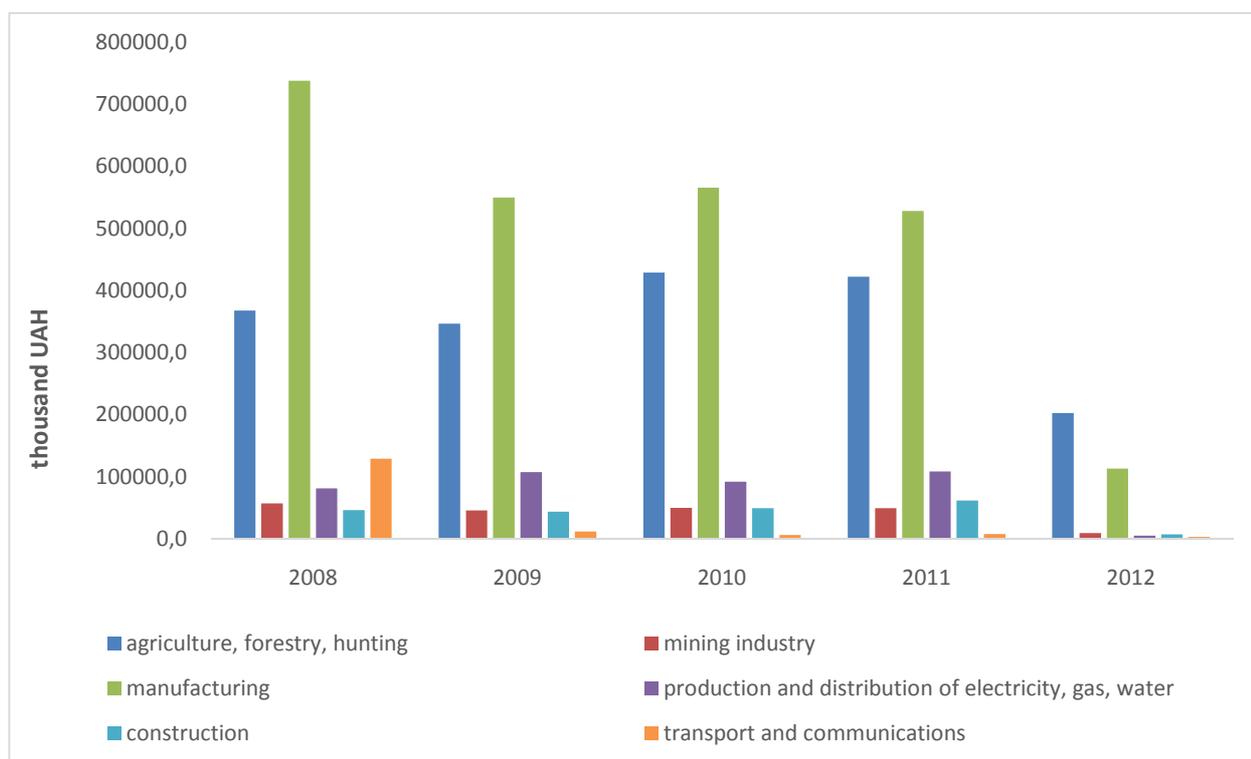
In our article we try to examine the current state of financing scientific and technical area in Ukraine, to provide the best examples of the international experience and to propose guidance on implementing PPP in the research field.

### Analysis of funding of scientific and technical works in 2008-2012.

The share of the total funding of scientific and technical works from the State budget was 40.24-48.72%. In the crisis in 2009 reduction in funding of scientific and technical works from the State budget was from 3.9 to 3.4 bn. UAH, and the proportion of the total from 48.72 to 43.45 % during 2010-2011. There is a gradual recovery funding to pre-crisis levels (3.9 bn. USD in 2011), but the share has continued to decline in the future (40.24% in 2011).

Considering the funding of scientific and technical works in the economic field (Picture 1), in 2008-2011 the bulk of state funding directed on scientific and technical works in manufacturing was 13,69-18,89%

and in agriculture 9,42-11,58% . We should also stress a gradual annual decline in the share of financing scientific and technical works in manufacturing, which decreased from 18.89% in 2008 to 13.69% in 2011, while the actual values from 738.4 to 528, 4 bn. USD respectively. Also, there was a reduction in state funding shares in the mining industry (from 1.5% in 2008 to 1.3% in 2011) and in transport and communications area (from 3.31% in 2008 to 0, 20% in 2011). Instead, the shares of public financing in the construction industry (from 1.20% in 2008 to 1.60% in 2011), agriculture (from 9.42% in 2008 to 10.94% in 2011) and the production and distribution of electricity, gas and water (from 2.09% in 2008 to 2.82% in 2011) [5, 6, 7].



**Picture 1. Financing of scientific and technical work in the economic sphere in 2008-2012 thousand UAH.**

**Source:** Statistical publications “Scientific and Innovation Activity in Ukraine” [Electronic resource]. – Access: <http://www.ukrstat.gov.ua/>

Considering the funding of scientific and technical work on the state budget in the social sphere, we should note that in contrast to the economic sphere there is a gradual increase of education funding (from 0.93% in 2008 to 2.04% in 2011), health care and social assistance (from 5.96% in 2008 to 7.23% in 2011) [5].

Half of the funds from the State budget were spent on financing of scientific and technological projects in real estate, leasing, engineering and business services. Their share gradually increased from 47.69% in 2008 to

50.23% in 2011 (their basis is research and development (89.94-93.33% during 2008-2011)) [5].

Starting from 2012 the information about financing of scientific and technical works is provided by NACE 2010 (fr. Nomenclature générale des Activités économiques dans les Communautés Européennes), and unfortunately comparison by industry to previous years is difficult. The data can state a significant reduction in state funding of scientific and technical works in economic and social areas. In 2012 the largest share of public funding (70.42%) was sent to professional,

scientific and technical activities, 97.18% of which are aimed at research and development [5].

The need of fiscal austerity leads to the search for new models to attract financial resources to the development of scientific fields. The sources of such resources can be financed by private investors and companies interested in implementing innovative products to raise extra revenue in future periods due to the application of more efficient means of production, market introduction of innovative design and so on.

Valley A. Hicks and George in his article "How Financial Resources Can Influence on the Innovative Products of Universities" emphasized that the grants for research projects is the driving force of innovation development research centers in higher education [8]. Rodriguez-Fernandez JM in his article "Funding of Research Activities in Colombia from 2000 to 2012" indicates that the state support of research activity tends to increase [9]. Link AN and Scott Dzh.T. in their article "State Support of Research Activities, External Support from the Private Sector and Economic Growth" argued that the financial support of the research activity of small enterprises increases amount of jobs mainly by expanding cooperation of manufacturers of innovative products and firms customers [10].

Such cooperation on the market of innovative products is possible only if the research organizations are providing support of the development of their activities, procurement of equipment and other tangible assets. Development cooperation between science and business through PPP needs to create an enabling legal framework and institutional support. V.A. Ivanov notes that one of the most important tasks of network technology parks and turning them into "Silicone Valley" is establish strong ties with organizations investors. A.I. Sukhorukov emphasizes that for innovational development appropriate territorial clusters should be created that are able to direct the activities on production of globally competitive products.

### **International experience**

Now we will explore the experience of countries in which innovative development is financed by PPP.

**In Austria, such programs as Kplus Ministry of Transport, Innovation and Technology and Kind / Knet Ministry of Economics and Labour, Christian Doppler Laboratory** are implemented where funding scientific sphere is based on cooperation between enterprises and research institutions, and implemented in an integrated scientific space research basic research laboratories Universities research centers and private companies.

The program Kind / Knet was established in 1999 to promote and strengthen the competitive technology clusters by supporting competence of centers and their networks. This program is aimed at the development and transfer of applied science and engineering technology, developed jointly by universities, public research institutions and corporate research centers. The program also provides with cooperation for 4 years with possible extension of the contract for another 3 years. Funding for the program is as follows: about 33% - the federal budget, about 16% - local budgets, about 51% - funds of private partners.

Since 2007, the program Kplus and Kind / Knet was merged within the competence of the Centre for different technologies whose activities are carried on the same basis as the program that formed the basis for it. The main type of fiscal stimulus in this field in Austria is to reduce the income tax base by 8-10%, provided that the amount of the discount is invested in certain tangible assets for a period of not less than 4 years. Herewith, tax incentives of conducting on public-private partnership in the field of tax was abolished in 2011.

**In the Russian Federation there is also observed an increased cooperation between science and business through revitalization of technology parks at universities.** Thus, Technological Park at Southern Federal University of Russia consists of 12 research institutes, 7 design bureaus. The main innovation unit is a PFC technology park created on the basis of technology parks at Rostov State University and Taganrog State Radio Engineering University. Today this technological park brings together 50 small innovative enterprises. A number of firms of this Technological park (LLC "NVP Spetsbud-How", JSC "Medic", JSC "Rhythm") are leaders of innovation development.

An important contribution to the development of innovations in Russia is made by South Russian State Polytechnic University of M.I. Platov. This is a multi-institutional educational and scientific innovation complex. It consists of 12 research institutes, management innovation, scientific-research, scientific - industrial centers, collective use "Nanotechnology YURHTU (NPI)" and Don Technological park. Thus, PPP in R&D and innovations implemented within networks of research centers that perform research for the private sector through long-term cooperative agreements.

State support of technology parks in the Russian Federation is subjected to the law on industrial parks and laws, which are legislated at the regional level. The State encourages innovation technology parks primarily by establishing preferential income tax rate to the local budget (from 18% to 13.5%), property tax exemptions

for organizations providing investment tax credit, subsidies from the city budget, awards in the field of innovation.

Concerning participation of private entities in the financing of technology parks, Y.A. Hromov notes that in current technical parks in Russia the most widespread form is mixed ownership. Statistics shows that about 50% of created technology parks are based on mixed ownership, 70% of which are dominated by state ownership.

### **The French research and innovation system has undergone profound reforms in research and innovation.**

#### **Strong, independent universities**

In 2013, the universities had a budget of €10.382 billion – up by 8% compared to 2012. The Act of 10 August 2007 on the liberties and responsibilities of universities means they can enter into cooperative partnerships with companies and set up commercial subsidiaries to manage patent portfolios. Meanwhile, the creation of university foundations (32 to this day) allows them to tap into private funding for collaborative projects [11].

#### **Powerful public-sector research bodies**

The **CNRS (National Centre for Scientific Research)**, France's principal multidisciplinary research body, has produced 16 Nobel Prize winners and 11 Fields Medal winners.

The **CEA (French Atomic Energy and Alternative Energies Commission)** has 8,500 employees and almost 150 research and experimentation sites.

The **INSERM** (National Institute of Health and Medical Research) employs 13,686 people, of whom more than 1,660 are foreign researchers.

#### **Innovative cooperation instruments**

**Research and higher education centres** (PRES, 26 in total at the end of 2012), advanced research thematic networks (RTRA, 13) and thematic research and healthcare centres (CTRS, 9) are in full expansion. Their role: to bring together public research players and pool research and resources, particularly around issues of major scientific interest. R&D spending in France amounted to €45 billion in 2011. It is double the 1981 figure in real terms, and represents more than 2.25% of GDP. France ranks fifth among the richest OECD countries, ahead of the United Kingdom (1.77%).

France ranks sixth for its world share in scientific publications (4.2%), and fifth in terms of quotations in global publications.

Laboratories welcome more than 1,800 researchers, 2 500 engineers and 1,800 foreign researchers and students every year [11].

#### **Strengthening R&D and innovation in companies**

Since 2004, the R&D tax credit has become more and more important. Since 2008, it has become the main public financing source for innovation spending by companies. It covers 30% of all R&D costs up to €100 million, and 5% above this threshold. Its volume-oriented and uncapped structure makes it simple and attractive. Eligibility will even be extended from 2013 to encompass innovation spending by SMEs (20% rate up to €400,000).

The number of CIR-registered companies has grown fast: by 80% from 2008 to 2010. 17,700 companies claimed the R&D tax credit, 2,130 of which are foreign companies established in France. In 2010, the total tax benefit to companies amounted to €5 billion [12].

Above all, the R&D tax credit is a powerful incentive to carry out public-private partnership research, as R&D expenditure contracted out to public-sector bodies is double-counted, thereby effectively doubling the tax credit (up to a maximum of €12 million). This is why France is ranked first in Europe for corporation tax rates on R&D operations, taking into account tax bases, depreciation allowances, tax exemptions and tax credits [13].

The R&D tax credit has become even more attractive for foreign investors since the decision to broaden the credit to include innovation costs for SMEs and maintain it until 2017.

#### **Project financing**

The mission of the **National Research Agency** is to fund research projects selected on the basis of international criteria. The draft budget for the call for proposals programme is €557million. There were 41 calls for proposals (of which 14 are open to international collaboration), 6,319 project applications and 1,296 projects funded in 2011. The same year, the average funding per project was €350,000 for "open" calls for proposals and €700,000 for public-private partnership calls for proposals. The agency invested nearly €4 billion in four years [11].

## Encouraging public-private partnerships

The goal of the Carnot institutes is to tap into public-sector research resources to meet business innovation needs.

The 34 institutes employ 17,000 researchers, and have an annual budget of €1.5 billion. They generate €230 billion in partnership revenue. This revenue has increased by 30% in four years. Every year, more than 5,000 R&D contracts are signed between businesses and the Carnot institutes. For example, the Qualiment research network (nutritional and sensory quality of foods) has 516 researchers and a research budget of €43 million [11].

## Innovation clusters

France has 71 innovation clusters in which companies, public-sector higher education institutions and research laboratories work on collaborative projects focusing on market-oriented projects and prototypes. Over 6,500 companies belong to these clusters [14]. More than 800 foreign-owned entities belong to the French innovation clusters. Between 2006 and 2010, 4,600 collaborative projects received more than €3.6 billion in state funding [15].

## The National Investment Programme to encourage innovation

In 2010 the French government introduced a €35-billion state-funded “National Investment Programme” to underpin the competitiveness of the French economy. €19 billion is being allocated to projects in higher education and research and another €16 billion to maintaining industrial competitiveness, promoting sustainable development and supporting the digital economy [11].

### €19 billion for higher education and research:

- **Excellence initiatives (Idex):** €7.7 billion to promote the development of five to 10 world-class multidisciplinary centres of excellence in higher education and research. €9 billion for research and its commercialization.
- **Twenty-three “research and higher education hubs”** are being set up, involving nearly 60 universities, hospitals, higher education institutions and research establishments (ENSAM Engineering School, Institute de Physique de Grenoble, Institut de Physique du Globe de Paris, etc.).
- **Laboratories of excellence (Labex) and equipment of excellence (Equipex):** €2 billion to provide the best French research laboratories with improved resources and

invest in the latest equipment to enable them to compete internationally.

- **Technological Research Institutes (IRT)** bring together the skills of the industrial sector and public research through public-private co-investment and cooperation between all those involved. Their budget is €2 billion.
- A total of 933 projects have been selected via 91 calls for projects, involving more than 2,000 companies. A total of €26.9 billion had been allocated by summer 2012 [16].

The total amount of private and state investment expected thanks to the leverage effect of the National Investment Programme is €70 billion [17].

## Flagship example: France’s cloud computing

In 2011, the French government issued an initial call for projects dedicated to R&D in cloud computing, as part of its National Investment Programme. Thanks to this initiative, five projects will receive state aid amounting to €19 million: CloudForce by Orange, CloudPort by Prologue, Magellan by Bull, Nu@age by Non Stop System, and UnivCloud by INEO. The French market, which continues to grow strongly, was worth €1.85 billion in 2010, €672 million of which was generated by SMEs, and are thought to have made up more than 6% of the French software and IT-services industry in 2012 [18].

## Facilitating innovation in Europe

During her European Union presidency, from July to December 2008, France devoted herself to fostering the creation of the European Research Area and facilitating innovation in Europe.

France is ranked second in Europe and fourth in the world for the number of patents filed, with 7,664 international patents in 2011 [19].

Starting in 2014, inventors will be able to request a single patent from the European Patent Office (EPO) to provide legal protection in 25 European Union member states, thereby leading to reduced costs. Patent applications may be written in French. Paris has been chosen as the main location for the new Unified Patent Court’s central division [18, 20, 21].

**Within France’s embassies abroad, the Science and Technology Department works hand in hand with the Economic Section on running Research, Development and Innovation Clubs (RDI Clubs)** that bring together the representatives of French laboratories and companies operating abroad. These regular meetings are organised as a forum for informal dialogue on the conditions governing RD activities in the host

country, with discussions addressing issues such as the tax environment, human resources, intellectual property, innovation and research funding policies, etc. The aim of the initiative is to forge links between French businesses and public research laboratories operating in a particular country. By enabling participants to share their experiences, the meetings aim to contribute to the success of French firms operating, or looking to establish an operation, in the country, and to foster opportunities for public-private collaboration [22].

**In China, regular RDI Club meetings are organised in Shanghai, Beijing and Canton,** focusing on a guest speaker invited to share his or her experiences with the meeting.

**The RDI Club in India** was launched in 2012, starting out with a group of 25 participating firms. The first meetings were held in Delhi and Mumbai.

**In Japan, the Embassy Science and Technology Department organises regular themed seminars** attended by academic experts and leading industrialists from France and Japan. The meetings provide an opportunity to promote French technology to the Japanese RD community in key target areas.

**In 2012, the Consulate of France in San Francisco launched the French hi-tech network in Silicon Valley,** in a format specifically tailored to the local context. It organises monthly themed events for young French entrepreneurs based in Silicon Valley and graduates of French universities and *grandes écoles* working in the region.

#### **NETVA and YEI programmes**

**NETVANETVA (New Technology Venture Accelerator)** is a programme designed to help innovative start-ups emerging from the incubator phase or using technology developed through the French research system to take their first steps on the international stage. In order to help these fledgling companies optimise their strategy in advance and prepare them for a move into the US market, NETVA offers three key components:

- training for successful applicants, provided by French and American entrepreneurs;
- networking with carefully selected partners: universities, companies, law firms;
- mentoring and personalised advice from an entrepreneur or technical expert in the field.

Originally based in Boston, NETVA extended its scope of operations to San Francisco in 2012 and doubled the number of start-ups selected (10 successful applicants in 2012, divided equally between the two centres) [22].

**YEi (Young Entrepreneurs Initiative)** is a programme set up to help innovative US start-ups in France. Its aims are to:

- promote the creation of innovative start-ups in France by researchers/entrepreneurs based in the USA;
- circulate information on French policy and tools for supporting innovation;
- encourage dialogue between the scientific, industrial and investment communities in the two countries as a means of stimulating entrepreneurial ecosystems.

**As of 2012, YEi offers three services, tailored to the profile and needs of each technology start-up:**

- the Annual Competition selects the best start-ups and provides them with a three-stage booster programme: training, assistance with mobility and personalised mentoring for a one-year period, including access to one of the innovation centres operated by RETIS, the French network for innovation;
- the Deal provides individual coaching for innovative start-ups and entrepreneurs to help prepare their development project in France; the Academy provides US entrepreneurs with information on the workings of the innovation system in France and Europe through training courses organised in the USA [22].

#### **Institut Pasteur Shanghai's Advance BioChina global biotech accelerator.**

The Advance BioChina global biotech accelerator set up by the Institut Pasteur Shanghai offers global biotech firms a secure and competitive framework through which to approach the Chinese market.

A survey conducted by the Institut Pasteur Shanghai (IPS) in 2011 of a sample of 100 NASDAQ-listed international biotech firms found that while 70% of them had development programmes relevant to China, only 20% were really positioned in the market.

**Yet the advantages of development in China are undeniable:** a rapidly expanding potential market for pharmaceuticals (predicted to become the world's 2nd largest market by 2020), real savings still to be made by manufacturing in China and the presence of local venture capital investors. There are still a number of risk factors to be considered, however: imperfect intellectual property protection, language barriers, difficulty in accurately assessing market potential, complex regulatory issues and, above all, the difficulty of finding the right partner.

**Table 1.**

**Overview of international experience of public support of innovation development through fiscal stimulus of research activities**

Country	Fiscal measures of stimulating of innovation
<b>Russian Federation</b>	<ul style="list-style-type: none"> <li>– Tax accounting write-off of intangible assets innovation orientation (exclusive rights to inventions, industrial designs, utility models, etc.) over two years through the mechanism of depreciation;</li> <li>– Members of “Skolkovo” were able to use tax exemption for-profit organizations for 10 years from the date of registration as a participant in the project, provided that the revenues from sales of goods (works, services, property rights) such participant shall not exceed 1 billion RUB per year.</li> </ul>
<b>USA</b>	<ul style="list-style-type: none"> <li>– Providing tax credits for innovative companies.</li> </ul>
<b>Germany</b>	<ul style="list-style-type: none"> <li>– Financial grants for innovation activities are paid for each project. The grant is intended to finance 50% of the project;</li> <li>– Lending research activities within government programs (up to 100% of project costs);</li> <li>– Lack of tax incentives [23].</li> </ul>
<b>UK</b>	<ul style="list-style-type: none"> <li>– Provide loans for research activities;</li> <li>– Reduced income tax rate (10%) for companies that have patented their research and development;</li> <li>– Accelerated depreciation on equipment and vehicles used for research and development [24].</li> </ul>

**Source:** Composed by authors

It was to help overcome such obstacles that the Institute Pasteur de Shanghai created its Advance BioChina (ABC) global accelerator in March 2011, to promote international innovation in China on behalf of biotech and public health firms. ABC is modeled on Pasteur BioTop, the biotech business incubator set up by the Institute Pasteur in Paris in 2000 to help young start-ups by providing the best of scientific, technical, industrial and financial support to catalyse a new research dynamic that will create jobs in the future.

Advance BioChina’s objective is to identify and develop up to 10 firms over the next three years in the form of joint ventures (between the start-ups and ABC) based in Shanghai. The development budget allocated to each firm will be of the order of €1.5 million to €3 million over an incubation period of three to five years. The assistance provided by the incubator will take a variety of forms: technical expertise, access to laboratories and hospitals, advice on the protection of intellectual property.

Advance BioChina is a strategic initiative by the Institute Pasteur Shanghai to expand its development and global reach, and will further strengthen the Institute’s position in the biotech innovation market [22].

**Bond’innov incubator** – is an aid for innovative entrepreneurs in the global South (intertropical region, developing and Mediterranean regions). Bond’innov is a business incubator based in Seine-Saint-Denis that was set up to assist innovative projects and support business start-up concepts in both the North and South.

**Bond’innov is the first initiative in France to support start-up projects for markets in the global South.** Its mission is to help commercialise the results of research carried out in the global South and disseminate innovations in the North that may also be of interest to the countries of the South. Bond’innov is chaired by the Research Institute for Development (IRD). An initial call for proposals was issued in 2012 for all project initiators or managers of innovative start-ups seeking incubator services. The non-exclusive themes cover innovation in the fields of health and biotechnology, the social and cooperative economy, sustainable development and the environment. Bond’innov currently has five firms in the incubator stage [22].

Table 1 provides an overview of international experience of public support of innovation development through fiscal stimulus of research activities.

As it can be seen from Table 1, in the leading countries the mechanism of state financial support of the innovation capacity and conduct research activities is used actively. We should note that the tax incentives are hardly used due to the high loss of budget.

State promotion of research activities in Ukraine also takes place. Thus, according to the Tax Code of Ukraine institutions of science which are maintained by the state or local budgets are exempt from land tax. According to the program budget support of technological parks there are complete or partial (50%) interest-free loans projects of technological parks, full or partial compensation of interest paid to commercial banks, along with targeted subsidies in the form of amounts of import duties. Also important is that strategically important projects, providing technological innovation and development of basic industries of real economy are priority for raising funds by the State Agency of Investment and National Projects of Ukraine.

**Conclusions**

In modern conditions a significant issue is the use of public-private partnership in research activities. There are forms of cooperation of science and business, small companies with universities, technology parks and business incubators. All these forms are common in the EU, USA, China and other countries. Unfortunately, today there is almost no legal framework that would help to intensify the creation of small enterprises at

universities. The existence of such enterprises would be an incentive for increasing innovation activity of students. As for the parks, in Ukraine there is a legal framework for their establishment and functioning (Laws of Ukraine “On Special Technological Innovation Parks”, “On Science Parks”, “On Industrial Parks”, “On State Regulation of Activities in Technology Transfer”). Expansion of technology parks promotes scientific potential and the competitiveness of the national economy. Business incubators in Ukraine are in the form of NGOs that are regulated by the Law of Ukraine “On Public Associations”. Business incubators contribute to the establishment and development of innovative enterprises. In Ukraine they are presented by Ukrainian Association of Business Incubators and Innovation Center.

Regulatory support the formation of PPPs in scientific and technological sphere in Ukraine is represented by the following legislation:

1. The Law of Ukraine “On Public Private Partnership” which provides the basis for a substantial proportion of the investment needs of technology parks and small innovative enterprises at universities through investment of private partners.
2. The Decree of the Cabinet of Minister of Ukraine (CMU) “On approval of the private partner government partners information on the implementation of the agreement concluded under the public-private partnership”, which provides an open exchange of information between public and private partners in the implementation of joint projects, particularly in the field of science and technology.
3. The Decree of the CMU “On approval of the method of detection of risks associated with public-private partnership, their assessment and determine the form of management”, which deal with matters relating to the distribution and risk between public and private partners, which facilitates certain guarantees to the private partner.
4. The Decree of the CMU “On approval of state support for the implementation of public-private partnership” defines the procedure for public funding of specific projects implemented by PPP.

Thus, the existing regulatory support allows to create a public-private partnership in the field of science and technology. However, there are government incentives to conduct research activities and it is an important factor in order to promote the creation of innovation centers in Ukraine. The existing regulatory legal framework provides the basis for the development of public-private partnership in the area of science with the leading universities of the country. Currently the largest universities in Ukraine such as Kyiv National Taras Shevchenko University, National Technical University

of Ukraine “Kyiv Polytechnic Institute”, Ternopil State Technical University of Ivan Pul'uj etc., there are research centers where students can realize their academic knowledge and create innovative product.

The establishment of research centers on conditions of co-financing by state and business in Ukraine is possible in accordance with Article 4 of the Law of Ukraine “On Public Private Partnership”, which defines the scope of the partnership. Thus, the establishment of research centers on the basis of existing research institutions to meet the specific needs of the private sector in innovation and application developments in Ukraine is able to accelerate greatly innovative development and increase the competitiveness of domestic products on the international market. For the successful implementation of agreements on cooperation in science and business in Ukraine is recommended to implement the following:

1. Create the review of scientific institutions to consolidate some research units in a network of competence centers funded through PPPs;
2. Improve the protection of intellectual property rights by amending the Law of Ukraine “On Copyright and Related Rights” in the direction of facilitating the acquisition of intellectual property rights;
3. Determination of long duration relationship for cooperation in the field of science in the Law of Ukraine "public-private partnership" formula 4 + 3 (basic contract for 4 years with an option to extend the agreement in the event of a positive conclusion as a result of monitoring the effectiveness of such cooperation), which will become basis for improving business confidence in government research institutions and universities.

It is worth saying that promotion of small business at university, based on international experience, allows to create jobs for young people and give them the impetus to continue research activities in our country. Small businesses at universities in the long run can access the system and create a self-sustaining source of income for the university. An important role in this process also play fiscal incentives and state support system of invention by identifying national priorities, technical and technological development.

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