

SOCIO-ECONOMIC DEVELOPMENT OF UKRAINIAN REGIONS IN THE CONTEXT OF EUROPEAN INTEGRATION

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Abstract

Main directions of the social and economic development of Ukrainian regions in the context of European integration are determined in the research. The idea is that the main task today is to provide not only development but prosperity of the region. Although the Ukrainian economy has reached an up growth of 2.5-3% in 2018, this level is not sufficient. European analysts believe that it is necessary to ensure growth at least at the level of 5-6%. This can only be possible through the formation of a competitive economic environment and by developing innovative entrepreneurship.

Speaking about innovative entrepreneurship it was emphasized the role of start-ups. One of the main reasons for the creation, successful development and the continued existence of start-ups was marked the slowdown of large firms (on the example of Ternopil region) which use existing products, and the development and creation of new ones are not nearly done. Therefore, start-ups due to their mobility in terms of new ideas implementation successfully compete with them.

The article deals with the key elements of an effective start-up implementation. Among them are defined: an idea, a team of innovators, resources and marketing of innovations. The implementation of the business projects is accompanied by a high degree of risk. In Ukrainian conditions it's not only the venture one, due to the lack of completely new products introduction and the lack of objective information about the market and future consumers. But it was underlined a great impact of the political and social risks both on the regional and national levels.

Due to the fact that interactions of small and medium-sized enterprises are often informal and based on trust, the area of interaction and support of SMEs innovative activity should be formed in the region (or based on the cluster model or based on regional innovation systems). To make small and medium-sized enterprises fully exploit the regional potential it was proposed creation of "regional innovative laboratories" as models of virtual business – education – science partnership, stimulating networking in innovative regional and cross-border clusters as a voluntary partnership of market participants. And also "regional innovative ecosystem" policy as a set of conditions that ensure the successful establishment and development of enterprises, provided by scientists and researchers, the scientific community, innovation managers, and investors must be developed and implemented.

Keywords: regional development, Euro integration, ecosystem, innovations, entrepreneurship.

INTRODUCTION

Regional development is extremely important for Ukraine today. As the experience of the European Union shows, the economic prosperity of the country can be ensured only by the strongest regions. At the same time, it is necessary to strike a balance between the internal and external regional and national interests. Local and regional development is now an integral part of the activities of local authorities and territorial organization in the countries of the European Union. As the EU attaches great importance to regional policy, it is important for candidate countries to move in

this direction and adapt their legislation in accordance with the regional component of international and cross-border cooperation.

At the same time, the Ukrainian regional authorities are actively working on the development of strategic guidelines based on the EU experience. While developing effective Strategies for the regional development for the period 2021-2027, it is important to place emphasis properly to ensure not only sustainable but also rapid socio-economic development of Ukrainian regions. Only this approach will allow successful implementing Ukraine's European integration intentions in the nearest future.

PREVIOUS RELATED RESEARCH

The globalization processes in the world economy have changed the position of its main subjects. Previously, the region was defined only as the place of business providing; nowadays the regions become main players.

The nature of regional competition is different from the competition of national economies (M. Porter, 2002) [20]. The regions are not characterized by the use of appropriate governmental economic policies (monetary, fiscal, customs, tax, etc.). Regional competition is also different from the competition of companies due to the lack of a single decision-making center in the regions, which develops and implements a regional competition strategy aimed to maximize profits. He also marks, that the main factor for regional competitiveness is the innovative capacity. His aphorism “There are no low-tech industries, only low-tech firms” can be determined as the slogan for modern regional development.

Regions compete by creating a favorable regional business environment, which is now determined not by geographical characteristics, but purely economic (business climate, investment attractiveness, protection of property rights, availability of scientific and educational centers, highly qualified personnel, positive demographic trends, etc.).

The regions are considered to become the growth poles of the national economy, play a leading role in the processes of decentralization and regulation of the economic (including industrial) policies of the world leading countries.

There were studied some effects from the region and its subjects joint activity on the global markets. The synergy effect for Ukrainian regions as the multiplication of the result from joint activity in the process of competition and EU integration was considered by Yu. Saveliev (2010 [23]), Zhalilo Ya.A., Zhuk V.I., Snihova O.Yu., Filipenko A.O., Shevchenko O.V. (2017) [17], study “Synergy of Cross-border Cooperation and Regional Development Strategies in Ukraine” (2018) [25]. The economic convergence as a process of regional economies approximation due to common factors in Ukraine is considered by Naumenko Zh.H. [16], Storonianska I.Z. [24].

RESEARCH RESULTS AND DISCUSSION

Regions have to solve two related but contradictory tasks: ensuring economic growth; improving the quality of life of the population [14].

The object of regional competition is the conditions of living and doing business, the investment attractiveness and other conditions of regions activity. An important stage in the competitiveness of the regions is the competition for human potential, which will further embody an innovative strategy, which today is the only key to success in international markets.

The priorities for regional development in the EU are concentrated in the areas of R&D support, increasing the number of clusters of SMEs, formation of support regional infrastructure and ecosystem, development of public-private partnership.

In this context, leading concepts of regional development are considered below:

- Cluster concept – M. Porter (1998, 2016 [19; 21]), Ch.Ketels (2006) [11]. Business cluster is a geographic concentration of interconnected businesses, suppliers, and associated institutions in a particular field. Clusters are considered to increase the productivity with which companies can compete, nationally and globally Michael Porter claims that clusters have the potential to affect competition in three ways: by increasing the productivity of the companies in the cluster, by driving innovation in the field, and by stimulating new businesses in the field.

- Ecosystem – James Moore (1993) [15], Iansiti and Levien (2004, [10]), Bakushevych, I., Goshchynska, D., Martyniak, I. (2019) [5]. Business ecosystem – is the network of organizations – including suppliers, distributors, customers, competitors, government agencies, and so on – involved in the delivery of a specific product or service through both competition and cooperation. The idea is that each entity in the ecosystem affects and is affected by the others, creating a constantly evolving relationship in which each entity must be flexible and adaptable in order to survive, as in a biological ecosystem. Ecosystems create strong barriers to entry for new competition [9].

- Smart-specialization – Barca (2009) [6] Ahner & Landabaso, (2011) [2]. Smart-specialization an innovation policy concept that aims to boost regional innovation, contributing to growth and prosperity by helping and enabling regions to focus on their strengths. Smart Specialization is based on partnerships between businesses, public entities and knowledge institutions. This approach is realized under the current European Cohesion Policy.

The cluster and smart-specialization concepts are based on the regional specialization defining. They are aimed to stimulate innovations on the regional level to provide international competitive advantages. The ecosystem is a wider concept 'cos it connects both competitiveness and cooperation instruments.

Statistics on social and economic developments in Ukraine and European Union

While we are talking on the European integration processes, it would be useful to identify the main gaps between EU and Ukraine in the sphere of the social and economic development. Ukrainian economy can be characterized as high risk with permanent crises. There are a lot of non-economic factors that must be considered while prognosticate the future development: the war, 5-year political changes, Ukrainian mentality and historic connections.

Since 2003 there were two deep crises, connected: the first one with the World financial crisis 2008 and the second one 2014-2015 with the Revolution of Dignity and military conflicts in the East Ukraine and in the Crimea. As it is shown on the figure below the most negative factor for Ukrainian economy was the Hryvnia devaluation in 2015. This critical mass of factors denied the development for 15 years back.

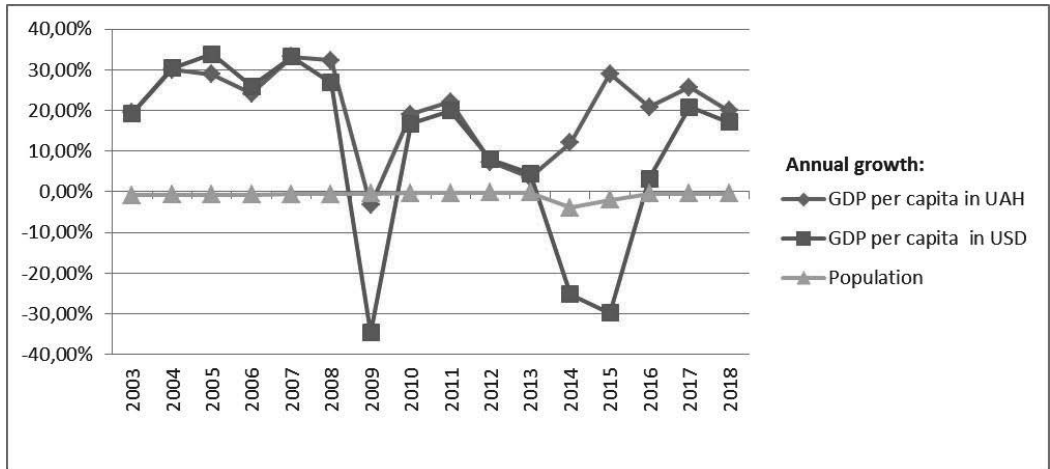


Figure 1. The evolution of GPD per capita and population in Ukraine during 2003-2018

Source: [8]

The growth of the GDP of Ukraine in the second quarter of 2019 was a record for recent years 4.6% (when National Bank of Ukraine expectations were at 3% and Bloomberg analysts had forecast 2.7%). But these are the first steps and the great impact on the people incomes cannot be expected in the nearest future. The long stagnation period caused the economy to be one of the poorest in the Europe.

As we can see (Table 1), the gap between richest (Denmark) and poorest (Bulgaria) EU countries is 8.6. At the same time the gap between the EU average and Ukraine is almost 8.8.

Despite the low level of income, the level of wage taxation in Ukraine is not the lowest compared to the EU. It is considered on the level of such great economies as Ireland (20.87%), United Kingdom (20.34%) or stable economies of Spain (20.10%) and Portugal (20.12%). The structure of wage deductions⁶ (2018) consisted of two parts: 18% – personal income tax, 1.5% – military fee.

Comparing with 2014 the tax structure was changed from 18.6% to 19.5%. To reduce the tax charge the 3,6 % personal pension insurance or the so-called Single social contribution has been abolished.

⁶ Wage taxes - are deducted from the amount of income paid to the employee, but their proper budget transfer is the responsibility of the employer

Table 1. European Union and Ukraine Salary and Tax (2018)

Rank	Country	Gross	Net	TAX
1	Denmark	€5,191.00	€3,270.00	37.01%
2	Luxembourg	€4,412.00	€3,159.00	28.40%
3	Sweden	€3,340.00	€2,570.00	23.05%
4	Finland	€3,380.00	€2,509.00	25.77%
5	Ireland	€3,133.00	€2,479.00	20.87%
6	Austria	€3,632.00	€2,324.00	36.01%
7	Germany	€3,703.00	€2,270.00	38.70%
8	France	€2,957.00	€2,225.00	24.75%
9	Netherlands	€2,855.00	€2,155.00	24.52%
10	United Kingdom	€2,498.00	€1,990.00	20.34%
11	Belgium	€3,401.00	€1,920.00	43.55%
12	Italy	€2,534.00	€1,758.00	30.62%
13	Spain	€2,189.00	€1,749.00	20.10%
14	Cyprus	€1,779.00	€1,658.00	6.80%
15	Slovenia	€1,626.00	€1,062.00	34.69%
16	Malta	€1,379.00	€1,021.00	25.96%
17	Estonia	€1,221.00	€957.00	21.62%
18	Portugal	€1,158.00	€925.00	20.12%
19	Greece	€1,092.00	€917.00	16.03%
20	Czech Republic	€1,149.00	€873.00	24.02%
21	Croatia	€1,081.00	€802.00	25.81%
22	Poland	€1,102.00	€784.00	28.86%
23	Slovakia	€980.00	€748.00	23.67%
24	Latvia	€1,013.00	€738.00	27.15%
25	Lithuania	€885.00	€693.00	21.69%
26	Hungary	€955.00	€635.00	33.51%
27	Romania	€787.00	€565.00	28.21%
28	Bulgaria	€586.00	€457.00	22.01%
	Average EU	€2,143.50	€1,543.32	
29	Ukraine	€7810.88 €243.03 ⁷	€6287.76 €195.64	19,50%

Source: [4; 18]

The level of personal income tax was raised from 15% to 18% and from 2015 a military fee was introduced. The best places for capital taxation are Cyprus (6.80%) and Greece (16.03%).

Considering economic and geopolitical changes, especially the depreciation of UAH against EUR currency (average exchange rate about UAH 1050 in 2010-2013; UAH 1572 in 2014 and UAH 3214 for 100 EUR), net incomes in Ukraine are on the same level for past 5 years (EUR 195.64 in 2018 vs EUR200.47 in 2014).

⁷ The calculations made on the average annual rate according to the NBU [3]

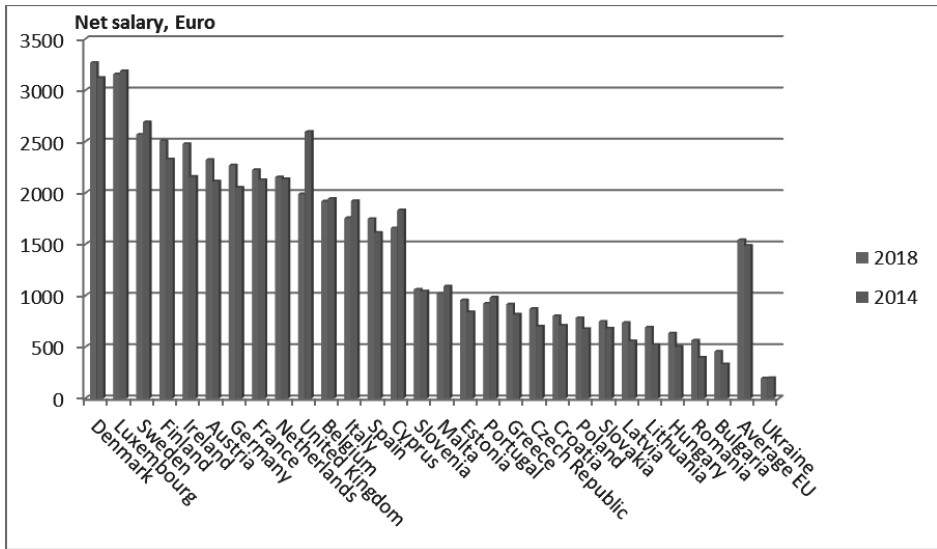


Figure 2. Net income (after taxes) average wages in Europe and Ukraine in EUR currency (2014 vs 2018)

The interesting fact is the Gini coefficient evolution in Ukraine. The Gini coefficient measures the inequality among the levels of income within the population. A Gini coefficient of zero expresses perfect equality where everyone has an exactly equal income, while a Gini coefficient of one expresses that one person has all the income. After the 2015 review Ukraine (25.50) is at the same level as Netherlands (25.10), Finland (25.40) and Belgium (25.90).

There is no common European tendency for incomes and welfare growth (Figure 2). The most significantly was the income growth in Ireland (€319.00), Germany (€216.00), and Austria (€210.00). The most affective is UK negative average salary growth for more than € 600.00. There is negative average salary growth in 8 EU countries as well as Ukraine. Firstly, this can be explained because of national currencies been volatile against EUR and USD currencies during the past years. Such countries like Bulgaria, Croatia, Czech Republic, Denmark, Hungary, Poland, Romania, Sweden and the United Kingdom, Sweden, United Kingdom use their national currencies instead of EUR. Second mark is a political aspect, like BREXIT. But there are a lot of examples for economy growth as a reason for net income growth.

Some aspects of decentralization reforms in Ukraine

According to one of the ideologues of decentralization in Ukraine, Anatoly Tkachuk (2017), as it indicates in *Decentralization in Ukraine...* (2017), the reform embodied in Ukraine, is unique one, and does not copy the experience of any other country. It has three components: 1. the reform of the territorial organization of power, 2. the reform of local self-government, 3. the reform of regional policy. The

main goal of the reform is to create conditions for the development of communities and bring services closer to people through the formation of wealthy communities, the transfer of most of the power and responsibility from central to the basic level of management, and clear delineation of functions on each level of management. Local government bodies in newly formed amalgamated territorial communities are forcing to solve many new tasks related to the formation of regional development policy, including search for models of innovative development of the communities, creation of entrepreneurial infrastructure for the development of sustainable regional ecosystems, as well as guaranteeing the resource support of local governance.

Summarizing the experience of decentralization reforms in European countries Koryavets (2013) certifies the synergetic approach that is optimal in normalizing and improving the system of governance. In the process of creating a new decentralized management system, the necessary element is the combination of national, regional and local interests, taking into account the local specifics of socio-economic, political and cultural development. He concludes that Regional Development Offices will face a difficult task of managing the border areas: simultaneously to solve both differentiation and integration problems. The effectiveness of decentralization decision-making process is directly dependent on the differentiation of interests. Socio-economic differentiation of a highly developed society implies the interweaving of interests of various actors of society because of social exchange.

Thus, the task of self-government reforms in Ukraine is to provide not only decentralization process in central regions but also prosperity of the local communities of remote and bordering regions. Local government must eliminate institutional and legal obstacles and encourage innovative forms of solving local problems.

New regional policy should be targeted to development of social entrepreneurship activities in the “amalgamated hromadas” (AH) with the participation of citizens that allow them planning of their entrepreneurial ecosystem, solving their common problems. Hromadas have a range of issues that are difficult to solve on their own. For instance, search and implementation of innovation technologies in collection, disposal and recycling of waste, provision of high quality centralized water supply and sewage, roads’ repair and cleaning, organization of passenger transportation, maintenance of fire safety brigades, e-governance etc. It is easier to solve them in cooperation – combining funds and efforts with the neighboring hromadas that are also interested in it. *The Law “On Cooperation of Hromadas”* (2014) envisages the mechanism of such intermunicipal consolidation. Thus, 192 agreements on cooperation of territorial communities have already been registered, as of June 15, 2018 [22]. Since then, hundreds of hromadas have improved the quality of services provided on their territory by concluding cooperation agreements.

In the plan of integration of the hromadas on border regions, this Law does not provide a mechanism for regulation of cross-border and international cooperation initiatives of local communities. Obviously, need to be refined new legal and financial instruments of such cooperation?

In the Action Plan on the implementation of the Association Agreement between Ukraine, on the one hand, and the European Union, on the other hand, for the years 2014-2017 [1], the particular Chapter 6 provides actions for the establishment of joint ventures, international trade in services and electronic commerce between our countries. Thus, one can hope that the entrepreneurial potential of the border and adjoining territories will be used to accelerate the decentralization reforms in Ukraine.

A. Pavlyuk (2017) analyzed the dynamics of the formation of united territorial communities, the development of legislative, normative and institutional support for the implementation of the reform of the territorial organization of power on the principles of decentralization. He established that during years 2016 - 2017 a number of legislative and normative acts were work out resolving the problematic issues of the formation and developing of capable territorial communities. These steps have provided significant dynamics for the practical component of the reform - the formation of united territorial communities, so-called 'amalgamated hromadas' (AH).

Thus, 159 AH there formed that united 793 territorial communities in year 2015. At the beginning of 2017, there were 366 AH in Ukraine that united 1740 local councils, in which the first local elections were held. Then in May 2017, there were formed 413 AHs that united 5258 settlements, and in which the first elections of local self-government took place. Most of them are in Ternopil and L'viv regions.

The significant difference between regions according to the dynamics of the formation of AHs still exist (A. Pavlyuk, 2017), primarily due to different attitudes of local state administrations and local governments in the regions before the introduction of decentralization reform. The main direction solving this problem is legislative improvement of the process of 'capable amalgamated hromadas' (CAH) formation and strengthening them with expert, methodological, and resource support for entrepreneurial ecosystem development.

Most citizens will be ready to initiate their creativity and the entrepreneurial contribution to local development projects (programs, strategies), when they can participate in decision-making and feel that the project improves specific living conditions. By allowing local communities to determine how to plan a particular development project, local self-governments thus reinforce their sense of leadership and responsibility of the community developing programs trying to attract entrepreneurs, scholars, and experts to the decision-making process. It also creates the personal interest of a particular citizen in the successful completion of the community developing programs.

For example, amalgamated hromadas of the Cherkasy Oblast have signed the cooperation agreement, which in the long - run perspective will enable more than 10 thousand residents of 12 settlements of the Korsun-Shevchenkivskiy Rayon to count on prompt and efficient services of local fire brigade. According to H. Pererva (regional development adviser of the Cherkasy Local Government Development Centre, (established with the support of the U-LEAD, Europe Program and MinRegion), the emergence of new agreements for intermunicipal cooperation was made possible due to the cycle of "Workshops of Cooperation of Hromadas in the Cherkasy Oblast", held for the hromadas of the region ("*Cooperation workshops*"...,

2018) [7]. This confirms the importance of creating a soft, namely, a knowledgeable, component of the infrastructure for decentralization reforms.

One of the challenges in the area of decentralization is the lack of a stable and upgraded (innovative) infrastructure of reforms. Despite the opening of Reform Offices in the regions, support for regional development in terms of creating the Association of territorial communities, newly formed communities or emerging communities are confronted with a large number of problems, including gaps in local government – science – business cooperation, local budgeting and financial reporting, creation of e-government infrastructure for local community development.

The results of financial decentralization demonstrate its impact on the level of local infrastructure development projects. From the State Fund for Regional Development (SFRD) in 2015, the Government allocated 2.9 billion UAH, from which were financed 876 projects. In 2016, the State Budget provides 3 billion UAH for the SFRD, 1 billion was a subvention for the development of the AH' infrastructure and 1.94 billion subventions for the socio-economic development of certain territories. The initiative of the Ministry of Regional Development to increase the State Fund for Regional Development from 1% to 1.5% of State Budget, as well as - shortening the time for decision-making on allocating funds from the SRDR (for 80-120 days, but not for year) was included in the Government Priority Action Plan for 2016. Vice Prime Minister - Minister of Regional Development, Construction, Housing, and Communal Services Gennadiy Zubko (2016) announced this decision [28].

Revenue growth to the general fund of local budgets and number of established amalgamated hromadas in the corresponding regions (for the I-st half-year 2016) not allowed to conclude the significant impact of financial decentralization on the process of infrastructure of AHs creation, which should support development of local entrepreneurship and business cooperation among communities and regions (Yurchenko, 2017). This may indicate two aspects. The first is the lack of own funds and funds received by newcomers AHs from SFRD, and the second is the lack of relevant knowledge and competences of self-government leaders on how to dispose of finance and how to apply for assistance to relevant European funds and local investors. Hence, our hypothesis is about correlation between system approach of decentralization processes and entrepreneurial ecosystem development on the regional level. This confirms also the need to develop a concept of supporting mechanism for decentralization processes through the creation of appropriate entrepreneurial ecosystem in the border and adjacent regions of Ukraine.

CONCLUSION

The great success of some world countries is determined by effective regional strategies nowadays.

To stop migration of economically active population (firstly for low-paying professions in Italy, Spain, Greece, and now the professions of skilled workers and specialists in the Czech Republic, Poland, Sweden etc.) we have to change the regional policy through the formation the internal investor, skilled workers who had access to innovative technologies abroad and have returned to stay in Ukraine. The

last ones often have both a psychological will and a financial opportunity for professional realization by opening their own businesses in the region. As the illustration: we can see the spread of agrarian cooperatives for the berries and fruits cultivation skills obtained in Poland (e.g. strawberries in Kremenets, raspberries and currants in Kozowa, apples in Chortkiw and Borshchiv). Even 5 years ago, the main opportunity to sell them was the canning plant in the town of Skala-Podolsk or the Deep- freezing station in the Ternopil. Today, the combination of the experience in fruit drying for the army need and ancient Ukrainian recipes in the dried fruit drinks cooking contributed to the emergence of industrial capacity for fruit drying. As well as the experience of Ukrainian workers in building spheres contributed not only to the application of new technologies, but also to the construction of factories for the dry building mixtures manufacturing.

Based on the EU programs and Framework, the most effective ways are considered the formation of a competitive economic environment and by developing innovative entrepreneurship. Although the Ukrainian economy has reached an up growth of 2.5-3% in 2018, this level is not sufficient to increase the entrepreneurship. European analysts believe that it is necessary to ensure growth at least at the level of 5-6%. So the main question is how to increase the amount of entrepreneurs in the present conditions.

Very often, economists speaking about innovation entrepreneurship emphasize the role of start-ups. One of the main reasons for the creation, successful development and the continued existence of start-ups are the slowdown and slowness of large corporations that successfully use existing products, and the development and creation of new ones are not nearly done. Therefore, start-ups due to their mobility in terms of new ideas implementation compete with large corporations [12].

Start-up starts with the idea of a product that underlies business. However, only one idea is not enough to implement a successful start-up. Among the key elements of the start-up success, we will define the key: an idea, a team of innovators, resources and marketing of innovations. World-wide competitiveness means the completely new products and the lack of objective information about the market and future consumers. In our region we can talk mostly about regional innovations. The main goal is to transfer points from copying innovations to new products. The next important reason is the effective team formation. The effective team means effective management, planning and development strategy providing the necessary resources, etc. but not only on the domestic market. As the smart specialization says it must be export oriented. The third part is financing. Very often we mean only the so-called venture capital investment. However, in practice, such investment is rare. Statistics shows that in the United States every year is launched on average 600 thousand companies, but only 300 of them receive funding. Accordingly, 95% of startups are funded from other sources. Approximately 97% of the funds are invested in venture capital firms at a later stage (3-3,500 companies receive funding each year) when the risks are less [26]. Often, the first investment in a startup project is from the founders themselves, their friends or relatives. So the next goal is formation of internal investor but not only for R&D, but also for the commercialization of innovation via stable and clear legislative and tax regulation. These can include Public investment

funds for the financing of small and medium enterprises (SMEs) (Finland, Belgium); Co-financing projects for the innovative SMEs - providing state guarantees to creditors by the state and private capital (Germany); state or regional preferences system introduction – for innovative manufacturing enterprises.

In addition to financial support, it is also necessary to focus on the processes of information exchange and knowledge dissemination. Most small and medium-sized enterprises practically do not interact with knowledge providers from the business sector (for example, universities). The next stage is Regional strategy that allowed creating the innovation ecosystem.

Today, the term “innovative ecosystem” is mostly used [13] as a set of conditions that ensure the successful establishment and development of enterprises, provided by scientists and researchers, the scientific community, innovation managers, and investors. An innovative ecosystem has specific functions (exchange and critique of ideas, search for investors, commercialization of innovations or the creation of structures that will implement these innovations) and the purpose - the type of innovation cooperation [27].

The Ternopil region has tools for building an innovative ecosystem. After all here operate the business incubator and the techno park, the program of training and stimulation of the innovation entrepreneurship Tempus is realized, technical university is operating. At the same time, the depressiveness of the region, the absence of strong economic ties with the real business, and incompleteness of the technology park brand as an innovative leader offset the opportunities.

The best ways to create innovative interactions are innovative labs and business clusters. Both innovation laboratories and innovation clusters determine the main task of stimulating the information exchange between individual participants in the regional market.

Residents should be interested in the development of dynamic regions that are able to overcome the obstacles associated with the uncertainty and the increasing risks posed by global challenges.

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