

## INCLUSIVE RURAL DEVELOPMENT OF TERRITORIAL COMMUNITIES OF LVIV REGION THROUGH FINANCIAL DECENTRALISATION AND TERRITORIAL MARKETING

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### Abstract

Ensuring inclusive rural development of territorial communities requires a comprehensive study and the use of special methods and tools. To ensure such growth, it is advisable to apply financial decentralisation and territorial marketing. The aim of the study is to determine the level of inclusive rural development of territorial communities of Lviv region. The study is based on the analysis of the budgetary indicators of rural territorial communities of Lviv region, a study of the political, economic and social inclusion of active groups of entities of rural territorial communities of Lviv region. The budgetary indicators of rural territorial communities of Lviv region are analysed, taking into account the average values for the region and the country. Based on the results of questionnaire surveys of active groups of entities of rural territorial communities of Lviv region, the level of political, economic and social inclusion is determined. The research identified indicators of political, economic and social inclusion that shape the perceptions of active groups of entities on further improvements aimed at enhancing inclusive rural development of territorial communities. The results of the research show that the level of inclusive rural development of territorial communities of Lviv region is above average. Prospects are aimed at ensuring permanent monitoring of the integrated index of inclusive rural development of territorial communities as an indicator of the efficiency of budgetary funds (financial decentralisation) and meeting the needs of active groups of entities of rural communities (territorial marketing) in Ukraine.

**Key words:** rural areas, territorial communities, decentralization, territorial marketing, inclusive development.

### Introduction

The process of amalgamation of territorial communities in Ukraine, which began in 2015, has created the preconditions for sustainable development of new districts, including rural areas. The granting of financial autonomy in the process of decentralisation to the regions of Ukraine has allowed the formation of own financial resources of territorial communities to ensure their development. The availability of relevant resources of territorial communities – natural and climatic, land, raw materials, material, human, etc. – has given a rise to the need for their efficient use, reproduction, and increase, which is possible in line with the goals of sustainable development and inclusion. Each region of Ukraine and territorial communities have received equal opportunities for development, formation of resource potential, and use of financial decentralisation opportunities. Territorial marketing and its principles for the development of new territorial entities have become an important tool for administrative management of territorial communities.

It is important to note that in the context of Russia's full-scale aggression on the territory of Ukraine, a certain number of territorial communities were unable to use financial decentralisation mechanisms to the development of their territories and carry out efficient agricultural production. In this regard, agricultural enterprises were forced to relocate to safer regions of Ukraine, in particular to the western part of the country. Lviv region received the largest number of relocated enterprises, including agricultural enterprises of various forms of ownership and scales of activity. This created additional preconditions for the inclusive development of rural communities. A similar trend was observed in the central part of Ukraine. One of the key criteria for the relocation of agricultural

enterprises to other regions of the country was the ability to carry out agricultural production and the administrative procedures of local governments to create comfortable conditions for business activities. The level of professionalism in administrative management and the willingness to make quick management decisions allowed the western regions of Ukraine to receive the largest number of relocated enterprises. This, in turn, created opportunities for development and strengthened the local potential of agricultural producers, ensuring inclusive rural development. The use of territorial marketing allowed to focus attention on groups of entities that are able to meet the needs for inclusive rural development and use the mechanisms of financial decentralisation.

The scientific literature contains studies on inclusive rural development and the use of financial decentralisation mechanisms in Ukraine. In order to ensure the inclusive development of rural communities, it is proposed to use indicators of population size and density, community area, support for farms, and improvement of rural infrastructure (Prokopa, 2022). Inclusive rural development requires the use of mechanisms for adapting to the behaviour of rural residents, creating appropriate conditions for their livelihoods, access to resources and services, effective decision-making by rural territorial communities, and involvement of rural residents in the development of the territory; it is noted that ensuring inclusive development is a function of state regulation of the national economy (Borodina & Prokopa, 2019). A group of authors believe that financial decentralisation is a factor in the inclusive development of territorial communities, including rural areas, which helps to eliminate the negative consequences associated with unemployment and migration of rural residents, the

quality of social infrastructure (healthcare and education), and the state of the environment (Hickey, Kunal, & Badru, 2015; Pavlikha *et al.*, 2022). Inclusive rural development is closely linked to food security, which requires the formation of adequate food stocks, optimisation of various types of risks in the activities of agricultural producers, support for farmers, access to finance and markets (Kadian, 2016). The active implementation and use of innovations by rural territorial communities contributes to solving similar problems with the rural population and will ensure inclusive development in the future (Habiaryemye, Kruss, & Booyens, 2020). Other authors believe that the rural population of territorial communities is able to influence the processes of decentralisation (financial) and take an active part in decision-making on resource allocation, while ensuring inclusive development (Shvets *et al.*, 2019).

Foreign scientists study these problems through the prism of inclusive financial development in terms of accessibility, convenience and usefulness in order to overcome poverty in rural areas (Yanlin, & Chenyu, 2019). To evaluate the development of inclusive finance in rural areas, the developed system of evaluation indicators (inclusive financial indicators of China) is used to determine the level of development of inclusive finance in rural areas (Takakura, 2022). Digital inclusive finance is aimed at developing agriculture in rural areas. The authors used the Digital Inclusive Finance Index, which is an indicator of the quality of rural agricultural development and indicates regional financial imbalances (Shi *et al.*, 2023). It is proved that the use of innovative models of financing (index insurance) of agriculture by various financial institutions ensures inclusive development (Issahaku *et al.*, 2020). The research also found that the potential of agriculture and rural development is a driving force for inclusive growth and poverty reduction, which is achieved through a balanced policy in the field of economic transformation of the country (Nazeerudin, 2022). Active involvement of small farmers and gradual increase in the number of farms ensures the development of the rural economy and promotes inclusive rural development (Zhu, Chen, & You, 2022). The study examines the relationship between inclusion and innovation processes in the context of territorial rural development and concludes that less innovative rural areas can provide growth in inclusive innovation, taking into account their own cultural heritage (Tartaruga, 2021). The sustainable development of rural communities is ensured through the formation of integration associations of producers in the same sector. This creates synergies in production and marketing and establishes nationwide sales channels. The example of dairy co-operatives proves the effectiveness of such synergies, which contributes to the profitability of the participants and the development of rural communities (Shimokado, 2021).

In our opinion, in the context of the authors' research on inclusive rural development of territorial communities

using financial decentralisation and territorial marketing, attention should be paid to the formation of the revenue and expenditure parts of the budget of rural territorial communities and the resource capabilities of territories, the possibilities of a synergistic effect from combining the resources of agricultural enterprises and rural infrastructure entities. This thesis is also supported by the opportunities created in the relatively safe regions of central and western Ukraine, where agricultural enterprises have relocated and may potentially join others, depending on the military situation in the country. The use of territorial marketing to ensure inclusive rural development can solve a number of problems of rural residents, improve the efficiency use of resource potential, attract additional resources (financial), and implement a number of spatial development programmes for rural areas in cooperation with foreign partners and territorial authorities.

### Materials and Methods

The methodological basis of the study is the approach proposed by the World Economic Forum to assess the inclusive development index (The Inclusive Development Index, 2018). The information sources used are the results of the decentralisation reform (financial) and statistical information on the performance of territorial communities of Lviv region. The principles of territorial marketing were applied to identify active groups of entities capable of ensuring inclusive rural development.

In order to assess inclusive rural development, it is proposed to calculate an integrated index by areas of activity – political, economic, social, which form the inclusive rural development of territorial communities of Lviv region by sectoral dimension. The determination of individual indices by the spheres of activity of each rural territorial community of Lviv region is carried out using statistical information and a survey of active groups of entities capable of ensuring inclusive development.

We include the following active groups of entities:

- rural residents – people living in territorial communities and participating in inclusion;
- agrarian enterprises (registered and relocated) – entities in the agricultural sector that operate in the crop or livestock sectors;
- state authorities – manage rural territorial communities;
- other entities – tourists, foreign investors, donors, grantors, infrastructure that provide additional financial revenues and/or serve rural areas.

Active groups of entities are characterised by taking into account component inclusion, which is manifested in the availability and distribution of goods and services, and the level of their quality.

The value of the integrated index of inclusive rural development of territorial community ranges from 0 to 1, where 1 means full inclusive development, 0 means full extractive development (exclusion).

### Results and Discussion

Lviv region has 73 territorial communities, 7 districts and 1928 settlements, including 18 rural territorial communities (Decentralisation, 2022). Table 1 presents data on rural territorial communities of Lviv region. The table shows that the majority of rural territorial communities are concentrated in Sambir, Stryi, Lviv districts, and only one in Zolochiv and Yavoriv districts of the Lviv region. Each rural territorial community has a different number of settlements, territory area, size and density of the rural population. Zymnovodivska and Sokilnytska rural territorial communities of Lviv region have the highest density of rural population.

Inclusive rural development is influenced by the number of agricultural enterprises ‘Figure 1’ and farms ‘Figure 2’ operating in territorial communities of Lviv region.

The largest number of agricultural enterprises is located in Lviv district – 54, and 239 farms in Chervonohrad district, which is not a favourable area for agricultural production and has no rural territorial communities, but there is an effective policy of local authorities for the functioning of business entities. Rural territorial communities in Lviv and Stryi districts have 229 and 208 farms respectively, which provide jobs for the rural population.

Inclusive rural development of territorial communities of Lviv region is affected by the growing number of relocated agricultural enterprises. During the period of Russia’s full-scale invasion of Ukraine, 28.6% (the highest share) of enterprises in the country were relocated to Lviv region, including 30.2% of agricultural enterprises (Statistics, 2022).

Table 1

**Rural territorial communities of Lviv region**

Rural territorial community	District	Number of settlements	Territorial area of the community, km <sup>2</sup>	Population size
Biskovytska	Sambir	32	215.8	17999
Grabovetsko-Dulibivska	Stryi	12	152.1	12202
Davydivska	Lviv	23	226.2	20696
Dobrosynsko-Magerivska	Lviv	36	233.9	16154
Zhovtanetska	Lviv	14	150.4	10127
Zabolotcivska	Zolochiv	19	235.3	6242
Zymnovodivska	Lviv	5	30.9	19658
Kozivska	Stryi	24	420.9	11471
Murovanska	Lviv	5	43.1	9617
Obroshynska	Lviv	6	49.8	7661
Pidberiztsivska	Lviv	11	124.1	8203
Ralivska	Sambir	23	229.3	13061
Rozvadivska	Stryi	9	107.1	12052
Sokilnytska	Lviv	3	32.9	8448
Solonkivska	Lviv	21	174.4	13391
Strilkivska	Sambir	21	320.4	14349
Trostryanetska	Stryi	17	187.6	7991
Shehynivska	Yavoriv	30	265.2	10778

Source: created by authors based on Decentralization, 2022.

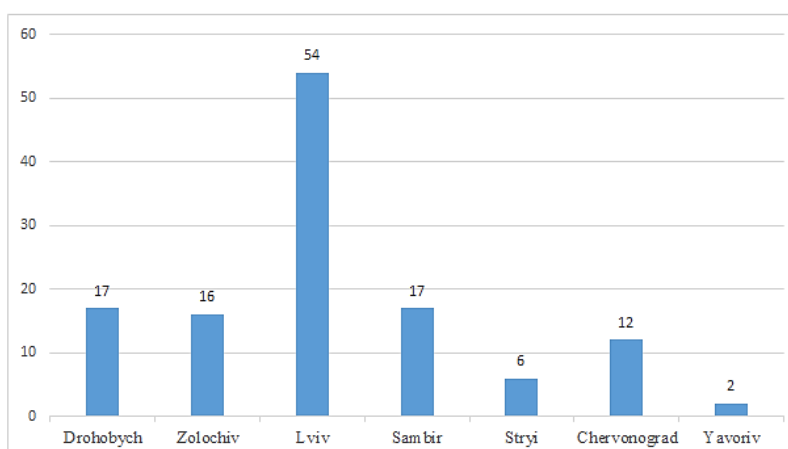


Figure 1. Number of agricultural enterprises in the districts of Lviv region.

Source: created by authors based on Statistics, 2022.

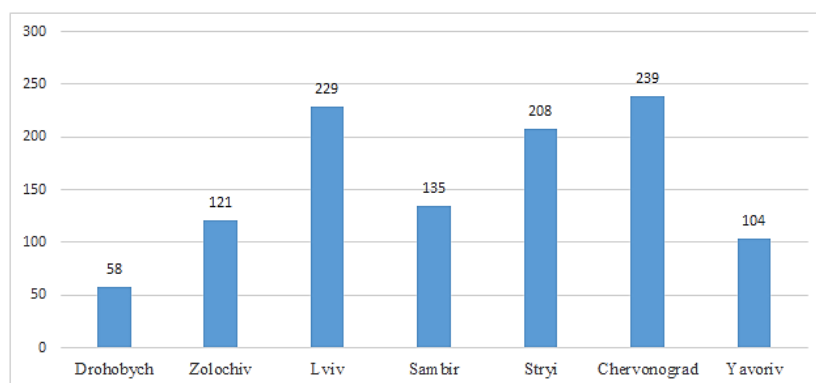


Figure 2. Number of farms in the districts of Lviv region.

Source: created by authors based on Statistics, 2022.

The timely response of the public administration authorities of rural communities in Lviv region and the development and implementation of relocation programmes for agricultural enterprises from the occupied territories of Ukraine allowed the involvement of the largest number of agricultural enterprises and farms. The main advantages of relocation programmes include: selection of a location and lease of land, assistance with logistics and placement of production facilities of agricultural enterprises, provision of housing for employees and search for new employees, support in sale agricultural products and exports abroad. The advantage of relocating agricultural enterprises to rural communities in Lviv region is the common territories with the Polish border and the possibility of diversifying logistics routes for exporting agricultural products abroad.

To assess the inclusive rural development of territorial communities of Lviv region, we selected 5 rural ter-

ritorial communities from each district – Biskovytska, Rozvadivska, Murovanska, Zabolotcivska, Shegynivska. Each of the selected rural territorial communities of Lviv region has different characteristics in terms of the number of settlements, territorial area, and population size.

The budgetary indicators of individual rural territorial communities of Lviv region within the framework of financial decentralisation are presented in Table 2. The table shows that the budgetary indicators of rural territorial communities of Lviv region in most cases exceed the average for Ukraine and are within the region average. A negative trend is the excess of expenditures over general fund revenues per capita. Only the Murovanska rural territorial community has a surplus, which is due to an increase in budget revenues due to tax revenues. The surplus ensures inclusive rural growth of territorial communities and allows them to meet the needs of rural residents and implement various social projects.

Table 2

**Budget indicators of selected rural territorial communities of Lviv region, Q4 2021**

Indicators	Rural territorial communities					Average indicator for Lviv region	Average for Ukraine
	Biskovytska	Rozvadivska	Murovanska	Zabolotcivska	Shegynivska		
General fund revenues per capita (UAH)	1840.6	4328.4	10317.9	5370.7	6641.8	3114.1	1145.1
General fund expenditures per capita (UAH)	6455.3	6516.7	8023.7	9623.2	8830.8	4704.8	1750.8
Capital expenditure per capita (UAH)	1768.1	1597.2	5530.8	955.5	1356.0	826.1	74.9
Level of budget subsidisation (%)	47.0	21.2	6.6	12.1	7.6	16.7	15.6
Ratio of expenditures on maintenance of governing bodies to the amount of general fund revenues (%)	56.7	20.9	17.7	21.5	21.4	24.5	28.4
Share of salaries in general fund expenditures (%)	86.2	79.2	76.9	76.3	77.4	80.6	82.5
Expenditures on general secondary education per pupil (UAH)	37619.1	29435.8	36061.1	50444.9	47784.5	23926.4	9364.1
Share of local taxes and fees in general fund revenues (%)	34.6	29.1	40.1	19.9	17.8	31.2	36.6

Source: created by authors based on Decentralization, 2022.

A positive aspect is the significant amount of capital expenditures of rural territorial communities of Lviv region compared to the average, which are intended to implement infrastructure projects and ensure inclusive development. Most rural territorial communities of Lviv region have a low level of subsidisation. Expenditures on the maintenance of governing bodies and the level of labour costs of the governing bodies of rural territorial communities are within the average. The ability to provide education for rural youth is evidenced by the indicator of expenditures on general secondary education per pupil, which is significantly higher than the average and serves as an important factor in the development of human potential in rural territorial communities of Lviv region.

Let us analyse the individual indices of political, economic and social inclusion of rural territorial communities of Lviv region (Table 3). The integrated index of inclusive rural development of territorial communities of Lviv region, taking into account

sectoral dimensions, is presented in 'Figure 3'.

The table shows that the highest level of inclusion by sectoral dimensions is observed in the political sphere. All rural territorial communities of Lviv region have the highest rate. This is explained by the accessibility and quality of administrative services, the appropriate level of management decision-making, and the effective use of budget funds within the framework of financial decentralisation. The disadvantage of such inclusion is the budget deficit for financing expenditures in some rural territorial communities of Lviv region (Biskovytska, Rozvadvivska, Zabolotcivska, Shegynivska), which can significantly reduce inclusive development. The economic inclusion of rural communities of Lviv region depends on the efficiency of economic activity of agricultural enterprises in the district, accessibility of rural residents to the labour market, and the availability and affordability of economic resources.

Table 3

**Individual indices of inclusion by sectoral dimension of rural territorial communities of Lviv region**

Sectoral dimension	Indicators	Rural territorial communities				
		Biskovytska	Rozvadvivska	Murovanska	Zabolotcivska	Shegynivska
Political inclusion	Accessibility and quality of administrative services	0.74	0.79	0.90	0.85	0.88
	Level and quality of management decision-making	0.70	0.75	0.92	0.82	0.87
	Allocation of budget expenditures	0.69	0.71	0.88	0.74	0.81
Economic inclusion	Efficiency of economic activity	0.71	0.72	0.78	0.70	0.73
	Accessibility to labour market	0.72	0.68	0.75	0.65	0.69
	Access to economic resources	0.64	0.65	0.72	0.60	0.63
Social inclusion	Opportunity to get a quality education	0.83	0.80	0.88	0.92	0.87
	Availability and quality of social services	0.84	0.82	0.85	0.83	0.81
	Preserving and developing human potential	0.79	0.77	0.81	0.74	0.65

Source: authors' research.

The most problematic element of economic inclusion is access to economic resources, which is associated with their limitation and rising costs. Economic inclusion is more favourable in the Biskovytska and Murovanska rural territorial communities of Lviv region. The social inclusion of the studied rural territorial communities of Lviv region is based on the possibility of obtaining quality education, accessibility and quality of social services, preservation and development of human potential – the most important prerequisite for the rural areas development. The accessibility and quality of social services in the rural communities of Lviv region is ensured at a high level. The Shegynivska rural territorial community has a low level of preservation and development of human

potential, as it is closest to the border with Poland and there is migration of the rural population to this country.

Integrated index of inclusive rural development of territorial communities of Lviv region is above the average level and ranges from 0.74 to 0.83. Murovanska rural territorial community has the highest level.

Determining an integrated index of inclusive rural development of territorial communities taking into account sectoral dimensions serves as an effective tool for monitoring the implementation of financial decentralisation and meeting the needs of active groups of entities identified through territorial marketing.

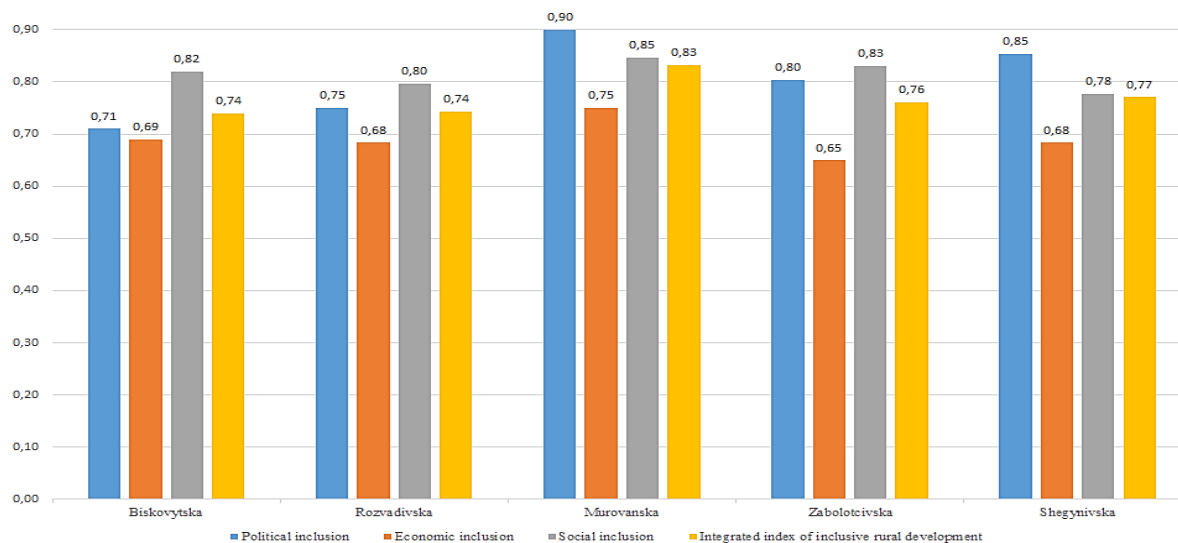


Figure 3. Integrated index of inclusive rural development of territorial communities of Lviv region taking into account sectoral dimensions.

Source: built by authors.

### Conclusions

- Inclusive rural development of territorial communities is considered as a concept of guaranteeing and creating conditions and opportunities for active groups of entities to use economic resources, forming and efficiently using budget funds within the framework of financial decentralisation, and active participation of rural residents in making informed decisions by the territorial community. Inclusive rural development contributes to the preservation of rural human potential, improvement of the welfare of rural residents, enhancement of the quality of social services, and efficient agricultural activities.
- The necessity of using the methodology for assessing the integrated index of inclusive rural development of territorial communities of Lviv region taking into account financial decentralisation and territorial marketing tools is substantiated. Active groups of entities of territorial communities that influence the inclusive rural development of territorial communities (rural residents, agricultural enterprises, public authorities, other entities) are identified.
- Based on the use of data and monitoring of the decentralisation reform, the rural territorial communities of Lviv region, the number of settlements, territorial area of the community, population size, and the number of agricultural enterprises and farms were identified. Based on these data, rural territorial communities were selected for inclusive development assessment.
- Taking into account the process of financial decentralisation, the budgetary indicators of rural territorial communities of Lviv region are assessed. It is established that there is a deficit of financial resources of rural territorial communities, which can negatively affect the implementation of local programmes and reduce inclusive rural development.
- Individual indices of inclusion by sectoral dimension (political, economic, social) of rural territorial communities of Lviv region are determined. The research has shown that the political component has the greatest impact on inclusive rural development. Social inclusion creates conditions for the formation of high-quality human potential of rural residents, its preservation and development. Economic inclusion is ensured by access to resources and the efficiency of their use.
- According to the results of the calculation of integrated index of inclusive rural development, it was found that studied territorial communities of Lviv region have an appropriate level of development that is above average and are able to ensure its growth by increasing budget revenues, implementing socio-economic programmes, improving the quality and accessibility of social services, creating conditions for preserving the human potential of rural residents, attracting agricultural enterprises through relocation from the temporarily occupied territories, creating new jobs.

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