

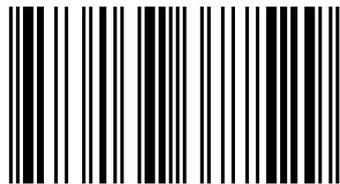
This book describes the necessity of revitalization of postindustrial cities, emphasizes on its characteristics and criteria of implementation. It discusses the possibility of creating of the financial institutions which participate in funding of the revitalization and the role of state in this process. It is shown that revitalization activities can be funded by different sources. The book also investigates the problems of Ukrainian cities and proposes the usage of the world experience of revitalization as a comprehensive program of stable development of the city.



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# Revitalization of postindustrial cities



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**Olga Sych**

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# **1. Financial sources for revitalization of postindustrial cities**

## **Abstract**

Revitalization of industrial zones is one of the major challenges facing modern cities. A key problem of implementation of the revitalization is its financial support. This problem is not only confined to the direct funding from public funds or funds of communities, but needs the creation of mechanisms of financing and the usage of various incentive instruments to encourage the inflow of funds from the private investors or other stakeholders.

The revitalization funding sources can be classified by origin for public, private and mixed. In modern terms of the chronic shortage of budget it is actualized the formation of effective mechanisms of raising funds from various sources for this purpose, the motivation of concerned investors (state, local, commercial businesses), the organization of promotions of revitalization.

The process of revitalization couldn't be hold without public investment in infrastructure. More important than public investment are the environment, enabling and stimulating the investment process. The significant weight gain credit sources, namely the involvement of state loans, both internal and external. Also the involvement of community residents to solve problems of the city will form a responsible civil society, on the one hand, and on the other, through donations will create a community fund to finance the revitalization of postindustrial areas.

## **Introduction**

The process of economic restructuring, which begins with the disintegration of the Soviet Union, was manifested in different directions and many of them had negative consequences still not overcome by Ukraine. Among them the problems of cities, which in Soviet times were industrialized, often in artificial way, as it was in Lviv. Spatial development of the towns in Soviet period was based on the ideology of

the industrial age, includes nonfunctional zoning, disregarding of the environmental factors and gave us the urban environment of low quality with irrational usage of land and energy resources, growing infrastructure and transport problems.

Thus, the problem dealing with the revival (renewal) of industrial areas of cities, both large and small, becomes important. In this context it is increasingly used the term “revitalization”, which has traditionally been used to revive of soil, buildings and structures. Revitalization of industrial zones is one of the major challenges facing modern cities. Today’s projects of revitalization of urban areas, as an integral part of urban development plans, and conversion of industrial facilities into active urban spaces, are current fashioned trends.

A key challenge of implementation of the revitalization is its financial support. This problem is not only confined to the direct funding from public funds or funds of communities, but needs the creation of mechanisms of financing and the usage of various incentive instruments to encourage the inflow of funds from the private investors or other stakeholders. It becomes a particularly actual problem in the context of limited budgetary resources and the implementation of budget decentralization.

### **Brief Literature Review**

A number of Ukrainian and foreign scientists, among them Amosha A. (Amosha, 2014), Schulz S. (Schultz, 2012), Domanski B.(Domanski, 2010) [1-3], dedicated their works to the researching funding problems of economic development of cities. The results of researches of individual sources of financing economic development are given in the analytical summary of scientific institutions [4-5], are defined in the resolutions of the Cabinet of Ministers of Ukraine [6] and so on. However, the characteristics and the problems associated with the formation of resources for the revitalization of cities are covered separately and unsystematic.

The chapter aims to outline funding sources and opportunities of their combination that will select the priority ways of financial support for postindustrial cities.

## **Results**

Based on the presented international science and practice approaches the upgrade of the urban environment can be done in the following areas: reconstruction, repair, modernization, renovation, rehabilitation, revitalization. Urgency of the latest trend is growing because today revitalization went beyond the meaning of “technical or technological updates”, the term is comprehensive and helps solving a number of socio-economic and environmental problems of the city.

Andreas Billert (Billert, 2005)[7] treats revitalization as a “complex process of restoring an urbanized area, which space, function and body have undergone the process of structural degradation, causing a state of crisis, making impossible the normal economic and social development of both the territory and the balanced development of the whole town”.

Revitalization involves updating of abandoned and unpromising industrial areas of cities in terms of production and functional recovery of those areas of cities that are part of it, but for some reason began to lag behind in development, even degrade. Abandoned industrial zones of large urban centers and many peripheral towns in Ukraine need revitalization. It means combating further degradation of urban space and the deepening crisis in these areas by encouraging their development and qualitative changes, by improving the environment, saving cultural and historical heritage and providing the sustainable development.

The urgency of revitalization confirms one of the trends of the world economy - the development of creative industries and specific areas associated with it. Industrial property becomes popular in major cities; it increasingly turns into the modern offices and exhibition centers, which contains the company related to creativity and media. In places with a distinct industrial aesthetics (high ceilings, huge windows, rough brick walls, lack of decor), are hold the lectures and seminars, work clubs and restaurants. Thus, in Lodz (Poland) are created and successfully operating several art clusters that are located in the old factories.

There are examples of implementation of revitalization and Ukraine. Thus, in 2014 the Lviv City Institute spent over a million UAH in the revitalization of one of

the oldest areas of the city - Pidzamcha. This project is aimed at restoring public space; enhance the attractiveness of Pidzamcha for tourists and local inhabitants. The founder of the institute is Lviv City Council, but it is financed mainly by foreign grants. The “Revitalization of Pidzamche” was implemented as part of a comprehensive strategy of Lviv by City Council in partnership with the “Institute of the city” Krakow, which financed the largest share of works [8].

In the future the revitalization should be implemented in large-scale projects. For example, the unresolved problems which remain in Lviv region are to upgrade the territory of districts, where in Soviet times massively mined sulfur, oil, salt and today those areas are zones of ecological disaster.

The main problem is to mobilize funds to upgrade depressed areas through the diversification of funding sources. It should be noted that the revitalization is not limited to finding the financial resources. The process must be preceded by evaluation of the territorial unit, its financial capacity, the analysis of investment demand and factors affecting on it, including all types of risk. Only then we can begin to discuss the problems of its financial support.

In our opinion, the revitalization funding sources can be classified by origin for public, private and mixed; and for the dominant of projects - for economic-oriented and socially-oriented.

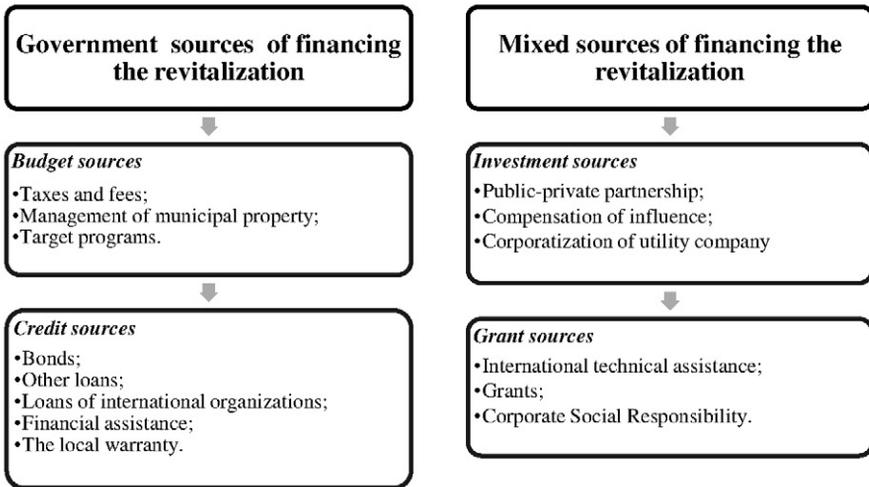
According to the dominating in developed countries neo -institutional theory [9], the role of government in the economy should be limited primarily at introducing a favorable investment climate, clear conditions for business, security of investments but not to direct funding. Often, public investment in strategic projects aimed to stimulate innovative development or prevention of negative economic consequences, proved to be ineffective. Therefore, the promoting the revival of areas by the state should be considered not from the standpoint of direct funding, but from the position of forming favorable conditions, providing secure environment which attract investors.

Analysis of international experience in case of the implementation of the revitalization shows that the state is one of the participants in this process, but not the

only one. In Ukraine, until recently, the favored source of revitalization was public funding, although pure application of one kind of financing mechanism is not appropriate, and in practice the sources have to be applied comprehensively.

It is advisable to consider a possibility of usage of different financial sources and mechanisms for revitalization of the areas and highlight the difficulties encountered the process.

State financial resources allocated in revitalization purposes, could be divided into budget and credit sources (Figure 1.1). Budget sources include the use of the budgets of all levels, primarily - through the direct funding programs. Second, the state should use the tax tools; the third way is the possibility of disposal of state property during the revitalization.



**Fig.1.1. Classification of funding sources for the revitalization of cities**

Source: developed by author

Taxes and fees may also provide funding for local projects revitalization by increasing the city budget revenues. International practice provides a fairly broad base for taxes and fees that may establish and collect local authorities within their own jurisdiction. Ukrainian cities have the opportunity to introduce the use of this mechanism as part of fiscal decentralization that began in 2015.

On the other hand, the introduction of tax incentives for investors interested in revitalization projects can have a significant positive impact and help attract funds in such a project.

Stimulating tax instruments used in Poland is the tax benefits of real estate (but this privilege is not very effective because of the low normal rate of tax). More effective is the lowering of the first payment for lifetime use of property - from 25% to 15% [3]. The issue, which concerned the potential investor, is the possibility of acquisition of property rights that exist or are created in the process of revitalization. There are alternatives - privatization and rent. Sale of municipal property, in our opinion - is ambiguous tool, as provides an irreversible transition of ownership of utility assets. Sales allow us to quickly attract considerable funds across the city, but this resource is exhaustive. In the absence of transparent competitive bidding and corruption such property can pass to inefficient owner.

Several authors insist on communally owned property is preparing for revitalization. Therefore seems logical proposal to create a local real estate office, which will have all the information and documentary proof of ownership of specific objects. The priority options should be rental or property usage, because these are the renewable financial resources for territorial communities, and left levers for local authorities to influence on the revitalization process. As for international and Ukrainian practice, the most common form of usage of this source is a long- and medium-term lease of land. If the decision to sale the property is taken, it is advisable to create a separate account for such funds, to control the usage of the source.

Poland's experience demonstrates the possibility of redemption of industrial property by the state which has lost its economic attractiveness for its owners and needs revitalization. To attract such significant funds in Poland the public loans were used secured by tax revenues and issuing the municipal bonds.

Local targeted program is the method of planning and management of revitalization that in some form exists in most cities. However, weak resource base does not allow self-funding of these programs and they usually guided by budget

transfers from higher levels. The state target programs involve central government funds to address the problems in a particular area that is depressed.

Regional agreements on socio-economic development recently received the legislative background after the enactment about territorial cooperation [10].

The successful experience of the voluntary association of local governments is the formation in 2007 the Association of Energy Efficient Cities of Ukraine, which includes 26 members. Its task is to unite efforts and resources (financial, intellectual and organizational) of local governments to meet the challenges of creating an effective energy management in the cities of Ukraine.

Often factor influencing an investor's decision may be its interest in operating infrastructure, created by public funds (public finance). It may be the remediation of territory and dismantling of unnecessary emergency dilapidated buildings. Not always the local government has sufficient funds for such activities, so we have to contact the budgets of higher levels. The solution may be in the form of cooperation of areas that use some infrastructural facilities and their voluntary associations, including the formation and usage of budgetary resources.

Compensation of influence is a method that allows synchronizing the pace of development of municipal infrastructure to the dynamics of residential and commercial buildings, as well as offsetting the negative impact of external factors such as industrial pollution in the area. Using this method involves obligations of developers or entrepreneurs to compensate the negative impact of new construction on the level of urban infrastructure or the environment. Such compensation may be given in the form of contributions to the budget of the city, as it is required by Ukrainian law, or in non-cash form, as it is practiced in most developed countries.

This type of financing of revitalization projects is similar to social responsibility. However, the use of exposure compensation as a resource is limited, because it's implying needs the existence in the city the financially successful enterprise of considerable size. Usually in urban areas that need revitalization, there isn't such an enterprise, so local authorities have to deal with unprofitable or bankrupt enterprises.

Public-private partnership is a sustainable cooperation between the authorities, including the municipal level, and the private sector to generate resources for the implementation of infrastructure projects. Within the public-private partnership take place the distribution of costs, risks and future benefits (profits) between public and private parties of partnership. Applications of partnership of public and private investors enables authorities to meet the needs of economic development through investment funds, without losing the impact on infrastructure and control over them. Public-private partnership is one of the most common mechanisms for financing large infrastructure projects in economically developed countries.

This promising method of managing the municipal property or property of natural monopolies, which include a number of areas of housing is hampered by distrust between the private sector and the state.

From the private sector and potential investors there are expectations of significant budget investment in the territory as a guarantee of stability conditions. To reduce the risk, investors need clear strategy for revitalization, detailed plans of the industry development (the service sector, agriculture) and infrastructure. The state can play an important role in guarantees to investors regarding the access to quality of certain services, for example, communal areas or freeways.

World experience shows that an important factor in investment flows may be high-quality administrative services and procedural simplification in obtaining permits and other documents (including construction) at the local level, even with the usage of the newly created units serving the investors. The growing number of barriers in licensing field is recognized by investors as one of the key factors hindering the flow of investment.

Local guarantee as a form of state guarantees, involves borrowing resources by company, where the local government undertakes a full or partial repayment in case of failure of the company to meet its obligations. Local safeguards should be provided on terms of payment, maturity and collateral security by the decision of the local government. In Ukraine global experience in providing local guarantee is poor

understood and not widespread, although the possibility of its usage is prescribed in Article 17 of the Budget Code of Ukraine concerning the public enterprises.

A successful example of local guarantees serves the experience of town Voznesensk in Mykolaiv region. There were attracted the credit resources to the city's economy by providing guarantee for companies debts by the city. Thus, the utility company has received two loans for investment projects related to the revitalization. In particular, company "Rehspod" received in Prominvestbank 220 thousand UAH for two years at 15% per annum with municipal guarantees in order to implement the project "Municipal Taxi". Also it was given a credit for 1,600 thousand UAH in Privatbank at 18% per annum for three years with municipal guarantees for the project "Creation of a gas compressor station in the city"[4].

Twin Cities may provide financial assistance for the purpose of revitalizing the areas in large cities. Such financing can be beneficial for both sides, for example, to predict future cooperation in various spheres - business, education, arts and so on.

Useful for Ukraine in the context of limited financial resources for development of areas may also be the experience of creation of the loan fund by local banks and local authorities (municipalities) for private investors, which is practiced in many countries.

Sometimes the need to attract a considerable amount of financial resources as well as the same type of problems and activities in revitalization of cities of certain areas requires the organization of a regional association or the use of regional development agencies as a coordinator of these processes in the region.

In Ukraine in 2012 was created the State Fund for Regional Development (SFRD). Its funds at the request of local councils to the Ministry of Finance of Ukraine were spent in the following areas: financing the regional development strategies, financing public programs in terms of implementation of the regional development programs to overcome the problems of depressed areas, financing the socio-economic development of administrative units, financing of the cross-border cooperation. SFRD in 2012 received the revenue of 799.015 million UAH. Most requests to the fond were related to solving the daily problems of economic

development of communities, for example, the gasification of settlements, modernization of housing and communal services, construction and repair of social facilities [11].

Consequently, the funds were spent on the government functions that could be financed from the general or special fund of local budgets. Experts [12] recognize the need to refocus the activities of the fund on financing purely investment goals, such as investment projects that will provide the real income for local communities (including road construction and maintenance). In 2013 SFRD received only 637,010 thousand UAH, which were spent mainly to repair hospitals and schools [11], in 2014 and 2015 budget stopped funding this government program [13].

In the UK the funding instrument, which had more resources than regional development agencies and public private partnerships, was Urban Development Corporation. Such state institutions were created in Germany (in the industrial Ruhr area), Spain, France and other countries. By public funds was bought the property or land in inefficient owners and handed in environmental revitalization projects or sold to more effective investors [3].

The important sources of funding the rehabilitation are the structural funds of EU. A prerequisite for attracting such funds is the existing of a partnership between the EU structural funds and the institution in the recipient country, that dispose of at least part of their own financial resources for the project.

Significant impact on raising funds for the process of revitalization has the regional economic policy. Without regional support the investment project “Greenfield” will be more attractive than more complicated and costly revitalization project. In particular, in the UK in the 1990s there was made the procedure for approval of investment projects when for each investment project “Greenfield” local government should prepare a proposal on the usage of existing areas, capacities property. This procedure led to the fact that local authorities have developed a package of investment proposals and attracted about 40-60% of new investments in projects of restructuring.

## **Conclusions**

The revitalization of industrial areas has become an integral part of the spatial planning of urban development, which aims to create high quality urban environment. However, all the good intentions of restoring the areas without adequate financing could be negated. In modern terms of the chronic shortage of budget it is actualized the formation of effective mechanisms of raising funds from various sources for this purpose, the motivation of concerned investors (state, local, commercial businesses), the organization of promotions of revitalization.

The process of revitalization couldn't be hold without public investment in infrastructure. However, in case of budget deficit we should look for alternative sources and mechanisms to upgrade the problem areas, especially using the experience of developed countries.

To launch the project of revival of post-industrial cities needs to justify the economic attractiveness of such an event for potential investors and the local community. The initiator of finding the financial resources for the revitalization should be the local authority. In addition, we think that more important than public investment could be the required permits enabling and stimulating the investment process. The significant weight gain credit sources, namely the involvement of state loans, both internal and external. Also the involvement of community residents to solve problems of the city will form a responsible civil society, on the one hand, and on the other, through donations will create a community fund to finance the revitalization of postindustrial areas.

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# **1. Managing the revitalization of postindustrial cities**

## **Abstract**

This chapter describes the necessity of revitalization of postindustrial towns, emphasizes on its characteristics and criteria of implementation. It discusses the possibility of creating of the financial institutions which participate in funding of the revitalization and the role of state in this process. It is shown that revitalization activities can be funded by different sources.

The purpose of the chapter is to study the feasibility of implementing revitalization projects in Ukrainian conditions, using the European experience of the formation of specialized financial institutions for this purpose. Object of the research is the revitalization of post industrial areas. Subject of the research is the methods of carrying out the process of revitalization and its funding.

The scenario of revitalization is improved through the inclusion of a public consultation, environmental project and ongoing monitoring and evaluation of the implementation of the project.

## **Introduction**

In many modern cities there are large areas with destroyed part of buildings, a high degree of wear and tear of technical infrastructure, they are characterized by lack of proper transport links, concentration of negative social phenomena. This leads to a reduction in the attractiveness of cities both in the eyes of their inhabitants and potential investors - as a result - the economic crisis and the reduction of the population of the city. For this reason, one of the most important tasks of strategic planning of the development of territories should be revitalization. It is a system of measures designed to revive and ensure the sustainable development of territories that have lost their social or economic functions. For many years, the problem is the mobilization of funds for such activities. The new possibility could be the attraction

of funding from the European Union funds, a large part of which is aimed at supporting the development of cities.

In the national scientific literature, revitalization is used in the narrower sense and relates to the objects of architectural restoration. Scientists are widely discussing mechanisms and institutions designed to finance the overcoming of depression of the territories and ensuring sustainable development. In today's crisis conditions the strong need of forming a revitalization strategy at the national level exists and the development of financing mechanisms becomes important in order to accumulate resources for the implementation of this strategy.

The purpose of the chapter is to study the feasibility of implementing revitalization projects in Ukrainian conditions, using the European experience of the formation of specialized financial institutions for this purpose.

Methods of research used in the chapter: analysis, synthesis - to determine the meaning, content and criteria of revitalization; comparative method - to explore world experience in this area; structural-functional method - to develop the stages of the process of revitalization of post-industrial territories.

### **1. The meaning and the criteria of revitalization**

In Ukraine there is no legally established notion of revitalization, because there is no appropriate regulation. The Law on the Promotion of the Development of Territories, adopted in 2005, provides characteristics of depressive areas, which are subject of a program for the promotion of development. However, this document does not allow completely characterizing the essence of revitalization, its tasks and its components. The Law provides the concept of "stimulating the development of regions as a set of legal, organizational, scientific, financial and other measures aimed at achieving the sustainable development of depressed territories". According to the law, an agreement is concluded between the government and the regional council, which includes the depressed territory, regarding the financing of the appropriate

measures. In our opinion, the revitalization should have a more narrow meaning and be considered not as a program, but as a process.

We can propose the following definition: revitalization is a coordinated process carried out jointly by local authorities, local community and other actors, which is an integral part of national development policy and aims to counter the degradation of urban space, crisis phenomena and stimulates the development and qualitative changes through socio-economic growth, improvement of the environment, preservation of cultural and historical heritage on the basis of balanced (sustainable) development (Sych, Pasinovykh, 2015). The table 2.1 shows the features of revitalization, which distinguish it from the regional development agreement on the one hand, and the usual investment project, on the other.

Table 2.1

**Comparative characteristics of revitalization project and other investment projects \***

<b>Criteria</b>	<b>Regional Development Agreement</b>	<b>Revitalization</b>	<b>Another investment project</b>
1. Target	Goals are socio-economic and environmental, not related to infrastructure and urban development.	The goals are socio-economic, environmental and spatial. Infrastructure, architectural and urban activity are subject to the goals	Repair and construction works are not related to the social, economic and environmental plans of urban areas.
2. Response to the crisis	The agreement covers the depressed territory	Refers to the crisis of urban space and its manifestations in other areas	Projects are implemented outside the crisis areas
3. Participation of partners	Partners are public authorities of different levels	Participation of various stakeholders: state (municipality, administration), business and non-governmental sector, as well as residents themselves.	Projects do not include private partners: commercial and non-commercial.
4. Complexity	The program contains a set of activities	An action plan is a multi-faceted and synergistic	The list of actions, measures is not related to other programs.

\* Source: developed by the author

According to the current legislation, a depressed territory that can receive state support in the form of budget financing is recognized as the region in which the average gross regional product (GRP) average per capita is the lowest for the last 5 years. For industrial districts and towns - for the last 3 years, the unemployment rate is significantly higher, while the volume of industrial output per person and the average monthly salary level are significantly lower than the corresponding average indicators of the territories of this group. The same applies to rural areas. A territory may be recognized as depressive one where coal mining enterprises have been liquidated since 1996, but measures have not been fully implemented to address the socio-economic and environmental issues foreseen by the projects of liquidation of these enterprises (Tkachuk, 2010).

Establishing such purely economic indicators of depression demonstrates the lack of reasonableness of the methodology and often leads to incidents. So, none of the districts in Lviv region cannot get a depressive status, since the highest unemployment is not always accompanied by the lowest GRP and salary per person.

In the industrial era, the economic well-being of cities depended on the successful activity of the city-creating enterprise. The financing of such enterprises, regardless of their size and economic sector, where they operate, remains relevant in light of its limited resources and the high cost of lending. Only a small number of enterprises can count on funding from the budget. The location of the company imposes a significant imprint on the financing possibilities and the prospects of the company's existence. Regional development of the Ukrainian economy is occurring with considerable disproportions: the volume of available financial resources in Kyiv and its region is ten times higher than in the Ternopil region. Even within one region there is zoning for "successful" and "depressed", or "rich" and "poor" territories. What is a portrait of an enterprise of a depressed territory? This, as a rule, is a city-making enterprise that extracted minerals, worked for the military industry, in the field of mechanical engineering, but using the technologies created in the 70-80s of the last century. Most of these companies are in the zone of losses, sanctioning

procedures or bankruptcy cases. In order to "reanimate" the enterprises the process requires significant investments in their modernization, at the same time, most of them have passed a "point of non-return", where liquidation is inevitable. Also, the elimination of enterprises entails a number of negative socio-economic and environmental impacts, including rising unemployment, lower incomes and environmental risks.

In our opinion, an exit from a closed circle is the cooperation of local authorities, communities and business entities, which jointly can restore the financial potential of the territory (Table 1). This means that the attraction of investments will be based on business differentiation (to avoid the emergence of a new city-forming enterprise) and the use of a cluster approach (when newly created enterprises, or "old" ones form mutually beneficial links to the production and sales of products).

An important investment destination should be an investment in human capital. Statistics (Zhuk I., 2016) shows that against the backdrop of an increase in the number of small businesses (both small and medium enterprises and individuals - entrepreneurs) in Ukraine as a whole, in the depressed regions we see an opposite trend. It turns out that even with a high level of unemployment there is no interest in entrepreneurship and self-employment in these regions. Persons of working age prefer to carry out labor migration to metropolises and abroad, rather than doing business at home. Therefore, there is the importance of forming the institutions that will inform the inhabitants about the possibilities of self-employment, re-skilling programs and create a favorable environment for small and medium-sized businesses.

Experts, who investigate the impact of the location of enterprises in depressed regions on their performance, emphasize the need for innovation (Vakhitov, 2016). They recommend considering standard models of growth, where the development of the territory or industry directly depends on innovation and the development of human capital. Financial capital does not play a key role. Consequently, for long-term goals such as the revival of depressed regions, it is necessary to attract innovation and invest in young people, in particular, to launch corporate training programs.

Based on the described situation, we consider the necessity of supplementation of the criteria for introducing revitalization of cities or postindustrial areas with social, environmental and infrastructure criteria (Table 2.2).

Diagnosis of the postindustrial cities on the basis of an expanded system of indicators will reveal problematic regions and territories that require revitalization. For this purpose, the statistical material of the towns of Lviv region in 2010-2017 was explored.

Table 2.2

**Criteria for the introduction of revitalization \***

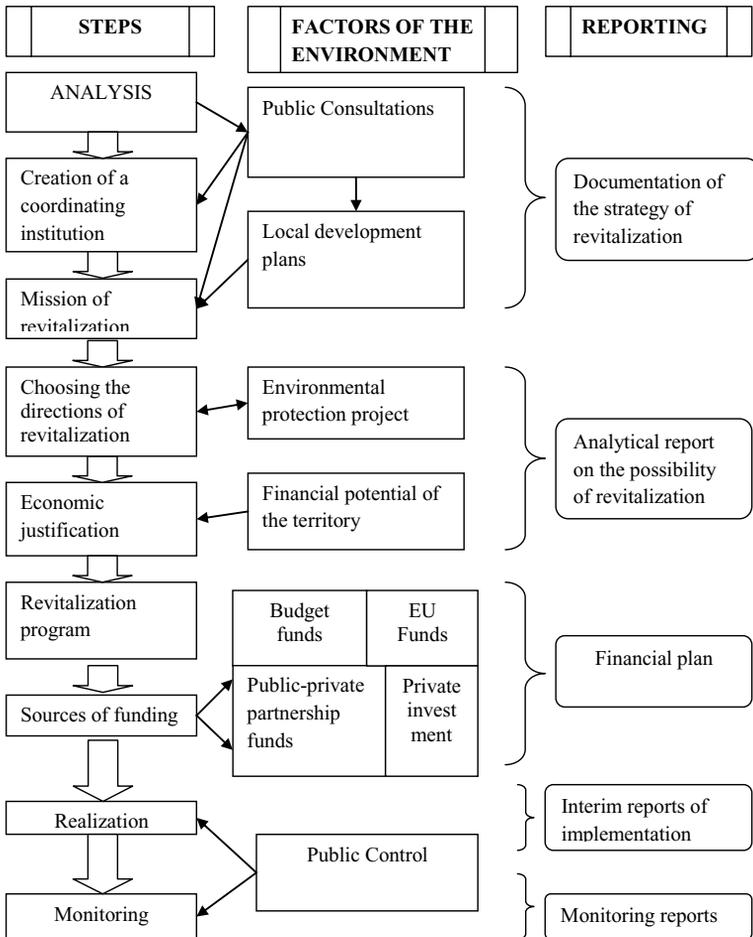
<b>Economic Criteria</b>	<b>Social Criteria</b>
<ul style="list-style-type: none"> <li>- high level of poverty and social exclusion,</li> <li>- high long-term unemployment,</li> <li>- unfavorable demographic trends,</li> <li>- low level of economic activity.</li> </ul>	<ul style="list-style-type: none"> <li>- a large number of immigrants, refugees,</li> <li>- high level of crime and offenses,</li> <li>- low level of education.</li> </ul>
<b>Infrastructural Criteria</b>	<b>Ecological Criteria</b>
<ul style="list-style-type: none"> <li>- relatively low cost of residential buildings,</li> <li>- low energy efficiency of buildings,</li> <li>- poor living conditions,</li> <li>- high level of technical degradation of infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>- a high degree of degradation of the environment,</li> <li>- significant pollution of the environment.</li> </ul>

\* Source: developed by the author

However, the existing system of statistical indicators does not reflect a large array of necessary information - thus, it was problematic to collect data on housing costs, energy efficiency, conditions of communal infrastructure, and environment pollution. Therefore, it is relevant to introduce a number of new indicators for annual monitoring and collect objective information on the shape of housing and communal infrastructure, the cost of communal property and land resources that belongs to this territorial community.

## 2. The process of revitalization

Figure 2.1 shows the process of revitalization, which includes the stages inherent in the strategic planning process (analysis, mission formation, goals, strategy selection, measures, monitoring and control), and takes into account environmental factors (not only local development plans, statistics, but also public consultations and control, environmental protection projects and a comprehensive assessment of the potential of revitalization).



**Fig.2.1. Stages of the revitalization process \***

\* Source: developed by the author

An important part of the process of revitalization should be the documentation, which allows quality monitoring of the process and evaluation of its effectiveness.

Investigation of the European Union's policy on urban development we find out that it is aimed at re-urbanization and improvement of the spatial and socioeconomic qualities of urban areas. In accordance with the EU principles, a key factor in the management of urban development is the public sector, whose activities are based on the establishment of a system of agreements and cooperation with local communities and businesses in order to ensure the sustainable development of territories. Cities are developed using market economy instruments and import of capital, as well as by the state's efforts of building up endogenous resources.

The Ukrainian urban planning system has paradigmatic differences with the European system, although it is aimed at achieving the goals of sustainable development, in particular in urban areas. The tools of this system support the implementation of extensive development in such cities and do not provide any means for possible reorganization or revitalization.

Also the Ukrainian system of planning is not aimed at creating informal agreements involving community, but only contributes to the practice of concluding typical agreements between the administration (the state) and investors. The decisive role of investors in the construction market, the industrial real estate market, as well as the imperfection of existing legal planning rules, along with the irrational structure of urban land tenure, leads to monopolization of decisions in the field of urban planning and causes spatial, functional and socio-economic degradation of urban areas. And this, in turn, blocks the possibility of revitalization of the territories.

Revitalization processes are of great social and economic importance. One can even say that the main purpose of the process of revitalization is to restore social relations, and as a result - economic ones.

The processes of revitalization began in Europe in the postwar period (50s of the 20th century) and continue to undergo significant changes. In particular the role of the state in searching for optimal sources and mechanisms for financing revitalization

changed, now the state is stimulating the growth of the share of private investment and the increase of the role of private institutions (banks, funds) and hybrid institutions in financing the revitalization.

In 2012 in Ukraine, in order to finance regional development strategies, the State Fund for Regional Development (SFRD) was created. Its funds, at the request of local councils, were spent on the following areas: financing of state programs in terms of implementation of regional development measures, programs to overcome the depression of territories, programs of socio-economic development of administrative-territorial units, financing of cross-border cooperation development. In 2012, the SFRD received a revenue share of UAH 799 million, most of the requests, that it funds, concerned the resolution of urgent issues of everyday local economic development of communities - gasification of settlements, modernization of housing and communal services, construction and repair of social institutions (Report on the usage of state Regional Development Fund).

As a result, funds were spent on functions that could be financed from the general local budgets. Experts recognize the need to reorient the activities of the fund to finance purely investment expenditures - the implementation of investment projects that will provide real benefits to local communities (in particular, construction and repair of roads). Fund financing occurs sporadically: in 2013, the SFRD received only 637 million UAH, which were used mainly for the repair of hospitals and schools (Report), in 2014 and 2015 the budget did not provide financing of this government program. The recovery of funding in 2016-2017 has shown the social focus of funding.

Based on the analysis of world experience (Adair A., Berry J., McGreal S. (2003), Bryx M., Jadach-Sepiolo A. (2009), Heller C. A. (2002), Squires G., Hutchinson N., Adair A., Berry J., McGreal S. (2015), The French Urban Regeneration Program) it can be asserted that revitalization projects are implemented through specific social and economic structures. The main financial institutions involved in the process of revitalization are:

- institutions that irrevocably allocate financial resources for revitalization purposes, such as the state budget, municipal (local), regional budgets, managed by relevant institutions (ministries, departments);

- independent public institutions - national, regional and local development agencies, as well as separate development funds;

- private institutions - banks, insurance companies, leasing institutions;

- hybrid institutions - banks and foundations (institutions), including credit and guarantee functions, created by state authorities (at national, regional and local levels) for the execution of state programs.

The task of institutions is to create and use tools to finance the programs of revitalization. The type of financial institution involved in the process of revitalization, and the role it performs, is largely the result of the features of the implementation of the revitalization program.

Thus, in the process of revitalization, there may be changes in the goals set for the financial institution or methods of achieving them, as well as in the financial products offered by individual institutions.

Possible variants of decisions on institutional forms used in each particular case of revitalization are limited to four groups of factors:

- the principles laid down by the democratic doctrine of market economy countries;

- the principles laid down by the existing paradigm of revitalization, in particular by providing a process of revitalization of the properties of a public service;

- specific provisions of the goals of the revitalization policy formulated in a separate state;

- an organizational structure created to serve the program of implementation of the revitalization.

The first two groups of factors that limiting the freedom to choose of institutional mechanisms are the same for all countries of the European Union, the other two reflect the specifics of state needs and differences in the political and legal system of states.

The main feature common to all countries that deliberately carry out the policy of revitalization is the government's commitment to finance the revitalization processes. Thus, the state launches the financing mechanism through subsidies, grants and subventions. The form of these tools depends on the specific provisions and objectives of the policy of revitalization, as well as on the organizational structure of the management of the implementation of this policy.

The role of hybrid institutions in financing revitalization is limited for the following reasons (Sych, 2016):

- a gradual departure from fiscal instruments that allow the accumulation of relatively cheap funds in such institutions;
- consistent implementation of the principle of fair competition;
- expansion of partnership methods, in particular public-private, which exempts state authorities from the obligation of direct financing of projects.

### **3. EU funds in revitalization process**

Consequently, the EU funds give absolutely new opportunities in terms of financing revitalization. The experience of using structural funds in Poland shows that the implementation of integrated development projects is possible in various spheres.

After joining the European Union, Poland received financial assistance aimed at supporting restructuring and modernization of the economy. These actions should help to increase economic and social cohesion with other EU countries. An important place among the areas of funding belonged to revitalization. Article 8 of The European Community Regulation of 2006 on the European Regional Development Fund stipulates that in the case of sustainable urban development, the European Regional Development Fund should support the development of a common, integrated and sustainable strategy for tackling economic, environmental and social problems concentrated in urban areas. New Regulation about the support from the European Regional Development Fund to the European territorial cooperation goal

was proclaimed in 2013. The main goals of support are cross-border cooperation, integration and strengthen of regional development.

Activities funded by structural funds should address such issues as social exclusion, high crime rates and overall deterioration in the quality of life in poor urban areas. Regeneration of old industrial and former military areas, as well as poor urban areas, can play an important role in strengthening the infrastructure needed for sustainable economic development. Social cohesion is an important step towards strengthening the security in the city and will promote integration in the economic, social and cultural spheres, tackle the various forms of discrimination and improve the availability of basic services. Due to the existence of degraded urban areas, the growth of socio-economic development is particularly important through the updating and adaptation them to the modern requirements of living. This means increasing the economic and investment attractiveness of the territories, which in turn will contribute to the improvement of living conditions. The purpose of the revitalization of neglected and former military towns is to increase their economic and social attractiveness, create conditions for employment growth on these territories, and provide them with new functions: economic, social, educational services, health care, recreation, culture or tourism.

As part of these activities, integrated urban revitalization projects may also be implemented, if such plans or projects are closely interrelated. The revitalization program, as a planning document, must contain: the boundaries of the zone to be restored with their justification. The program should include a description of the steps necessary for the economic development of the territories, repairs of roads, renovation of the infrastructure, solving social problems and a plan for financing revitalization for several years.

The recipients of these funds are, first of all, local authorities, their unions and associations, organizational units, legal entities acting on behalf of local authorities, universities and research institutions, cultural organizations, religious associations, organizations that support business, enterprises, associations of co-owners of multi-apartment buildings, entrepreneurs, etc.

Structural funds can be spent, in particular, on such measures as:

- organization of the old urban space due to its proper usage;
- repairing or reconstruction of facades and roofs of buildings and premises for business, educational or cultural purposes;
- reconstruction, adaptation or demolition of buildings and structures of industrial and post-military character for educational, cultural, sports, recreational and economic purposes;
- maintenance, restoration of buildings and post-military industrial infrastructure of an architectural and historical significance;
- adaptation, change or replacement of plumbing and sewage infrastructure, electricity, heating and gas, measures in the field of environmental protection;
- regeneration of public places - squares, markets, car parks, playgrounds, landscapes, creating recreation areas and green areas in the territory of former industrial and military facilities;
- measures taken to improve the functionality of pedestrian crossings and pedestrian areas, aesthetics of public space;
- repairing or reconstruction of objects related to tourism and cultural objects;
- repairing, reconstruction or adaptation of buildings and premises to the needs of creating business incubators;
- advertising activity, counseling, training for counteraction to negative social phenomena;
- repairing of common parts of multi-apartment houses.

The experience of Poland shows that everything depends on the local authorities and their desire to raise funds for abandoned areas of the city or for the remnants of the military-industrial complex (ZPORR, 2004).

The wider usage of the possibilities of EU funds is hampered by the lack of knowledge of local authorities and the lack of proper regulation. In Poland for example, there is proposed to develop and implement a law on revitalization. This will help to overcome the spatial, economic and social "chaos" that prevails in many cities.

## **Conclusions**

The process of revitalization in Ukraine is not managing at all; only individual projects are implemented, that are not integrated into the general program of action for the revival of urban areas. The absence of normative legal documents which regulate the process, leads to the development of programs in accordance with the possible financing options, and not vice versa. Therefore, revitalization takes place in isolation from social needs; social conflicts lead to the fact that not all programs meet the requirements of sustainable development of urban areas. The peculiarity of the revitalization project is determined by four characteristics: the purpose of the project, the response to the crisis, the participation of various partners and the complexity of the activities undertaken. The choice of the scope of revitalization is important, because it has a synergistic effect on related areas. From the standpoint of sustainable development, it is important that the process of revitalization includes public consultations, environmental protection project, economic analysis, plan and mechanism for financing investments, as well as continuous monitoring of the implementation and evaluation of the effects of the revitalization project.

The experience of revitalization and searching for sources of its financing in Ukraine is fragmentary. The tasks of revitalization and regional development programs often are connected, but the funding of revitalization, whether from the budget or from the European funds are not implemented. There is a significant underfunding of programs and an expectation on a foreign investor. The development and launch of an effective and systematic revitalization program in Ukraine and its financing is impossible without:

- providing revitalization of the features of state service and recognizing the need for the state to participate in its financing;
- development of the policy of revitalization at the state, regional and local levels, increasing the participation of local authorities in the creation of projects and the search for sources of their financing;
- dissemination of information about revitalization, its possibilities and ways of realization;

- development of models of good practice in the field of revitalization and their popularization.

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### **3.Revitalization as a mechanism for sustainable urban development**

#### **Abstract**

The chapter investigates the problems of Ukrainian cities and their impact on the economic security of the state. The key problem of the modern post-industrial city is the ecological and energy crisis and a curved functional structure of industry. Problem solving prevents poor performance of development programs, their underfunding, lack of cooperation of local authorities and citizens. The chapter proposed the usage of the European experience of revitalization as a comprehensive program of stable development of the city.

#### **Introduction**

Sustainable urban development is a guarantee of the economic growth of the state as a whole, because the financial, scientific, demographic potential of society is concentrated in the cities. Ukrainian cities are characterized by uneven level of development in different cities, concentration of potential in the capital and individual regional centers, as well as an increase of crisis phenomena on the periphery of the country. It refers to depressed territories, settlements, post-industrial cities or parts of them. Therefore, it necessary to speak not only about restoring the potential and ensuring the improvement of socio-economic indicators in the cities, but also about the large-scale introduction of revitalization programs in urban space. Under revitalization we mean a complex process of restoration of the urbanized area which has undergone the process of structural degradation, causing a crisis situation that makes it impossible or substantially complicates the normal economic and social development of both the territory and the balanced development of the whole city.

Scientists [1-4] have repeatedly noted the threats to the economic security of the region caused by the deformation of the structure of cities, namely, their monofunctionality, excessive industrialization, the weakness of socio-cultural

potential, poor quality of urban infrastructure, environmental stresses and problems. It should be noted that the cities that are the centers of the regions have a wider range of possibilities for attracting financial resources than the towns of the periphery, and the described threats are related primarily to them. Sociological surveys [5] show the dissatisfaction with the life of the urban population, both in large and small towns. At the state level development programs [7] are being prepared and implemented, aimed at overcoming the crisis phenomena in regions, in particular, in such towns.

However, the continuation of urbanization, despite the objective deterioration of the level and quality of life in cities, maintains the relevance of research on this topic.

The purpose of the chapter is to analyze the current problems of cities, to identify miscalculations in their solution and to propose a comprehensive approach for the restoration of sustainable urban development through revitalization.

## **Results**

The city occupies a key place in the system of regional relations. Up to 67% of the population of the state lives in cities, taking into account labor and educational migration - up to 75% [2]. There is almost 22% of the population of Ukraine that lives in small towns. Among the varieties of systemic risks that fundamentally affect the development of Ukrainian cities, the following are highlighted by the scientists [1]: low level of social development, one-sided specialization of industrial complexes, insufficient capacity of industrial enterprises, low rates of housing construction, objects of social infrastructure, lack of jobs, poor service sector, complicated labor market situation and demographic problems of cities, insufficient development of water supply and sewage networks, poor condition of roads, unsatisfactory collection and disposal of solid waste, lack of heat- and energy efficiency, low level of professional qualification of local management. These risks can be grouped into four groups due to their importance: risks of socio-demographic nature, environmental and energy risks, risks of functional distortion of the structure of the economy (see Fig. 3.1). Moreover, it is worth emphasizing the growing importance of the ecological component in the current risks faced by Ukrainian cities.

In November 2014, according to the request of the Association of Ukrainian Cities, a nationwide survey of the urban population of Ukraine was conducted [5]. One of the objectives of the survey was to identify the main problems of the urban population of Ukraine in terms of their significance and degree of citizens' satisfaction in solving these problems.

Most of the city residents are dissatisfied with life in their settlements - 52% of them. The absolute majority of urban problems, which respondents called, is social in nature and related primarily to the standard of living of the population. In particular, 77% of respondents mentioned the problem of rising prices, 65% - low wages and pensions, 47% - high tariffs for housing services, 45% - high unemployment, 26% - social inequality.

Quite often, people complained about problems in such areas as road conditions, health care, housing, utilities, and law enforcement. Respondents were less worried about the sanitary condition of the city, pollution of the environment, and the work of the city enterprises, water supply and energy consumption.

Residents "do not notice" the ecological catastrophe, which is approaching because of the unsolved problems. The problem of corruption of local authorities was pointed out by 36% of residents, as well as emerging potential threats related to military operations in the East of the country (28%).

Among the problems of cities, according to their inhabitants, which the local authorities decide the worst, the problems of ensuring a decent standard of living dominate. So 77% of inhabitants negatively assessed the state attempts to create jobs and fight with unemployment. Only 4% of the respondents positively evaluated the solution of these problems by the city authorities. Similarly, respondents estimate the efforts of the local authorities in overcoming poverty: 63% consider them ineffective. Another critical issue, according to the respondents, is the insufficient provision of housing for residents of cities. A negative assessment of the policy of the city authorities in this area gave 72% of respondents. with disabilities; on combating crime, provision of medical services and high-quality communal services.

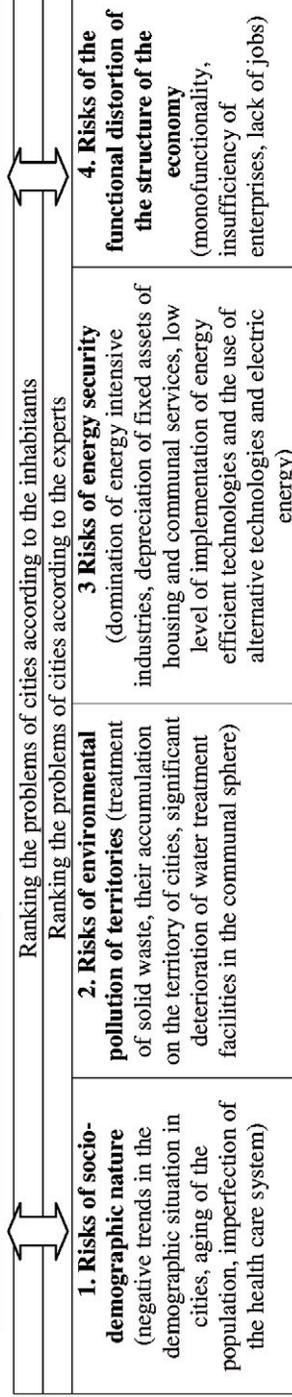
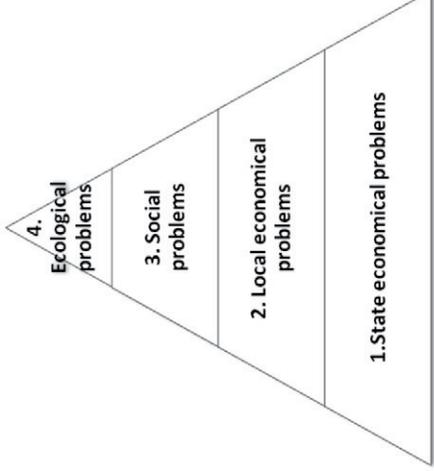
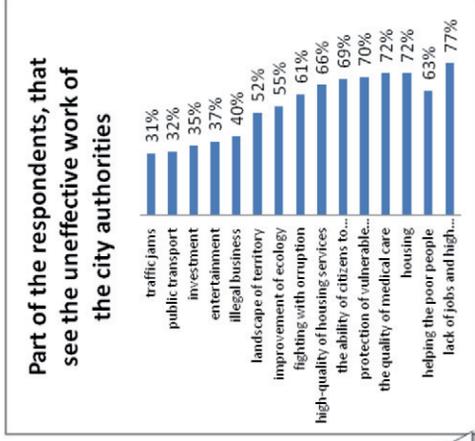
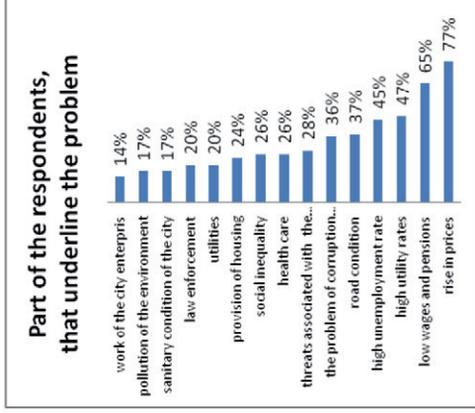


Fig.3.1. Risks of sustainable urban development, assessment of their inhabitants and experts (Source: built on the basis of [1;5].)

The city residents also demonstrated considerable dissatisfaction with the ability of the city authorities to provide high-quality services to socially vulnerable groups, in particular pensioners and people. The actions of the city authorities in solving problems in other, less sensitive areas for citizens were also largely unsatisfactory.

They did not see the effective work of the city authorities in improving the ecology, landscape of territory - about half of the respondents; solving problems of illegal business, improving the conditions for entertaining, attracting investment in the city - a third part of respondents. In all cases, the number of satisfied with the activities of city authorities is an absolute minority - from 4% to 27%.

The only issue where city residents described the efforts of the authorities more positively is the transport sector. The authorities' actions aimed at improving the work of urban transport were positively evaluated by 47%, and preventing congestion on roads - 34% of positive voices. Negative assessment was given by 32% and 31% of respondents.

We believe that this survey revealed, on the one hand, the systemic crisis of urban development, the growth of socio-economic problems, and, on the other, the lack of constructive dialogue, cooperation with the authorities and passive position of the respondents regarding participation in community life.

Problems of urban settlements identified by the survey can be ranked due to their importance: the first group includes general economic problems inherent in the state as a whole in the context of the economic crisis (these are inflationary processes at the background of reduction of budgetary expenditures and social payments); the second group is an economic problem of rising unemployment, and hence the lack of jobs in the city; the third group - social problems of health care, social protection, housing and high-quality public utilities; the fourth group - environmental problems.

Solving the problems of the first group does not fall within the competence of the city authorities, however, the problems of 2-4 groups are the prerogative of local governments and the survey showed the inefficiency of their work in these areas. As it is shown at Fig. 3.1, the problem that needs to be addressed is the creation of a

sufficient number of jobs; the issues of housing and communal services quality are acute.

Despite the fact that the absolute majority of city residents are dissatisfied with the level of their influence on decision-making in their own settlements, not all of them are ready to take part in the management of their city. In this case, the most popular way to join governance is to participate in the election, while more direct methods of local management do not find support. In addition, most citizens do not participate in the activities of local NGOs, and also do not know about their existence.

Consequently, the survey shows the unpreparedness of the population to independently solve urban problems, or its reluctance to interfere with the mechanisms of power, to take full responsibility on them.

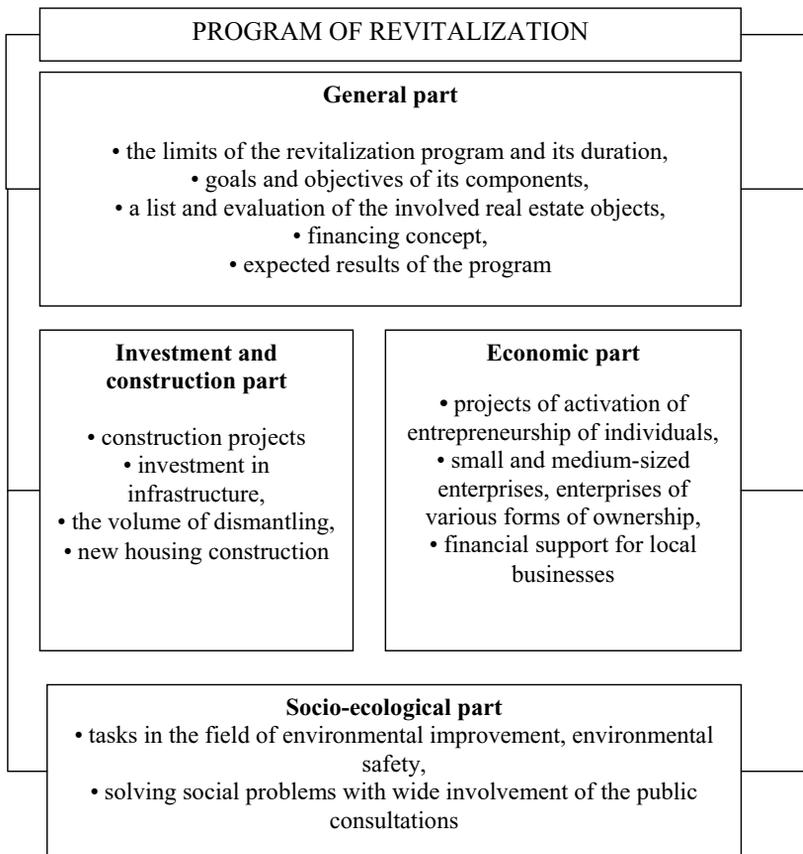
In our opinion, the resolution of the priority problems of the cities lies not only in extensive development - the creation of new enterprises, housing complexes, expansion of urban areas, but in the transformation, redevelopment and revival of existing industrial or residential real estate, changing the urban space through its revitalization.

However, revitalization projects in the city or part of its territory are not implemented not only because of the problem of finding financial resources. The lack of awareness of the community, the incompetence of local authorities and the lack of a comprehensive program for sustainable development are the main barriers of its realization [6].

We believe that the program of revitalization should be complex, and its construction should include the following interconnected components (see Figure 3.2):

- A general part that will characterize the limits of the program of revitalization, the goals and objectives of its components, duration, list and evaluation of the involved objects, the concept of financing, the forecast of expected results of the program.

- Investment and construction part, which will represent construction projects and investments in infrastructure, dismantling and new housing construction.
- The socio-ecological part, describing tasks in the field of environmental improvement, ecological safety, as well as solving social problems with wide involvement of the public consultations.
- The economic part, which provides projects to increase the entrepreneurship of individuals, small and medium enterprises, enterprises of various sectors of the economy, as well as financial support for local business.



**Fig.3.2 Structure of the program of revitalization of the city**

Source: author's development

It should be noted that Ukraine has no experience in developing a comprehensive revitalization program, but has only individual attempts to restore objects and territories, for example, renovation of communal infrastructure at the expense of international grants. At the same time, in the domestic legal field there is the notion of "depressive territories", programs of financing from the budget for measures of their development, as well as programs for the development of certain regions, districts, cities.

However, they do not replace the process of revitalization, but only touch it indirectly. Thus, during the existence of the Law of Ukraine "On the Promotion of the Development of Territories" (adopted in 2005), 6 regional development agreements were concluded with the regional councils of Ivano-Frankivsk, Kherson, Vinnitsa, Volyn, Lviv and Donetsk regarding development of the depressed territories. For example, consider the main areas of activity defined by the Agreement between the Cabinet of Ministers of Ukraine and Lviv Regional Council for the period of 2009-2013 [7], as follows:

- restructuring and development of basic industries;
- development of the system of life support of settlements;
- creation of an effective system of environmental protection;
- preservation of historical and cultural heritage.

For each of the directions, 14 joint aims were developed, which were detailed by 82 tasks (specific objects). Among the measures of the Agreement are the construction of a new mine, rehabilitation of soils after sulfur extraction, renovation of water supply networks, repair of roads, schools, hospitals, etc.

From the Report [8] it is clear that only 20 tasks (almost 25%) have been completed in four years, 33 tasks have been partially executed, 29 tasks have not been completed. Joint actions of the Agreement were financed in the amount of UAH 1.97 billion (60.6% of the planned funding), including UAH 1.54 billion (78,1%) at the expense of the state budget and UAH 0.38 billion from local budget (19.2%), other sources - UAH 57 million (2.7%).

We can argue that the programs of socio-economic development of the territories receive less and less budget funding each year, and the funds are used to solve urgent social problems (such as replacement of windows in schools and hospitals), but they do not promote economic recovery in the future. These programs do not have investment business projects and mechanisms for finding private investors for their implementation.

If the necessary step took place, which contained signs of revitalization, for example, the remediation of land after chemical production, then there were no measures and steps for its further use, the possible creation of new economic entities (economic effect), and the achievement of the social effect. During the period of implementation of the Agreement from 2009 to 2013, none financial result was received in the form of returns from the newly created objects, including extra taxes paid.

### **Conclusions**

Therefore, we believe that the problem of social, economic and environmental degradation of urban areas requires an integrated approach, namely the adoption of a law on revitalization and the development of a corresponding program. Complexity of revitalization is connected not only with a wide range of problems that it affects, but also with the necessity of implementation of the entire set of projects. Thus, social development projects usually require subsidies from the state budget, while infrastructure projects, new construction or reconstruction may and should take place with the involvement of private capital, with significant funding potential of the European Union structural funds and other international financial institutions. In contrast to the existing Territorial Development Agreements, revitalization programs should be developed with a clear definition of the facility, expected results of the program, diversification of funding sources, and the development of investment-building, economic and socio-ecological components of the program. An important part of the success of the revitalization program should be the participation of the public in discussing and solving problems to ensure sustainable urban development.

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