Viktoriia Stoika

Doctor of Economics Sciences, senior research fellow
Transcarpathian regional Center of
Socio-Economic and Humanitarian research of the
National Academy of Sciences of Ukraine
https://orcid.org/0000-0002-6356-890X

Krystyna Kudak

PhD, research fellow
Transcarpathian regional Center of
Socio-Economic and Humanitarian research of the
National Academy of Sciences of Ukraine
https://orcid.org/0000-0002-5886-7139

SMALL CITIES: UNLEASHING THE SOCIO-ECONOMIC POTENTIAL IN THE CONTEXT OF DECENTRALIZATION

Abstract. The purpose of the article is to systematize and summarize the key scientific approaches to unleashing the socio-economic potential of small cities in the context of decentralization.

It is determined that in the context of administrative-territorial reform, small cities play an important role in the socio-economic development of local communities and regions, which requires the development of a systematic and comprehensive approach to managing their development, since, according to the methodology for the formation of sustainable local communities, it is determined that communities should be formed around city-district centers, most of which are small cities. In such circumstances, one of the primary tasks of local governments is to develop strategic directions for unleashing the potential of local communities and small cities, which primarily involves identifying priority areas for their development.

Keywords: small cities, local communities, decentralization, socio-economic potential, strategy.

JEL Classification: O10, R22, R58
Problem statement. In the context of administrative-territorial reform, small cities play an important role in the socio-economic development of local communities and regions, which requires the development of a systematic and comprehensive approach to managing their development. The role of small cities in regional and national development is a subject of debate, as some scholars argue that such settlements are a means of exploiting the rural population, while others note that such settlements provide essential services to the rural population and promote the development of commercial agriculture and other types of economic activities.

Analysis of the last researches and publications. Many scientists and international experts were engaged in the research of small towns as a scientific category and their socio-economic development, such as Gabe T.M. [2], Deakin M. [7], Maher A. [8], Pitjylych M.M. & Kudak K. [10], Stoika V. [11, 12, 13, 14] etc.

The purpose of the article is to systematize and summarize the key scientific approaches to unleashing the socio-economic potential of small cities in the context of decentralization.

Presentation of the main material. A global trend of our time is "the growing role of cities and regions in the territorial division of labor... The development of cities, regardless of their scale, largely determines the effectiveness of changes in national character and affects the development of regions and the state as a whole" [1]. The role of big and small cities in regional and national development is a subject of debate, as some scholars argue «that such settlements are a means of exploiting the rural population, while others note that such settlements provide essential services to the rural population and promote the development of commercial agriculture, off-farm employment opportunities, and the integration of urban and rural economies» [2]. Such differences necessitate the systematization of scientific approaches to the study of the problem of strategic management of small cities' development and the development of effective ways of their operation in the context of challenges of our time.

Based on the share of local population living in urban clusters and in urban centers, it classifies Local Administrative Units (LAU or communes) into three types of area: cities (densely populated areas), towns and suburbs (intermediate density areas); rural areas (thinly populated areas) (figure 1).
In the context of decentralization and administrative-territorial reform in Ukraine, the strategic direction of local governments is balanced territorial development, an important component of which is the development of small cities, around which newly formed local communities are mainly formed.

Insufficient consideration of the peculiarities of small cities in the course of economic reforms has aggravated the socio-economic situation therein, and the implementation of socio-economic and cultural programs for the development of local communities in these towns lack the financial resources. The importance of identifying economic mechanisms for the prospective development of small cities is growing due to the increased role of local governments in connection with the
transfer of many functions and powers to manage socio-economic development to the regions, which increases the influence of local communities on the formation of the city-forming base and employment.

The main strategic guideline for the socio-economic development of small cities in the context of decentralization is to ensure balanced territorial development by creating legal, economic, social, psychological and administrative conditions for the development of infrastructure in small cities and communities, stimulating the development of small and medium-sized businesses in the production and non-production sectors, and eliminating existing imbalances in all types of economic activity. Strategic planning provides local governments with "a comprehensive tool combining the analysis of current events, forecasts of socio-economic development and eventual future scenarios subject to the development of the achievement strategy. This planning also helps to form a common vision of prospects and develop specific stepwise development projects that are understandable to the territorial community, stakeholders and society in general. Further to that, the approval of the strategy provides not only a clear, detailed plan for the sustainable development of the city, but also helps to attract the required resources from state and regional funds and international donor assistance to implement the programs and activities identified in the strategy [1]. The key tools for enhancing the development of small cities' potential are institutional, legislative and regulatory support for their operation, financial, credit, innovation and investment support for the development of entrepreneurship in communities, as well as infrastructure, information and advisory support. Thus, the institutional environment enabling the development of the potential of business entities in small cities covers a set of political, legal, financial, economic and social principles and organizations determining the form of social structure of the city and adjacent territories, regulating the activities of major business entities through formal and informal restrictions, and contributing to the effective socio-economic development of the city. At the same time, institutional, legislative and regulatory support for development in small cities involves the operation of formal and informal institutions for national, regional and local development, as well as improving the regulatory framework governing the activities of business entities in small cities in all areas of economic activity. Creating an enabling environment for unleashing the potential of small cities also requires taking into account the influence of informal factors, such as traditions, experience, and customs, which ultimately determine the nature of formal institutions [3].

When determining the key directions of economic development of small cities, we can draw a general conclusion that, in the long run, we should expect strengthening of the industrial potential of these cities, restructuring of the economy of some of them through the industry re-profiling, and a corresponding shift in functions [4]. In particular [2], studying the impact of local industry agglomeration
on enterprise growth and employee incomes in manufacturing and nonmanufacturing enterprises, based on empirical results, reveals a positive relationship between the increase in employment rates at the enterprises and the industry location factor. His research reveals that industrial agglomeration has a positive impact on the wages paid by the enterprise compared to the average for the US industry [2]. An integral part of the toolkit for unleashing the economic potential of small cities is financial, credit and investment support for small business entities, which involves creating a favorable investment climate and innovative business development in cities and amalgamated local communities; effective fiscal and budgetary policy in the priority economic activities of the city, as well as financial and credit support for the development of small and medium-sized enterprises, which provides for:

- concessional lending to start-up entrepreneurs and micro-lending to private entrepreneurs, loan guarantees, subsidizing interest payments on loans, and providing repayable financial assistance;
- long-term lending to microbusinesses and lower interest rates on these loans;
- intensifying the activities of commercial banks to finance small businesses that are commodity-based and operate in priority economic activities for the city; providing them with preferential loans for specific business programs at the expense of their own credit resources, funds from international banks and foundations [3].

It is an objective fact that the social development of small cities will depend on the level and direction of their economic development. In order to meet the social needs of the population of mono-functional cities, it is required to strengthen the existing social infrastructure by reconstructing and upgrading existing facilities. The second strategic direction is to reform the social sphere in line with the principle of market relations... and to create a market for services that will increase revenues to municipal budgets [4].

In the context of decentralization, the progressive development of small cities is possible only through effective cooperation of all economic actors operating in small cities, including local governments, the business sector, and NGOs, which necessitates the intensification of the partnership capacity of communities and small cities, as well as the accentuation of the role of cross-sectoral cooperation in ensuring their effective operation and development. Establishing partnerships "is becoming one of the most important approaches in the activities of institutions towards achieving common goals, a key to important changes in communities" [5], including small cities, whereas intersectoral partnerships as a form of structured cooperation between business, government and civil society based on convergence of interests are aimed at attaining synergies towards achievement of common goals in the territory where it operates. Partnerships exist at different levels and take different forms; still, their participants are expected to achieve their goals more effectively through strategic alliances with other sectors than by acting independently [6].
In the context of strengthening cross-sectoral cooperation, one of the conditions for stabilizing and developing the economy of small cities is the development of small and medium-sized businesses, which creates a competitive environment, additional jobs, saturates the market with goods and services, and expands the tax base. Thus, an important element of boosting entrepreneurship in small cities and communities is the creation of business centers in small cities, the key tasks of which are to create an enabling environment for the establishment of small businesses and the creation of new jobs in the sector of small production and innovative enterprises; training, retraining and professional development of talents; conducting market research and advertising for local businesses; assistance with attracting investments and loans, providing relevant information to investors; as well as leasing equipment to entrepreneurs.

In the context of administrative-territorial reform, an important component of the balanced territorial development of local communities is the effective utilization of the potential of cities and villages on the basis of cooperation and integration of all economic actors. It is also essential to ensure a balance in the interaction of innovative and traditional vectors of urban development, rural economy and community (including social, economic and environmental ones). Thus, the basic elements of a sustainable operation of any community are traditionally natural resources and human potential, the main "supplier" of which is the rural economy, but the driving force in the progressive development of small cities will be the entrepreneurial potential, the activation of which will contribute to economic diversification and socio-economic development of the community. In this context, a promising area for unleashing the potential of small cities and amalgamated local communities in the context of decentralization should be the development of a strategy and concept for the development of a "Smart City", which is a progressive direction of urban development in economically developed countries and a vivid example of a successful solution of the socio-economic problem of urban regeneration, when the key element is not the territorial principle, but rather cultural and economic planning based on the utilization of human, innovative, environmental and cultural capital of the city involving:
- a widespread use of various digital technologies in the city and society;
- the use of information and communication technologies to transform the environment;
- implementation of such technologies in city management systems;
- bringing people and technology together in a city to unlock the full potential and capabilities of its citizens [7, 8].

In the modern setting, one of the important conditions for the development of small cities and the formation of smart cities is the level of Internet use among the population, depending on the diversity of its needs. In this context, small cities may have their own specifics, which may distinguish them from large cities or rural
settlements to some extent; however, an analysis of certain indicators characterizing the level of social development of small cities, as well as certain features and lifestyles of the population living there, indicates that in the EU countries there is generally a certain balance in the development of different types of territories in terms of urbanization. The table below shows the proportion of people aged 16–74 making use of the internet, by degree of urbanization in EU (Table 2).

<table>
<thead>
<tr>
<th>EU-28</th>
<th>Cities</th>
<th>Towns and suburbs</th>
<th>Rural areas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Using the internet at least once a week</td>
<td></td>
<td></td>
</tr>
<tr>
<td>81</td>
<td>77</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Online purchases in the last 12 months</td>
<td></td>
<td></td>
</tr>
<tr>
<td>58</td>
<td>53</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interacting with public authorities in the last 12 months</td>
<td></td>
<td></td>
</tr>
<tr>
<td>52</td>
<td>46</td>
<td>39</td>
<td></td>
</tr>
</tbody>
</table>

Source: Eurostat (online data codes: isoc_bdek_di, isoc_bde15cbc and isoc_bdek_ps)

Still, "it is required to apply a differentiated approach, taking into account the peculiarities and problems of small cities"[9], so, first of all, it is important to identify localized "growth points" and priority areas of economic development in small cities and LAU, taking into account the peculiarities of the region. According to Dotsenko [4], "the strategic direction of developing the monofunctional cities in Ukraine is their gradual transformation into multifunctional ones, which will help solve most of their problems. However, this does not mean abandoning the specialization of their economies; rather, in those cities where there is no economic dominance, the main type of economic activity should be identified and opportunities for its priority development should be provided in the future." According to Maher [8], the driving priorities for the development of small cities are:

1. Investments in human capital contribute to the growth of the new economy and are the key to long-term economic success;
2. Development of the entrepreneurial ecosystem, which involves creating a favorable environment for business development, supporting leadership and innovation;
3. Strong social capital, involvement of city residents and the community in the development and implementation of a long-term community development strategy;
4. The attractiveness of the city and community environment to community residents, entrepreneurs, investors, and tourists [8].
In general, the activation of the socio-economic potential of small cities involves the creation of organizational, regulatory and economic mechanisms to ensure positive changes in the socio-economic development of small cities, the environmental safety of their territory, raising the living standards of the population, improving the quality of public services provided to the population through the efficient use of resource and research and production potential, market transformations in the economic complex, as well as in the development of legal frameworks and tools for governmental stimulation of these processes. When developing and implementing a strategic plan for the city and community, it is worth noting that "the analysis of the environment and factors of community development shall be carried out in parallel with the development of a vision for its development. In practice, the taskforce shall begin the strategic planning process by defining the mission and strategic vision of the desired state of the community and the city in the future. In turn, the mission of the territorial community takes into account a set of unique historical and modern features, along with competitive advantages that already exist and need to be acquired or developed for the further dynamic development” [1].

**Conclusions.** In the context of the administrative-territorial reform, the proposed directions of unleashing the socio-economic potential of small cities are an effective way to stimulate their development. Particular attention should be paid to the implementation of organizational and economic measures to enhance the development and use of the potential of small cities, as well as to deepening the cross-sectoral cooperation between the authorities, business and the public sector. At the same time, an important area of small towns development is the integration of the city's potential with the potential of the rural economy, which will ensure a balanced development of the community through the effective use of natural resources, human, entrepreneurial, and socio-economic potential. A promising direction for unleashing the potential of small cities and LAUs in the context of decentralization should be the application of the Smart City development concept, the development of innovative entrepreneurship and the digitalization of the economy of small cities and communities, the transition from the territorial principle to cultural and economic planning based on the effective use of the human, innovative, environmental and cultural capital of the city.

**References:**