

Decentralization Reform and Prospects for Economic Development in Ukraine: Impact Assessment

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Abstract

A thorough and systematic reform of local self-government has been launched since 2014 in Ukraine. The experience of Central and Eastern European countries in combination with international standards and recommendations for the positioning of the institution of municipalities is entrusted to the development of relevant legislation and mechanisms for the practical implementation of change. The updated legal framework has significantly contributed to the municipal consolidation in the country and created the appropriate legal conditions for the implementation of the developed reform and the effective functioning of local authorities and economies.

The study analyzes and evaluates a new phenomenon for Ukraine - political and economic decentralization of power and its impact on economic development. The reform is carried out in favor of the formation of the basic level of government through the formation of new primary structures - united territorial communities. The influence of the principle of subsidiarity on the formation of local self-government structures on the economic development of communities is studied. The first stage of decentralization reform is generalized taking into account the projected changes, real results and expected risks.

Keywords: decentralization, united territorial community, economic development, investment.

Introduction

The purpose of the study is to analyze the features of the economic impact of decentralization processes in the context of local government reform in Ukraine. The complexity of the subject of research determines the use of a set of methods for analysis and identification of features on the issue. The application of the historical method makes it possible to trace the retrospective of decentralization processes in world practice. Systematic approach used in the study of the decentralization process in Ukraine as the complex legal, political, administrative and economic measures designed to strengthen local communities. The empirical research was carried out by analyzing international recommendation documents concerning the powers of local self-government, as well as legislative projects and acts of the Ukrainian state authorities.

Main Research

The formation of the basic principles of local self-government is associated with the formation of industrial capitalist relations in the nineteenth century. The French historian and public figure A. de Tocqueville (2000) developed a "theory of free communities", guided by the idea of the historical primacy of the community and secondary - of the state. A. de Tocqueville noted the direct leadership of the people as a source of power in the community and the delegation of some powers to the state. According to this concept, we can define the community as an independent basic administrative unit in its competences, which is empowered to independently conduct business and carry out local government taking into account the local interests.

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The main provisions of the state theory of local self-government were developed by professor of the University of Vienna Lorenz von Stein and professor of the University of Berlin Rudolf Von Gneist (1869) in the nineteenth century. They came to the conclusion that there are no special public affairs because they are all essentially belong to state. The transfer of some powers of governance to local communities is necessary in order to ensure more effective decision-making. This theory of local self-government is now used in many countries around the world, including the Anglo-Saxon legal system.

The dualistic theory of local self-government reveals its dual essence. It considers local government as a synthesis of autonomy in local affairs and delegated government functions at the local level. According to this theory, local governments, performing functions delegated by the state, go beyond local interests and act as a tool of public administration. This mechanism is based on the manifestation of a counter-initiative: on the part of the population, which entrusts local governments with a number of important functions, and on the part of the state, which instructs local authorities to address a number of issues important not only for a particular municipality but also for the state. In scientific research, the term "decentralization" can be used in a broad and narrow sense. We can talk in general about the mechanism of redistribution of power and the delegation of some functions from the central to the local level. At the same time, this concept can be considered as a certain system of relations between the state and administrative-territorial units of the lower level. The process of transferring powers to local authorities, increasing the capacity of local self-government and expanding its powers, which are transferred from the center to local communities on a subsidiary basis, is an objective basis for decentralization. The processes of decentralization and centralization should be considered as processes of concentration or distribution of powers, and not only in the sense of the level of approximation or delimitation of decision-making processes to the national level.

Decentralization involves the transfer to the local, regional level of as many powers as the local government can actually perform in order to fulfill its responsibilities. Local authorities need to focus on providing public services and improving the well-being of people living in a particular area. Decentralization should involve citizens in solving current problems of local development, increase citizens' self-awareness as "owners" of the territory, as well as find internal resources and introduce effective incentives and levers aimed at stimulating economic growth of communities. We can affirm that decentralization covers a huge range of activities: from the development of political consciousness of citizens, the formation of civil society and to improve the economic development of the territory and the specific territorial community.

Decentralization processes, which entered an active phase in Europe at the end of the twentieth century, are aimed at a radical reorientation of policy to the level of municipalities, where the possibility of forming horizontal interactions is much higher. The most interesting for the study is the economic aspect of decentralization, namely how decentralization can affect the stimulation of economic growth of territorial communities in Ukraine.

The experience of European countries in reforming the institutions of local self-government in individual territories and in general is extremely valuable for Ukraine in terms of developing the legal framework and practical mechanisms for implementing the new principles of governance. The determining factor of such changes can be considered the unification and standardization of international principles of self-government through the development and adoption of agreements and treaties between countries with the assistance of intergovernmental organizations.

Based on the reforms carried out in Central and Eastern Europe, five basic factors of the decentralization process are identified by Pigul N.G., Lyuta O.V. (2016). The first and most important is the development of local and regional autonomies as a way to achieve the democratization of society. Solving local problems and freedom as a result of local and regional autonomy are also important factors. This also includes guarantees of ensuring and supporting cultural, linguistic and ethnic diversity and stimulating economic competition between authorities at various levels.

Decentralization in the European Union has become an integral feature of governance. It covers both the issue of decentralization within individual member states and the specifics of the division of responsibilities between countries and European institutions throughout the association. EU countries are constantly looking for an effective model of public administration. This search provides several options that have a higher or lower level of decentralization. One of the most effective examples of decentralization in recent years is the experience of Poland. After 1989, democratization processes took place in Poland aimed at forming a democratic system characterized by the protection of individual rights and civil liberties. This process was accompanied by the reform of the economic system, namely the formation of a market economy based on private property. At the same time, the system of public financial management was reformed. Decentralization has become not only a mechanism for solving the problems of the regions and the state budget, but, most importantly, a condition for ensuring the economic development of the country as a whole, although this conclusion is not supported by all scholars. The experience of the Republic of Poland is very useful for Ukraine because of the common historical past, the closeness of mentalities and the similarity of the

management system before the beginning of the decentralization reform. Theorists of decentralization reform in Ukraine have widely used the experience of Poland and implemented some of its provisions.

Prior to the implementation of the decentralization reform in Ukraine, the Law on Local Self-Government was the main legal document that defined the status and powers of local government structures, principles and the system of self-government. Article 5 of the law defines the structure of the local government system, which includes the territorial community, village, settlement or city council, village, settlement or city mayor and relevant executive bodies.

Decentralization reform in Ukraine began in 2014 with the adoption of basic legislative documents. This should include the Concept of local self-governance and territorial power reforming (2014), Law of Ukraine 'On voluntary unification of united territorial communities' (2015) and Law of Ukraine "On cooperation of territorial communities" (2014). Also important in terms of financial decentralization are changes to the Budget and Tax Codes.

First of all, analyzing the the Concept of local self-governance and territorial power reforming, it is necessary to highlight a number of important problems, which, in fact, this reform is designed to solve. In particular, the decline in the quality and accessibility of public services as a result of the lack of sufficient resources of a significant number of local governments and their inability to perform their own and delegated powers. Also the problems of icommunal services, namely the critical condition and lack of repair of heating, sewerage, water supply networks, as well as emergency housing, and the risks of man-made disasters due to lack of sufficient funding and small local budgets. A large number of territorial communities, especially those where there are no numerous cities, face the problems of nation aging, urbanization and the decline of rural areas. Another area of problems is the lack of coherence of local socio-economic development policy with the public interests and enhanced centralization of powers and financial resources by the executive branch.

To solve these problems, the Concept of local self-governance and territorial power reforming provides local governments with basic powers in accordance with their human, financial, infrastructural potential and resources on a new territorial basis. The purpose of the Concept is aimed at identifying mechanisms, areas and deadlines for creating an effective system of local self-government and optimal territorial organization of government to provide citizens with quality administrative services.

The basis for the redistribution of powers and the strengthening of local self-government was the European Charter of Local Self-Government, ratified by the Verkhovna Rada of Ukraine on July 15, 1997. The decentralization reform in Ukraine is planned in 2 stages, the first of which was preparatory and lasted in 2013-2015, providing organizational, analytical and research processes in studying the real state of local government, choosing the best ways to implement reform. The second stage includes the period 2015-2020 and is aimed at implementing the reform, with the task of completely renewing the administrative-territorial organization, completing the process of forming united territorial communities.

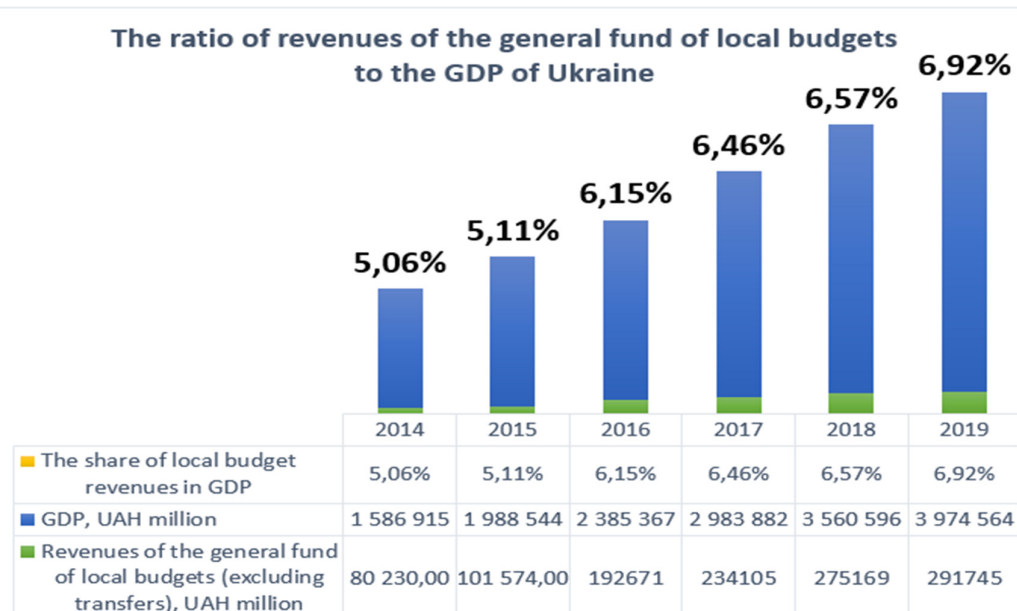
It is important, in our view, that decentralization transfers basic powers directly to the local level, thus speeding up the resolution of local problems. The ability to act independently motivates the population and the leadership of the local community to develop and improve conditions. Through the reform, the united territorial communities are empowered in such areas as local economic development, local infrastructure development, improvement and development of the territory of the united territorial communities (UTC), provision of housing and communal services, management of secondary, preschool and out-of-school education institutions, provision of health care services, development of culture and physical education, provision of social assistance and administrative services. The Law of Ukraine 'On voluntary unification of united territorial communities' (2015) defines a single mechanism for the formation of a new administrative-territorial unit, and emphasizes the voluntary nature of such association and the initiative of residents of the village, town or city, deputies and relevant councils, local self-organization bodies. The united territorial community is the legal successor of the property, rights and obligations of the united territorial communities from the date of official receipt of certain powers by the elected community. It follows that the united territorial community receives in its activities a significant number of powers from the preceding local governments. Markovych, H. (2019) emphasizes that the financial side of the reform is provided by the amendments to the Tax and Budget Codes, which from January 1, 2015 increased the economic capacity of the united territorial communities by obtaining more finances. The budget of the united territorial communities (UTC) is 60% of the personal income tax, 5% of the excise tax on the sale of excisable goods, 100% of the single tax, 100% of the property tax (land, real estate, etc.). In addition, local budgets remain at the disposal of 100% of the income tax of enterprises and financial institutions of communal property, 100% of payments for the provision of administrative services and 25% of the environmental tax.

Amendments to the Budget Code fix funding from district budgets in the field of secondary health services and activities at the district level, regional funding of educational institutions, at the level of state subventions. Local budgets of municipalities will be supplemented by revenues from state duties, administrative services, collection of administrative fines, collection of tourist income, payment of licensed economic activities, rent for the use of communal property, subsoil and water resources.

The fact of establishing direct inter-budgetary relations with the state budget remains important, because before the reform such relations were available only to the budgets of oblasts, rayons and cities of oblast significance. It is also possible to approve the local budgets of the united territorial communities (UTC) regardless of the date of adoption of the Law "On the State Budget".

For the successful implementation of the reform, the budgets of the united territorial communities (UTC) receive support from the state authorities in the form of subventions. Exercising the powers delegated by the state, local governments receive appropriate transfers in the form of grants, educational and medical subventions, subventions for community infrastructure development, socio-economic development of territories, etc.

The councils of the united territorial communities (UTCs) also have the right to make local borrowings to the budgets of the UTCs, both local and domestic, including by obtaining loans from international financial institutions. Borrowings are made to the development budget and funds are directed to the implementation of investment programs (projects), the purpose of which is the development of communal infrastructure, introduction of resource-saving technologies, renewal of long-term strategic facilities.



The main macroeconomic indicators (2020)

Since the beginning of the decentralization reform and the formation of united territorial communities, the share of revenues of the general fund of local budgets (excluding transfers from the state budget) in GDP has gradually increased - from 6.15% in 2016 to 6.92% in 2019. This indicator shows the positive dynamics of decentralization reform as local budget revenues are growing rapidly. Such results are possible due to the expansion of powers and increasing the interest of local governments in increasing revenues to local budgets, attracting reserves to fill them and increase the efficiency of administration of taxes and fees.

During decentralization reform the Government of Ukraine has approved 24 long-term plans for the formation of the UTCs with 100% coverage of the country's territory. From 2015 till September, 10, 2020, 983 united territorial communities were created out of 1466 provided by the new system of administrative-territorial organization. New prospects for economic development of communities are envisaged after the liquidation of districts in accordance with the Resolution of the Verkhovna Rada of Ukraine "On the formation and liquidation of districts" of July 17, 2020. This normative act liquidates the existing 490 districts and forms 136 new districts in Ukraine. The village,

township, and city budgets will no longer depend on the district. All 1,469 territorial communities, the territories of which have already been approved by the Government, will switch to direct inter-budgetary relations with the state budget which opens new prospects for UTCs.

Conclusions

The launch of decentralization reform in 2014 has become both a tool for improving the development of local democracy and an effective tool for increasing the financial capacity of local communities. The adoption in April 2014 of Concept of local self-governance and territorial power reforming in Ukraine launched a complex procedure for updating local government. The priority of the reform was the formation of about 1,500 united territorial communities with the possibility of independent local development and the provision of affordable administrative services. The same task was due to the elimination of the "duality" of administrative powers of state and municipal authorities.

Based on the analysis, we can identify the positive aspects of decentralization reform in relation to the economic development of territories. One of the benefits of the reform is the increased efficiency of resource allocation through establishing direct inter-budgetary relations with the state budget. Another advantage is the increase in the level of targeting in the allocation of state resources. Attracting most of the taxes to the local budget was encouragement for local businesses get involved in territorial development. At the same time, we can single out the risks of decentralization, which require the development of new management mechanisms. These include a reduction in the government's control over public finances, the problem of efficient use of resources in newly created communities and the need to control municipalities in attracting and repaying loans.

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