

## Achievements and problems of decentralization reform in Ukraine

*The issue of the course of administrative and territorial reform as well as budget and financial decentralization in Ukraine is outlined. Reform achievements and problem points of its accomplishment are emphasized, in particular those related to the necessity to overcome the obstacles stemming from the voluntariness principle of territorial communities' consolidation into more capable administrative and territorial units of basic level.*

*The ways to overcome these obstacles for the sake of successful reforms are suggested.*

**Keywords:** decentralization reform, local self-governance, consolidated territorial communities, budget capability.

**Statement of a problem and analysis of recent research.** The concept of decentralization reform in Ukraine stipulating the creation of modern system of local self-governance on the basis of European values and standards was adopted by Government in 2014 [1]. Its practical implementation has been conducted since 2015 after the Law of Ukraine «On Voluntary Consolidation of Territorial Communities» was adopted. Certain experience of reform implementation has been gained in three years. Its results became the subject of the range of scientific research [2-5, etc], which should be proceeded and developed.

**The paper purpose** to outline the achievements of administrative and territorial reform and budget and financial decentralization in Ukraine, to reveal the problem issues of the reform and to find the ways of its strengthening.

**Major research findings.** In 2015-2017, 665 consolidated territorial communities (CTC) were created in Ukraine. They have elected the relevant local authorities and received the new budget status with broader budget independency. In 2015, 159 CTC were created on the basis of voluntary consolidation of rural, town and city councils, in 2016 – 207, in 2017 – 299. Overall 28,3% of rural, town and city councils, which had been operating before the reform, were consolidated in 2015-2017 (Table 1).

Taking into account the need to adhere to the voluntariness principle in communities' consolidation as provided by the Constitution of Ukraine, the result could be seen as satisfactory. Its achievement was boosted by introduction of incentives for consolidation and forming of territorial communities able to perform the broad range of functions of local self-governance. In particular, consolidated territorial communities have received additional financial resources:

1. Budget revenues of consolidated communities have increased due to the growth of tax and non-tax revenues. Although the increase in CTC budget revenues has taken place mostly due to transferring to them the personal income tax revenues previously received by district budgets, still CTCs now can manage these substantial financial resources independently and have incentives to increase them.

2. CTCs have received additional resources from the state in the form of subsidies for solution of urgent issues of social and economic development (for forming of relevant infrastructure: public infrastructure, road construction and repairs, educational, cultural and healthcare establishments). Public financial assistance for social and economic development and development of CTC infrastructural objects was provided by three directions in 2016: 1 billion – subventions for CTCs infrastructure development (1383 projects); 131 million – from State Regional Development Fund (70 projects); 49,7 million – subventions for social and economic development (for 50 CTCs) [6]. Along with this assistance, the CTCs can attract the funds of international financial assistance.

3. New system of budget equalization has provided the interest for increase of local budgets revenues.

Table 1

Results of communities' consolidation as of January 1, 2018\*

№ p/p	Oblast	Number of city, town, rural councils before consolidation, overall	CTCs created	City, town and rural councils consolidated, overall	%
1.	Vinnyska	707	34	101	14,3
2.	Volynska	412	40	168	40,8
3.	Dnipropetrovska	348	56	165	47,4
4.	Donetska	289	9	51	17,6
5.	Zhytomyrska	631	45	328	52,0
6.	Zakarpatska	337	6	20	5,9
7.	Zaporizka	299	36	133	44,5
8.	Ivano-Frankivska	516	23	106	20,5
9.	Kyivska	661	9	44	6,7
10.	Kirovohradska	415	13	37	8,9
11.	Luhanska	194	8	46	23,7
12.	Lvivska	711	35	137	19,3
13.	Mykolayivska	314	28	97	30,9
14.	Odeska	490	25	108	22,0
15.	Poltavska	503	39	141	28,0
16.	Rivnenska	365	25	93	25,5
17.	Sumska	411	28	131	31,9
18.	Ternopil'ska	615	40	240	39,0
19.	Harkivska	458	12	57	12,4
20.	Hersonska	298	26	93	31,2
21.	Hmelnytska	605	39	320	52,9
22.	Cherkaska	556	26	96	17,3
23.	Chernivetska	271	26	94	34,7
24.	Chernihivska	569	37	297	52,2
	Total	10975	665	3103	28,3

\*without temporarily occupied territories

Developed on the basis of data provided by the website «Decentralization of Authorities» - <http://decentralization.gov.ua/region>

4. CTCs' access to the funds of State Regional Development Fund, which has increased the funding of local territorial growth projects, has become the real issue.

5. In 2018, the agricultural lands beyond the settlements became available for management by consolidated territorial communities, which can also provide additional budget revenues.

In general, it makes communities' consolidation attractive and efficient. However, it is worth mentioning that only the communities consolidated according to perspective plans of community territory forming adopted by oblast councils and approved by the Cabinet of Ministers of Ukraine will receive relevant preferences. This promotes the introduction of communities' consolidation process into the course of state interests.

The necessary legislative and regulative basis has been created in the course of the reform. However, it is only one of important reform components designated to maintain omnipresence and comprehensiveness of local self-governance and to activate the capacity of territorial development at local, subregional and regional levels. The success of the reform largely depends on the level of inclusion of public governance institutes into them, transformation of local self-governance institutes, their creativity and readiness to operate under the new conditions. Some flaws can already be visible in this aspect. In particular, voluntary forming of consolidated territorial communities undermines the fast paces of the reform and leads to parallel existence at local (CTCs) and subregional (districts) levels of institutions with the

system of state executive authorities (district state administrations) and local self-governance (executive authorities of local councils) with identical liabilities. This does not contribute to efficient use of local personnel capacity.

Moreover, district councils and district state administrations in some cases show disinterest in CTCs creation at the territories under their jurisdiction, including due to uncertainty of further existence of their institutions, ways of their transformation and possible place in the system of declared but still not implemented institute of prefects as the state authority supervising the activity of local self-governance.

Time discreteness and non-system nature of CTC forming create problems, because they cause the misbalance between local budgets. For example, in Lvivska oblast the process of territorial communities' consolidation encompasses 13 administrative districts out of 20. Moreover, in 6 districts creation of CTCs has deteriorated the situation with maintenance of district budgets with own revenues. The negative influence is especially essential for the CTCs formed by communities with high budget capability, in particular for the budgets of Skolivskiyi and Mostyskiy districts, where the revenues to the general fund of district budget per capita have decreased by 35,1% and 45,9% accordingly after the CTC budgets were allocated from them (Table 2).

Table 2

## Revenues of the general fund of district budgets in Lvivska oblast, 2017

	District	Total revenues (without CTC budgets), million	Revenues per capita (without CTCs), ₴ thousand	Calculated per capita with CTCs, ₴ thousand	Gap (4 – 5), ₴ thousand	Gap in %
1	2	3	4	5	6	7
1	Stryiskiyi	229,953	3,974	3,861	0,113	2,8
2	Pustomyivskiyi	244,503	3,549	3,628	-0,079	-2,2
3	Yavorivskiyi	412,385	3,292	-	-	-
4	Brodivskiyi	159,089	2,822	2,787	0,035	1,2
5	Kamyanka-Buskiy	85,816	2,795	3,058	-0,263	-8,6
6	Horodotskiy	160,049	2,687	2,537	0,150	5,7
7	Sokalskiy	206,540	2,620	2,875	-0,255	-8,9
8	Zolochivskiyi	172,110	2,480	-	-	-
9	Zhovkivskiyi	237,771	2,298	2,202	0,096	4,2
10	Zhydachivskiyi	75,003	2,261	2,133	0,128	5,7
11	Radehivskiyi	106,929	2,246	-	-	-
12	Peremyshlyanskiy	58,515	2,165	-	-	-
13	Mykolayivskiyi	97,169	2,146	2,298	-0,152	-6,6
14	Buskiy	98,918	2,132	-	-	-
15	Skolivskiyi	80,180	2,052	3,160	-1,108	-35,1
16	Sambirskiyi	30,293	1,787	1,491	0,296	16,6
17	Starosambirskiyi	92,208	1,491	1,409	0,082	5,5
18	Mostyskiy	18,705	1,125	2,079	-0,954	-45,9
19	Turkivskiyi	53,561	1,076	-	-	-
20	Drohobyt'skiy	79,797	1,068	-	-	-

Calculated based on the data of Financial Department of Lvivska Oblast Administration

As the result for 39 thousand residents of Skolivskiyi and 16,6 thousand residents of Mostyskiy districts the budget maintenance has decreased significantly. Along with this, CTC forming has not caused negative consequences in 7 districts of the oblast. This testifies to the reasonableness of relevant decisions on adoption of perspective plans of community territory forming and CTC creation in these districts, unlike those mentioned above.

Local self-governance at basic level faces strong deficit of managers, who would correspond to new requirements, show creativity and innovative approach and provide intensification of territorial development. Moreover, availability of people demonstrating the ability and desire to work under new conditions is neutralized by financial inability of the range of existing communities to function as consolidated territorial communities due to inadequate existing mechanism of budget equalization and assistance to local budgets. The mechanism undermines acquiring of the status of capable territorial community for majority of communities in mountain districts and at rural territories located far from the centers of economic activity. Forming of capable CTCs is in fact possible here only within the entire administrative district, however at the same time the current state of communities' low economic activity is preserved, the capacity of local territories' endogenous development is not included and the negative effect of peripherality grows exaggeratedly.

In such circumstances, the negatives of peripherality will eliminate positive large-scale effects: incomplete and inefficient use of resources capacity and human capital of peripheral territories and their depopulation. It contradicts the provisions incorporated in 2020 State Regional Development Strategy, which stipulate that state regional policy should be based not on paternalistic relations but rather on creation of conditions to form constantly reproductive internal (endogenous) basis for development in conditions of open economy [7].

The principle of voluntary consolidation significantly slows down and in many cases blocks the process of city CTCs creation through consolidation of city and rural communities. City communities show reluctance to consolidate with financially weak rural ones; and rural communities in many cases do not agree to consolidate because of the fear to lose the management influence on their territory in conditions of electoral system, which is not reformed according to new conditions. Meanwhile, both parties lose in this case: the cities – additional opportunities of growth, rural territories – synergetic effects of consolidation with city communities, opportunities to use the city infrastructure and their staff and creative capacity.

Growth of budget and management independency of consolidated territorial communities puts new tasks in the sphere of state control over the activity of local self-governance and adherence to legal nature and requirements of Ukrainian Constitution. Combined communities on one hand should not become extraterritorial and should function in certain regional and subregional system. On the other hand, the loss of public control over local governance is unacceptable and threatens national security. Interests of local elites, which receive broad opportunities in consolidated territorial communities, may not match the state ones. Foreign practice testifies to the need of efficient state control for local governance. It has developed the relevant mechanisms and instruments of control. In Ukraine, such control nowadays is mostly maintained by oblast and district state administrations. Expected transfer of executive authorities' functions to local governance requires transformation of state administration functions or introduction of new institutions of power – prefects.

In general, the achieved results of the reform testify to both certain capacity of opportunities to form administrative and territorial units with higher budget and management ability and low activity of reform conducted by the principle of voluntary communities consolidation. It is necessary to find the ways to conduct decentralization reform more actively in terms of forming of capable territorial communities and to avoid at the same time the range of risks threatening the reform's success.

The nature of these risks stems from the threats, which can manifest themselves due to:

- misbalances between state and territorial (local, subregional, regional) interests with strengthening of management independency of administrative and territorial units without efficient public control over adherence to the provisions of the Constitution of Ukraine and requirements of legislation in operation of their management authorities;

- extension of territorial social and economic disproportions and negative consequences of peripherality because the range of settlements lose the function of administrative center;
- shortcomings of regulation at local level stipulated by insufficient preparedness of territorial communities' management authorities to work under the conditions of significant expansion of liabilities;
- incoherence and time discreteness of the reform leading to misbalance of local budgets in the districts with formed consolidated territorial communities, which have higher financial capability, and at the same time functioning of rural and town councils with low budget capacity;
- shortcomings of methodical tools on the basis of which the perspective plans of forming of communities territories are developed and as the consequence - their poor justification and neglect of local peculiarities;
- social discontent due to worse access to the range of public services in the course of forming of consolidated territorial communities, where the communicating access to servicing places can decrease.

**Conclusions.** Strengthening of decentralization reform, which demonstrates its social and economic efficiency in many cases, elimination of existing shortcomings and prevention of abovementioned risks of local governance and state administrative and territorial structure reforming requires the solution of the range of key issues, in particular:

- constitutional maintenance and adequate legal assistance to the reform;
- introduction of qualitatively new institute of public control over the activity of local self-governing bodies;
- synchronization of solution of administrative and territorial structure reforming tasks with sectoral reforms of social sphere, budget and tax reform, agrarian sector reform, etc;
- forming of new state regional development policy with accents on growing management, economic and political role of the basic level of administrative and territorial structure in solution of issues of both local and subregional and regional development.

In order to solve these tasks it is necessary to:

- finish the process of constitutional reform in terms of decentralization on the basis of Resolution of Verkhovna Rada of Ukraine «On Preliminary Approval of the Law on Amendments to the Constitution of Ukraine on Decentralization of Authorities» as of August 31, 2015 № 656-VIII. It will contribute to elimination of certain inconsistencies between the provisions of Constitution and the practice of administrative and territorial system construction and functioning in Ukraine and to introduction of the principles of territorial communities forming in balance with local, regional and state interests, to acceleration of decentralization reform, to maintenance of omnipresence and comprehensiveness of local self-governance along with creation of efficient mechanisms of public control over adherence to the requirements of the Constitution and legislation of Ukraine in operation of local self-governmental bodies and guaranteeing the state unity;
- improve the methodical instruments of forming of capable territorial communities and development of perspective plans of communities' territories forming taking local conditions into account in a greater degree and preventing the excessive enlargement of basic level administrative and territorial units. Because the latter leads to the growing distance between an individual and authorities, decreasing capacity of involvement and initiative of residents in solution of local issues, preserving of residents' paternalistic aspirations and disinterest in personal participation in communities' vital activity. In this regard it is worth reviewing some provisions of the Methodics of Forming of Capable Territorial Communities adopted by the Cabinet of Ministers of Ukraine and introducing amendments to the range of adopted perspective plans of communities' territories forming;

- accelerate reforms in educational and healthcare spheres, providing of administrative services, etc in close relationship with the issues of authorities' decentralization and expansion of liabilities of local self-governing bodies, avoiding the unreasonable transfer of functions and responsibilities of state executive authorities to local self-governance;
- review the policy of interbudgetary relations, account the growth of local budgets' share in the overall state budget through redistribution of tax and nontax revenues between budgets; to improve the system of budget equalizing in the first place in terms of increase of state assistance to territorial communities of mountain territories and rural territories located far from the centers of economic activity;
- take measures to strengthen the management capacity at the level of basic link of local self-governance, improve the system of training and retraining of management staff for regulating bodies of territorial communities through, in particular, broader use of capacities of the National Academy of State Administration under the President of Ukraine;
- provide development and implementation of the basics of new state regional development policy taking into account the growing management, economic and political role of the basic level of administrative and territorial structure in solution of the issues of local and regional development and the need to eliminate preconditions and consequences of excessive social and economic differentiation at regional and local levels and to prevent negative manifestations of peripherality in the course of enlargement of basic level administrative and territorial units;
- take measures to improve the system of territorial planning, solve issues regarding providing of newly created communities with the schemes of their territory planning and general plans of settlements as well as plans of land and economic structure;
- maintain further state financial assistance to consolidation of territorial communities, in particular through allocating funds in the form of subventions for forming of relevant road and social infrastructure of the consolidated territorial communities.

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**Жук П. В. Досягнення та проблеми реформи децентралізації в Україні.**

*Розглянуто питання щодо ходу реформи адміністративно-територіальної та бюджетно-фінансової децентралізації в Україні. Здійснено аналіз процесу об'єднання переважно малочисельних за населенням і неспроможних у повному обсязі виконувати повноваження місцевого самоврядування сільських, селищних, міських рад у більшій об'єднанні територіальні громади (ОТГ). Протягом 2015-2017 рр. в Україні шляхом добровільного об'єднання 3103 сільських, селищних і міських рад було сформовано 665 ОТГ. Однак понад 70% адміністративно-територіальних одиниць базового рівня в процесі об'єднання участі не взяли. Регіони України демонструють реформаторську активність різного рівня. Так, у Житомирській, Хмельницькій і Чернігівській областях понад 50% сільських, селищних і міських рад об'єдналося в ОТГ. У Закарпатській, Київській і Кіровоградській областях в об'єднанні взяли участь менше 10% наявних громад. Недостатні темпи реформування, територіальна дискретність об'єднання громад спричинюють низку проблем локального, субрегіонального й регіонального управління. При цьому перші результати реформи демонструють низку її переваг: зросли фінансові ресурси об'єднаних громад, вони отримали бюджетну самостійність, з'явилася зацікавленість у реалізації ендogenous потенціалу розвитку громад тощо. Водночас проявили себе проблемні питання здійснення реформи, які, зокрема, пов'язані з необхідністю долати перепони, що спричинені принципом добровільності при об'єднанні наявних територіальних громад у більш спроможні адміністративно-територіальні одиниці базового рівня. Запропоновано шляхи подолання перепон задля успішності реформи, серед яких: необхідність належного конституційного забезпечення реформи; запровадження якісно нового інституту державного контролю за діяльністю органів місцевого самоврядування; синхронізації вирішення завдань реформування адміністративно-територіального устрою зі секторальними реформами соціальної сфери, бюджетно-податковою реформою, реформою аграрного сектору економіки; формування нової державної політики регіонального розвитку з акцентами на зростаючу управлінську, економічну й політичну роль базового рівня адміністративно-територіального устрою у вирішенні питань як місцевого значення, так і завдань субрегіонального й регіонального розвитку.*

**Ключові слова:** реформа децентралізації, місцеве самоврядування, об'єднані територіальні громади, бюджетна спроможність.

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