RESEARCH OF THEORETICAL AND PRACTICAL ASPECTS OF DECENTRALIZATION AS A NEW MANAGEMENT SYSTEM IN UKRAINE

Holubchak O., Horal L., Korol S.

1. Introduction

In today’s conditions, Ukraine is in a difficult economic and political situation due to the ineffectiveness of the current administrative system of public administration, as well as the administrative-territorial system. With such functioning, the actions of Ukrainian politicians are directed unpredictably and versatilely, but the most important tangible dispersion of the authorities is the development of local self-government.

It is rapidly gaining momentum with the start of 2018, although it has been running for several years (from 2014). Thus, decentralization has become the main reform of the new governance system, ensuring political stability and the gradual economic development of regions and the state as a whole [1].

The situation is caused by the fact that the country’s reform requires significant changes that should be aimed at creating an open political system, as well as the development of civil society and the growth of the each individual citizen well-being.

Therefore, research of the decentralization theoretical and practical aspects in the context of any of its types is an urgent problem, as a result needs further resolution.

2. The object of research and its technological audit

The object of research is theoretical and practical aspects of decentralization in the framework of transformational changes in the Ukrainian local self-government system.

Since the independence of Ukraine, the issue of decentralization of power has been steadily discussed, but there was not enough political will until 2014. It should be noted that such definition as «decentralization» is not a new term for Ukraine, although its practical application...
has been reflected recently. In Ukraine decentralization for the first time was mentioned in the Constitution of the Ukrainian People’s Republic (UPR) April 29, 1918, which stated that «without violating its unified power, the UPR grants its lands and communities the right to a broad-based self-government, adhering to the principle of decentralization» [2].

The modern process of decentralization is complicated by a set of elements that are associated with the phased implementation of variables that have a direct impact on the results of decentralization reform. Positive results and the level and quality of life of the population depend on the efficient allocation of financial resources. The problem of decentralization with a focus on detailing the practical aspects is not sufficiently explored, since it has become promising since 2014. In today’s conditions, it is gaining momentum, which provides a wide field of activity for its further study with the use of foreign experience.

3. The aim and objectives of research

The aim of research is the study of theoretical and practical issues concerning the aspects of the implementation of the decentralization reform in Ukraine.

To achieve the aim of research, the following scientific objectives are identified:

1. Conduct an analysis of the current state of the system of local self-government.
2. Identify the problems of inefficient use of financial resources at the local level and find ways to eliminate them.

4. Research of existing solutions of the problem

The need to implement an active process of decentralization in the world of space is proved in the works of many scholars. In particular, among the main directions of solving this problem, discovered in the resources of world scientific periodicals, can be highlighted [3, 4]. In the context of strategic guidelines, they are invited to develop progressive measures that will consistently support decentralization. However, no significant goals have been considered that influence the ability to implement a decentralization policy, especially at the local level.

The work [5] demonstrates the decentralization of local self-government, where the main emphasis is on the close relationship between the welfare of the state and the intergovernmental structure. At the same time, it was not emphasized on the importance of local self-government bodies’ empowerment and controlling their activities by the state.

The research [6] states that, on the one hand, decentralization has certain advantages, but on the other hand, it is not fully implemented to offer and increase state accountability.

The described advantages and disadvantages do not take into account possible factors of influence on the final financial results in the process of decentralization itself.

The author of the paper [7] considers decentralization as the right of independent decision-making by decentralized units, and in [8] it is presented as subject control, competition of government and local coordination. However, these works do not fully disclose the management of the decentralization process, but only a possible factor of competition between centralized and decentralized power.

5. Methods of research

During the execution of the work, general scientific and special research methods were applied:

– dialectical method of cognition – to study the theory of decentralization as a new management system;
– retrospective analysis – to identify the dynamics of key indicators of local budgets;
– abstract-logical method – for the formation of conclusions and generalizations;
– methods of scientific research and determination and comprehensiveness principles of the methodological basis – to ensure the objectivity and reliability of the main conclusion provisions.
6. Research results

Since many authors argue that there is no unity in defining the definition of decentralization, since there are many approaches to understand the essence, let’s consider it appropriate to give an author’s definition. It enables differences in the views of scholars and will allow them to adapt to the present conditions. So, decentralization is the dispersion of functional powers from state authorities to local self-government bodies.

Conducted studies indicate that decentralization needs to be considered using systemic and functional approaches. In line with the first approach, decentralization is a managerial political system that is designed to make powerfully meaningful practical decisions that are geographically or organizationally outside the direct influence of central government [16].

In accordance with the functional approach, decentralization is defined as the process of expanding and strengthening the rights and powers of administrative-territorial units or lower bodies and organizations. However, its implementation in practice is possible at the same time narrowing the rights and powers of the appropriate center. Such a combination is due to the optimization and increase of management of socially important cases, the most complete realization of regional and local interests [17].

Also, the main types of decentralization are distinguished by subjects and spheres of influence [18]:
- territorial decentralization means the establishment of public administration bodies, which will carry out the government in the administrative-territorial units independently from the state authorities, being outside their hierarchical system and subordination, that is, local and regional self-government bodies;
- functional decentralization – recognition of separate and independent specialized organizations (unions, unions) by the authorities of power, delegating them the right to carry out a certain amount of tasks of a public nature. In particular, regarding governance and the fulfillment of relevant functions in the areas of public life determined by the law and in accordance with the established procedure;
- subjective decentralization – professional self-government as a system of managerial relations between all representatives of a particular profession, implemented by a statutory representative organization under the supervision of public authorities. Decentralization involves the delineation of competence and the specification of powers not only vertically, but horizontally;
- horizontal decentralization – means the distribution and definition of the functions and competencies of all other elements of the structure of the public administration bodies, in addition to the governing body.

The author of [19], analyzing territorial decentralization, distinguishes three of its system-making components: 1. Political decentralization (appropriate structure). The public-law status of local self-government bodies comes from the specific method of formation of these bodies and their representative character. The relevant constitutional guarantees of the formation of a system of local self-government bodies, its content and organization certify the independence of such bodies from the state.

2. Administrative decentralization lies in the fact that the task of local self-government bodies and, therefore, functions and powers to satisfy public interest within the respective territory.

3. Financial decentralization provides for the availability of own financial and material resources, and means the exercise of the rights to own, use and dispose of financial resources owned by communities.

It is possible to agree with the opinion of the author of work [20], which reduces to the fact that each centralization involves the concentration of tasks and competences at the central level. In view of this, decentralization involves deconcentration, that is, the definition, specification and delineation of tasks and powers at both the central and local levels of public administration.

The author of [21] proposes to consider decentralization, depending on the position of degree of its implementation, namely:
- devotion – the most powerful level of decentralization, when all decisions on financial, administrative and regulatory powers are taken at the local level;
- delegated powers – moderate degree of decentralization, when local authorities are empowered to make decisions that are to some extent controlled from the center;
- deconcentration – the weakest degree of decentralization, when local authorities only fulfill certain tasks (mainly administrative) that are set before it by the central authorities.

However, the author of [22] proposes to consider these types of decentralization as forms of administrative decentralization and adds another divination – the transfer of planning and administrative functions to volunteer private or public organizations. Although budget decentralization is being implemented today, local authorities still depend on the state budget.

Therefore, it is possible to share the opinion of the author of [23] that this phenomenon is preceded by objective and subjective factors. Objective factors include: decline in economic development, drop in production rates, war, political instability, inflation; subjective: crisis of governance of the Cabinet of Ministers of Ukraine, imperfect legislative and regulatory framework, shadow economy, unregulated financial mechanism, crisis of the banking system, etc. For example, all this affects the fact that local authorities do not have the opportunity to increase the value of the services it provides, and therefore has a diversified and elevated character.

Thus, the basis of the practical decentralization platform that started in 2014 was the transformation of legislative regulation, in particular. Concept of the reform of local
self-government and territorial organization of power [24]. Its purpose is to determine the directions, mechanisms and timing of the formation of effective local self-government and territorial organization of power for creation and maintenance of a healthy living environment for citizens. Importance should be given to the Law «On Cooperation of Territorial Communities» adopted in the same year [25], as well as in 2015 – the Law «On Voluntary Association of Territorial Communities» [26]. It regulates the relations that arise in the process of voluntary association of the territorial communities of villages, settlements, cities, as well as voluntary adherence to the united territorial communities.

Although the legal framework for the decentralization process is an important basis for improving socio-economic development factors, however, at this stage, the system of local self-government can’t fully satisfy the needs of the population. The reason for this phenomenon is that the process of budgetary decentralization launched in Ukraine covers issues of financial support of local self-government bodies. It is precisely on them that they are responsible for creating the appropriate conditions for the development of economic, social and cultural activities, raising the living standards of territorial communities and effectively managing them.

It is the financial component at the local level that forms the basis for the exercise of the powers of local authorities and local self-government in order to ensure regional socio-economic development. In the conditions of decentralization of local self-government, local finances become the basis of the life of the administrative-territorial units, ensure the successful development of territories, contribute to the formation of budgets for development. Confirmation of the main directions of local self-government improvement is also «Strategy of sustainable development «Ukraine-2020» [27, 28]. It shows that the goal of policy in the area of decentralization is:

- departure from the centralized model of governance in the state;
- provision of the capacity of local self-government;
- construction of an effective system of territorial organization of power in Ukraine;
- full implementation of the provisions of the European Charter of Local Self-Government [29];
- implementation of the principles of subsidiarity, universality and financial self-sufficiency of local self-government through the creation of a system of united territorial communities;
- given the beginning of the decentralization reform and its completion, the process itself involves a step-by-step implementation of such a reform implementation schedule [9]. Decentralization in general will be 7 years of active action and gradually implemented tasks to improve the living standards of the population:
  - 2015 (October): regular local elections, voluntary association of territorial communities;
  - 2016: elections in voluntary associations of territorial communities;
  - 2017: a voluntary association of local communities, creation of administrative districts (October), the organization of individual areas (October), the reorganization of some state administrations (October);
  - 2018:
    - a) voluntary association of territorial communities (until August), formation of administrative districts (until August);
    - b) organization of individual districts, the reorganization of individual some state administrations, the formation of capable communities (since October), the functioning of the territorial subsystems of central executive authorities within the administrative districts (since October);
  - 2019:
    - a) formation of capable communities, functioning of territorial sub-systems of central executive authorities within the administrative districts (since October);
    - b) organization of individual districts (until March), reorganization of individual state administrations, formation of districts;
  - 2020:
    - a) formation of capable communities (by May), functioning of territorial subsystems of central executive authorities within the administrative districts (until May), reorganization of individual state administrations (until May), formation of districts (until May);
    - b) formation of district state administrations – regular local elections (June-August);
    - c) formation of local self-government bodies (since October);
  - 2021: formation of local self-government bodies.

The foregoing indicates that the final date is 2021. Looking at electoral law, then the regular elections in October 2020 should become a kind of completion of community unification. The «last» united communities will start functioning in 2021. This scheme seems to be the most probable today. Individual communities may not yet be scheduled, but this will not change the overall situation. The factor that will affect community unification will be the presidential and parliamentary elections of 2019. The balance of forces and positions will depend on the existence of a «trust credit» and the ability to act rigidly at the regional level.

From the moment of the start of local self-government reform to the present time, financial decentralization has constantly transformed independent local budgets from the state budget and created opportunities for planning of territories development, the possibility of implementing real projects. Let’s share the opinion of the author of [30] that the processes of transformation and decentralization are interdependent, since the introduction of decentralization of public administration is conditioned by the urgent need for the transformation of public administration. This situation is characterized by:

- strict centralization of powers and resources;
- inability to effectively solve the problems of the territorial communities development and their associations (within districts and regions);
- presence of non-transparent decision-making mechanisms;
- significant corruption.

The voluntary nature of the legislation contributed to the fact that in 2015, 794 village, town and city councils were united in the first 159 united territorial communities (UTC). But already in 2016, they switched to direct intergovernmental relations with the state and received the authority and appropriate financial resources for their implementation. The data shown in Fig. 1 confirm the positive dynamics of the number of UTCs in Ukraine, in particular, during the years 2015–2017 their number increased by 4.2 times (from 139 UTC in 2015 to 665 UTC in 2017).
The process of fiscal decentralization shows that the problems of territorial communities can only be effectively addressed at the local level, and strong local self-government should be based on a developed civil society and democracy. After all, local authorities will be able to independently decide on what needs to spend budget funds, which is especially important for the development of united territorial communities.

Hence, the success of fiscal decentralization is as follows:
1. Economic criteria should be the basis of political decisions. To do this, it is necessary to carry out a functional division of powers of state authorities and local self-government.
2. It is necessary to streamline the communal property, clearly identify the objects, the management system and redistribution between the authorities regarding the provision of public goods and services.
3. It is necessary to complete the transfer of the social sphere and enterprises to the local authorities along with the sources and amounts of financing.
4. In the revenue part of local budgets it is necessary to reduce the share of transfer payments to amend the Tax Code, which would establish fair rules for their distribution [31].

Starting in 2014 (Fig. 2), a gradual increase in the share of local budgets in the consolidated budget is observed (from 37.5% in 2014 to 49.3% in 2017). This directly indicates the strengthening of the financial base of local self-government bodies and is a direct consequence of the implementation of the Concept for Local Self-Government Reform and the territorial organization of power in Ukraine, approved on April 1, 2014.

The reform gave rise to the full development of the communities the opportunity to improve their lives in every village and in the country as a whole and enables all citizens to manage where they live. Therefore, for the effective use of financial resources of territorial communities, you can:
1. To direct funds for the development of the domestic market, to create investment platforms and to train local farmers to unite into cooperatives.
2. To rationalize expenditures on the social sphere (review of benefits, distribution of paid services, revision of the minimum wage and living wage).
3. To train the leadership of the territorial community on the use of public funds.
Powers and resources obtained as a result of decentralization will provide local governments with more opportunities for the development of territories, the creation of a modern educational, medical, transport, housing and communal infrastructure. Also, it is possible to agree that now local authorities are interested in developing the investment attractiveness of their territories for the benefit of the community, since paid local taxes will go to improve the quality of life of the inhabitants of the localized territory. Various permits and registration documents for doing business will be available locally, communities will be able to attract investments on their own, contributing to socio-economic development.

7. SWOT analysis of research results

**Strengths.** The strong point in the research is the systematization of the notion of decentralization. This enabled not only to study the peculiarities of approaches to understanding the essence, but also to propose an author’s definition. It consists in dispersing the functional powers from state authorities to local self-government bodies. Unlike the existing interpretation, this made possible differences in the views of scholars and made it possible to adapt it to the present conditions. The proposed directions of territorial communities financial resources effective use are also the strong point, which, unlike the existing ones, will give more opportunities for the development of territories, creation of modern educational, medical, transport, housing and communal infrastructure.

**Weaknesses.** The weak point is that the proposed directions for the practical realization of decentralization are rather complex and time-consuming, since all changing factors need to be taken into account in today’s conditions.

**Opportunities.** Opportunities for further research are the search for new directions for the practical implementation of the decentralization reform with the determination of the deviations of the actual results from the projections, which are usually based on the mathematical apparatus. Such a mathematical support can be realized with the help of various methods of forecasting.

**Threats.** The threats to the results of carried out research are the possibility of changes in the legislative framework, deviation from the planned schedule of implementation of the decentralization reform, which may lead to a change in the capacity of local self-government.

8. Conclusions

1. An analysis of the current state of the system of local self-government is conducted. The dynamics of the number of united territorial communities in Ukraine is determined. The actual receipts of the general fund of local budgets of Ukraine during 2013–2017 years have been investigated, which showed a significant increase in the total volume of their income. The analysis makes it possible to state that local self-government bodies acquired complete financial autonomy and gradual development.

2. The problems of inefficient use of financial resources at the local level and directions for their elimination are identified. Existing problems are caused by:
   - a wider range of powers of local authorities than it is now at the central authorities of Ukraine;
   - inconsistency between expenditures and their sources and funding amounts;
   - inability of local authorities to fully manage their own resources;
   - imperfection of the institutional and legal framework for intergovernmental financing.

Among the directions it is proposed:
- to direct funds for the development of the domestic market, to create investment platforms and train local farmers to unite in cooperatives;
- to rationalize expenditures on the social sphere;
- to train the management of the territorial community on the use of public funds.

References


Holubchak Oleksii, PhD, Director, Ukrainian Research Institute of Mountain Forest named after P. S. Pasternak, Ivano-Frankivsk, Ukraine, e-mail: o.holubchak@gmail.com, ORCID: http://orcid.org/0000-0001-7817-1940

Horal Liliana, Doctor of Economic Sciences, Professor, Vice-Rector for Scientific and Pedagogical Work, Ivan-Frankivsk National Technical University of Oil and Gas, Ukraine, e-mail: liliana.goral@gmail.com, ORCID: http://orcid.org/0000-0001-6066-5619

Korol Svitlana, PhD, Associate Professor, Department of Finance, Ivan-Frankivsk National Technical University of Oil and Gas, Ukraine, e-mail: korolsv@t.ua, ORCID: http://orcid.org/0000-0002-4804-7612