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RISKS OF LOCAL GOVERNMENT REFORM IN UKRAINE

РИЗИКИ РЕФОРМИ МІСЦЕВОГО САМОВРЯДУВАННЯ В УКРАЇНІ

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The world practice of implementing the local self-government reform shows that along with the positive results of decentralization, a number of problems may arise that will hinder the development of territorial communities (hromadas) and their transformation into self-sufficient administrative-territorial units. This necessitates a thorough analysis of possible threats and risks of local self-government reform in Ukraine.

Analysis of recent researches and publications

Foreign and domestic scientists, in particular Burkinsky B.V., Symonenko V.K., Benovska L.Y., Lunina I.O., Kravtsiv V.S., Storonyanska I.Z., Goryachuk V.F., Balan O.S., Osypov V.M., and others devoted their works to the problem of risks of local self-government reform [1-15]. However, there are still many issues related to the risks of local self-government reform in terms of differentiation of communities by the level of development, distribution of powers, self-sufficiency of territorial communities and their autonomy, financing of delegated powers, staffing, lobbying for the distribution of inter budgetary transfers, development of standards for the provision of public services, corruption, etc.

The aim of the article is to systematize and analyse the risks of implementing the reform of local self-government and administrative-territorial structure in Ukraine.

The main part

An analysis of the experience of different countries in the implementation of the reform of local self-government and administrative-territorial

Лайко О.І., Шлафман Н.Л., Єрмакова О.А. Ризики реформи місцевого самоврядування в Україні. Оглядова стаття.

Здійснення реформи місцевого самоврядування в Україні супроводжується низкою ризиків. В статті в якості основних ризиків розглянуто такі: диференціація громад за рівнем власних доходів, відсутність чіткого розподілу повноважень, дисбаланс між повноваженнями та ресурсами, недостатня самодостатність громад, залежність від міжбюджетних трансфертів, незбалансованість механізмів бюджетного вирівнювання, низький рівень кваліфікації керівництва громад, недостатній контроль з боку держави, протиріччя між місцевими та державними інтересами, корупція, лобювання розподілу міжбюджетних трансфертів, сліпе копіювання досвіду розвинутих країн. Неоднозначність прояву позитивних результатів та ризиків децентралізації в різних країнах значною мірою обумовлена впливом багатьох факторів та відносини в межах соціально-економічних систем національного, субнаціонального та локального рівнів. Це обумовлює дуже застережливе копіювання досвіду інших держав та вимагає поглибленого аналізу можливостей та потенційних загроз під час децентралізації в межах кожної країни, всебічно враховувати соціально-економічні та політичні фактори, а також чинники об'єктивного та суб'єктивного характеру. Нівелювання вищерозглянутих ризиків вимагає удосконалення механізмів законодавчого регулювання та інструментів фінансового вирівнювання.

Ключові слова: реформа, ризики, місцеве самоврядування, децентралізація, територіальна громада, самодостатність

Layko O.I., Shlafman N.L., Ermakova O.A. Risks of Local Government Reform in Ukraine. Review article.

The implementation of local self-government reform in Ukraine is accompanied by a number of risks. The article considers the following as the main risks: differentiation of communities according to the level of their own incomes, lack of a clear distribution of powers, imbalance between powers and resources, insufficient self-sufficiency of communities, dependence on inter-budgetary transfers, imbalance of budget equalization mechanisms, low level of qualification of community leaders, insufficient control over on the part of the state, contradictions between local and state interests, corruption, lobbying for the distribution of interbudgetary transfers, blind copying of the experience of developed countries. These risks are mostly interrelated and should be considered as a whole. The ambiguity of the manifestation of positive results and risks of decentralization in different countries is largely due to the influence of many factors and relations within the socio-economic systems of the national, subnational and local levels. This leads to a very cautious copying of the experience of other states and requires an in-depth analysis of opportunities and potential threats during decentralization within each country, to comprehensively take into account socio-economic and political factors, as well as factors of an objective and subjective nature. Leveling the above-mentioned risks requires improvement of legislative regulation mechanisms and financial equalization tools.

Keywords: reform, risks, local self-government, decentralization, territorial community, self-sufficiency

structure shows that along with the positive effects of the reforms, they were accompanied by a number of risks. Foreign and domestic researchers identify the following risks as the main risks [2, 13-15]:

1. strengthening the differentiation of territorial communities by the level of their own incomes;
2. increasing the complexity of ensuring macro-economic stability, dispersion of budgetary resources;
3. decrease in the efficiency of the use of financial resources, increased corruption at the local level.

Based on the analysis of the works of foreign and domestic scientists and analysts on the reform of local self-government, the following types of risks can be identified [1-15]:

1. differentiation of territorial communities by the level of their own incomes;
2. lack of a clear division of powers between local self-government bodies and executive authorities, as well as between levels of local self-government;
3. imbalance between the powers and resources of territorial communities;
4. insufficient self-sufficiency of territorial communities;
5. insufficient financial security of the delegated powers of territorial communities;
6. imbalance of budgetary equalization mechanisms;
7. low level of professionalism of the leadership of territorial communities;
8. insufficient control by the state over the exercise of powers by local self-government bodies;
9. contradictions between local and state interests;
10. corruption;
11. lobbying for the distribution of inter budgetary transfers;

12. blind copying of the experience of reforming local self-government in developed countries.

We propose to consider the essence of the above risks and possible ways to reduce or mitigate them.

Differentiation of territorial communities by the level of their own income. World practice indicates that the implementation of reforms related to the decentralization of powers and financial resources and their transfer to the basic level in most countries has led to an increase in the unevenness of socio-economic development of territories [8]. This is due to the fact that, firstly, there is a significant differentiation of territorial communities in terms of economic, human and natural capital and, accordingly, the level of tax capacity. Secondly, before the start of the reform of the local self-government in Ukraine, financial resources were distributed evenly among territorial communities, and after its implementation, territorial communities began to receive a significant share of taxes that were collected on their territory, but were previously transferred to the budgets of districts.

It should also be noted that the system of inter budgetary transfers does not always provide equal access to public services that fall within the powers of local authorities. The amount of expenditures per capita indicates a significant interregional differentiation in the level of expenditures in the field of social protection (asymmetry coefficient 1.84), culture (1.76), health care (1.74), education (1.45). The largest fluctuations were observed in the expenditures of the housing and communal services sector (from 269.9 UAH per person in the Chernivtsi region to UAH 1388.2 per person in the Odesa region, i.e. 5.14 times) (Table 1) [8].

Table 1. Interregional differentiation of expenditures of local budgets of Ukraine per capita in 2018

Activity	Asymmetry coefficient
Governance	1.78
Education	1.45
Healthcare	1.74
Social protection and social security	1.84
Culture	1.76
Housing and communal services	514
Just	1.32

Source: compiled by authors on materials [8]

Lack of a clear division of powers between local self-government bodies and executive authorities, as well as between levels of local self-government. The task of a clear division of powers is the very first in the implementation of the reform of local self-government, but it has not yet been resolved. The Law of Ukraine "On Local Self-Government in Ukraine" [16] defines the powers of local self-government bodies in various areas: socio-economic and cultural development, planning and accounting; in the field of budget, finance and prices, in the management of communal property; in the field of housing and communal services, household, trade services, catering, transport and communications; in the field of construction; in the field of education, health care, culture, youth policy, physical education and sports,

assertion of Ukrainian national and civic identity; in the field of regulation of land relations and environmental protection; in the field of social protection of the population; in the field of foreign economic activity; in the field of defense work; in the field of organization and provision of civil protection; in the field of ensuring legality, law and order, protection of rights, freedoms and legitimate interests of citizens etc. And the definitions of powers are general in nature and need to be clarified and detailed.

The new version of this law, in accordance with the objectives of the Concept of Reforming Local Self-Government and Territorial Organization of Power in Ukraine, was not adopted, despite numerous attempts [17, 18]. As a result, the central government delegates to the local authorities powers that are not

inherent in local self-government (especially social) and without proper financial support. This leads to an imbalance in the system of local finances and does not contribute to the achievement of goals budgetary decentralization.

The lack of a clear division of powers causes numerous risks associated with determining the necessary amount of financial resources for territorial communities to exercise their and delegated powers, ensuring equal access of citizens to public services, difficulties in developing community development plans, and others.

Imbalance between the powers and resources of territorial communities. This type of risk is associated, firstly, with the lack of a clear division of powers, and secondly, with the lack of methodological principles for assessing the necessary amount of expenditures for the exercise of powers by territorial communities. The imbalance of new powers and financial resources of territorial communities largely depends on the system of budget equalization (horizontal, vertical, mixed), as well as the limits of equalization of revenues (expenditures).

As a result of the implementation of the reform of local self-government in Ukraine, there has been a change in the system of budget equalization in the

country. There was a transition from equalization by expenditure to equalization by income.

The income equalization threshold varies from country to country: In Finland it is 90% of the amount required for municipalities to reach 90% of the average income level in the country, in Norway it is 90% of the amount required for territorial communities to achieve 110% of the average income level in the country. In Sweden, the equalization limit is higher – 95% of the amount required to achieve the average level of tax opportunities, and in Poland, it is 80% of the amount required for territorial communities to reach the level of 92% of the average income level in the country [19].

Low level of self-sufficiency of territorial communities. Local government revenues consist of their own revenues and transfers from the central level. Over the past almost 20 years, there has been a tendency to reduce the share of local budget revenues and increase the share of state budget revenues in the consolidated budget of Ukraine (excluding inter budgetary transfers) (Table 1). The share of local budgets' own revenues (excluding inter budgetary transfers) decreased by 1.5 times, from 31.4% in 2002 to 21.8% in 2021 (Fig. 1).

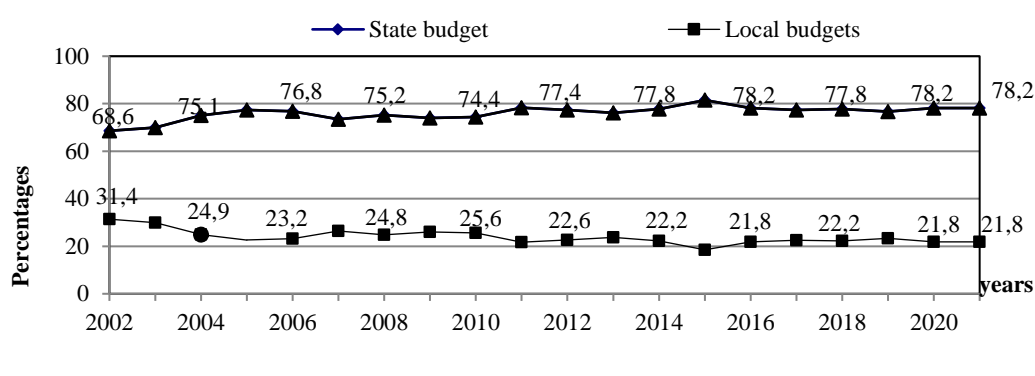


Figure 1. Share of own revenues of local budgets and the state budget in the consolidated budget of Ukraine (excluding inter budgetary transfers)

Source: compiled by authors on materials [3]

Due to the different possibilities of financing expenditures by local authorities and their ability to meet the necessary needs of the population, there is a need to use inter budgetary transfers. This makes local self-government bodies dependent on the central

government and reduces the level of their autonomy. Although the share of transfers from the state budget to local budgets decreased from 59.1% in 2015 to 34.7% in 2021 due to the elimination of the medical subvention, it is significant (Fig. 2).

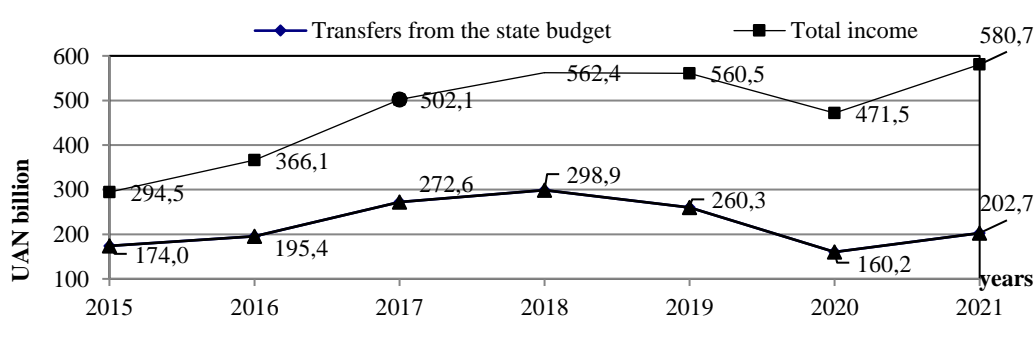


Figure 2. Transfers from the State Budget and all local government revenues

Source: compiled by authors on materials [20]

If in the first years of the local self-government reform the share of local budget expenditures in the consolidated budget of Ukraine increased and in 2017 reached almost 47%, then later it decreased by more than 1.5 times, to the level of 30% (Fig. 3). Share of Inter budgetary Transfers in Local Budget Revenues of Some Countries Organization for Economic Cooperation and Development is very differentiated, from 10.8% in Iceland, 25.7% in France to 81.5% in

Estonia, 71.4% in the Netherlands. This indicator is significantly influenced by the model of financial equalization chosen by the state. A significant share of inter budgetary transfers testifies to the desire of the state to finance socio-economic measures in the proper amount and quality, and on the other hand, puts local authorities in direct dependence on the central government [8].

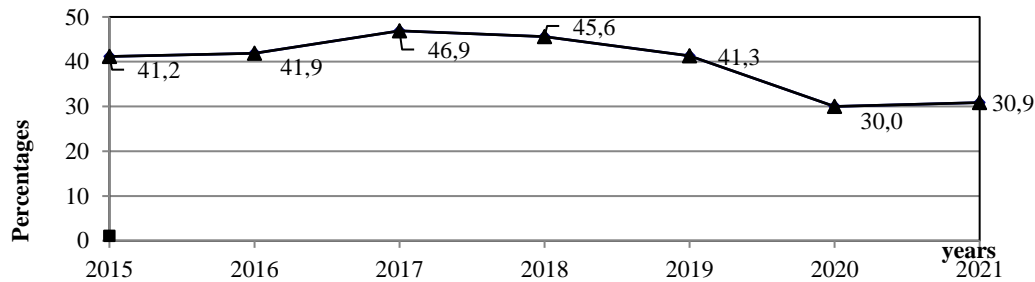


Figure 3. Share of local budget expenditures in the consolidated budget of Ukraine

Source: compiled by authors on materials [20]

Low level of qualification of managers and leading specialists of local self-government bodies. The consolidation of territorial communities, the increase in their powers and the transferred financial and material resources have led to an increase in professional requirements for leaders and leading specialists of communities. In most territorial communities, there is a low level of competence of local self-government officials. This is indicated by their insufficient level of education. Therefore, the share of local self-government officials with higher education is traditionally about two-thirds, and in some cases it is predominantly agrarian territorial communities only slightly more than half [8]. The existing system of elections of deputies to local councils and village, township and city mayors is imperfect. The criterion of relative majority in elections in single-member constituencies contributes to the election of deputies and mayors with relatively low results, and therefore with a low level of public trust.

The low qualification of the management apparatus of local self-government bodies determines its inability to develop effective strategies for socio-economic development and to effectively implement them, creates obstacles for newly created territorial communities to use their own potential for socio-economic development, increase the efficiency of administrative management, create a favorable investment environment and mobilize human and social capital to achieve strategic goals of territorial development.

Reduction of the level of state control over local self-government bodies regarding the exercise of their powers. A significant increase in the powers of local self-government bodies has increased the risks of violation of the current legislation by the leadership and deputies of territorial communities. Prior to the

reform of the prosecutor's office, their function was to supervise the observance and correct application of laws by state executive bodies, local councils, their executive bodies, military units, political parties, public organizations, mass movements, enterprises, institutions and organizations, regardless of ownership, subordination and affiliation, officials and citizens, or, as it was also called, "general supervision". Now this function has been taken away from the prosecutor's office, without transferring it to anyone. State executive bodies and local self-government bodies remained out of supervision. The practice of recent years has shown that local self-government bodies and their officials, heads of local executive bodies often make decisions in excess of their powers, with gross violation of the current legislation and remain unpunished. Today, local councils often unlawfully terminate the powers of village, settlement, and city mayors, the heads, in turn, do not comply with the lawful decisions of the relevant local councils, unlawfully suspend certain paragraphs of council decisions at a time when the law provides for the possibility of suspending the entire decision, and not part of it. In these situations, there is no arbitrator who would intervene in a timely manner in the wrongful situation. This function should be performed by the prefect. However, the Law of Ukraine "On Prefects" has not yet been adopted [21].

Contradictions between local and state interests. It is clear that an increase in the revenues of local self-government (territorial communities) leads to a decrease in state budget revenues. And this, in turn, leads to a decrease in the state's ability to implement economic and social policy, invest in innovative development, support low-income segments of the population, the disabled, children, and the elderly. Accordingly, this leads to a decrease in

macroeconomic stability. In Ukraine to maintain macroeconomic stability The ratio of own revenues of local self-government budgets and the state budget is preserved [3].

Corruption. The risk of corruption in local self-government bodies is due, first of all, to a significant increase in the volume of own revenues and transfers from the state, and secondly, to the transfer of agricultural land to communities outside settlements. The struggle for this resource between different stakeholders is a favourable basis for corruption.

Lobbying for budget regulation and distribution of inter budgetary transfers. According to the second paragraph of part three of Article 241 of the Budget Code of Ukraine, "the central executive body that provides for the formation of state regional policy shall form a commission for the evaluation and selection of programs and projects, which includes members of the Verkhovna Rada of Ukraine Committee on Budget by decision of this committee (numbering at least 50 percent of the composition of such a commission). On the basis of the submitted proposals (except for proposals for programs and projects agreed with the central executive authority that provides for the formation of state policy in the field of physical culture and sports), such a commission evaluates and selects these programs and projects on a competitive basis within the amount of funds of the State Regional Development Fund determined by the Budget Declaration, in compliance with the following criteria for distribution between the Autonomous Republic of Crimea, regions and the cities of Kyiv and Sevastopol" [22]. This creates opportunities for MPs to lobby for socio-economic development projects submitted by the constituencies where they were elected.

The subvention from the state budget to local budgets for the implementation of measures for the socio-economic development of certain territories has lost its significance as a state instrument for the socio-economic development of territories, and has turned into a tool for ensuring the loyalty of majoritarian deputies.

Risks of copying the experience of reforming local self-government in developed countries. The growth of decentralization in many developed countries is a general trend. At the same time, the reverse process takes place in the EU countries. This is due to the inverse impact of decentralization and macroeconomic stability. This happened during the

financial crisis of 2008-2009. In some EU countries, recentralisation is still taking place [23].

The process of recentralisation during the financial crisis of 2008-2009 took place even in Poland, which did not experience a drop in GDP during the crisis and continued to increase its growth rate after the crisis. It is considered one of the most successful examples of decentralization reforms. The dynamics of the share of state and local budget revenues in Poland's GDP shows a significant increase in the role of the state budget in recent years (20.6% of GDP in 2009 and 22.7% in 2015) and the return of the share of local budget revenues in GDP to the level of 2004 – 12.8%. Such ambiguity in the manifestation of positive results and risks of decentralization in different countries is largely due to the influence of many factors and relations within the socio-economic systems of the national, subnational and local levels. This leads to a very cautious copying of the experience of other states and requires an in-depth analysis of opportunities and potential threats during decentralization within each country, to comprehensively take into account socio-economic and political factors, as well as factors of an objective and subjective nature.

Conclusions

In the process of reforming local self-government in Ukraine, various risks have arisen, which are mostly interrelated and should be considered as a whole. This will increase the ability to develop effective measures to minimize risks. The above-mentioned set of risks is accompanied by the instability of the legislative framework for budget regulation, as a result of which the mechanisms of budget regulation, the list of regulatory revenues and standards of deductions are annually modified. The ambiguity of the manifestation of positive results and risks of decentralization in different countries is largely due to the influence of many factors and relations within the socio-economic systems of the national, subnational and local levels. This leads to a very cautious copying of the experience of other states and requires an in-depth analysis of opportunities and potential threats during decentralization within each country, to comprehensively take into account socio-economic and political factors, as well as factors of an objective and subjective nature. Levelling the above-mentioned risks requires improvement of legislative regulation mechanisms and financial equalization tools.

Abstract

The world practice of implementing the local self-government reform shows that along with the positive results of decentralization, it is accompanied by a number of risks. This necessitates a thorough analysis of possible threats and risks of local self-government reform in Ukraine. The differentiation of communities by the level of their own income is due to their differences in economic, human and natural capital, as well as the fact that, as a result of the reform, communities began to receive a significant share of taxes that were previously transferred to the district budgets.

The lack of a clear division of powers causes numerous risks associated with determining the necessary amount of financial resources for territorial communities to exercise their and delegated powers, ensuring equal access of citizens to public services, difficulties in developing community development plans, and others. The

imbalance of new powers and financial resources of territorial communities largely depends on the system of budget equalization (horizontal, vertical, mixed), as well as the limits of equalization of revenues (expenditures). Over the past almost 20 years, there has been a tendency to reduce the share of local budget revenues and increase the share of state budget revenues in the consolidated budget of Ukraine (excluding inter budgetary transfers). A significant share of inter budgetary transfers testifies to the desire of the state to finance socio-economic measures in the proper amount and quality, and on the other hand, puts local authorities in direct dependence on the central government.

The low qualification of the management apparatus of local self-government bodies determines its inability to develop effective strategies for socio-economic development and to effectively implement them, creates obstacles for newly created territorial communities to use their own potential for socio-economic development, increase the efficiency of administrative management, create a favorable investment environment and mobilize human and social capital to achieve strategic goals of territorial development. A significant increase in the powers of local self-government bodies has increased the risks of violation of the current legislation by the leadership and deputies of territorial communities. An increase in the revenues of local self-government (territorial communities) leads to a decrease in state budget revenues. And this, in turn, leads to a decrease in the state's ability to implement economic and social policy, invest in innovative development, support low-income segments of the population, the disabled, children, and the elderly. Accordingly, this leads to a decrease in macroeconomic stability.

The ambiguity of the manifestation of positive results and risks of decentralization in different countries is largely due to the influence of many factors and relations within the socio-economic systems of the national, subnational and local levels. This leads to a very cautious copying of the experience of other states and requires an in-depth analysis of opportunities and potential threats during decentralization within each country, to comprehensively take into account socio-economic and political factors, as well as factors of an objective and subjective nature.

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