

# CHAPTER 1

## CURRENT TRENDS IN ECONOMIC DEVELOPMENT

### DECENTRALIZATION AND ITS INFLUENCE ON LOCAL COMMUNITY DEVELOPMENT

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**Abstract.** The relevance of the study is marked by the general global trend to change the role and functions of public administration. Here it goes about the introduction of the practice of delegating certain functions of public administration to the competence of local governments. Changes of public administration have taken the form of decentralization of central government and active increase in the role of public administration through local self-government. The purpose of the study is to analyze the theoretical concepts of the system of relations between state and local government in the period of global changes and self-identification of the Ukrainian nation and their possibility of implementation. The object of the research is the system of reforming state power in Ukraine and the development of local self-government. The study uses methods that can assess the tendency of decentralization and local self-government in the historical and logical approach and analyze the dynamics of this process through normative and logical analysis. These methods forecast further growth of the decentralization process and its consequences for the economy and regional development. The study identifies the main factors that necessitate the introduction of decentralization of power. Areas that activate the necessity for appropriate reform are identified and described. The historical aspects of the decentralization reforms in different European countries are analyzed. Positive changes in reforms have been noted. They relate to the priority reorientation of socialist economies to a market model of management and the transition to a new paradigm of life in the countries. The history of development of Ukrainian decentralization of power is also studied. A solution has been found to the controversy over the reform process initiated by the population in the regions and the political government. The situation is in favor of the interests of the ruling power. The main shortcomings of decentralization in Ukraine and the lack of financial support for such reform are also noted. It is proved that decentralization should be carried out at the expense of economic development and improvement of social and economic state of regions. The practical value of the results relates to the recommendations for adjusting government policy in the process of implementation of administrative reforms for decentralization and local government development.

**Keywords:** reforming, decentralization, devolution, local self-government, institute of prefects, a united territorial community (UTC).

**JEL Classification:** H10, H70, R59

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**Introduction.** Dynamic global changes are reflected in many social changes in any country in the world. This process is seen regardless of its economic development and its system of government. The manifestation of these changes can be clearly seen in the change in the system of public administration and the growing role of local self-government.

**Literature review.** Tendencies in changing the management system for this period are actively studied in scientific circles by both foreign and domestic authors. Foreign scientific opinion in this area of research has developed a huge amount of scientific material and is based on the practice of such changes. Democratic processes in these countries took place for a very long period of time without a radical replacement of the political situation in the system of public administration. C. Thibaut, S. Vyploz, R. Musgrave, W. Oates, A. Esman, T. Payne and P. Salmon are among American and European scientists.

This scientific problem is quite new for Ukraine. There is no clear and well-grounded concept. Different researches are conducted in various ways and rather spontaneously. They are made in accordance with the political slogans and appeals of the ruling political class. However, we can identify the main directions of such research. The theory of state development and its management system are considered in the researches of A.M. Kolodiy, A.Y. Oliynyk, T.O. Butyrska, Y.A. Levenets, O.G. Osaulenko, V.P. Rubtsov and L.R. Nalivayko.

The researches of such authors as V.A. Lipkan, T.O. Batanova, V.M. Campo, Y. B. Irkha, N.P. Matyukhina and O. E. Novikov are prominent groundwork of development and introduction of local self-government.

Problems of concentration of public administration in central bodies and the necessity for its decentralization are considered in the scientific works of O.V. Skrypnyuk, V.F. Pogorilka, N.R. Nyzhnyk, O.O. Moldovan, A.R. Krusyan, M.P. Orzikha, V.B. Averyanova and others.

Despite a wide range of scientific developments, the problem of forming an effective system of government at the state and local levels remains almost unresolved. It should be noted that significant government measures are introduced but they have coercive nature in most cases.

**Aims.** The purpose of the study is to analyze the theoretical concepts of the system of relations between state and local government in the period of global changes and self-identification of the Ukrainian nation and their possibility of implementation.

- to study the best foreign experience of public administration reform and its consequences in the socio-economic changes of the country;

- identify and solve the main problems of further decentralization of domestic public administration and development of local self-government.

**Methods.** The following methods were used in order to solve the purpose and objectives of the study: a systematic approach, a historical method, a formal and logical method, normative and logical analysis and forecasting. These methods made it possible to draw conclusions.

**Results.** The modern socio-economic system of the world is undergoing serious changes and restructuring. These processes relate to changing the system of public

administration and increasing the role of local self-government. These shifts are caused by a number of factors. It is necessary to highlight the following:

1. A radical change in the political world system.
2. A huge number of independent countries are being formed with legally undefined territorial boundaries.
3. Outbreaking of hybrid wars and conflicts.
4. Loss of national identity due to the free movement of capital and labor.
5. Increasing the dynamics of global financial and economic crises and their intensification due to force majeure (now it is the COVID-19 pandemic).
6. Rapid development and intensive implementation of IT (information technology), ICT (information and communication technology), a widely-used Internet system with 5G technology.

In general, these changes relate to the following areas from the standpoint of public administration:

1. Loss of the dominant position of a single ruling party or clan
2. Significant increase in the role of self-government
3. Loss of influence of public administration in a clearly defined area
4. Local government goes from full control of public administration and losses its territorial zoning due to demographic changes and free internal and external migration.

**Discussion.** Taken into consideration that the Ukrainian government has set a course for European integration, let us consider the experience of decentralization in Western Europe. So, France is considered a model country for the implementation of decentralization in the EU. Measures to decentralize power were initiated by Charles de Gaulle in the 1960s. His initiatives were aimed at reviving and accelerating the country's economic reconstruction after World War II through a change in administrative management methods. The results of such regulation were rather insignificant.

The next period of such reform was full-scale reforms in 1982 at the initiative of French President Francois Mitterrand. The first stage of reforms was characterized by significant restrictions on the rights of prefects, who were appointed from the center to the regional administration. Regions, departments and communes also received a wide range of powers. Moreover, such measures were guaranteed by appropriate funding.

The second phase of the reform was continued by Prime Minister Jean-Pierre Raffarin in the 2000s. According to these measures, local deputies received additional powers. In addition, it was envisaged that senior government officials should visit the province for at least one week a month in order to know everything about the activities and lives of local citizens. During this period, public schools and colleges were transferred to municipal maintenance.

As a result, local deputies have powers to allocate additional funds from local budgets in the form of material assistance (food, clothing, medical services, medication and etc.) after appropriate inspection and examination of pensioners to help them and guarantee an average standard of living with insufficient public pensions.

The main result of the reform was publicity and comprehensive information. It results in transparent and public provision of information concerning the formation and usage of local budgets of the tax system (the ability to obtain complete and comprehensive information concerning state expenditures of the central office and local departments) [1].

In general, the positivity of the reform in France was recognized even by critics of the government. It ensured an increase in the share of local taxes and the efficient usage of financial resources. The experience of France was adopted by such countries as Portugal, Switzerland and Greece. Decentralization has adopted the so-called concept of "fiscal autonomy" for modern Europe. Therefore, local taxes are almost entirely accumulated in regional budgets in most Western European countries and the state budget can only exceptionally provide regional support for national large-scale programs.

Decentralization in Britain really began in the late 19th century as a response to the struggle for Irish independence. So, a wide range of powers have been delegated to local authorities to manage regional affairs. Scotland, Wales and Northern Ireland have been given a number of responsibilities in agriculture, health care and housing. Law enforcement and criminal justice have been delegated to Scotland and Northern Ireland.

Therefore, this form of decentralization is called "devolution" in journalistic and scientific circles. Nowadays, this form is widely used outside the UK and means the transfer of decision-making rights in certain areas of public policy at the subnational level. In fact, such decentralized governance in the UK is based on the culture of civil society and the representation of local interests in the national government.

At the moment, the continuation of these measures is to resolve the issue of the "West Lothian question" (the issue of English votes for laws relating to the affairs of Great Britain to other regions - England, Wales and Northern Ireland) [2]. The devolution led to a rather deep distinction between the functions of local and state power, primarily in the social sphere. The functions of social financing are entirely the responsibility of local authorities and various public organizations.

Further and current directions of devolution in the UK are determined by two priorities. First, local authorities coordinate most of the individual management functions and develop a strategy for the well-being of the local community as a whole. Second, local government is the only agent that defends the interests of local communities at the central level.

The results of such reforms have enabled local communities to address specific challenges that differ from central government priorities in meeting local needs. So, 5 joint local authorities have been created during the 30 years of reform. It is also about 15 mayoral positions. Mayor is elected by direct vote of local residents and headed the local government and the metropolis (since 2017).

The Regional Growth Fund, the Growth Deals and the Growing Places Fund were formed during the implementation of the financial approach [3]. This enabled all local territories, rural and urban communities to attract financial resources to address specific issues and opportunities of their territories.

The German experience shows that public administration reform began at the initiative of local communal self-government. This can be explained by the history of Germany. The management of cities was carried out in the tradition of "free" cities (Bremen, Hamburg, Lubeck). The reform was initiated in the 1960s through the concept of enabling small and disparate communities and districts to carry out most of the state's tasks and powers [4].

Reforms continued in the 1980s, when the German central government began to transfer pension and social security functions. Therefore, nowadays local government reforms are associated with the provision of a wide range of solutions to socio-economic problems. This approach to decentralization has formed the socio-economic platform of the CDU, CSU and VDP parties.

The general result of the reform in Germany was that the division of functions of public administration and responsibility was not vertical, but in different directions and configurations. This is especially evident in the government's fiscal policy, when taxes and tax rates are clearly allocated to fill the three-tier system of budgets - federal, federations (lands) and local communities. This provided an attempt to eliminate the imbalance in the level of welfare of citizens of different administrative formations. Still, the problem of the territories of the former Germany and the GDR has not been absolutely resolved. The territory of the GDR as part of Germany remained a resource territory and a zone of minor population.

Let us consider the experience of the post-socialist state system on the example of Poland. The reform began in the late 1990s and was initiated as the formation of local gminas (village, town, several villages or districts of the city). Counties were formed on their basis, which in turn identified sixteen voivodships instead of forty-nine. This has led to a significant reduction in the state apparatus and redistribution of state and local budgets. It allows about 40% of income taxes and 7% of corporate tax revenues and 100% of real estate taxes to focus on local budgets [5].

So, the concept of cooperation of regions was formed. This resulted in the mechanism of formation of free economic zones. Moreover, this allowed covering the budget deficits of some local regions due to the surplus of other regions in the budget process. The separation of power from business was quite successful. Thus, nowadays the main financial resources are managed by territorial communities in Poland.

The practice of reforming the Baltic States is essential for Ukraine. The decentralization process has been uneven and inconsistent for this European region. The government did not establish clear principles and rules for the formation of communities, so most of the formed communities were small and unable to perform the necessary functions of self-government. Only 20 united local communities have been formed in 20 years.

In addition, the government has used incentives in the form of grants for the development of regional and local infrastructure to consolidate communities. However, local self-governments have been forced to join existing ones without any subsidies by force since 2009. No court decisions against the forced merger have been won by local communities.

In general, the experience of the Baltics indicates the necessity for forced reform without financial support. This has led to the formation of a one-tier system of local self-government. Local government functions are aimed at supporting school, primary and secondary education, special unemployment benefits, promoting entrepreneurship, guaranteeing primary health care, social housing, public transport, waste collection and disposal, water supply and sewerage, heating, lighting, spatial planning and local development [6].

Ukraine is at the initial stage of decentralization formation, despite the fact that some legislative acts on this reform have been adopted since 2012. Attempts to carry out reforms on the French model failed in 2015. There were efforts to form the institution of prefects, ie regional representatives of local authorities. Their task is to appeal against decisions of local authorities that go beyond the powers and contradict the legislation of Ukraine. The main reason is the presence of established local oligarchic clans. Here we are talking about representatives of regional administrations who are protégés of local monopoly business structures.

Legislation on local self-government in Ukraine was formed in 1997. [7]. However, real progress in the implementation of empowered local communities began after the Revolution of Dignity. So, on April 27, 2014, a constituent congress of representatives of local communities of Kyiv was planned. However, it was not fully held through the strict control of community representatives by the Security Service of Ukraine. Most of the participants in the congress were forcibly "invited for an interview" in this structure. When other participants had understood the situation, they left the event.

This event was held in accordance with the decisions of the Maidan (from 16.03.2014) as a reaction of the Ukrainian democracy to the loss of confidence of the newly formed Ukrainian government. This event was a turning point in the development of Ukrainian reform based on democracy. From this period, state reform went centrally from top to bottom, reorienting the people's initiative under full state control.

Decentralization is a forced action of the government from an economic point of view. Policies and governmental and economic initiatives did not allow restoring Ukraine's economy even to the level of 1991. Total impoverishment of the vast majority of rural population is a direct consequence of destruction of local rural production and collective farms. The proposed farming system failed to restore agricultural production.

Monopoly agricultural structures were formed in Ukraine. It is associated with criminal capital and offshore zones, which resumed production only in export industries (sunflower, corn, grain, industrial crops). This production is located in the adjacent territories of major regional centers of Ukraine. Medium and small businesses, in fact, are independent subsidiaries of these agricultural formations. Further failure to solve economic problems led to the fact that the majority of able-bodied rural population began to immigrate to earn money in neighboring countries (Russia, Poland, the Czech Republic, the Baltic countries) in order to buy flats in cities.

So, local reform really started with local communities around regional centers. Local budget revenues were formed due to the income tax of individuals in the amount of 60%. This means that local communities, territorially close to region and district centers, where the population officially worked in cities, had a significant filling of their budgets. But other remote villages and settlements lost economic power. Therefore, the government decided to introduce a forced consolidation of territorial communities. As in the Baltics, this process was not supported by appropriate fixation and encouragement, but had a centralized coercive character only with the possibility of joining the accession.

After the change of the political ruling class and the presidential and parliamentary elections in 2019, Ukraine underwent a process of rapid forced unification of territorial communities. The projects of such an association were prepared by the regional state administrations. The following criteria were met: population, area, tax index, share of local taxes and fees. In fact, the government focused on purely economic indicators, which will allow the local community to fully operate at its own expense.

Another element of decentralization of local self-government is the corruption component, which is evident in the most resource-rich areas of Ukraine and demarcation areas. These are areas with valuable minerals (amber in Polissya) and ports (Odessa, Illichivsk, Sevastopol). However, these areas are criminal and corrupt. So, Ukrainian Polissya with amber mining has so far failed to be involved in the legislative field, despite the introduction of the National Guard and police measures, which have been traced since 2014.

The role of heads of regional councils was reduced to the formation of a family clan business to control the extraction, processing and sale of amber. The situation is similar with the ports of Ukraine. The last public scandal broke out when the tanker "Delphi" sank on November 22, 2019 near the Odessa beach. It was involved in a key chain of smuggling of oil products. This process was organized since 2016 on the basis of the Odessa oil refinery with direct intervention of the President.

An important factor in the development of local communities is road transport. A significant part of communities is located outside major railway junctions in Ukraine. However, real funding for Ukrainian road construction has remained scarce for a decade, despite numerous adopted programs and plans. The financial capacity of local communities in this area of local construction is extremely insufficient. What local communities really manage to achieve is a partial overhaul of the existing street and road network of central rural settlements. Here are the main provisions that prove the impossibility of independent solution of the road and street problem of territorial communities in Ukraine.

First of all, the main road construction in Ukraine is carried out by foreign companies at the expense of foreign loans (Austria, Turkey and companies from Belarus, Poland, China and Germany are also trying to take this construction sector). At the same time, these foreign companies attract domestic road workers to perform labor-intensive complex work. Revenues from subcontractors are too small compared to the "clean business" of foreign general contractors.

Secondly, the extremely high politicization of public administration leads to the necessity for the government to enlist the support of majority deputies to promote certain bills. Therefore, the main contracts for road repairs are received by these deputies as a fee for guaranteeing votes.

Third thing is that China's global development experience notes the need for a clear national government strategy with full concentration and control of relevant resources. It goes about financial resources that are necessary for large-scale road construction. Strategies in Ukraine remain dead letter. Funding acts as political advertising and propaganda for a particular ruling party.

So, the government reform in the direction of decentralization of the state central government cannot automatically ensure the development of the road economy of territorial communities. Local road construction is transferred by the government to the responsibility of local government and local governments.

In addition, the forced economic unification of the UTCs (united territorial communities) did not change the lives of the residents. Well-being of the areas far from the community center was lost. Their pre-unification budgets were rather small, and after the unification only one village council was left to cope with a big number of questions. Accordingly, the distribution of the budget to the newly formed territories is carried out on a residual basis, which is implemented to show that something is being done, but not to solve problems indeed. Even roads and welfare of the territories are not maintained. In fact, the budgets of the united communities work to maintain the administrative apparatus of the renewed central governing body.

On July 17, 2020, the Verkhovna Rada adopted a resolution "On the formation and liquidation of districts" [9]. It indicated the completion of the first stage of decentralization of power and the beginning of a new stage in administrative reform. According to this decision, elections of deputies to the councils of liquidated districts will not be held and the powers of deputies of district councils in liquidated districts will automatically be terminated after the elections to the new district councils.

Such a new zoning from the point of view of the demographic system is quite necessary. This is so because only 5 thousand people live in some areas and in others - more than 180 thousand people. Such a new distribution should solve the problem of economic coverage of the entire territory of Ukraine through financially viable territorial communities. It is well seen from the point of view of administration. However, taking into account the decline of Ukraine's economy and the Covid-19 pandemic, the real situation is quite dramatic. Salaries are received only by employees of state organizations and institutions that are the center of tax revenues. Small and medium-sized businesses ask employees to have forced vacation at their own expense.

Meanwhile, a hidden system of increasing defaults is being formed in Ukraine. Incomes are lost at the expense of wages at all levels and at the expense of state reform. Prices and basic tariffs tend to increase. Accordingly, such reforms are not perceived by the population. Hence, this is an explanation for the sharp decline in the rating of the President and the Parliament.

**Conclusions.** In general, such reforms of the administrative system and local self-government are caused by the government's attempt to reduce government



expenditures through their liquidation and reorganization. At the same time, it is carried out without real funding and specific programs to improve the socio-economic situation of both certain regions and the country as a whole. Taking into account the history of development of economic zones of Ukraine, it should be noted that economic reforms have not taken place. Therefore, the processes of state administrative reform are a forced reaction of the government to the economic and social situation and an attempt to at least somehow keep it by reducing direct central spending.

In general, the population does not accept or support such a reform. Only the political indifference of citizens and self-awareness, which is focused on survival, allows the government to carry out such reforms. In the long run, such reforms can be addressed through high-tech innovative modernization of Ukraine's existing industry.

It is a situation when the domestic economy will really work on the principles of modern IT and ICT and the state budget will start to flow and appropriate funds for real development will be formed in order to stimulate local self-government, infrastructure in the regions, especially road and social reconstruction of the remote periphery. Otherwise, there will be a continuation of non-implementation of reforms, which lead to the outflow of human potential and loss of economic security.

Such a reform is necessary for the Ukrainian ruling authorities in terms of demographics. It will allow closing the problems of demographic extinction of hopelessly backward and remote territories without serious effort.

To sum up we have to admit that such directions and measures to implement the Ukrainian version of decentralization indicate the inability of the authorities to solve the country's pressing socio-economic problems and the unwillingness of the economy to accept such an additional burden on the state budget.

**Author contributions.** The authors contributed equally.

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