

Decentralization of local self-government under the conditions of administrative-territorial reform in Ukraine**Zinoviy Siryk^a, Nazariy Popadynets^{b*}, Mykhaylo Pityulych^c, Olha Chakii^c, Inna Irtysheva^d, Olena Panukhnyk^e, Vasyl Hyk^a, Yana Fedotova^f, Yuliia Rohozian^g and Nataliia Lysyak^a**^a*Lviv Polytechnic National University, Ukraine*^b*SI "Institute of Regional Research named after M. I. Dolishniy of the NAS of Ukraine", Ukraine*^c*Uzhhorod National University, Ukraine*^d*Admiral Makarov National University of Shipbuilding, Ukraine*^e*Ternopil Ivan Puluj National Technical University, Ukraine*^f*Military Institute of Taras Shevchenko National University of Kyiv, Ukraine*^g*SI "V.K. Mamutov Institute of Economic and Legal Research of the NAS of Ukraine", Ukraine***CHRONICLE****ABSTRACT***Article history:*

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The essence of administrative and territorial reform and decentralization reform in Ukraine is to move away from a centralized model of government in the state, ensure the ability of local self-government and build an effective system of territorial power organization in Ukraine based on the principles of subsidiarity, omnipresence and financial self-sufficiency of local self-government. The purpose of the article is to identify areas for improving the effectiveness of the administrative-territorial reform in Ukraine based on assessing the results of its financial decentralization component. Peculiarities of changing the territorial basis of local self-government in Ukraine investigate the necessity of moving from a voluntary amalgamation of territorial communities to the stage of their formation according to clearly defined criteria and providing opportunities for the development of such communities in the future. It focuses on the need to consolidate areas and change the system of interaction of the subregional level with the amalgamated territorial communities at a basic level.

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1. Introduction

Twenty years of experience in the development of the local self-government system in Ukraine have shown their inefficiency due to the inability of territorial communities to ensure the development of the territory for the formation of a full-fledged living environment and the provision of high-quality social services to the population. The slowdown or even suspension of the development of local self-government occurred as a result of the territorial communities' fragmentation (world experience proves that territorial communities with a population of less than five thousand people are financially insolvent to ensure their development and do not have an adequate resource base), complete financial dependence on the centre and lack of authority, provided locally.

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In order to overcome this problem in Ukraine, the reform of the local self-government system and the territorial organization of power has been ongoing since 2014, as well as comprehensive sectoral reforms designed to stimulate the establishment of direct democracy institutions, ensure the coordination of the interests of the state and territorial communities, and increase the level of citizens' life on the basis of decentralization.

2. Literature review

Scientific research in the context of proving the need, developing ways, identifying and characterizing the problems of reforming the administrative and territorial structure (ATS) of Ukraine was carried out by a large number of scientists, mainly domestic. Note the basis for the implementation and practical realization of the reform of the country's ATS was laid by A.F. Tkachuk (2009), as well as a significant body of modern research in the context of highlighting the problems and finding ways to solve it on the reform of the administrative and territorial structure of Ukraine, which were implemented by Zhuk (2015, 2017), Danko et al. (2020) and Kravtsiv et al. (2016). Emphasize the availability of scientific studies by other scientists in this aspect of the problem's coverage of reforming in the country, focusing on the works of Kramar et al. (2015), Vasylytsiv et al. (2020), Popov et al. (2019) and others.

Also, a number of scientists raised the issue of financial support for local self-government in the context of the administrative and territorial reform and the financial decentralization reform (Akai et al., 2002; Vozniak et al., 2019; Kramarenko et al., 2020; Kuznetsova et al., 2018; Maksymiv et al., 2016; Sember et al., 2015; Vatamanyuk-Zelinska, & Sytnyk, 2019; Hrynkevych et al., 2020; Pylypiv, 2020). So, Bondaruk under the financial support of local self-government, it means a combination of various financing sources and forms of local self-government bodies used by them for the functioning of the social and economic sphere (Bondaruk, 2009). These financial resources determine the territorial unit development within which they are formed.

Noteworthy is the definition of financial support for local self-government by Sapozhnikov, who defines it as “the totality of specific financial norms, budgetary methods, levers, tools with which the local budget choice process is provided, where the main goal is rationality, optimal representation of the communities will and its practical implementation, reflecting legality, meeting deadlines, transparency and controllability of financial resources of administrative and territorial units” (Sapozhnikov, 2010).

Melnichuk defines financial support as “the totality of financial resources that are concentrated in funds, and using which local self-governments perform their functions” (Melnichuk, 2011).

Riabushka and Merschij (2005) identify three approaches to the definition of the category “financial support of local self-government”:

- resource, which focuses the main attention of financial support on the aggregate of material and financial resources in local self-government funds;
- institutional, which focuses on a set of legal norms and methods for the efficient use of financial resources;
- process, which understands financial support as a system of measures to mobilize existing and accumulate new resources and their effective use.

On the basis of the selected approaches, they propose their own definition, in particular, under the financial support of local self-government institutions they propose to understand "the totality of the institutional foundations for the formation, distribution and effective use of financial resources funds in local self-government aimed at implementing the planned measures to improve the socio-economic situation of the administrative and territorial units". It is noteworthy that the research term is defined as the correspondence of the financial resources volume in local self-governments to their constitutional or legal powers. Petrusenko (2014) believes that financial support is a combination of financial resources that are formed in the matching funds of the service sector of local self-authorities, and is the foundation for the administrative and territorial unit development. In the scientific literature, there is also the concept of local finance components as a system proposed by Oleksyuk et al. (2019, 2020). The scientist notes that local finance consists of incomes, ways of generating incomes, system institutions, system subjects and objects as well as relations between them (Oleksyuk et al., 2019, 2020). Thus, we see that the issue of the ATCs financing in Ukraine today is one of the most pressing issues.

2. Methodology

The object of research in this article is the processes of implementing decentralization in the context of the administrative-territorial reform in Ukraine. The methodological basis of this research is retrospective analysis that was used to determine the features of the ATC formation in the regions of Ukraine. It is worth noting that the authors Voznyak et al. (2019) proposed a method for determining the impact of financial decentralization on the growth of regional economic systems in Ukraine in the

context of administrative-territorial reform. We agree with the opinion of these authors and believe that it is by applying panel data models that it is possible to determine the real impact of decentralization on the economy. This function can be written as:

$$Y_{it} = \alpha_i + \beta_{it} X_{it} + \varepsilon_{it}, \quad (1)$$

where Y_{it} - value of the indicator under research (dependent variable) for the i -th object at the t moment of time; $t=1, \dots, T$, $i=1, \dots, N$; $X'_{it} = (X_{1it}, X_{2it}, \dots, X_{kit})$ - vector of independent variables (factors); ε_{it} - deviation of the i -th object at the t moment of time; α_i - scalar, reflects the action of factors that are specific from one to one, but unchanged over time; β_{it} - model parameters that measure the marginal effects of independent variables on the dependent, which means that the effects of the x change are the same for all units and are the same in all observations. If β_{it} for all values t and i are constants, then Eq. (1) takes the usual form of a regression model on a set of panel data:

$$Y_{it} = \alpha + \beta_1 X_{1it} + \dots + \beta_k X_{kit} + \varepsilon_{it}, \quad (2)$$

where Y_{it} - value of the indicator under research (dependent variable) for the i -th object at the t moment of time; α and β_j are unknown parameters of the model; X_{kit} is the value of the j -th factor for the i -th object at the t moment of time; ε_{it} is the residual, moreover $t=1, \dots, T$, $i=1, \dots, N$, $k=1, \dots, K$. The estimation of the model parameters is similar to the classical multivariate regression models. A profitable way of testing is to use the Gretl software product (Lukyanenko, 2004).

3. Results and Discussions

To implement the reforms and ensure the complete renewal of all spheres of public life, important strategic documents have been adopted (Association agreement between Ukraine, on the one hand, and the European Union, the European Atomic Energy Community and their member states, on the other, Presidential Decree of January 12, 2015 No. 5/2015 "On the Sustainable Development Strategy" Ukraine – 2020", the Extraordinary Message of the President of Ukraine to the Verkhovna Rada of Ukraine "On the Internal and External Situation of Ukraine" of November 27, 2014, etc.), which outlined directions for further movement of the public administration system in Ukraine.

The fundamental document, which substantiates the purpose of the reform, clearly defines the problems that should be overcome in the process of implementing transformations, and the ways to solve them is the Concept of reforming local self-government and territorial organization of power in Ukraine (Cabinet of Ministers of Ukraine, 2014).

In addition to the Concept, at the beginning of the reform, a number of key legislative and regulatory acts were adopted, which became fundamental in its implementation in Ukraine. In particular, the Law "On Voluntary Amalgamation of Territorial Communities" (hereinafter – ATCs) and the Method for the Formation of Capable Territorial Communities.

In order to ensure consistency, comprehensiveness and a clear justification of the guidelines for these changes at the legislative level, in 2015 the Plan of legislative support for reforms in Ukraine was adopted (Verkhovna Rada of Ukraine, 2015), which determined a number of bills necessary for the adoption of their conceptual framework, as well as deadlines and those responsible for their submission.

At the same time, it should be noted the untimely and incomplete implementation of the Plan of legislative support for reforms in Ukraine regarding decentralization and the local self-government reform, since it was planned for adoption in 2015-2016 80% of bills are not accepted today.

The imperfection of the institutional and legal definition of the rules for the ATC formation and development in Ukraine, among other things, resulted in a slowdown in the adoption of long-term plans for the formation of the community territories in the regions. Today, when as of January 1, 2020, 1009 ATCs were formed (74.2% of the planned), the Government approved only 23 such plans (Zakarpattia region 09/26/2019 only adopted a long-term plan at the regional council level), and the so-called "white spots" (territories that not included in such plans) make up 87.7% of the total area of Ukraine.

At the fastest pace, the enlargement process of territorial communities is progressing in the Dnipropetrovsk (68 ATCs), Cherkasy (56 ATCs), Zaporizhzhia (55 ATCs), Zhytomyr (54 ATCs), Volyn (53 ATCs), Ternopil (51 ATCs) and Poltava (51 ATCs) regions (Fig. 1, Table 1). Less amalgamated communities are formed in Donetsk (11 ATCs), Zakarpattia (15 ATCs), Luhansk (18 ATCs) and Kyiv (20 ATCs) regions, which is associated with the influence of military actions in the Donbas (Luhansk and Donetsk regions), and an uncontrolled long-term plan for the territory formation of communities in Zakarpattia region (which stopped the process of community enlargement), as well as restraining the process by local elites in the Kyiv region, which is associated with a redistribution of political influences in the local fields.

In addition, today in Ukraine there are processes to consolidate pre-formed ATCs and the ATC formation around cities of regional significance. In particular, in December 40 ATCs, additional local elections to the community council were held, which was connected with the accession of rural and township settlements to such communities. The most common such connections

are in the Dnepropetrovsk, Vinnytsia, Ternopil and Volyn regions, that is, in the regions with the largest number of existing ATCs.

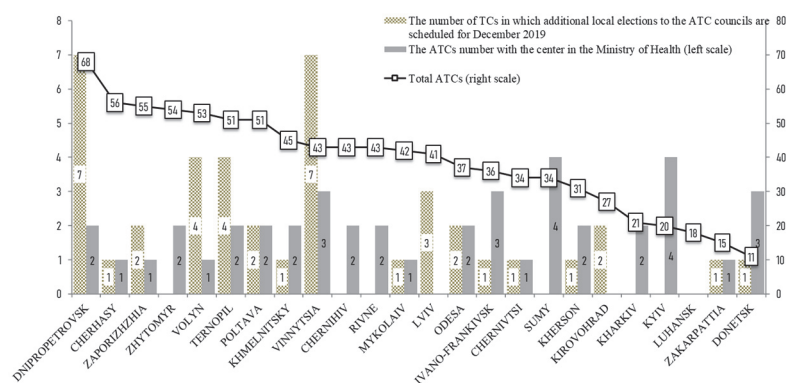


Fig. 1. State of ATC formation in the regions of Ukraine on January 1, 2020, quantity

Source: compiled based on (Decentralization, 2019).

Table 1

Features of ATC formation in the regions of Ukraine on January 1, 2020

REGION	Share of population in ATC, %	ATC area in the region, %	The ATC share with a population of less than 5 thous. people, %	Share of territorial communities not covered by the long-term plan, %
Donetsk*	96,3	46,9	21,1	0
Dnipropetrovsk	93,3	72,4	45,8	0
Zaporizhzhia	88,3	70,7	50,9	0
Chernihiv	84,8	64,7	42	2,5
Zhytomyr	82,6	67,7	35,1	0,5
Mykolayiv	81,8	52,4	45,2	12,1
Luhansk*	81,6	49,2	58,3	0
Khmelnytsky	80,7	62,2	29,4	0
Sumy	79,8	46,1	34,2	0,2
Volyn	74,6	60,2	35,2	0
Poltava	73,6	37,3	46,4	4,2
Kharkiv	73,5	25,7	4,3	0
Ukraine	72	44,5	37,4	13,4
Odesa	70,1	35,9	21,6	65,7
Chernivtsi	69,4	50	21,6	10,7
Cherkasy	68,5	43,5	55,9	25,5
Ternopil	66,1	49,9	47,2	2
Kherson	63,5	37,8	51,4	7,4
Kirovohrad	60,1	25,1	59,3	1
Lviv	58,6	24,6	26,8	13,8
Kyiv	57,9	21,2	20,7	42,2
Rivne	56,6	40,8	28,3	0
Ivano-Frankivsk	56,1	35,8	15,4	3,1
Vinnytsia	55,2	21,9	38,3	23,9
Zakarpattia	34,1	12,3	6,3	100

*excluding temporarily occupied territory

Source: compiled based on (Decentralization, 2019).

According to ATCs that have developed around cities of regional significance, on January 1, 2020 there are 43 of them, and in another 12, the processes of amalgamating nearby settlements have begun. It took the opportunity to join 130 territorial communities to the developed city, that is, on average, 3 local councils joined one city. Such ATCs exist in all regions except the Kirovohrad, Luhansk and Lviv regions. Analyzing the features of the ATC formation, it should be noted about the absence of clear criteria according to which such an enlargement should occur. This is, first, due to the declared voluntariness of the association – the ATCs should be created because of the consent of the communities to enlargement, which complicates their education in certain parameters. At the same time, the Office of Reforms under the Ministry for Communities and Territories Development of Ukraine, for the possibility of conducting an effective analysis of the trends in the ATC formation, has identified a list of indicators used to assess the enlargement of administrative and territorial units at a basic level and monitor their financial viability. These criteria include:



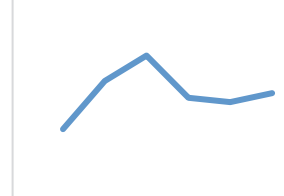
- population;
- amount of own income per inhabitant in community;
- level of budget subsidies;
- amount of capital expenditure per inhabitant;
- costs proportion of maintaining the management apparatus in the financial resources of the community.

Significant attention in this list is given to the indicator of the ATC population. If we turn to the trends of the ATC formation in Ukraine, starting in 2015, when the first amalgamated communities were formed (Table 2), we can draw the following conclusions:

- the average number of local councils combined into one ATC is 4.8 units, although there is a noticeable tendency towards a decrease in the number of councils when combined during the analyzed period (if in 2015 this indicator was 5.1 councils, then in 2019 – 4.6 councils);
- the average number of ATC residents is 11,840 people, which is a relatively good indicator (a number of studies by Western scientists and domestic researchers indicate that only a community with a population of more than five thousand people has the opportunity to develop); in addition, there is a noticeable rapid increase in the indicator in 2018 (2.2 times), which is associated with the recognition by regional communities of regional significance cities, the population of which is much larger than in rural, townships and communities of small towns;
- the average community area is 241.4 square km.; a noticeable decrease in the community's area in 2018 compared with previous periods, which again resulted in the granting of the status of capable cities of regional significance (such cities have a smaller area than the average ATC, however, significant resource, human and economic potentials are concentrated on their territory).

Table 2

Dynamics of the main indicators of ATC formation in Ukraine

Years	The average number of local councils in one ATC	Average population in ATC	Average ATC area, Sq. Km
2015	5.1	8711	231.4
2016	4.9	8395	244.8
2017	4.8	8417	251.9
2018	4.6	18964	240.1
2019	4.6	14713	238.9
2015-2019	4.8	11840	241.4
Graphic image of indicator dynamics			

Source: compiled based on (Decentralization, 2020a).

An analysis of the number of a community resident on the level of its ability (Figure 2) allows us to note that it is communities with a population of up to 5 thousand people that are characterized by high rates of the share of expenses for maintaining the management apparatus in their own incomes (35.3%) and the amount of wages in expenses of the general fund (76.2%). However, the subsidy level of such communities is lower than in ATCs with a population of 5-15 thousand people, and the volume of own income per capita is higher than in most groups of communities (3396.2 UAH), which can be explained by the ATC presence in this group called "millionaires" (small communities formed as a result of the union of 2-3 local councils in the territory of which large enterprises are located, operate and pay taxes to the local budget, which, in essence, "keep" the community).

It should be noted that today in Ukraine there are 292 ATCs with a population of less than 5 thousand people (36.3%), which significantly increases the risk of insolvency of such communities for future development and indicates a lack of community amalgamation on a voluntary basis.

A high level of financial solvency among others is characterized by ATC cities of regional significance. Such communities are usually non-subsidized, or pay a reverse subsidy to the State budget (the average subsidy rate is 1.1%), less than 20.0% of the community's own income (17.9%) is directed to the management apparatus, 38.9% for salaries expenses.

Thus, as of the beginning of 2020, a rather high differentiation in the level of financial solvency of already existing ATCs was noticeable. Therefore, upon completion of the evolutionary stage of voluntary amalgamation of territorial communities, the state

proceeds to the stage of unification according to the principle of ability. Upon completion of the local self-government reform, the Ministry for Communities and Territories Development of Ukraine is expected to reduce the number of communities that need state support up to 30% (Ministry of Communities and Territories Development of Ukraine, 2019). To this end, the Cabinet of Ministers of Ukraine plans to change the Method for the formation of capable territorial communities, clearly defining the criteria for ATC ability, namely:

- 1) number of residents in the community is not less than 5000 people;
- 2) ATC accommodation for at least 250 school children and 100 preschool children;
- 3) tax index of at least 0.3;
- 4) share of local taxes and fees in own income is at least 10%.

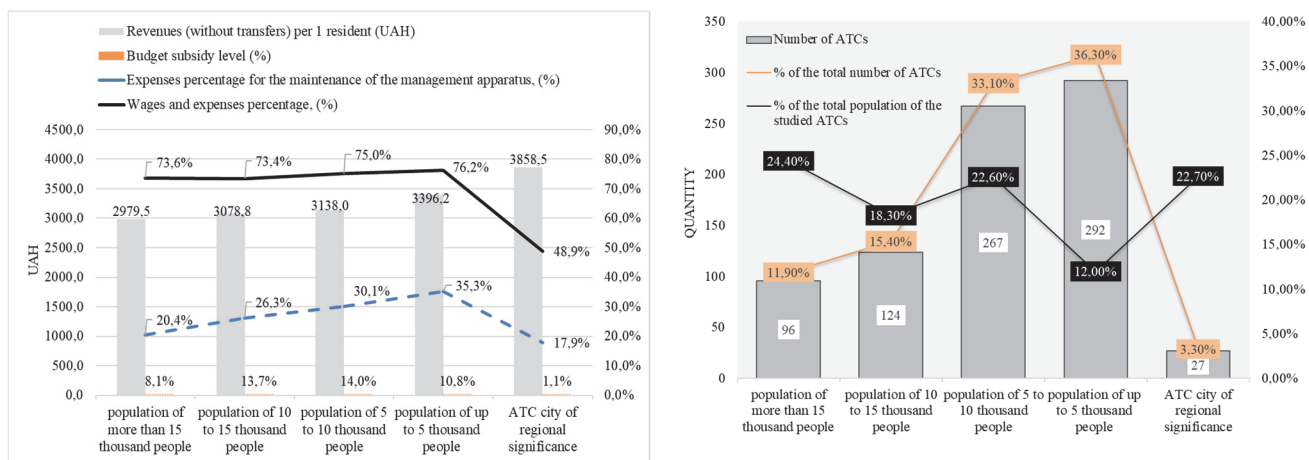


Fig. 2. Analysis of the ATC financial viability in terms of community groups by population on September 1, 2019

Source: compiled based on (Decentralization, 2020a).

Given these criteria, it can be argued that it is necessary to enlarge a significant number of already established ATCs, including the majority of 292 communities, the population of which does not reach 5,000. Nevertheless, the proposed criteria are weighted, since they allow taking into account not only the level of financial solvency of the communities in today's conditions (tax index), but also the managerial potential in community (the share of local taxes and fees) and the possibility of further development of the community (taking into account the number of children).

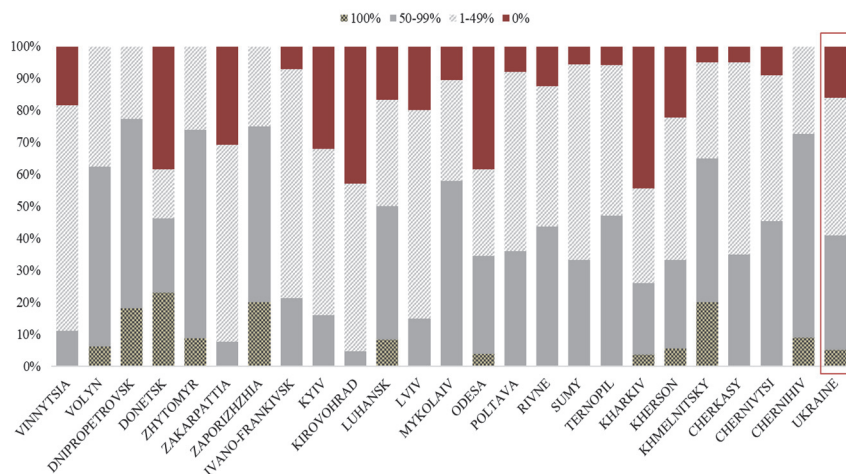


Fig. 3. The district structure of the Ukrainian regions by the level of ATC coverage, 2020, %

Source: compiled based on (Decentralization, 2020a).

A separate research aspect of the features of reforming local self-government is the problem of "erosion" of the district level of management and powers duplication of local self-government authorities of the ATC, regional councils and district state administrations. Such dualism is resulted from an influence on the distribution process of communal property and negatively affects the jurisdiction of the executive authorities in the ATC, which are formed within more than one district.

The need to reform the districts and change the interaction of local self-government authorities at the basic and subregional levels is associated with the ATC formation and the expansion of their powers. As of January 1, 2020, administrative and territorial units in 390 districts are involved in the process of ATC forming (Fig. 3). The number of districts, the territory of which is 100% covered by the generated ATC, is 24, more than 50% – 166, less than half – 200. Only 75 districts are in the territory of which the ATC has not yet been formed.

The main reasons for the importance of reforming this level of territorial management are:

- excessive fragmentation of the district level, which does not meet, among other things, European practice (the general classification of territorial units for statistics (NUTS), according to which the population of a territorial unit of the NUTS-3 level (in Ukraine only districts match this level) should be 150-8000 thousand people);
- powers duplication of district level governing bodies and ATC, which became problematic as a result of incomplete reform of local self-government and the parallel existence of unreformed regions and newly formed communities with wider powers;
- irrationality of the resources use at the district level in connection with the decentralization processes at the basic level (as of 2019 in Ukraine there were 48.1 thousand employees of the district state administrations, for the maintenance of which from the State budget 6,4 billion UAH were allocated);
- lack of interdependence and coordination of districts and territorial divisions of central executive bodies;
- withdrawal of the secondary health care link from the government list of powers of the district level as a result of the relevant sectoral reform;
- formation of the Centres for administrative services on the territory of communities, transfers the provision of administrative services to the local level.

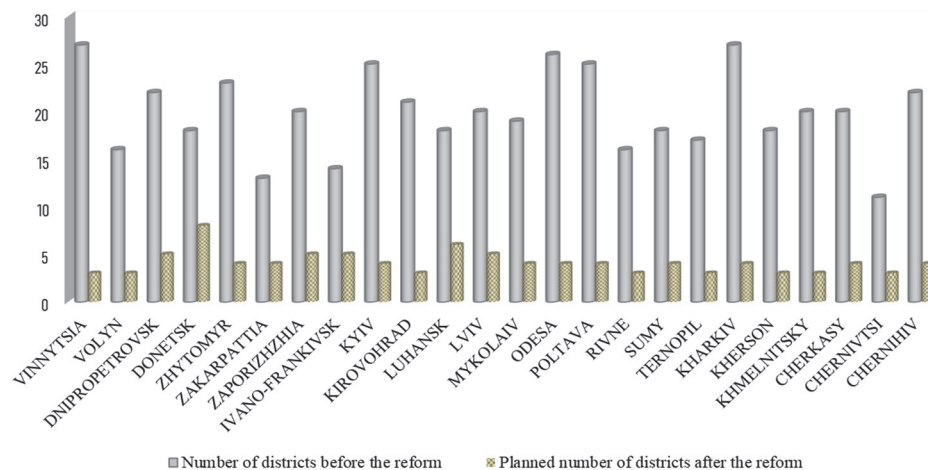


Fig. 4. The design number of amalgamated districts in the regions of Ukraine

Source: compiled based on (Decentralization, 2020b).

As a result of the reform at the subregional level in Ukraine, instead of 490 districts, it is planned to form 102 territorial units of the subregional level (Fig. 4) in accordance with such criteria (Ministry of Regional Development, Construction and Housing of Ukraine, 2019):

- 1) territory should be compact, geographically coherent and inextricable;
- 2) population should not be less than 150,000 people;
- 3) centre of the district is the city – regional centre (in this case, any settlement located within the 30-kilometer access zone from the city limits cannot be considered as a potential administrative centre of the region), or, in its absence, the city with a constant population of at least 50,000 people;

4) The access zone is determined by paved roads at a distance of up to 60 km from the border of the district administrative centre.

Reform of the subregional level in Ukraine provides not only for their enlargement, but also for a change in the system of powers based on the efficiency of their distribution and subsidiarity (Fig. 5). In conditions of cooperation and joint consultations of representatives in various levels of management, a list of powers has been defined, which is recommended to be transferred to the district level. Such powers include:

- management and maintenance of common objects of culture, physical education, tourism, architectural monuments of regional significance; management of other common communal property and communal property enterprises of the territorial communities of the district, maintenance of general boarding schools, specialized schools;
- provision of certain specialized medical services, approval of tariffs in the field of healthcare, in accordance with the method for calculating such tariffs;
- management of labour archives and social assistance houses;
- road construction and maintenance of transport infrastructure of district significance;
- creation of units to deal with the effects of natural disasters and emergencies;
- environmental protection, promoting the recreational potential development of the district;
- promoting the socio-economic development of the district, including by attracting investments, grants, international technical assistance;
- the issue of securing the authority to manage secondary medicine and the road economy at the district level remains controversial.

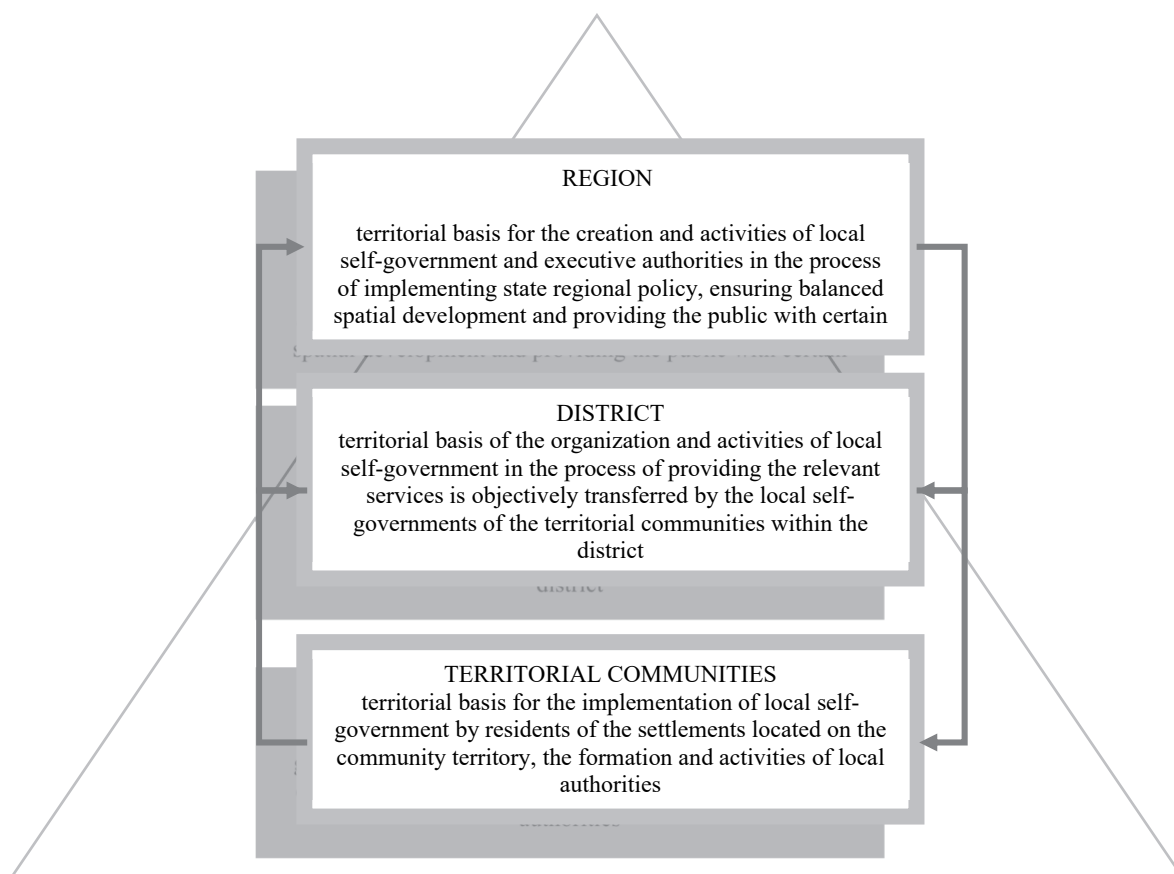


Fig. 5. Distribution of powers between different levels of government in the context of changes in the administrative and territorial structure of Ukraine

Source: compiled based on (Verkhovna Rada of Ukraine, 2019).

4. Conclusion

The research revealed the need and feasibility of reforming the administrative and territorial structure in Ukraine. Believe that the key importance of reforming the administrative and territorial structure of the state on the path to integration into the European Union and the need to solve the identified problems of reforming on the basis of critical research and the implementation of foreign experience can be realized using primarily the experience of the EU member states of the post-socialist type.

Therefore, a change in the territorial basis of local self-government in Ukraine today is at the stage of transition from the voluntary amalgamation of territorial communities to the stage of their formation according to clearly defined criteria and providing opportunities for the development of such communities in the future. On the other hand, conditions are being formed today to ensure the districts enlargement and changes in the system of interaction of the subregional level with ATCs at the basic level.

Despite significant achievements in completing the stage of ATC formation, it requires a well-formed regulatory framework, the adoption of important systemic acts and a change in the approach to community formation to take into account not only the level of financial viability, but also the opportunities for its development in the long term.

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