

## THE STATE OF IMPLEMENTATION THE DECENTRALIZATION IN UKRAINE

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**ABSTRACT**

The development of local self-government in Ukraine is accompanied by decentralization processes aimed at the effective activity of local authorities and improvement of the socio-economic standard of living of the population. The article examines the current state of decentralization reform in Ukraine. The problems and risks that accompany the processes of decentralization in modern economic conditions are substantiated. Changes in the legal regulation of decentralization reform and their impact on the development of local self-government are considered.

The purpose of the study is to analyze the current state and prospects of decentralization, determine the nature and place of united territorial communities (UTC) in the development of local self-government, substantiate the problems associated with the processes of decentralization and generalized prospects for the further development of UTC in modern economic conditions.

During the study of decentralization processes, common scientific and special methods were used. The methods of comparison and grouping are used to analyze the processes of creation of UTC, the statistical method helps to compare the dynamics of UTC formation on a territorial basis, conduct economic data concerning the financial resources of the community. The methodology of the systematic approach involves a comprehensive study of the factors that accompany and influence decentralization processes. Method of generalization is used in drawing conclusions and recommendations.

The article provides the dynamics of the formation of the UTC over 5 years, the basic and additional criteria, which are needed to determine community capacity, were analyzed, a comparative characterization of the capacity of communities in the regions of Ukraine was conducted and the capacity rating was justified.

## СТАН ВПРОВАДЖЕННЯ ДЕЦЕНТРАЛІЗАЦІЇ В УКРАЇНІ

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*Розвиток місцевого самоврядування в Україні супроводжується процесами децентралізації, які направлені на ефективну діяльність органів місцевої влади та підвищення соціально-економічного рівня життя населення. У статті досліджено поточний стан реформи децентралізації в Україні. Обґрунтовано проблеми та ризики, які супроводжують процеси децентралізації в сучасних умовах господарювання. Розглянуто зміни у нормативно-правовому регулюванні реформи децентралізації та їхній вплив на розвиток місцевого самоврядування.*

*Здійснено аналіз сучасного стану та перспектив розвитку децентралізації, визначення суті та місця ОТГ у розвитку місцевого самоврядування, обґрунтовано оцінку проблем, які пов'язані з процесами децентралізації, та узагальнено перспективи подальшого розвитку ОТГ у сучасних умовах господарювання.*

*Під час дослідження процесів децентралізації використані загальнонаукові та спеціальні методи. За допомогою методів порівняння та групування аналізуються процеси створення об'єднаних територіальних громад (ОТГ), статистичний метод допомагає порівняти динаміку формування ОТГ за територіальним принципом, провести обробку економічних даних, що стосуються фінансових ресурсів громади. Методологія системного підходу передбачає комплексне вивчення факторів, які супроводжують процеси децентралізації та впливають на них. Під час розробки висновків і рекомендацій використовується метод узагальнення.*

*Описано динаміку формування ОТГ протягом п'яти років, проаналізовано базові і додаткові критерії, необхідні для визначення спроможності громади, проведено порівняльну характеристику спроможності громад областей України, обґрунтовано рейтинг спроможності.*

**Ключові слова:** децентралізація, реформування, об'єднані територіальні громади, місцеві фінанси, органи місцевого самоврядування.

**Formulation of the problem.** In current realities of economic development of Ukraine, an important question arises about the effective activity of local authorities aimed at the stable prosperity of the socio-economic standard of living of the population. According to the Budget Code of Ukraine, the development of local self-government is connected with the processes of decentralization, which create a mechanism of formation and distribution of financial resources between all levels of the budget system of Ukraine.

Nowadays, all decentralization processes are focused on the creation of integrated territorial communities (hereinafter referred to as UTCs), which should become powerful and capable administrative units. The current standard of living in the city is much higher than the standard of living of people from rural areas. The decentralization processes, the result of which is creation of UTC, should provide comfortable living conditions for residents of all levels and groups.

The united communities concentrate resources within their territory that belong to the community: land, scientific, labor, cultural, infrastructural, etc. The UTC is focused on the necessary level of transportation, medical services, qualitative education, access to household and administrative services, which ensures a sufficient standard of living for the community. In the current conditions of transformation of the Ukrainian economy, decentralization depends on increasing of the level of components of the system of local finances. It also depends on determining the capacity and sufficiency of the UTC, which is achieved by the corresponding increase in the productive and non-productive capacity of the administrative-territorial units.

In order to determine the criteria for community capacity, it is important to know what the main purpose of decentralization reform in Ukraine is: to achieve economic growth, improve democracy or improve the quality of services at the local level.

**Analysis of recent research and publications.** In Ukraine, the study of decentralization processes is carried out by scientists-economists and scientists-lawyers, whose attention is focused on the formation of local self-government, the study of local revenues and expenditures, and budget planning. Among the scientists the works of V. L. Andrushchenko, D. P. Bogolepova, N. Vasilenko, O. P. Kirilenko, L. V. Lisyak, N. V. Macedonian, L. O. Nikitenko, O. O. Suntsova and others should be mentioned, who have written textbooks on Local Finance, defended their dissertations on the basis of local government research and continue to substantiate the role of local finance in the development of Ukraine's budget system.

Over the past few years, analytical reviews, research and developments related to decentralization have been conducted [1—5]. However, the reform of the country requires significant changes, the processes of decentralization affect the issues of capacity, security, development of all segments of the population. That is why they need further generalization, more thorough research, taking into account new challenges and factors both internal and macro.

**The purpose of the article** is to analyze the current state of decentralization, to determine the essence and place of UTC in the development of local self-government, to substantiate the prospects for further development of UTC in the current economic conditions.

**Statement of the main results of the study.** Decentralization as a global restructuring of the governance model in the country began to be discussed since 2015 and assumed the creation of an effective system of territorial organization of government in accordance with the provisions of the European Charter of Local Self-Government. Decentralization reform involves several related reforms: territorial organization of government, local self-government, regional policy and intergovernmental budgetary relations [4]. Since 2015, the self-government bodies have been granted the rights to voluntarily form an UTC. Communities have been given the opportunity to carry out their social functions through public finances. A new system of subsidies to local budgets and access to the State Regional Development Fund was launched. At the end of 2015, 159 UTCs were created and in a year their number increased more than twice to 366 UTCs [3].

## ***ECONOMY, MANAGEMENT AND MARKETING***

*Table 1. Dynamics of formation of united territorial communities on December 10 of the corresponding year, [5]*

Indicator	2015	2016	2017	2018	2019	2019/2015
Number of UTC	159	366	665	806	1009	850
Increase over the previous year	—	207	299	141	203	—
Number of residents in the UTC, million	1.4	3.1	5.6	8.3	11.3	9.9
Increase over the previous year	—	1,7	2.5	2.7	3,0	—
Area of UTC, thousand square km	36.8	89.6	167.5	193.5	241.1	204.3
Increase over the previous year	—	52.8	77.9	26.0	47.6	—
The average population of one UTC, people	8711	8395	8417	18964	14713	6002

The data in Table 1 indicate an increase in the number of UTCs over a 5-year period by 850 united communities. In comparison with the previous year, the largest number of UTCs is demonstrated in 2017, during which 665 UTCs were registered, with an increase by 299 communities.

At the same time as the number of communities grows, the number of residents living in an UTC, its area and the average population of one community are increasing. Thus, at the end of 2019, 32.1% of the total population of the country, which is 43.2% of its total area, lived in UTC.

World experience in community development shows that local problems can be solved only at the level of local authorities. The state is simply not able to track the problem of each specific settlement.

From the beginning of 2019, the second phase of decentralization began, the main purpose of which was to redistribute the powers and responsibilities of self-government bodies at the level of regions and districts, and to create integrated territorial communities as self-sufficient regions. Table 2 provides a description of the capacity of the UTC by areas of a country.

*Table 2. Formation of capable communities and cooperation between them during 2015—2019, [5]*

Region	Overall rating	Number of TCs that haven't been merged	Total number of cooperation projects	Including			Number of population in area, thousand people
				Housing and communal services	Education, health care, social security	other	
1	2	3	4	5	6	7	8
Zhytomyr	1	3	35	1	22	12	1220.2
Dnipropetrovsk	2	1	12	1	3	8	3206.5
Khmelnytsky	3	5	10	3	—	7	1264.7
Chernihiv	4	4	14	2	7	5	1005.7
Zaporizhzhya	5	2	9	—	4	5	1705.8
Volyn	6	6	28	2	15	11	1035.3
Sumy	7	12	44	4	23	17	1081.4
Donetsk	8	11	2	1	1	—	1700.7

*Continuation of table 2*

1	2	3	4	5	6	7	8
Chernivtsi	9	9	6	1	1	4	904.4
Ternopil'ska	10	8	11	2	5	4	1045.9
Mykolaiv	11	10	3	3	—	—	1131.1
Lugansk	12	7	2	—	1	1	583.3
Rivne	13	13	16	1	5	10	1157.3
Ivano-Frankivsk	14	18	12	2	2	8	1373.3
Kharkiv	15	19	24	12	1	11	2675.6
Poltava	16	16	108	28	15	65	1400.4
Cherkasy	17	14	32	8	2	22	1206.4
Kherson	18	15	4	—	1	3	1037.6
Odessa	19	17	2	1	—	1	2380.3
Kyiv	20	22	8	—	2	6	1767.9
Lviv	21	21	19	2	5	12	2522.0
Vinnytsia	22	20	95	17	18	60	1560.4
Transcarpathian	23	24	36	—	32	4	1256.8
Kirovohrad	24	23	10	—	5	5	945.5
Together	—	300	542	91	170	281	35168.7

The first column of Table 2 presents an overall ranking of able communities by region. This rating includes 7 parameters that determine the population size of the affluent communities (UTCs and cities of regional importance (hereinafter CRI); their area; the number of TCs that have not been united within 5 years; the number of districts in the area, where the process has not started creation of TC; the number of UTCs with a population less than 5,000; the number of UTCs with administrative centers in the CRI and the last parameter is the availability of prospective plans of able communities of the region approved by the government.

According to Table 2, Zhytomyr Region, with a total population of 1220,2 thousand people, has the highest rating in terms of UTCs creation and their capacity, and has only 3 united territorial communities. This region includes 23 districts (for comparison: the largest number of districts is in Vinnytsia and Kharkiv regions (27), and the smallest — in Chernivtsi region (11), in each of which the process of creation of territorial communities has begun. The region also has 20 UTCs, with less than 5,000 inhabitants, 7 UTCs in CRI and 66 government-approved perspective plans. In first five in terms of the capacity of the UGC are Dnipropetrovsk, Khmelnytsky, Chernihiv and Zaporizhzhya regions, in which there is no district where the process of creation of territorial communities starts. Unfortunately, there are also areas where the process of decentralization is very slow, with virtually no results. Kirovograd region ranks last place in the ranking of regions for the formation of able communities. It is an area with small population (945.5 thousand people), which has 21 districts, nine of which do not create any territorial communities. In the region, 16 UTCs were created with a population less than 5 thousand people, but it included 59.3% of the population of the region. In our opinion, such situation exists due to the lack of specialists able to explain to the population the advantages of integration and to organize territorial entities. The reason may also be in the presence of villages with a small number of people, which are far from the district centers and from each

other. In such villages there are no schools, kindergartens, health care facilities. There is a lack of transport connections with local authorities, and it is difficult for the population to make an opinion on new decisions taken by the governing body. However, the newly created UTCs have 53 forward-looking plans approved by the government, which means that in these territories decentralization-related reforms are provided with cash funds. Next to the Kirovohrad region, in the rating of affluent communities are Zakarpattia, Vinnytsia, Lviv and Kyiv areas, which have districts where no UTCs are created and there are no territorial communities that would join the UTCs or cities of regional importance [5].

The reunion of territorial communities carried out during 2019 is needed because many of the communities that existed before and still exist today due to their small size and scarce resources, are unable to organize and finance the provision of basic public services to citizens: construction and repair of roads, maintenance of educational institutions, medicine, culture, social security, etc.

UTCs can enter into cooperation agreements that allow them to unite resources for joint projects, to create joint ventures. Cooperation agreements cover the areas of infrastructure management, utilities, education, health care, administrative services and others. Data from Table 2 shows that 542 cooperation agreements were concluded between the communities over the 5 years of decentralization reform, 91 of which were concluded with housing and communal services, 170 — with educational, health and social welfare institutions, others — 281 agreements — with fire safety, improvement, lighting, repair and more.

The united communities have gained new sources of revenue, as well as expanded competencies in land management, registration procedures, architectural and construction control, ensuring the functioning of local schools. For the first time, local communities have been given real opportunities and significant resources to undertake major infrastructure projects.

In addition to legislative changes about the delegation of powers, also, the reform envisages reorganization of districts. Instead of several dozens of them, 4–6 counties would be created, which should be formed on the basis of population and compactness criteria. In general, the division of the whole territory of Ukraine into 120–130 counties was planned [3].

Thanks to decentralization the transformation of relationship between the center and the UTC happens. The relations are more partner-based rather than subordinate.

Increasing community capacity is an important issue in formation of such relations. Now communities can unite as they wish. But, according to various estimates, about a third of communities has a lack of characteristics to provide a full range of quality of life services in their area.

The Ministry of Communities and Territorial Development of Ukraine recommends to focus on the criteria, which are divided into basic and additional ones [3], for determining the community capacity.

Basic are:

1) geographical integrity: the territory of the community cannot be subdivided, it cannot contain other local self-government bodies;

- 2) the presence of a grade I-III school for at least 250 students;
- 3) presence of 250 children of school and 100 children of preschool age.

Additional or evaluation criteria, that are proposed to consider when determining the capacity of a community, are the number of permanent residents, the area of its territory, the index of taxability of the community budget and its share of local taxes and fees.

The issue of accessibility is also considered, i.e. the distance to the administrative center, which should be no more than 25 km, and firefighters and ambulances could arrive in no more than 20 minutes.

Such indicators are important, but the resources that the community owns must also be taken into account. In Ukraine there are many settlements with 100—150 students, but there is an excellent material and technical base for the support school, there are enterprises in the territory that are able to provide the community with financial resources.

The Government of the country has proposed Guidelines for assessing the capacity level of territorial communities, where capacity level indicators have been proposed [6]. Criteria for assessing the capacity level of territorial communities are indicators that characterize the ability of territorial communities, independently or through relevant local governments, to provide an adequate level of service provision, in particular in the fields of education, culture, health, social protection, housing and communal services and infrastructure development of relevant territorial community.

According to the Guidelines, the assessment of the capacity level of territorial communities is based on the evaluation criteria, taking into account the limit values that are [6]:

- population — 3000 people;
- area — 200 square km;
- taxability index — 0.3;
- the share of local taxes and fees — 10%.

If the overall assessment of the capacity of territorial communities by the sum of the numerical values of the assessment criteria is from 1.2 to 1.8 — the territorial community has a low level of capacity, from 1.9 to 3.2 — average and high when it is from 3.3 to 4.

The main indicator in determining the capacity of UTC is the level of financial security, or, otherwise, the availability of financial resources. Such resources must be earned by the UTC (own revenues), some of which may come from central government to exercise the delegated powers. First of all, decentralization is perceived as the transfer of a large number of powers from public authorities into the hands of communities that are capable of managing their own resources and acting within their power. It is necessary to take into account the fact that communities are the population of the territory in which the community is formed, so they can spend financial resources much more efficiently on specific needs. This helps to revive the economy, create job places, develop infrastructure that was not typical for this area before. Table 3 presents the results of financial decentralization in recent years.

*Table 3. The results of financial decentralization in recent years, [5]*

Indicator	2017	2018	2019	Deviation			
				2019/2017		2019/2018	
				abs	%	abs	%
Own revenues of the General Fund of local budgets (LB), billion UAH	192.7	234.1	267.0	74.3	38.6	32.9	14.1
Share of LB's own income in GDP,%	6.5	6.6	6.8	0.3	—	0.2	—
Income of the LB General Fund per inhabitant for January-October of the respective year, UAH	4002.8	4883.9	6059.6	2056.8	51.4	1175.7	24.1
Local taxes and fees per inhabitant for January-October, UAH	1135.4	1317.7	1679.4	544.0	47.9	361.7	27.4
Share of local taxes and fees in MB's own revenues,%	27.3	26.1	27.5	0.2	—	1.4	—

From Table 3, we can see an increase of own revenues of the General Fund of local budgets in 2019 compared to 2017 by UAH 74.3 billion (by 36.6%). A comparison of the last two years shows an increase of own revenues by UAH 32.9 billion (14.1%). The increase of own revenues in 2019 was also influenced by the state support of local budgets in the amount of UAH 15.8 billion under 3 programs: transfer of the State Fund for Reconstruction and Development, subsidies for UTC and subventions for rural medicine, as well as transfer of subsidies for construction, reconstruction, repair and maintenance of roads of local importance in the amount of UAH 14.7 billion. The increase in the general fund's own income also affected the incomes per inhabitant, which have shown growth dynamics over 3 years. It is also the positive dynamics of local taxes and fees per inhabitant. In 2019 per inhabitant accounts for UAH 1,679.4. We can see an increase by UAH 361.7 compared with 2018. The increase in local taxes and fees is due to the implementation of new technologies by communities that contribute to the development of entrepreneurial activity, which ensures the receipt of local budgets in the form of taxes and fees.

**Conclusions**

The reform of local self-government and decentralization of power, which has been ongoing in Ukraine for 5 years, involves overcoming many problems related to the low level of investment attractiveness of territories, the high level of subsidi- zation of communities, their dependence on the central authorities, etc. Today, since the start of the decentralization reform, more than a thousand UTCs has been created, with a total population of 11.3 million. Some of them have held elections, started a life with a new model, have their first development achievements. The 87.7% of the country's territory is covered by the prospective plans for forming territories of communities. In addition, in 2019, the process of community invol- vement in UTCs has increased significantly — about 170 neighboring and village councils and almost 100 communities in cities of regional importance [7].

Communities show that they can cope with the new powers and take advantage of the opportunities that their status gives them. But there are communities where



there is a lack of experience and skills to perform the functions assigned to them and, as a result, there is an inefficient formation and use of community resources. In addition to the experience and skills of the staff, the problems and risks of the decentralization process in Ukraine are as follows:

- the system of local self-government and the system of executive power at the local level are not perfect, which do not provide proper control by the central bodies, law enforcement structures, which should be clearly defined. Local authorities should know which issues fall within their competence and which should be addressed at the highest level (security, European integration, state language policy, etc.);

- there is an absence of basic level of local self-government, which should clearly define the prospects of territorial development. Not all UTCs are self-sufficient and capable, so it is necessary to continue the use of principle of financial equalization for such communities — richer UTCs help less successful [7];

- lack of experience in local self-government bodies in implementing strategic planning and programming for community development. This problem can be solved through the introduction of programs to improve the skills of local government officials, and provide advisory support from executive authorities;

- the existence of a disproportion between the number of newly created UTCs and the amount of subsidies they should receive. The rapid increase in the number of UTCs without a proportional increase in the amount of infrastructure development subsidies reduces the motivation of communities to integrate and does not ensure their socio-economic development.

On the whole, decentralization reforms are perceived positively by the communities, there are already some results which show that decentralization is really needed, but at this stage of reforming this is not enough. Only the complete completion of the decentralization process in Ukraine will show how ready society and the state are to function in a radically different vector of economic relations at the local level.

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