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### **NATURE AND TRENDS OF DECENTRALIZATION AND ITS DIMENSIONS: CHALLENGES FOR UKRAINE**

Since the beginning of the financial, economic, and social crisis, local and regional authorities have had to adapt to a new political and economic context. Numerous reforms have been made concerning the practices of these governments, as well as the functions of subnational authorities. These legislative and organizational modifications, often initiated by local governments, call into question the role of the local and regional level within the inner workings of states.

Reforms involving territorial reorganizations have become quite common over the past few decades in Europe, usually carried out as mergers of municipalities or regionalization of the territory. This reform movement, based on the concept of a Europe of regions, was very active in the 1980s and 1990s and, ever since the first signs of the financial crisis, now seems to have found new life [1].

The subject of «decentralization» has come to get the higher and especial attentions of many countries which come to use this for their political, administrative, social and economic advancement in the recent past. Many institutions also recommend the application of decentralization for different reasons. However, different definitions and interpretations have been developed in conceptualizing decentralization by different scholars and organizations based on their different thematic motivations which make researches and experts difficult to understand it, its dimensions and forms in a comprehensive manner.

Decentralization has emerged as a high popular means for number of issues related to democracy, governance, administration, development, local participation, conflict resolution and peace building. It has been one of the most widespread and influential policy trends of the present generation.

Decentralization is a process by which central State power is transferred in varying degree into sub-national governance units to broaden access to political and administrative decision-making and

localize provision of delivering public goods and services and strengthen local development initiatives. It has become one of the most popular terms in both the field of development administration and local governance [2].

The process of empowering and improving sub-national governance systems involves the three major dimensions of decentralization of powers, i.e. political, administrative and financial powers from the central government through varying degrees and various institutional and implementing mechanisms. Therefore, decentralization is often depicted as a welcome governance reform in order to improve efficiency and equity in resource allocation and to enhance participation and involvement of locals in decision-making process. The success of decentralization processes highly depends, however, on country circumstances, the design of the decentralization process and the institutional arrangements governing its implementation.

The current wave of reforms has been following the trend of territorial simplification which begun several decades ago and still widespread in recent years. Both Denmark and Greece, in 2007 and 2011 respectively, implemented a policy involving mergers between municipalities on a massive scale. Luxembourg is looking at a proposals of municipal mergers which would reduce the number of municipalities from 116 (total in 2006) to 71 between now and 2017 [1].

Other countries have similar projects planned, but with cost reduction objectives more clearly stated. This applies to Portugal where many civil parishes, municipal subdivisions with strictly local competences, are being merged. A German university study has shown, however, that municipal mergers do not automatically result in increased efficiency and scale economies. This type of reform should therefore be used sparingly and in coordination with the local governments and populations. That being said, decentralization remains at the heart of the reforms currently underway. In the United Kingdom and the Netherlands, local authorities now enjoy more powers in the areas of health and social issues. However, this further decentralization is sometimes merely symptomatic of the state's withdrawal, which does not transfer the financial means necessary to properly fulfill these new tasks.

In almost all of the European states, the municipality remains the basic territorial level. Nevertheless, many territorial reforms have been proposed in order to reduce their number, postulating better management of local public services and reduced public expenditures. To encourage such mergers, political or financial incentives are often put on the table, particularly in Switzerland or Ukraine, and in the new Lander in Germany. Notably, Greece went from mere words into action with the completion of a large number of mergers between municipalities.

Different options were chosen in Ireland, where the municipal councils are to be abolished in favor of the counties by 2014, thus reducing the number of first tier authorities from 114 to 31 [1]. In Turkey, while the villages still maintain some authority on their territory, those with less than 2000 inhabitants no longer carry the status of local authority. Municipalities have achieved substantial economies of scale through the help of intermunicipal cooperation, which is often encouraged by the central government in order to increase efficiency and in application of budgetary reduction guidelines. This has been the case in Austria, Cyprus and Italy, but also outside of the EU, for example in Ukraine. In other countries, for example the Netherlands, these types of cooperation may be set up asymmetrically, varying in accordance with the competences being exercised. The situation is also a bit particular in France as a result of the enormous number of municipalities there. A law, which requires all the municipalities of a given territory to form part of an EPCI (Public Institution of Inter-municipal Cooperation) with tax-levying powers, went into effect on 1 January

2014. These mechanisms do not cost municipalities the autonomy which is their due and allows them access to efficient management of public services while maintaining an optimal size [1].

Since spring 2014, Ukraine has embarked on an ambitious reform process aiming at stabilizing its economy, improving the livelihoods of its citizens and meeting international standards. Local self-government, administrative-territorial and regional policy reforms became top priorities as a result of the pronounced public demand for the devolution of power and resources to local communities and a subsequently strong commitment by the new political elite to reform the existing system of local governance. The Government of Ukraine has recognized the Decentralization Reform as key reform priority. Notwithstanding, the development of effective democratic governance requires a well-functioning system of governance, which will enhance the country's competitiveness in the global arena.

Nevertheless, Ukraine has made distinct progress to enact the Decentralization Reform. A concept on «Reformation of Local Self-Government and Territorial Organization of Powers» was approved in April 2014 which sets the framework for an ambitious reform. Additional important legislation has been adopted during 2014 and 2015, including laws on state regional policy, fiscal decentralization (Amendments to Budget and Tax Code) as well as on cooperation and amalgamation of local communities [3]. On 20 May 2016, the Cabinet of Ministers of Ukraine published a draft Government Priority Action Plan for 2016. Continued decentralization is one of the plan's overriding priorities. This created an enabling environment for the implementation of reforms.

The new legislation has already increased the financial and institutional capacity of territorial communities. During the first nine months of 2015, the total income of local budgets increased by 40,7 percent compared to the same period in 2014: from EUR 1,96 billion (UAH 50,4 billion) to EUR 2,76 billion (UAH 70,9 billion) [3]. During this time, local communities have generated additional income that exceeds their expenditure by EUR 953,8 million (UAH 24 billion), which shows their potential to become self-sustaining and even prosperous entities. As local budgets are increased due to revenues from locally generated taxes, the reform has created new incentives for local leaders to deliver quality administrative services and foster economic development. However, in order to succeed, decentralisation reforms will require an unprecedented re-enforcement in administrative capacities at the local community (hromada), district (rayon) and regional (oblast) levels. It equally needs a significant change in political and administrative culture among elected officials and public servants, so that they are able to adapt to their new roles and responsibilities.

In the area of regional development, the Government of Ukraine has displayed qualitatively and quantitatively new approaches. The State Strategy for Regional Development was adopted on 6 August 2014. With guidance and expert support from the EU funded Support to Ukraine's Regional Development Policy program, the Ministry of Regional Development, Construction, Housing and Communal Services approximated to principles of EU Regional Policy and established a transparent funding mechanism for regional development: the State Fund for Regional Development. The fund is an innovation in the Ukrainian budgetary system: It provides stable and predictable funding, uses a fixed formula to calculate the distribution among regions<sup>10</sup> and allows multi-annual development projects. In 2015, the Government of Ukraine allocated UAH 2.9 billion to the fund. To ease the application process and projects' independent evaluation, ensure transparency and visibility, the fund is administered through a web-based system [4].

In 2015, for the first time since its inception, the fund has been providing financing for all types of investment programs and regional development projects. In earlier years, the fund focused solely on

the construction or reconstruction of social infrastructure. To support amalgamations of local communities according to the newly adopted legislation, the fund also provides funding for investment programs and regional development projects that are implemented as cooperation projects of local communities and projects for voluntarily amalgamated local communities.

The reform steps taken and an emerging consensus of all main stakeholders on the need for decentralization and regional policy reform create momentum for a new quality of multilevel governance in Ukraine which is both effective and close to the citizen. However, the practical realization and implementation of the reform agenda remain a major challenge. On the central level, the President, Government and Parliament have demonstrated political will to decentralize through the adoption of reform legislation. However, given budget and capacity constraints, the Government very much relies on external support for elaboration and implementation of the reforms [4].

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### **ВПЛИВ БЮДЖЕТНОЇ ДЕЦЕНТРАЛІЗАЦІЇ НА СТРАТЕГІЧНИЙ РОЗВИТОК РЕГІОНУ**

Сьогодні в Україні відбувається поступовий процес бюджетної децентралізації. Вона має стати одним із засобів реалізації бюджетної політики країни. Ось чому, коли в країні відчувається нестача фінансових ресурсів, коли не дотримується принцип бюджетного федералізму, коли місцеві бюджети не мають достатнього обсягу власних коштів для покриття власних витрат – актуальним постає питання об'єднання територіальних громад, перегляд та перерозподіл повноважень місцевих органів влади, надання на підставі законодавства права на формування та використання фінансових ресурсів самостійно адміністративно-територіальним одиницям.

Оратівський район Вінницької області – економічно розвинений аграрно-промисловий, екологічно чистий район, з великий потенціалом розробки корисних копалин, виробництва будівельних матеріалів, привабливим інвестиційним кліматом, стійким ростом добробуту громадян.