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**PECULIARITIES OF DECENTRALIZATION REFORM  
IN THE EU MEMBER STATES: EXPERIENCE AND  
PRACTICE FOR UKRAINE**

**Abstract:** The paper examines the history of decentralization in foreign countries and its main models. Modern major processes of decentralization reform in Ukraine are analyzed. Best practices of decentralization reform are examined and its specifics in the Eastern and Western European countries are outlined: in particular, in France and Italy that conducted the reforms in the beginning and in the middle XX century and Poland and Lithuania that had the long-lasting experience of centralized governance. Main features of local governance models are shown. Positive and negative sides of decentralization are generalized based on foreign experience. The ways to introduce reforms on authorities' decentralization in Ukraine are defined.

**Keywords:** decentralization, administrative and territorial reform, budget decentralization, local taxes, local self-governance, territorial community.

**JEL classification:** F 29, R 50, R 58

**Introduction**

Democratic changes taking place in Ukraine are closely related to the need to reform the system of public authorities and development of civil society institutes. Development experience of foreign countries testifies to the fact that optimization of authorities' territorial organization, strengthening of local governance and forming of capable territorial communities is impossible without authorities' decentralization, which is the foundation of high living standards and providing of qualitative services at local level. Taking into account the fact that most of developed countries

globally have long-lasting traditions of decentralization, the foreign experience is of utmost importance and urgency for Ukraine.

**The purpose of the article.** The paper aims to examine the foreign experience of decentralization reforms, define their advantages and shortcomings and outline the opportunities of its application in Ukraine

## **Research results**

### **1. Current stage of decentralization reform in Ukraine.**

The process of authorities' decentralization started in 2014, however it entered its active phase after the adoption of Law of Ukraine «On Voluntary Consolidation of Territorial Communities» (Verhovna Rada of Ukraine 2015, Available from: <http://zakon2.rada.gov.ua/laws/show/157-19>).

According to the Law, when making decisions on voluntary consolidation of territorial communities it is necessary to consider historical, natural, ethnical, cultural and other factors, which influence the social and economic development of CTCs (consolidated territorial communities). The range of factors, which will have specific individuality and peculiarity regarding each territorial community, will define the level of each factor's impact.

As of the end of October 2018, there are 865 CTCs in Ukraine. It accounts for 36.3% of the overall number of basic level councils as of January 1, 2015, covering the area of 207.8 thous. sq. km. or 37.2% of the total area of Ukraine (Ministry of Regional Development 2018, Available from:

[http://decentralization.gov.ua/uploads/library/file/260/%D0%9C%D0%BE%D0%BD%D1%96%D1%82%D0%BE%D1%80%D0%B8%D0%BD%D0%B3\\_\\_10.05.2018.pdf](http://decentralization.gov.ua/uploads/library/file/260/%D0%9C%D0%BE%D0%BD%D1%96%D1%82%D0%BE%D1%80%D0%B8%D0%BD%D0%B3__10.05.2018.pdf)).

The CTCs were most actively created in 2015 – 159 communities, in 2016 – 207 communities and in 2017 – 299 communities. Thy dynamics of this process somewhat slowed down in 2018 – 200 communities. The further decentralization process will require more governmental resources, as well as improvement of approaches to the foundations of consolidation in order to secure the growth of communities' resources. This con-

dition will result in reduction of the voluntary principle's weight and strengthening of vertical impact of central authorities at local governance territory in order to finish the reform on schedule by 2020.

The President of Ukraine in his speech at the Regional Development Council meeting (November 12, 2018) emphasized the following: «We have to see the horizons of the reform; the 2020 is the crucial year. Ukrainian territory should be completely covered with consolidated territorial communities by local elections in 2020» (Popadynets, Patytska 2018, p. 32).

The following Ukrainian oblasts are the leaders by CTCs creation: Zhytomyrska – (54 CTCs), Hmelnytska – (45 CTCs), Volynska – (45 CTCs) Dnipropetrovska – (61 CTCs) and Chernihivska – (43 CTCs). The lowest activity of communities' consolidation is in Zakarpatska – (6 CTCs), Kyivska – (17 CTCs), Kirovohradska – (21 CTCs) and Harkivska – (16 CTCs) oblasts (Ministry of Regional Development 2018, Available from: <https://agropolit.com/spetsproekty/510-monitoring-zaprovdjennya-detsentralizatsiyi-v-ukrayini--2014-2018-roki>).

According to the Expert Budget Analysis of 665 CTCs in the first half of 2018, conducted by Financial Monitoring Group of Central Reform Office under MinRegion, the consolidated communities are divided into 4 groups by the number of population on the basis of the following parameters of their financial capacity: income per capita, dynamics of local taxes and fees revenues, level of budgets' subsidy dependence (share of basic, reverse subsidy in income, which should not exceed 40% of the overall CTCs income) and share of expenditures on maintenance of management apparatus in own resources (which should not exceed 20%).

The group 1 comprises 87 CTCs with population over 15 thous. persons. The 2 group – 103 CTCs, 10-15 thous. persons, the 3 group– 227 CTCs, 5-10 thous. persons, the 4 group – 248 CTCs, up to 5 thous. persons.

According to the abovementioned assessments, CTCs' financial capacity by own income per one resident is in inverse ratio to community's population (size), in particular in the fourth group CTCs the rate exceeds the average by 5% (1643 UAH), while in the first group CTCs the rate is 3.5% lower than the average one (Popadynets, Patytska 2018, p. 32).

In general, the dynamics of local budgets revenues' growth is positive, however 5-10% of communities in fact face the reduction of the rate compared to the same period of previous year.

The level of budgets' subsidy dependence (share of basic/reverse subsidy in income) of over 40% was revealed for 37% of first group CTCs, for 11% of second and third group CTCs and for 5% of fourth group CTCs.

The share of expenditures on management apparatus maintenance is the most sensitive parameter in terms of CTCs costs efficiency. It exceeds the 20% standard in all communities, in particular in the 219 fourth group CTCs by 82.9% and the 175 third group CTCs by 77.1%. This rate stimulates the search for the most optimal consolidation ways as far as the size of management apparatus is regulated according to relevant standards of the number of positions, however it is not commensurate with the capacity of CTCs' financial resource.

## **2. Experience of decentralization reforms in EU Member States**

Nowadays there is no universal model or methodology in the world that can be fully and without amendments applied in Ukraine.

Various historical development models have contributed to forming of several models of local governance organization. The types and forms of relations between local governments and state authorities are the specific features of these models.

Currently there are three main models of local governance in European countries, which have developed in the course of municipal reforms: Anglo-Saxon, continental and mixed (Table 1).

Real construction of relations between central and local authorities, even within one model, has specific features stipulated by legislative, historical, national and religious peculiarities. Despite various models of local governance and national peculiarities in terms of distribution of liabilities among central and local authorities, there are common features that characterize decentralization processes in European countries.

**Table 1: Main characteristics of local governance models**

Local governance model	Countries of application	Characteristics
Anglo-Saxon	Great Britain	High level of local governance autonomy, election and control by residents. Absence of special government commissioners at local level to control local governments. Absence of local administrations (local executive authorities)
Continental	France, Italy, Spain, Belgium, Netherlands, Poland, Bulgaria	Combination of direct governmental governance and local governance. Certain hierarchy of governance system, where local governance is a link compared to state authorities. Limited autonomy of local governments, special government commissioners at local level to control local governments
Mixed	Germany, Austria	In certain links of local governance an elected body can also be a link of municipal governance and representative of state administration

Source: Developed by author based on references (Roman 2012, Available from: <http://lvivacademy.com/visnik12/fail/Roman.pdf>; Nakonechnyi 2014, Available from: <http://www.kbuapa.kharkov.ua/e-book/tpdu/2014-1/doc/5/03.pdf>; Kostenyuk 2013, Available from: [http://www.dridu.dp.ua/vidavnictvo/2013/2013\\_01\(16\)/39.pdf](http://www.dridu.dp.ua/vidavnictvo/2013/2013_01(16)/39.pdf)).

There are five major characteristics peculiar to decentralization in European countries:

- democratization through development of local and regional autonomy;
- maximum efficiency of local problems' solution;
- freedom through local or regional autonomy;
- maintaining of cultural, language and ethnical diversity;
- economic competition between local and regional levels.

Foreign experience shows the importance of decentralization for the countries undergoing profound changes in the system of social relations' regulation. For the countries in transition, the decentralization is an efficient way to change essential characteristics of society and has substantial capacity and perspectives for local development.

### **3. Experience of decentralization in Italy**

Reforming of public authority in Italy has resulted in forming of three-level system of authorities' organization in the country: region – province – municipality. Costs to maintain functioning of education, healthcare, transport networks, civil aviation and administrative services for industry and business are concentrated in regional budgets. The competences of territorial planning and development are also attributed to regions. In order to perform their liabilities efficiently the regions have to secure sufficient resources that include both their own resources (in the first place, taxes and other revenues, the size and number of which is defined by regional council) and money from equal allocation of funds provided by state to support economic development and reduce social and economic imbalances. Provinces are responsible for support and development of public transport, authorization and control for private transport, roads within the provinces and accompanying infrastructure, secondary education infrastructure, economic development, including the employment centers, social care centers, promotion of culture, tourism and sports. One more essential task of a province is to support and develop cooperation and partnership among communes. Communes are bound to establish and accumulate local taxes, regulate activity of local police, healthcare facilities, primary and secondary education establishments, public transport, social services at local level, trade licenses, wastes collection and utilization, local transport infrastructure and street lighting and social housing (Putnam, Leonardi, Nanetti 2001, p.310).

Italy's local authorities have the right to independently establish local taxes and duties, which are the powerful source of local needs' funding. Italy belongs to developed countries with multiple local taxes, including: group of direct real taxes (for immovable and movable property, for owners of transport vehicles, for profession, ecological, etc), group of direct

income taxes (income and corporate), inheritance and gifts taxes, indirect sales taxes (retail sales, spirits, electricity and gas consumption, alcohol, tobacco and spirits excises), fees and duties. The practice shows that Italian model of state construction turned out to be efficient enough and contributed to improvement of budget funds use, quality of public services, and growth of economic activity at regional level.

#### **4. Experience of decentralization in France**

Reforms in France to some extent were related to expansion of subnational autonomy, reduction of central government's functions, weakening of prefects' role and creation of autonomous regional level. Once the most centralized country, France now has 36 thousand self-governing units (communes) and is ranked fourth in the world by economic capacity. In 2002, France adopted the law creating the so-called agglomerations, i.e. settlements', communes' groupings. On the one hand, it contributes to solution of problems interesting for residents of neighbouring communities, and on the other hand, it allows saving the state resource and creates conditions for a territory to earn money, i.e. creates conditions for self-development (Rudenko 2015, Available from: [http://buktoloka.cv.ua/index.php?option=com\\_content&view=article&id=115%3A2011-01-12-10-15-12&catid=13%3Apublications&Itemid=16&lang=uk](http://buktoloka.cv.ua/index.php?option=com_content&view=article&id=115%3A2011-01-12-10-15-12&catid=13%3Apublications&Itemid=16&lang=uk)).

In general, two major directions realize state policy of France in terms of organization of local governance: de-concentration – broader delegating of state's administrative functions to local level, and de-centralization –delegating of some share of state's responsibilities to local governments.

#### **5. Experience of decentralization in Poland**

The need for decentralization in Poland emerged in connection with large-scale liberalization processes and market reforms implementation. Its goal was to secure independent functioning of each region to the maximum extent, to create more efficient and transparent political institutes and to strengthen the role of civil society institutes. The reform in Poland underwent several stages. The first stage was creation of gminas – territo-

rial communities. Gmina can be a town, a village, several villages or a city district. The second step was directed at higher levels: poviats and voivodships. Thus, since 1999 there are 16 voivodships in Poland instead of 49. As a result, the distribution of responsibilities among central and local authorities changed. The reform also reduced the number of public officials, positively influencing the reduction of budget costs for management. Moreover, the mechanism of redistribution of tax revenues among state and local budgets was reformed. Currently local budgets account for almost 40% of income taxes, almost 7% of corporate tax revenues and 100% of property taxes. Regions' cooperation was chosen as the foundation for decentralization, including creation of free economic zones and providing assistance of one region to another in conditions of budget's deficit and surplus. Separation of authorities and business became an important consequence of administrative and territorial reform, guaranteeing each citizen the right to engage in business activities freely and on favourable terms (Svyanevych 2001, Available from: [http://PS\\_Laws\\_repot\\_2507\\_ucr.doc](http://PS_Laws_repot_2507_ucr.doc)).

Decentralization resulted in clear delineation of functions and responsibilities among state and local authorities. Thus, foreign policy, national security, defense and elaboration of strategic directions of state development became the major objectives of Polish government. Local authorities were charged with management of their own affairs, in particular: region's economic development, management of budget funds and assets of territorial community, conducting independent financial economy and bringing the system of providing services closer to population. Therefore, currently main responsibilities and financial resources in Poland are attributed to the level of territorial communities.

Experts agree that communities should be given an opportunity to solve the problems of their development. Measures taken by Polish government in terms of decentralization contributed to the growth of public investment, development of small business and civil society at the level of administrative and territorial units. These, in their turn, considerably improved the living standards for communities' members.

Decentralization changes in Poland had substantial impact both on the development of local communities and the country in general. Moreover,



according to experts, currently Poland is the most attractive country for investment among other countries of the Eastern Europe. Its main investors are European Union, US companies, Germany and France.

## **6. Experience of decentralization in Baltic countries.**

In the beginning of reforming Latvian experts on public governance deemed that a country should undergo substantial changes in legislation on public service, restructuring of public management institutions, improvement of political governance, establishing the procedures of civil participation in making governmental decisions. Decentralization reform ended in Latvia in 2009. It encompassed three major directions: legal, administrative-territorial and fiscal. Each reforming direction was accomplished separately; its realization mechanisms did not correspond to the others (Institute of Civil Society 2015, Available from : <http://www.csi.org.ua/?p=4802>).

The legal reform began in Latvia with adopting the Law on Local Governance in 1994. It defined the nature, major rights and responsibilities as well as financial base of local governance. Despite large territory, imbalanced development of regions and territories was peculiar to Latvia at the beginning of reforms. The major objective of administrative and territorial reform was to create administrative territories with local and regional governance capable to develop economically and provide qualitative services to population. However, administrative and territorial reform had substantial obstacles, in the first place because of the reluctance of small communities to consolidate. Only 20 consolidated communities emerged in the first six years of the reform. Moreover, the state made a big mistake not establishing the clear rules regarding the criteria and format of consolidation. As the result, although the new communities were emerging, they weren't capable to carry out necessary functions. Currently tax revenues, transfers from state budget, local duties, transactions of local communities and service fees are the major sources of local budgets' revenues in Latvia. Personal income tax distributed between state and local budgets accounts for the largest share in the structure of revenues. Real estate tax calculated based on cadastre value is also significant. Budget equalization

has been functioning since 1995, however the budgets are only partially balanced (Tkachuk 2015, p. 54).

Despite the long-lasting implementation, the decentralization reform in Latvia has solved a wide range of existing problems and contributed to expansion of local governments' authorities in terms of solution of the most urgent issues and strengthening of their impact on local economic development.

Decentralization processes in various countries have both advantages and shortcomings.

The following are the major advantages of decentralization: creation of preconditions for successful development of civil society; practical experience of territorial communities' participation in democratic changes; more efficient allocation of budget resources with the view to solve urgent issues of territorial community; creation of favourable conditions for development of local economy; promotion of economy development and strategic planning in a region; transparent and public decision-making at local level, better quality of services and bringing them closer to consumers; strengthening of local governments' responsibility for the results of their activity.

However, along with positive aspects of decentralization there are some shortcomings, in particular: complicated ability to impact the macroeconomic situation at the state level; reduced coordination of accomplishment of delegated responsibilities; braking the implementation of state programs with paying more importance to local political priorities; central authorities' attempts to avoid responsibility for granting public services to population, self-withdrawal of central governments from solution of urgent issues; inconsistency of delegated responsibilities and liabilities with the resources for their accomplishment.

In our point of view, decentralization reforms in various countries testify to the fact that experience of each one is unique and shows the development specifics of each country. Therefore, it is not reasonable to implement foreign experience without consideration of the peculiarities of economic and political development of a particular country.

## Conclusion

Analysis of foreign experience provides an opportunity to define the major ways to implement reforms on authorities' decentralization in Ukraine:

- delineation of powers, rights and liabilities of various authorities' levels in correspondence with the nature of legal, democratic state and civil society, contributing to the balance of interests in the system of public relations;

- elaboration and implementation of efficient regional policy directed at maintenance of balanced local and regional development;

- securing the subsidiarity principle as the way to overcome the conflict of interests between local executive authorities and local governments;

- conducting the administrative and territorial reform keeping the integrity of the country and its unitary structure;

- expansion of territorial communities' rights in terms of solution of their livelihood problems;

- conducting of budget reform taking into account the general national and local interests.

Experience of reforms in foreign countries shows that decentralization plays an important role in democratization and transformation of society and transfer to the institutes founded on initiative and responsibility of each person and community. The tendency towards its extended implementation is seen in administrative, political, budget, financial and social spheres. It promotes the development of human capacity and responsibility of authorities, improves the quality of government and public services, consolidates society and contributes to solution of economic, legal, political and ethnical problems.

Therefore, the decentralization should result in building the developed and strong democratic state with self-sufficient local governance, able to solve local problems efficiently and provide population with the broad spectrum of public services as well as possible.

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