

Forming of territorial communities' financial and economic capacity in conditions of implementation of local self-government reform

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Target Setting

At the present stage, the development of Ukraine is characterized by the emphasis shifting in the field of territorial state regulation development in the direction of administrative and financial decentralization and is accompanied by power and resources transfer to the local level. The main purpose of such reforms is the formation of organizational and economic principles for the territorial communities' development in Ukraine, based on their financial and economic potential effective use. Above-mentioned increases the local governments' responsibility for the rational use of the endogenous potential of the community, the organization of its inhabitants' life effectiveness and the attraction of untapped sources of the territory development. The fulfilment of these tasks requires a scientific substantiation of the ways of forming the territorial communities' financial and economic potential on the principles of inclusive growth and ensuring their capacity, which should meet the priorities of modern reforms implementation in Ukraine.

Many different works are devoted to the issues of the territorial communities' development study as subjects of socio-economic evolvement management. They were created by such Ukrainian and foreign scientists. At the same time, in the national scientific literature insufficiently researched are related issues such as the formation of territorial communities' financial and economic potential, in the context of systemic transformations in the economy and public administration, taking into account the provisions and tasks of the local self-government reform. Among them: creation of viable territorial communities, implementation at the local level, tools for managing economic processes etc. Consequently, the specified reason for choosing the topic of the study.

The aim of the work is to improve theoretical and methodological principles and develop practical recommendations for the formation of territorial communities' financial and economic potential in the context of the local self-government reform.

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The presentation of the material

The generalization of approaches to the discovery of the notion “Territorial Community” [Batanov 2008; Vakhovych, Kaminska 2009] allowed to systematize a set of its main features:

- the formation on certain territory based on self-organization and self-identification of each community member as part of it;
- historical and cultural vector of community development;
- the definition of a territorial community as a subject of legal relations and management of social and economic development with an organized social and managerial network, and functioning based on the principles of democracy.

In accordance with the territorial community’s established features, it is proposed to understand the naturally formed human community, where the members – are individuals, who live, work or possess immovable property in the territory, within one or several settlements with a single administrative center, which is characterized by a set of stable ties and the ability to realize common interests in the issue of own livelihoods and socio-economic development, act as a representative of the local community and own the communal property on the territory.

The local self-government reform, the implementation of which involves the administrative-territorial units consolidation of the basic level, the decentralization of management powers and the redistribution of financial resources, is aimed at ensuring the territorial communities capacity based on effective formation and use of its own financial and economic potential. Based on semantic analysis of the concept, the territorial community financial and economic potential should be defined as an additive amount of its budgetary potential, financial and economic potential of economic entities (located or operating in the community), households, extra budgetary funds and their level of interaction. At the same time, it is advisable to emphasize on the decisive role of financial potential in the economic potential structure of the territorial community and the duality of their interconnections, since the financial potential serves as the basis for the economic development of the territory and, on the other hand, is the result of the use of economic potential.

It is important to justify the interconnection between the financial and economic potential of the territorial community and its ability to conduct a comprehensive study of the effectiveness of the territorial communities’ development. In this context, the capacity is defined as effectiveness criterion for the potential of building and use. Thus, it is substantiated the conceptual model of the territorial community ensuring capacity is based on the use of internal unrealized financial and economic potential, which allows a comprehensive assessment of the territorial community ability to ensure its development for the long-term perspective (Fig. 1).

The external and internal of manifestation forms of the territorial community capacity are highlighted. The external form is expressed by the inclusion level of the community in distributive relations across the region or country and indicators of its competitiveness. By the internal form it is shown the formation and use effectiveness of endogenous financial and economic potential of the territorial community.

In order to perform deeper research of territorial communities' financial and economic potential, it is advisable to carry out an analysis of financial indicators that determine the trends of territorial communities development in the context of local self-government reform. The analysis and assessment of the financial and economic potential should be carried out at the levels of regional and territorial communities. This is due to the necessity of studying the external form of the analyzed territorial communities' capacity and determining the impact of socio-economic development differentiation of the regions on community development.

A methodological approach to the financial and economic potential diagnostics of the regions was proposed for solving the problems (Fig. 2).

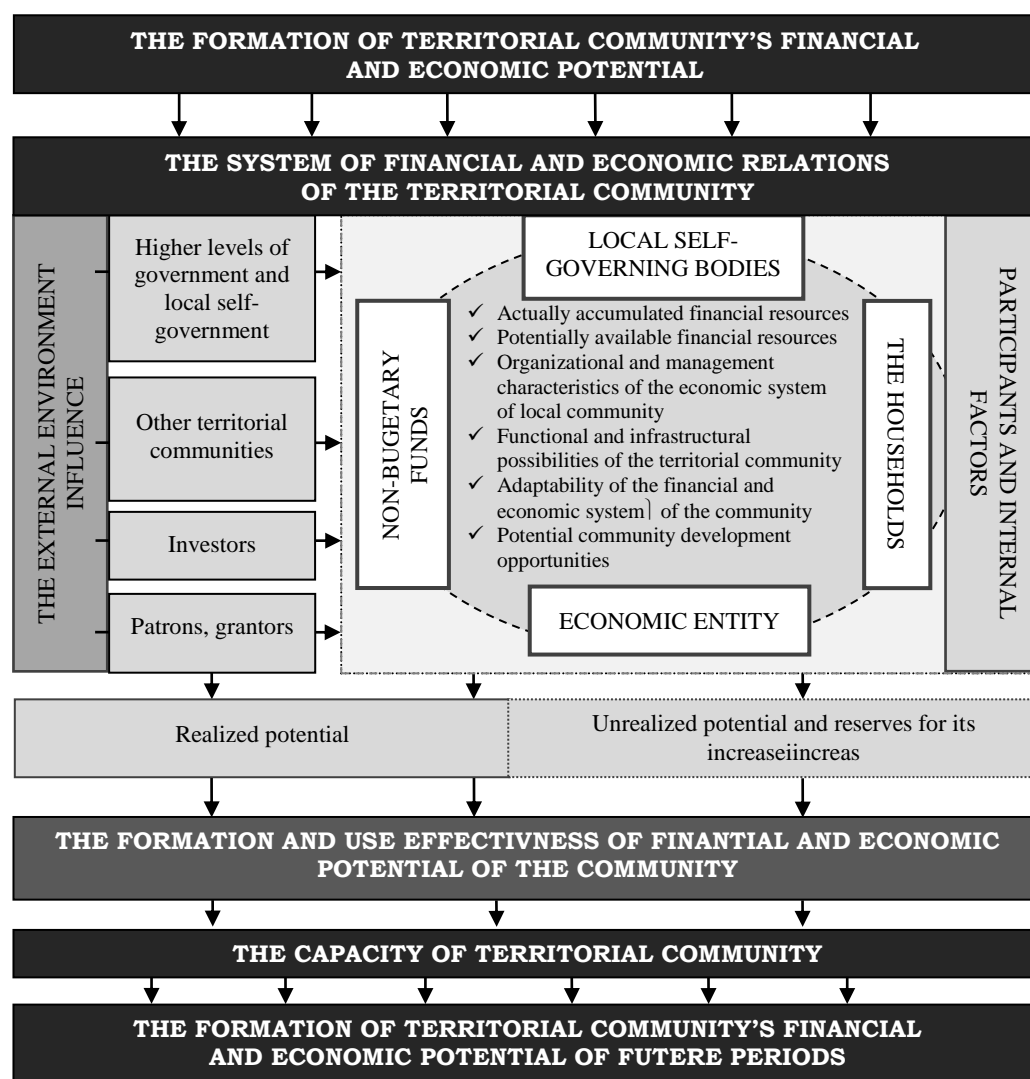


Fig. 1. Conceptual model of the territorial community capacity

Source: Developed by the author.

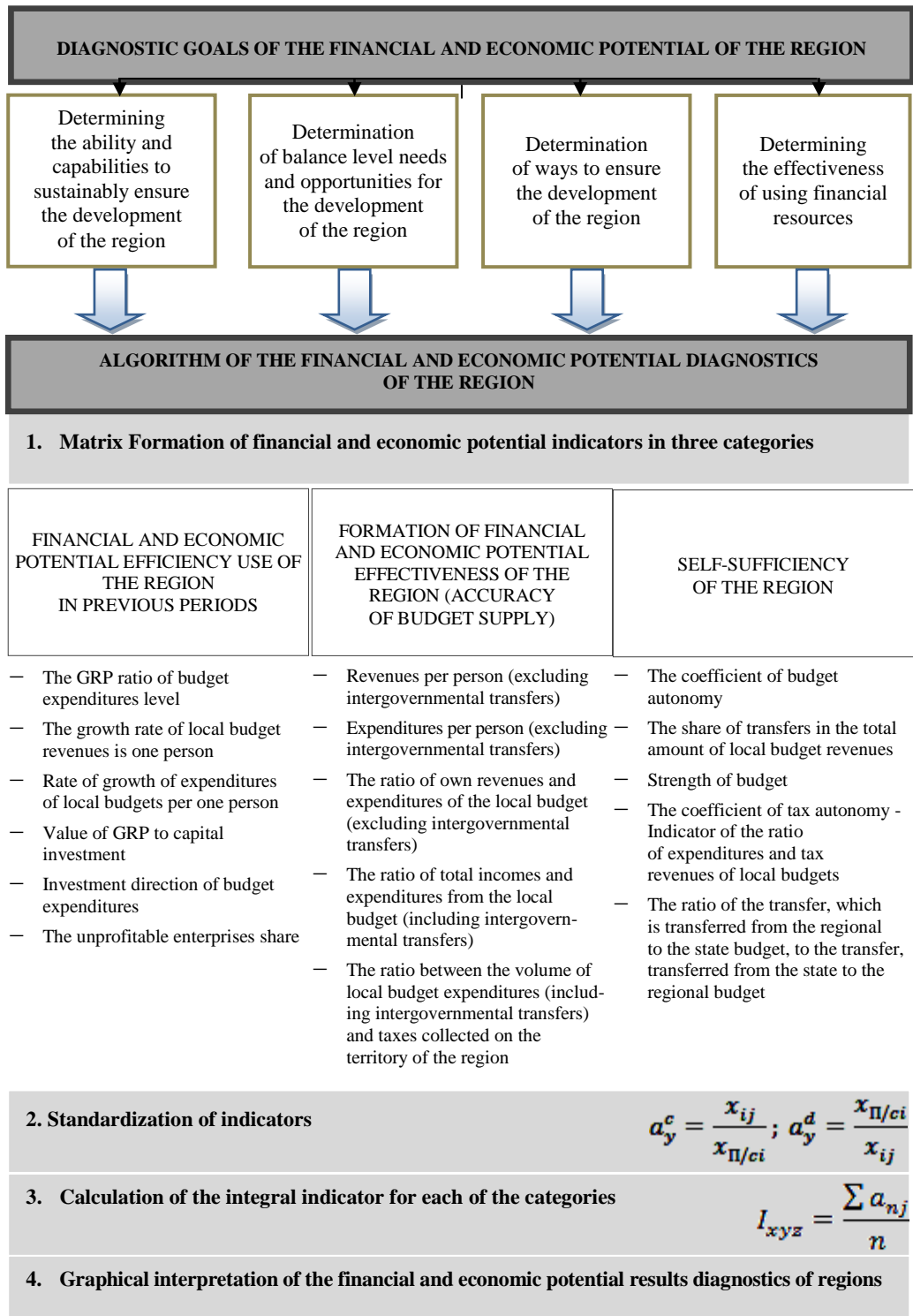


Fig. 2. Scheme of financial and economic potential diagnostics of regions

where a_{y^c} , a_{y^d} – a standardized stimulator indicator (a sign is called a stimulator with a monotonous growth of the object corresponding quality. In other words, if the higher value of the sign corresponds to a higher level of quality of the object); and a distemper indicator (a sign is a de-stimulator in the monotonous degradation of the object's quality. In other words, if the lower value of the sign corresponds to a better level of quality of the object); x_{ij} actual value of the i -th indicator in the corresponding category; $x_{II/ci}$ threshold / average value of the indicator in the corresponding category; and $i = 1 \dots, n$ – indicators on the basis of which the research is conducted; $j = 1 \dots, m$ – the administrative-territorial units being investigated; l_{xyz} – integral index for each category; r the size of the interval; l_{max} – maximum value of the integral index among the analyzed regions; l_{min} – the minimum value of the integral index among the analyzed regions ($l_{min} = 1$, since the threshold is equal to 1; g – the number of separated groups ($g = 3$)).

Source: Developed by the author [Vakhovych, Kaminska 2009].

The proposed methodological approach laid the basis for a comparative assessment of the formation of the financial and economic potential effectiveness of the region to (2014) and after the beginning (2016) of the local self-government reform (Fig. 3).

Having assessed the effectiveness of the financial and economic potential of the regions, the following conclusions can be drawn:

1. The study of financial and economic potential use of previous periods regions allowed to establish that the higher efficiency of the resources use and opportunities are characterized by industrialized regions of Ukraine. The Ternopil, Volyn, Khmelnytsky and Transcarpathian regions represent a group of regions with a low level, characterized by tendencies in reducing the efficiency of using financial and economic potential.
2. Legislative features of the budget formation resource and the concentration of economic resources within the capital allow Kyiv to lead by the level of the formation of financial and economic potential effectiveness. Dnipropetrovsk, Kyiv, Zaporizhia, Poltava, Odessa and Kharkiv regions have high results, indicating the dependence of budget security level on the socio-economic development of the region. Changing approaches to equalizing the development of territories during the implementation of the reform of local self-government has led to an increase in the differentiation of regions in terms of budget security.
3. The assessment of self-sufficiency in the Ukraine regions has shown an excessive transfer dependence of local budgets. Positive results of financial decentralization have been established – excess of local budget revenues growth rates over the expenditures growth rates and a decrease in the differentiation of inter-governmental transfers per person resulting from the implementation of equalization principle incomes. According to the analysis results of the horizontal equalization of local budgets fiscal capacity (Fig. 4), it has been established that the centers of concentration of financial and economic potential in modern conditions are regional cities of significance. This necessitates their active inclusion in the processes of formation of UTC as centers of economic growth. At the same time, as of July 1, 2018, only about six regional cities of significance (out of 187) formed the UTC.

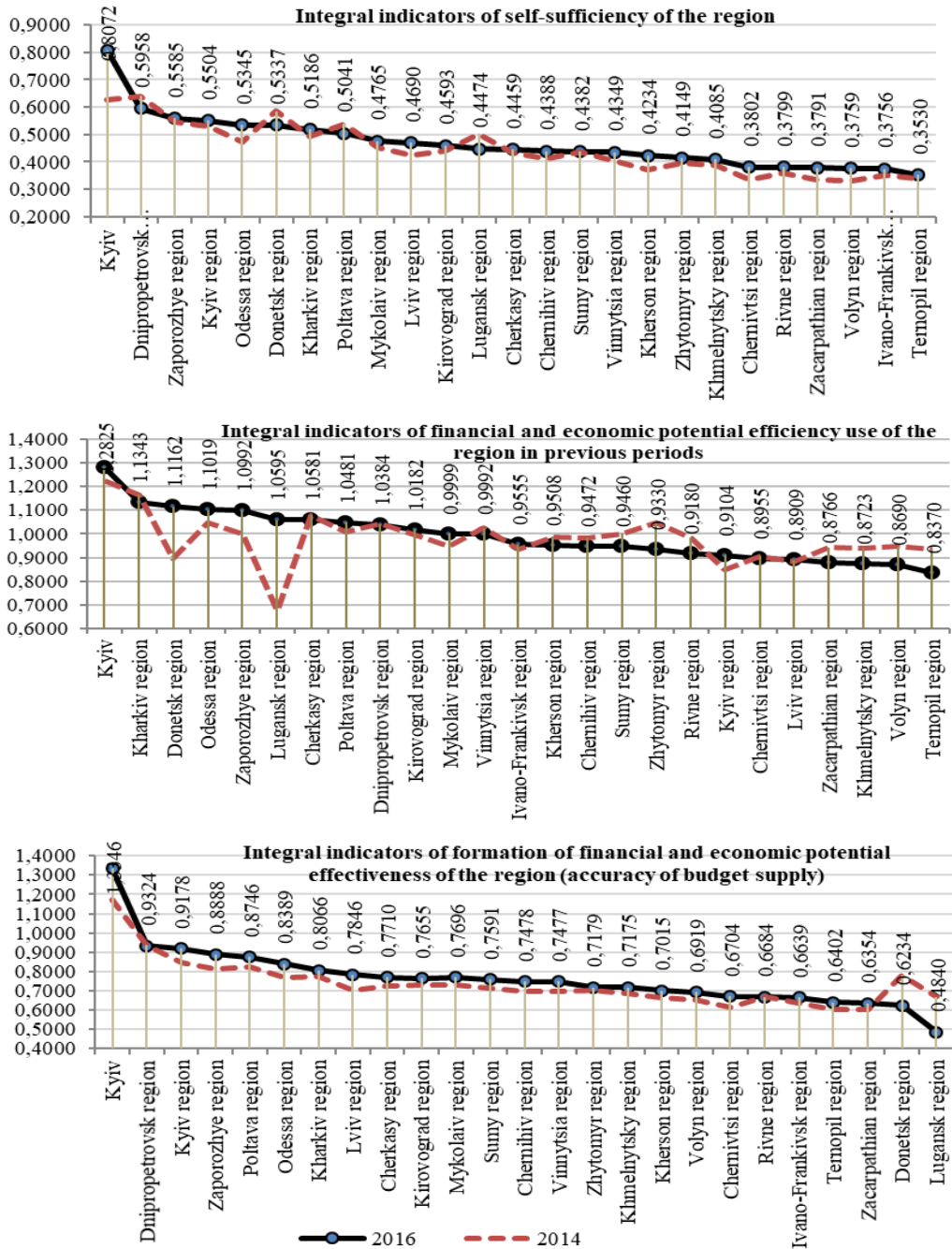


Fig. 3. Ranking of the regions of Ukraine by the integral indicators of diagnostics of FEP, 2014 and 2016

*Estimates for Donetsk and Luhansk regions for 2016 are not presented as those, which were characterized by information bias.

Source: Calculated on the basis of author's technique (based on data [Decentralization (Official site); Official site of the Ministry of Finance of Ukraine]).

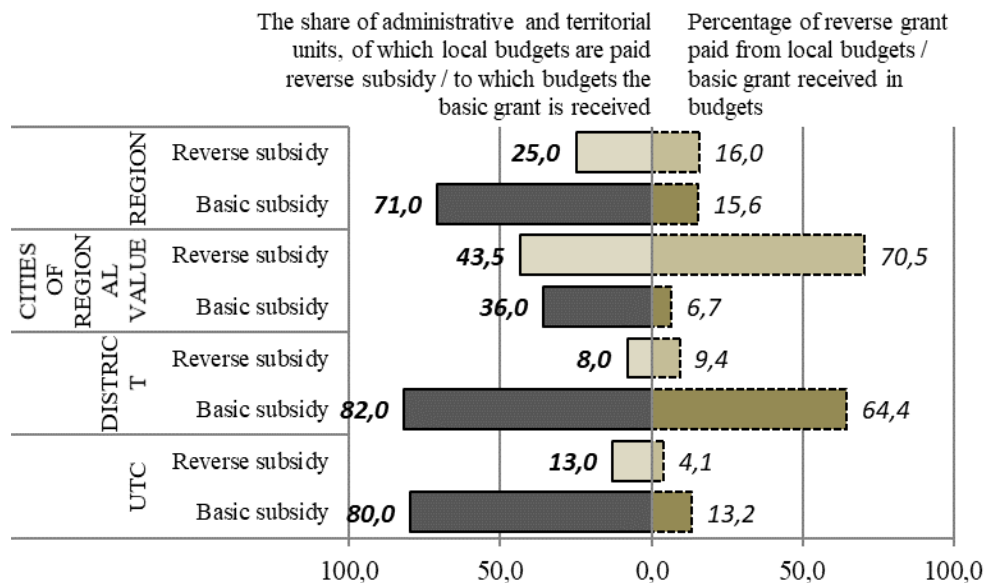


Fig. 4. Distribution of remittance payers and recipients of basic subsidies, 2017

Source: Calculated by the author on the basis of data [Decentralization (Official site); Official site of the Ministry of Finance of Ukraine].

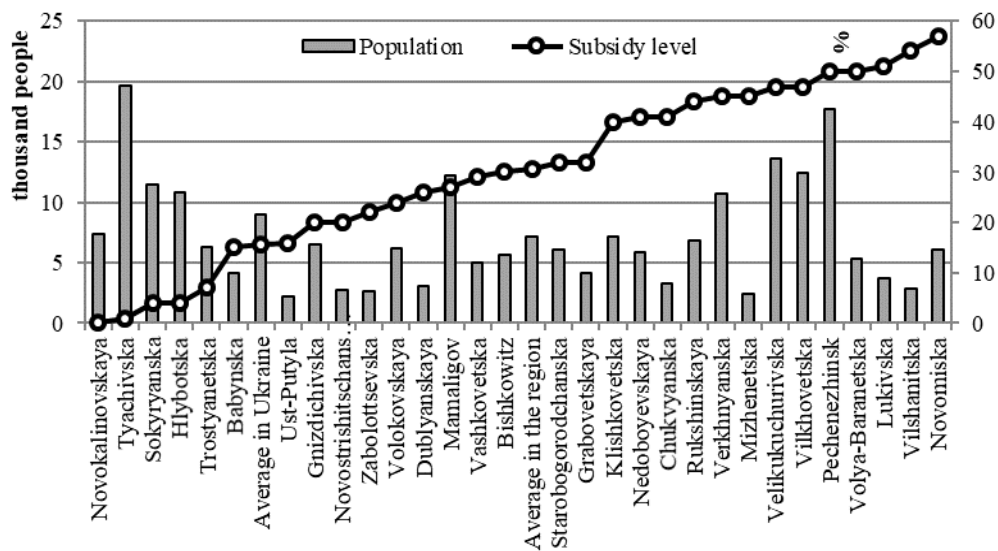


Fig. 5. Population and Subsidies of the Carpathian Region UTC, 2016

Source: Calculated by the author on the basis of data [Decentralization (Official site); Official site of the Ministry of Finance of Ukraine].

The thesis analyzes the socio-economic development of territorial communities of the Carpathian region. The comparatively lower level of economic development of the Carpathian region in terms of GRP per capita, average monthly salary, the number

of enterprises, etc. are reflected in the situation of territorial communities in the regions of this area, the vast majority of which is characterized by a higher level of subsidization compared with the average in Ukraine.

The peculiarity of the Carpathian region is that more than half of the population lives in territorial communities, whose local budgets are characterized by lower than average Ukrainian tax capacity, and, consequently, a lower level of economic development. Such communities are rural, urban and community-based cities of district significance.

The work outlines the peculiarities of the UTC formation process of the Carpathian region and the formation effectiveness of their financial and economic potential, which made it possible to reach the following conclusions [Patytska 2018]:

- UTCs of the region are considerably smaller in size and number of inhabitants from the average Ukrainian UTC; are characterized by a significantly higher level of dependence on transfers from the state budget – the level of subsidization on the average in the region is 30.7%, which is twice the national average (Fig. 5);
- in the structure of UTC budgets' own revenues the largest share is the income from the personal TI (46.8%); although in the ranking of Ukraine regions, according to the indicators of this tax receipt to the budgets of UTC per person, Lviv, Chernivtsi and Ivano-Frankivsk regions occupy the last positions. The main income source of the IT to the communities' budgets is the employees' taxation of budgetary institutions); The weight of the excise tax on the sale of excisable products (19.8%) and land payments (15.6%) is significant, the volume of which in the communities budgets depend primarily on the territorial location and availability of land resources;
- the UTC of the Carpathian region virtually does not include large cities, and most of the communities are formed through the integration of villages, settlements and small cities, resulting in the lack of significant financial and economic resources of cities as economic growth centers;
- in the rating of financial capacity assessment of UTC in 2017, the Carpathian region occupy the last position. Only six UTCs were in the first half of the ranking (Tyachivska (16), Trostyanetska (57), Mostyska (85), Davydivska (105), Novokalynivska (126), Shehynivska (141)) [Decentralization (Official site)].

Based on the conducted researches, it was determined that the resolution of the issue of the formation activating of the FEP in the conditions of the the local self-government reform implementation lies in the following areas [Patytska 2018]:

1. Supporting the creation of a capable UTC;
2. Economic development stimulation through activation of work in the following areas: Ensuring the cooperation of UTC; Formation and development of urban agglomerations; Increase of tax potential of UTC budgets; Formation of a business environment of the community.

It should be noted that in the context of local self-government reform and the formation of UTC in Ukraine, there is a need to solve a number of problems, namely:

- Communities formation that do not meet the criteria of the capacity and requirements of the reform itself;
- Refusal to combine suburban rural communities with urban ones due to the threat of "seizure" of management powers and financial resources to the city center;

- To low support level of UTC formation process by district administrations and local elites.

In the framework of the optimization process of UTC formation and leveling of the risks reform, the use of such mechanisms as the formation of urban agglomerations and the establishment of territorial communities cooperation, which allows communities to create their own structures necessary for independent functioning, and provides financial savings through co-financing with neighboring communities. The creation of urban agglomerations is ensured by the territorial communities' cooperation around the city on a contractual basis and without the formation of UTC. Such interaction will promote joint planning of the territory development and joint strategies development. In particular, on the management of solid domestic waste, the city water supply and sewage network expansion, and common transport network formation, as well as the revitalization of the business environment and ensure the efficient use of the center resources and the agglomeration periphery.

In the context of local self-government reform, the issue of stimulating the territorial community economic development based on the active use of endogenous resources and opportunities becomes of particular urgency. Within the framework of the proposed approach, the formation of an entrepreneurial environment as a source of the territorial community capacity is highlighted. The tools for forming an entrepreneurial environment are defined:

- Powers use in the area of establishing local taxes and fees;
- Communal property disposal;
- Land use and planning of the land community;
- The legal culture of local self-government bodies.

By using these tools, it is expedient for local governments to consider the following aspects:

- The establishment of local taxes and fees should be carried out for a certain period of time (not less than 3 years) to ensure stability and provide economic operators with the possibility of adapting to the appropriate conditions;
- Reducing local tax rates and fees may only be a short-term measure by local governments to attract new business entities to the community;
- An important direction in the formation of an entrepreneurial environment is the entrepreneurial activity promotion of community residents, their training and informing;
- Official registration of entrepreneurial activity on the territory of the community is necessary, which, in the conditions of the reform of local self-government, lies primarily with the interests of local self-government bodies;
- The planning and functional structure formation of the settlement should be made taking into account strategic plans or programs of the territorial community development in order to ensure the most effective use of land and socio-economic development;
- Businesses prefer buying land before it is leased, however, local governments should decide on the sale/lease in each individual case, based on the potential benefits and risks of such an agreement.

The activating direction of the formation of territorial communities' financial and economic potential is determined by the increase in their tax potential. In this context, the main advocates is the improvement of taxation mechanisms, which provides:

- The optimization of the Income tax imposition using a progressive scale of taxation and the transition from taxation to the taxation of the tenant, which will help reduce tax evasion and ensure compliance with the social justice principle;
- The accumulation of excise tax revenue from the sale of excisable goods to a single treasury account with the subsequent redistribution between the budgets of the region, which will reduce the tax revenues differentiation into local budgets and reduce the dependence of its revenues from the territorial location of the community;
- Ensuring the full coverage of all taxation objects with property taxes in the part of real rights registration to real estate and conducting normative monetary valuation of land.

Conclusion

On the basis of the obtained results, a number of conclusions and propositions are formulated, both methodical and practical.

It is proposed the conceptual model of providing the territorial community capacity aimed at solving such tasks as rational use of endogenous potential and searching for reserves for increasing the territory financial and economic potential. It is noted that the effectiveness model of the implementation depends on the establishment of inter-connections between the community economy subjects – local self-government bodies, business entities and households.

The comparative analysis of the formation and use effectiveness of the financial and regions' economic potential has made it possible to establish that the low level of regions' economic development of the Carpathian area reflects in the UTC formed in these areas. A significantly lower level of UTC capacity is defined in the region. It is established that for such communities are peculiar a relatively small area of territory and a high level of local budgets subsidization.

It is established the dependence of the territorial community capacity level on its economic development and the functioning of economic entities on its territory. The principles of forming the territorial community entrepreneurial environment are developed. It is substantiated the necessity of the usage of local self-government bodies' regulatory instruments, in order to enhance the territorial community economic development. This includes: the local taxes and fees establishment; disposal of communal property; land use, which is aimed at reducing legal obstacles in the field of disposal; land development plans, which outline the rules of spatial management; legal culture, effective and competent cooperation with investors.

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Kształtowanie zdolności finansowych i gospodarczych społeczności terytorialnych w warunkach realizacji reformy samorządu lokalnego

Streszczenie

Artykuł poświęcony jest zaprezentowaniu podstaw teoretycznych oraz praktycznych wniosków dotyczących kształtowania zdolności finansowych społeczności terytorialnych w kontekście reformy samorządu lokalnego. Zasady szacowania efektywności potencjału finansowego i gospodarczego wspólnoty terytorialnej proponowane są w oparciu o cały kompleks różnych czynników mających wpływ na funkcjonowanie jednostek terytorialnych. Wyniki badań wskazują na kluczową rolę czynników endogenicznych kształtujących społeczności terytorialne w zapewnianiu jej rozwoju gospodarczego.

Słowa kluczowe: jednostka terytorialna, potencjał finansowy i gospodarczy samorządu terytorialnego, reforma samorządu terytorialnego, Ukraina.

JEL: H21, H3, H 1, H72