

## SOCIO-ECONOMIC DEVELOPMENT OF THE UNITED TERRITORIAL COMMUNITY WITHIN THE CONDITIONS OF FINANCIAL DECENTRALIZATION

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### Abstract

*This article researches scientific and applied aspects of decentralization and outlines methodical approaches to the analysis of socio-economic development of communities. The work looks into the peculiarities of the united territorial community formation based on the example of Truskavets UTC. It proves that reforming of the territorial organization of power proves to be the effective mechanism for stimulating economic activity as well as developing of effective strategies for regional and local development. The changes in the budgetary policy in accordance with the new approaches in the management of administrative-territorial entities are illustrated. The article identifies the results of activities in the current and perspective plans of Truskavets united territorial community based on such indicators as the average amount of own revenues, local taxes and levies, the percentage of administrative office costs in own resources. It also substantiates the main priorities of Truskavets UTC in the context of current conditions and establishes the principles of financial support of the united territorial communities' activity, which is an integral part of their financial capacity.*

**Key words:** socio-economic development, resources, financial decentralization, perspective plan, united territorial community (UTC)

### INTRODUCTION

The significance of rural areas is further enhanced by their exceptional contribution to the formation of food security and building the country's export potential. These factors alone make the development of rural areas one of the main priorities of Ukraine's state policy which is aimed at raising the living standards of the rural population as well as boosting agricultural performance. The new organizational structure between the central authorities, regions and the territorial community based on the principles of effective distribution of powers, resources and comprehensive responsibility is directed at providing citizens with all public goods and increasing the efficient use of budget funds at all levels government.

Activities of state and local government bodies within the context of financial decentralization, territorial organization of

power and the new ideology of public administration in Ukraine create opportunities for functioning and self-development of a prosperous community, introduction of sustainable socio-economic development principles, and use of modern infrastructure, obtaining necessary high quality services and promoting high level welfare of all citizens. The existing administrative barriers and gaps in the current legislation hinder the implementation of decentralization reform that targets the issues of socio-economic development of territories.

Ukrainian and foreign scientists, such as O. Padalka, V. Kulishov, E. Kuzkin, O. Shishko, S. Davydenko, and others researched the development of theoretical bases and principles of practical realization of local self-government in the context of making financial, economic and social decisions. O. Bobrovska, O. Vasylieva, N. Vasylieva, T. Kravchenko [3, 5, 9] dwelled on sustainable

development of territorial communities while the economic aspects of territorial communities development were addressed by I. Kolomiets, O. Nezdoimynoha, A. Pavliuk, A. Pelekhtyi, I. Yaroshenko [4, 7, 8, 11, 14].

The importance of this process has been noted by a number of academic economists. According to O. Padalko and V. Kulishov, along with budgetary process reforming conditions are created for solving the most complex tasks of state influence on the social sphere and economic development. "Socio-economic processes within the conditions of regionalization and decentralization play an important role in the course of drafting a set of reforms, making adjustments to their implementation during analysis and evaluation of the region's performance and identifying the performance of the economic system" [1]. Management of public finances is an integral part of UTC's socio-economic development. Analysing administrative decentralization in European countries, S. Davydenko [5] notes that European practice in the field of financial security confirms the fact that there are no universal models and algorithms for decentralization of powers, property and sources of local government funding. However, we believe that consolidation of grassroots territorial structures will be an important component and expanding the financial base for the local budgets will be a mandatory priority.

Scientists Ye. Kuzmin and O. Shyshko grounded their researches on the principle of subsidiarity, when most of the powers delegated to local government bodies are financed by sectoral grants. Such opinion is worth accepting, as it will allow accumulating a significant part of funds at the local levels.

It is advisable to conduct thorough calculations based on scientific and practical researches and to develop economically sound capacity indicators (criteria) of the territorial community. All this lay the ground for further scientific and practical study.

The purpose of the study is to monitor and analyze the current results of the financial decentralization implementation, to assess its importance for socio-economic development and effective functioning of the united

territorial community, on the example of Truskavets sub-region.

## MATERIALS AND METHODS

In the study, we used general and specific economic methods, and a basic research approach, which allowed us to determine the economic nature of UTCs development as well as their social component.

All materials in this article are processed by means of a complex of scientific research methods, in particular the direct description of the investigated phenomenon, processing of the statistical information by means of economic research methods, and representation of the obtained results by means of tabular and graphic forms. In particular, computational and analytical method - to assess UTC's revenues; comparative method - to compare revenue growth trends of a particular village council, logical generalization and extrapolation method - to justify on the qualitative level new approaches and develop proposals for effective socio-economic development of the UTC; graphical and tabular method - to provide the calculation part of the study and ensure visual presentation of its results in the course of statistical data processing.

## RESULTS AND DISCUSSIONS

**The potential of Community Resources** could be analyzed from the following points of view:

-*Institutions* regarding: local economic agencies, organizations, business associations, clusters;

-*Intangible assets* regarding: image, reputation, knowledge, experience, skills, social capital, information;

-*Human resources* regarding: local government officials, employees of social institutions, employees of pedagogical, and medical, cultural fields, individuals;

*Physical resources*, including: manufacturing facilities, equipment and processes, logistics, infrastructure;

-*Natural resources*: primary natural resources, ecosystems;

-*Material objects*: administrative premises, social infrastructure facilities, social institutions, establishments, other infrastructure facilities;  
 -*Financial resources* consisting of: budget funds (common funds), charitable

contributions (special fund), borrowings, loans (special fund), donor funds etc. All these resources must be integrated at the level of the United Territorial Community as presented in Fig. 1.

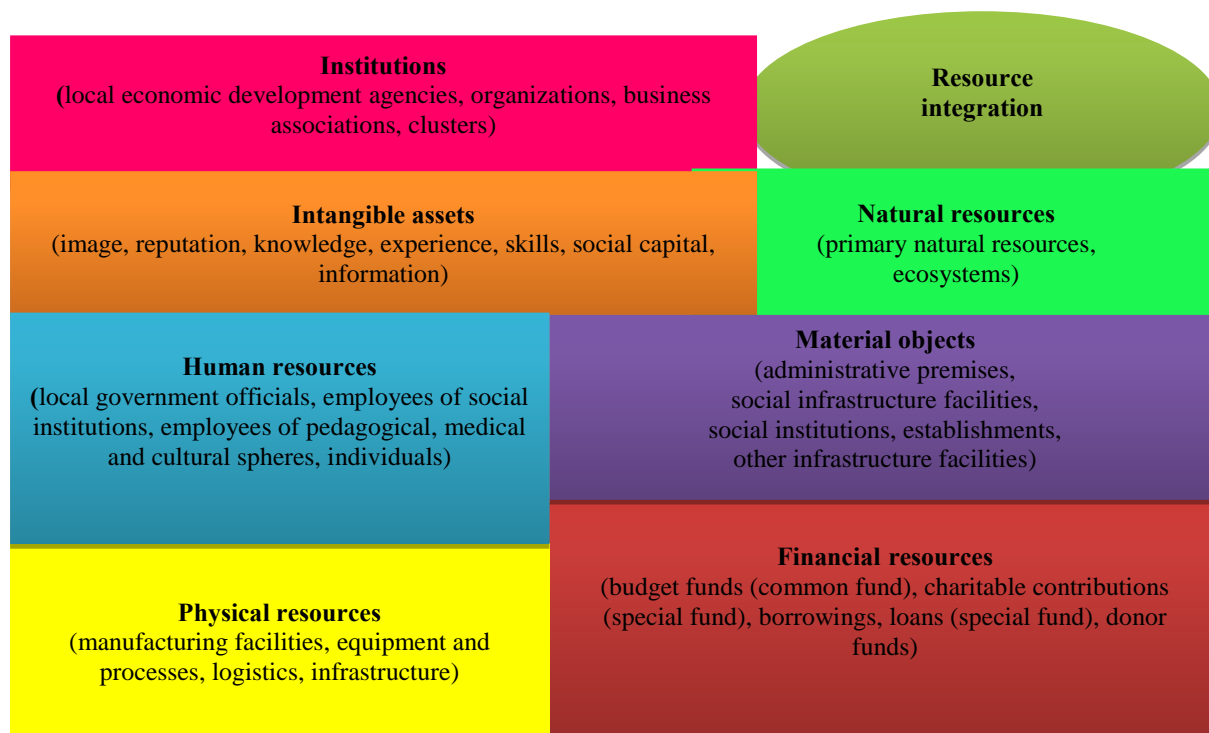


Fig.1. Community Resource Potential  
 Source: own research.

The ability of community members to make - through their knowledge, skills and interaction - a qualitative and quantitative contribution to the sustainable development of the community on a daily basis is the key internal resource.

The main expenditures of village councils, comprising almost 90% of income were intended for keeping a separate village council. Figure 2 shows the income of separate village councils: Dobrohostiv, Ulychne, Oriv, Stanylia, and Modrychi as compared to the income of the separate city council of Truskavets.

Unfortunately, most material resources are depleted and nonrecoverable. Therefore, it is

important to ensure their integration as well as to assess and identify the resource potential of important to ensure their integration as well as to assess and identify the resource potential of the community. In the process of comparing the pair of indicators “community budget – percentage of administrative office costs”, it should be noted that maximal expenditures for maintaining an administrative office are typical for most UTC’s village councils.

This indicates inefficient use of costs intended for maintaining an administrative office. Own revenues of village councils comprise rent, consolidated tax, property tax, tourist fee.

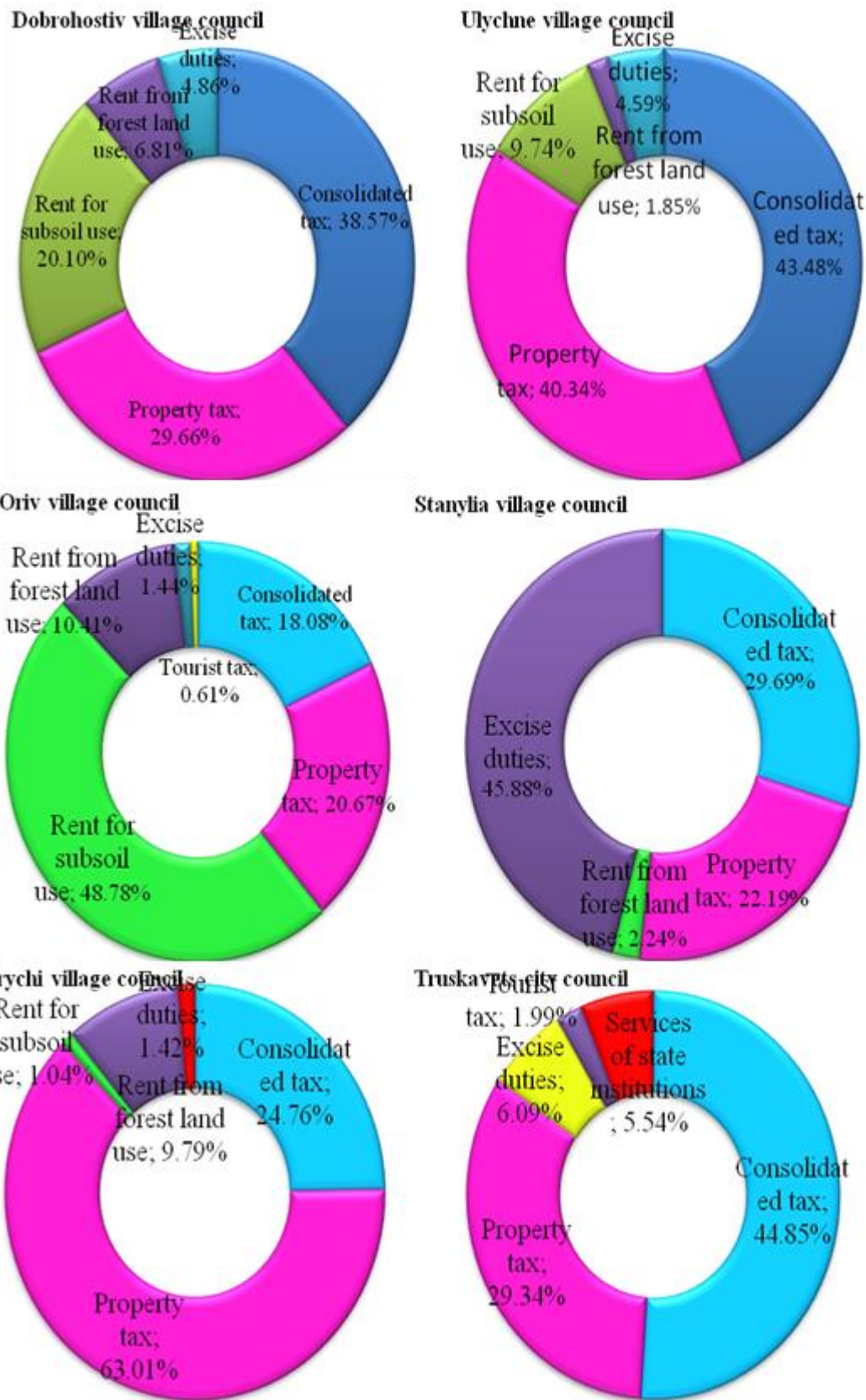


Fig. 2. Own revenues of the village councils and the local council of Truskavets city  
 Source: Own calculations.

UTC's budget is formed in accordance with the Budget Code of Ukraine and is included in the Consolidated state budget of Ukraine.

The budget of income and expenses of Truskavets UTC is shown in Fig.3.

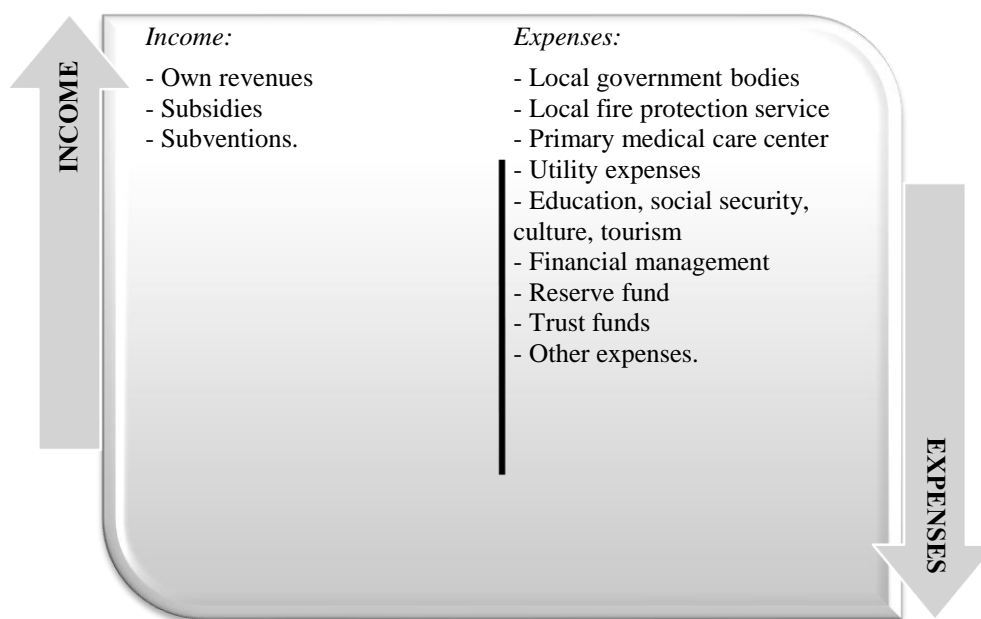


Fig. 3 Income and expenses of Truskavets UTC  
 Source: [6, 2].

As we can see from Fig.3, the income sources of the UTC are represented by own revenues, subsidies and subventions.

The main fields of activity where the UTC budget is spent are the following ones: local government bodies, protection service at the local level, the centre for health care, utilities, education, social security, culture and tourism, financial management, trust funds and also a reserve fund.

The structure of own tax revenues for 2021 is expected in the following amounts: personal income tax - 55.1% of the total amount of own revenues, property tax - 27.4%, consolidated tax - 13.4% and other own revenues - 19.1% [10].

Filling up the main part of the UTC's budget, about 80%, at the expense of Truskavets taxpayers. The tax capacity index of Truskavets UTC is 0.9, which is the highest indicator in the Lviv region, therefore the UTC's budget does not fall under equalization and can be considered self-sufficient or non-subsidized. If the value of the tax capacity index is below 0.9, the amount of subsidy will be 80% of the insufficient sum to reach the

indicator. If the value of the tax capacity index is higher than 1.1, then a reverse subsidy is applied, i.e. 50% of the excess sum is withdrawn.

As far as the financial component is concerned, further we analyse the estimated revenues of Truskavets UTC for the end of 2020, in UAH (Fig. 4).

While comparing all of the estimated tax revenues of the Truskavets united territorial community, it should be noted that 53% will come from income tax and profit tax, 39% - local taxes, 0.05% - other taxes and levies, 0.03% - rent, 6% - domestic taxes on goods and services. In addition, a significant part of the estimated revenues includes capital transactions - UAH 1.4 million, official transfers - UAH 42.4 million, nontax income - UAH 8.5 million.

Monitoring of strategic milestones of the united territorial community's efficient development will provide for the increase of annual revenues as well as ensure sustainable economic development of the territory and its socio-economic component.

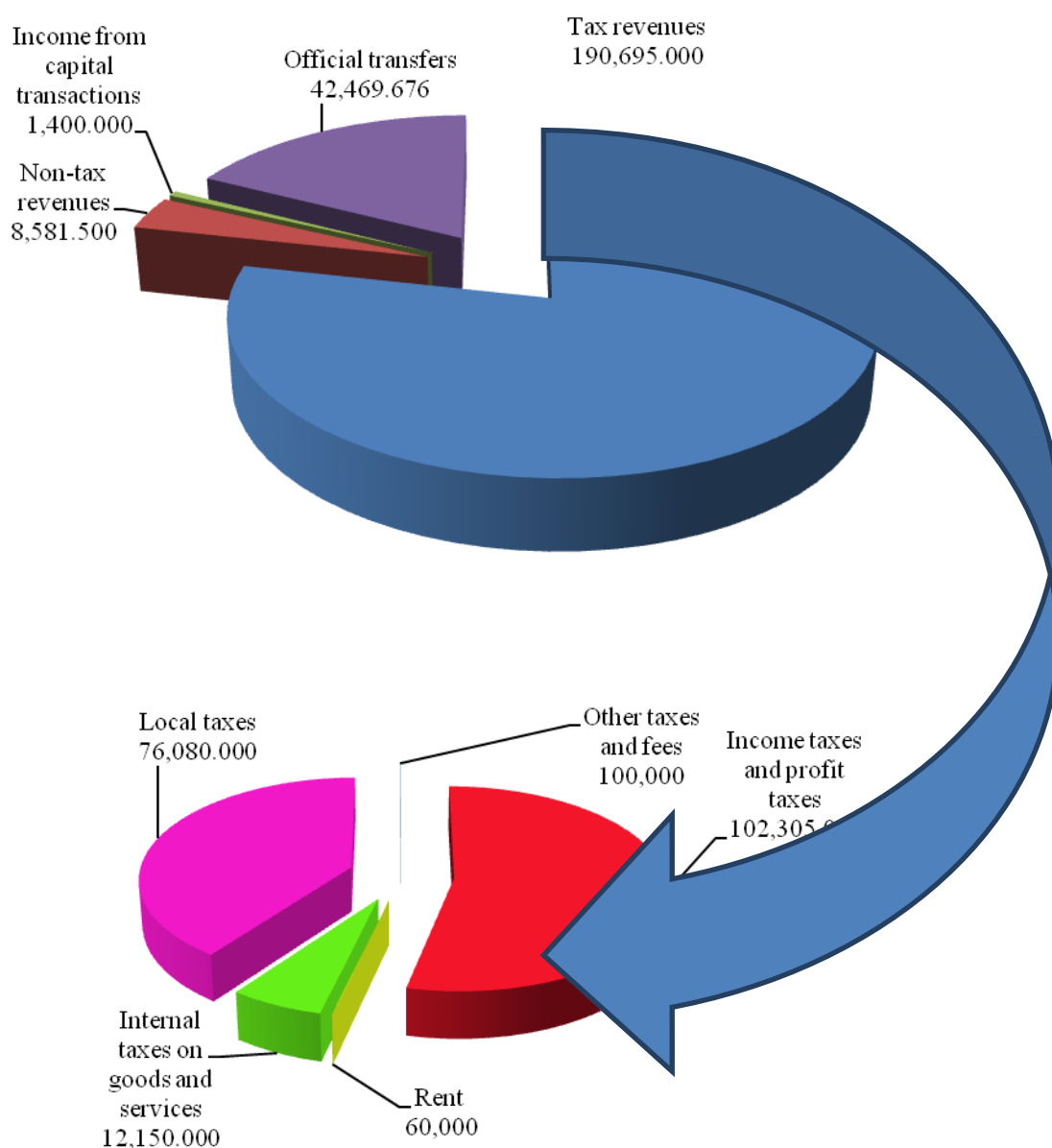


Fig. 4. Estimated revenues of Truskavets UTC as of the end of 2020, UAH  
 Source: Own calculations.

The largest part of estimated tax revenues comes from income taxes and profit taxes – amounting to UAH 102.30 million, local taxes comprise UAH 76.08 million.

Subvention funds intended for the formation of the united territorial community's infrastructure are granted for:

- Developing of design and town planning documentation,
- Improving the quality of administrative services provision, particularly for the modernization of Centers for provision of administrative services,

- Installing of up-to-date communications,
- Equipment purchasing (firefighting and rescue),
- Reconstructions, re-equipment works with the use of energy efficient technologies,
- Reconstructing and repairing of streets and roads directly leading to institutions that provide social and administrative services,
- Purchasing of vehicles to transport children to educational institutions as well as for the needs of health care facilities.
- State support of Ukraine's territories development is shown in Figure 5.



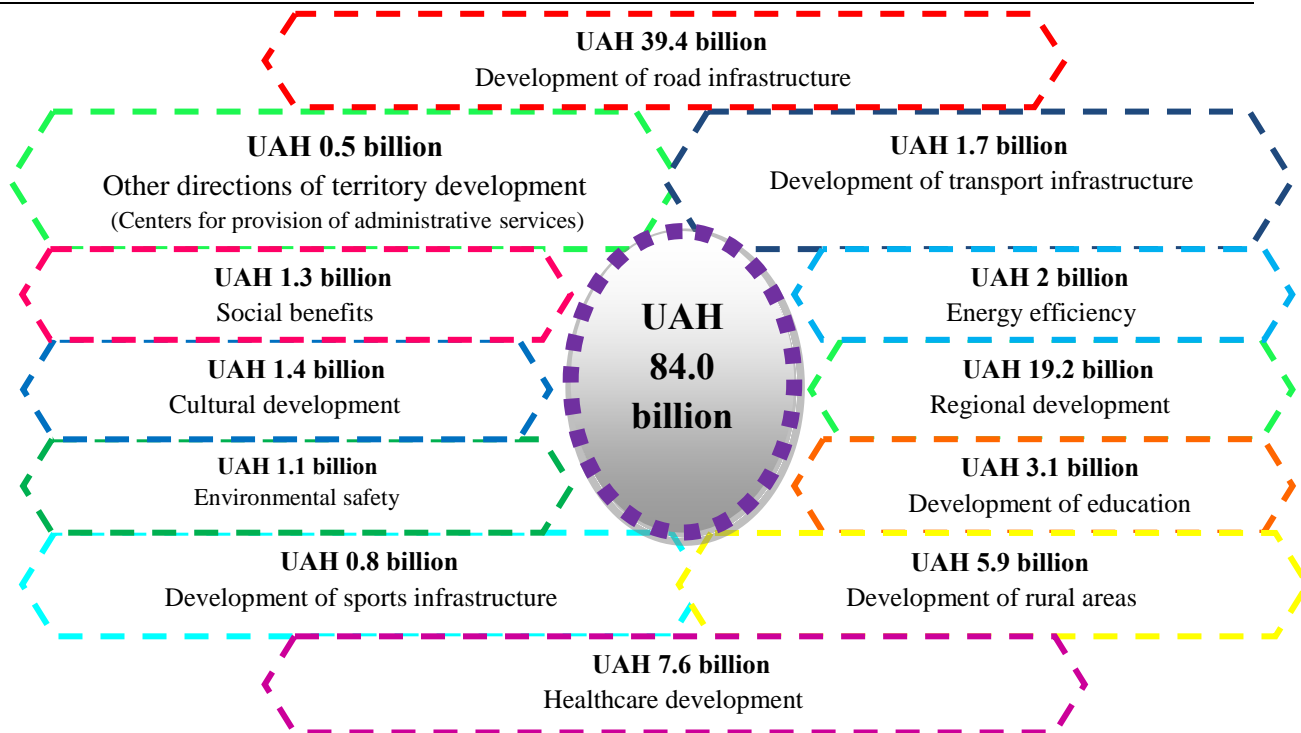


Fig. 5. State support of Ukraine's territories development in 2020  
 Source: Own calculations.

Countries with different systems of territorial organization use targeted transfers: France – 10.6% out of the interbudgetary transfers; United Kingdom – 27%; Norway and Switzerland – 14%; Poland – 22%; Italy – 24% [9, p. 230], [13].

With the aim to assess socio-economic indicators of the territorial communities based on the reports of financial (budgetary) activity of the united communities in 2020 an indicator of socio-economic budget execution of the territorial communities and indicators of taxpaying capacity of the Lviv communities were calculated [12, 4, 5].

The overall consolidated indicator of socio-economic budget execution of the territorial communities can be calculated using the following formula:

$$P = \frac{\sum_{j=1}^k P_j}{k}, \quad (1)$$

Having made corresponding calculations, we obtained the following values showed in Figure 6.

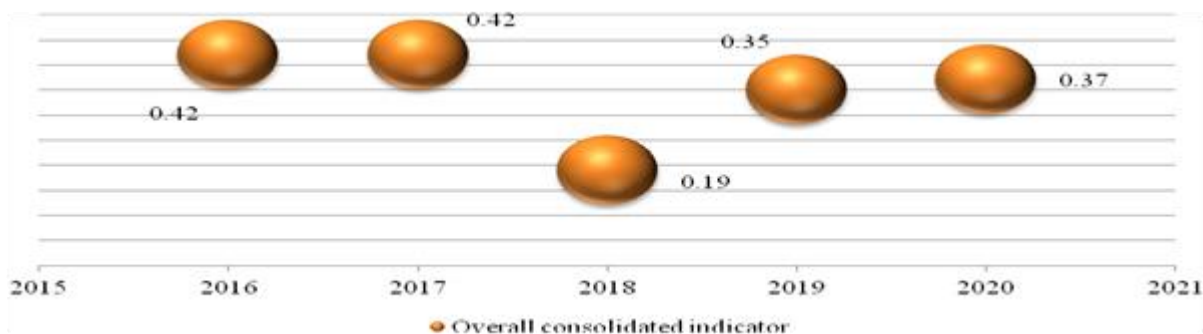


Fig. 6. Overall consolidated indicator of socio-economic budget execution of the territorial communities in Lviv region throughout 2016-2020  
 Source: Own calculations.

After analyzing Figure 4, we can conclude that in 2018 it was difficult for the territorial communities of the Lviv region in terms of executing socio-economic budgets.

The consolidated indicators were at the same level in 2016-2017. An increase is observed in 2019 and 2020 which is a positive trend.

To determine the financial capacity and self-sufficiency of the community, it is not enough to take into consideration only the general income growth indicator under conditions of budgetary and tax changes. We recommend taking a comprehensive approach and make calculations of necessary expenses and disposable income per 1 community resident, based not only on providing the urgent needs of the community (maintenance of educational institutions, health care facilities, infrastructure, salary financing, social benefits, etc.), but also the financing of perspective socio-economic development projects aimed at improving the living

environment and well-being of citizens as well as planning the future territorial development, etc.

Economic development is associated with the rational use of land resources, development of agricultural activity and attracting investments. Expanding economic opportunities for the development of the social sphere in rural areas, in particular, through the development of industry in rural areas, and the organization of agricultural products processing.

Social development is associated with adequate social infrastructure, appropriate conditions for the provision of administrative services and high quality primary medical care as well as significant improvement of its financial support, which will provide for the formation of confidence and social balance. Socio-economic development scheme is presented in Figure 7.

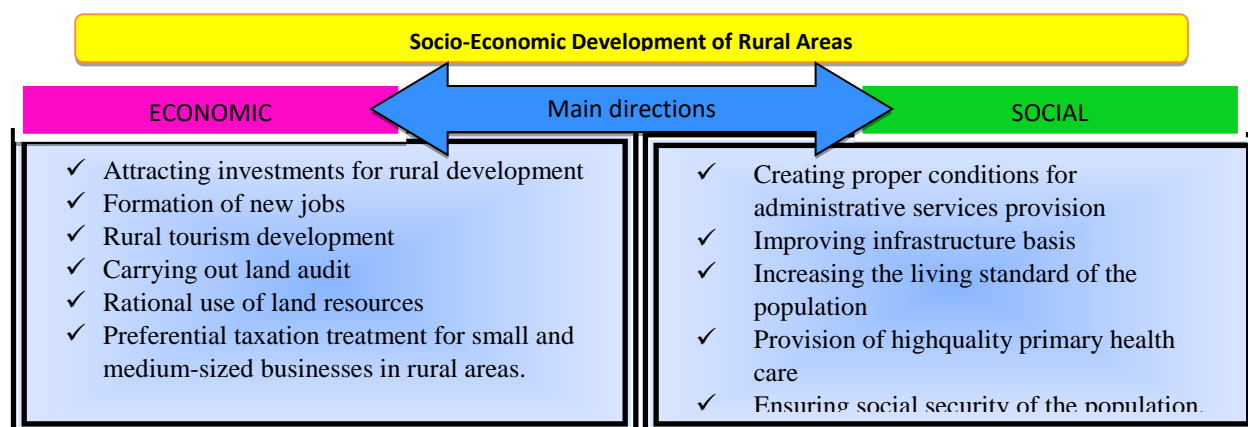


Fig. 7. Scheme of the Socio-economic Development of Rural Areas  
 Source: own research.

Due to the decentralization reform, the UTC will have a real opportunity to use the available financial resources in order to solve urgent community problems.

To monitor the assessment of the social and economic development implementation, we identified performance indicators – the number of existing and newly established enterprises; the rate of unemployment; the amount of energy saved; the number of created and operating tourism infrastructure sites; the number of operating and newly established agricultural enterprises; the

number of social services recipients; the number of administrative services users; the number of sports and recreational activities; the number of cultural and arts events; the length of repaired roads.

Success can be achieved by a united territorial community, which is ready to eliminate its weaknesses while consolidating its strengths, and on the other hand - to promote the use of opportunities that may arise due to external powers. SWOT analysis which is based on long-term and short-term operational goals proves to be an effective method to research



the opportunities and threats related to the community activities. Researching the UTC's perspectives is aimed at revealing the strengths and weaknesses of the community,

provided that either the external and internal factors are stable, or if economic and political instability in the country worsens. The SWOT analysis assessment is presented in Figure 8.

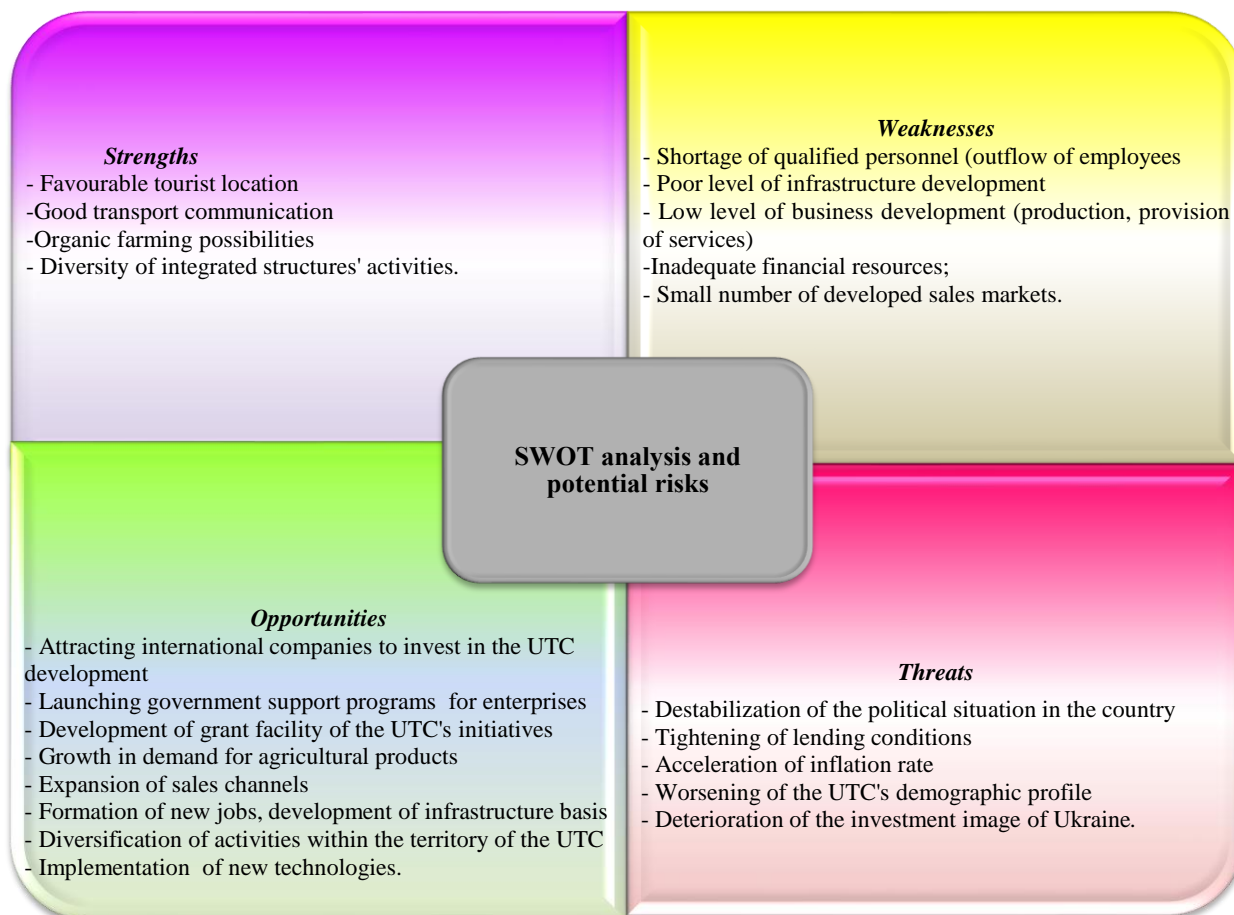


Fig. 8. SWOT Analysis- Assessment of UTC's Strengths and Weaknesses  
 Source: own research.

The competitive potential of Truskavets UTC is ensured through a system of financial and organizational opportunities aimed at effective community development. Considerable attention is paid to weaknesses, since the identification of problems and ways to solve them lays the basis for the implementation of specific proposals.

Priority development of rural areas should be ensured through the implementation of a number of important tasks, among which are:

- Motivating the development of agriculture and the agricultural market through stimulating the increase of the population's purchasing power by means of increasing salaries and pensions of citizens, substitution

of all social benefits with targeted monetary subsidies.

- Providing state aid to improve the level of rural development as a sphere of life, the activity and life standard of rural citizens, delimitation of policies to support agriculture and rural areas development.

- Creating favorable and stable conditions for investment in the state's agriculture sector based on mutually beneficial conditions for the investor country.

- Creating conditions for the social development of the village, strong motivation for corporate social responsibility of businesses operating in the agricultural sector as well as in the related sectors of production and the sphere of services provision.

- Diversification of agricultural production, development of alternative economic activities in rural areas.
- Stimulating employment of rural areas citizens outside the field of agricultural production.

## CONCLUSIONS

Strategizing and planning, quality management, development and implementation of effective municipal services system, transition to e-government, minimization of corruption and creation of investment platforms, use of resource and tourism potential form the main advantages of Truskavets UTC.

Let's outline the main priorities of Truskavets UTC:

- Rational use of human, financial and natural resources and prioritizing primarily the interests of all community citizens.
- Consideration of online appeals and petitions in the shortest possible time frame.
- Attracting investors by providing tax benefits, for instance those related to the development of social facilities near investment sites (public parking lots, parks, playgrounds).
- Implementation of investment projects.
- Development of UTC's intellectual capital and innovativeness.
- Creation of a tourist route passing through the UTC's villages which will provide for additional financial resources and create new job openings.

By 2022, the UTC's management and local enterprises will be formed by 70% of the territory residents, who were selected in the course of competition and meet the qualification requirements.

For the progressive development of the UTC, it is important to set short-term and long-term goals. An important priority is the sustainable and perspective economic growth of the UTC, diversification of energy sources as well as increasing energy efficiency through government programs aimed at the development of alternative renewable energy sources. It is also reasonable to develop pilot projects with regard to formation of more jobs

in organic farming sector, creative industries and tourism. Most importantly it is necessary to ensure the effective operation of all Starostyn districts of the community, namely: management and purchase of special equipment for removal and disposal of household waste, landscaping, current road repairs, maintenance of water drainage and water supply systems, street lighting etc.

Achieving these goals will create appropriate conditions for socio-economic development of the community as a whole as well as all of its components, while using the diversification mechanisms to address potential risks in rural areas.

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