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*Sierhiey Sakhanienko,  
Doctor of Sciences in Public Administration,  
Professor, Odesa Regional Institute for Public Administration  
of the National Academy for Public Administration  
under the President of Ukraine*

## **DECENTRALIZATION POLICY IN UKRAINE : QUO VADIS**

The question “quo vadis” of the apostle Peter to Christ envisages an offer to muse upon whether the events are developing in the right direction, whether the changes are happening appropriately, whether the defined goals are fair and the values that lay at their basis are convinced. All these questions arise one way or another in the process of any discussions about the process of decentralization.

The document-term matrix of the speeches by the President of Ukraine P. Poroshenko and by the prime ministers of Ukraine A. Yatsenyuk and V. Groysman in the Verkhovna Rada of Ukraine in the period of 2014-2017 shows that the category of “decentralization” is in the top three of the most frequently used ones. This clearly testifies that decentralization (fairly speaking, it should be noted that it had been peripheral in the arsenal of the previous governments too), was included into the strategic priorities of the state policy in the aftermath of the political shift of the beginning of 2014 as that time it was the mostly developed<sup>38</sup> and hardly the only systemic reform that could offer that time a new government.

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<sup>38</sup>The Decree of the Cabinet of Ministers of Ukraine dated February 29, 2012, №169 formed a working group on the issues of improving the territorial arrangement of public

However, in the society and even among the experts, the content of decentralization is simplified and is mostly replaced by derivatives of decentralization phenomena or, even, by the conditions for decentralization.

So, in particular, it's often heard that decentralization is the transfer of authority from "top" to "bottom". This would be acceptable but in Ukraine, unlike most European countries, in the "bottom" (at the level of oblasts, rayons, and even some settlements) there are not only local self-government bodies, but also state bodies (local state administrations, local offices of ministries). In the period of 2010-2013, within the governmental policy of "restoring the vertical of executive power", the competences of local state administrations have been expanded largely. But it is obvious that the strengthening of these bodies "at the bottom" was not decentralized.

On the other hand, decentralization is identified with the local budgets' growth, which had been increased almost twice in the period of 2014-2017. However, the increase of transfers to local budgets for the implementation of state (so called "delegate") functions is obviously not decentralized. It actually will not mean weakening but, on the contrary, strengthening the role of the state in the financial capacity of local self-government\*.

Finally, decentralization is often interpreted as a change of the territorial basis of public authority, taking place in the form of local communities' consolidation, creation of medical and educational districts, and so on. However, for example, in the Republic of Belarus in the period of 2013-2016, there was a decrease of almost 10% of municipalities as the result of their consolidation, but hardly any of the experts would argue that Belarus has actively taken the path of decentralization.

So, in our understanding, decentralization is a way of optimization of public administration (i.e. creating the best system in a concrete time), when functions, competences and resources are transferred from the state to non-state institutions (local self-government, quasi-autonomous non-governmental organization).

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administration and local self-government. In April 2012, the draft Concept on Local Government Reform in Ukraine was supported by the Coordination Council on Civil Society Development under the President of Ukraine, presented for the expert discussion in Ukraine and submitted for examination to the Congress of Local and Regional Authorities of the Council of Europe (Conclusions to Draft Concept CELGR / Lex 4/2012 and CELGR / Lex 5/2013). Draft Laws "On the Consolidation of Local Communities" (Reg. № 9590 dated 14.12.2011), "On intercommunity cooperation" (Reg. №3617 dated November 13, 2013), "On the Principles of State Regional Policy" (Reg. № 3135 dated August 28, 2013) were submitted for consideration to the Verkhovna Rada of Ukraine by the Government headed by M. Azarov. The documents on decentralization adopted in 2014-2015 were only editorially different from those elaborated during the previous period.

\*Inflation in Ukraine in the period 2014-2017 was more than 92% from 2013. The share of own revenues of local budgets (without transfers from the state budget) in the consolidated budget of Ukraine (the sum of state and all local budgets) in 2013 was 23.8%, and in 2016 it was 18.3%. Local budget revenues (without state transfers) to GDP in 2013 amounted to 7.7%, in 2017 – 6.1%.

Decentralization can be represented as a set of four “D”:

- devolution – delegation of powers from the state to the institutions of territorial self-government (regional, subregional and local);
- deconcentration – dispersal of powers among various structures of public authority at the territorial level;
- divesting - delegation of powers from bodies of public authority to various types of quasi-autonomous non-governmental organization and NGO;
- deregulation - reduction and cancellation of state regulation in a certain area of social relations at the territorial level.

These processes are laid in the sphere of public policy, but the provision for their effectiveness is the active use of public management tools based on the concept of new public management, including the implementation of territorial reform, and the introduction of the “e-government” and “one-stop window” system, various types of TQM systems, the development of crowdsourcing mechanisms, inter-community cooperation, strategic planning, etc.

It is clear that decentralization is not the only one way to optimize the public administration system. Centralization is also a tool of optimization, especially in the context of the system’s crisis. Many of Ukraine’s neighbours (inside and outside of the former USSR) have chosen centralization as the optimal model of governance and, therefore, ensured economic growth and, consequently, relative welfare of their population.

In particular, GDP (PPP) per capita with roughly the same starting conditions about 6000 \$ in 1991, according to the results of 2016, is more than 25.3 thousand \$ in Kazakhstan, more than 23.2 thousand \$ in Russia, more than 18 thousand \$ in the Republic of Belarus, 17.3 thousand \$ in Azerbaijan, 27 thousand \$ in Turkey. Average world level is 16.1 thousand \$. All of them are centralized states with limited opportunities of local self-government. Ukraine has only slightly increased the figures during the independence period (8.3 thousand \$ in 2016). Taking into account that the inflation of the dollar has reached 60% during this period, in fact the figures were reduced and Ukraine has been moved by its socio-economic positions into the early 70’s of the XX century. Ukraine’s GDP is at the 49th place in the world (in 1991 it was 19th). Taking its per capita Ukraine is at the 114th place between Swaziland and Guatemala.

What are the reasons for choosing decentralization policy under such circumstances? The main ones among them, in our opinion, are the following:

*First*, the principle of “*contradictio in contrarium*” (from the opposite). For all 25 years of independence, Ukraine has attempted in one way or another to build a centralized model that proved to be inefficient, since it did not provide either adequate economic growth, or the preservation and development of social infrastructure, and even political stability.

*Secondly*, the collapse of the level of socio-economic development of Ukraine. Modern Ukraine has not been longer able to provide from the national budget a number of medical, educational and other social standards inherited from the USSR, to provide social services in many areas, to keep accumulated in previous times transport, communal and

other infrastructure, etc. Decentralization allows transferring responsibility for these problems of the weak (impoverished) state to, primarily, local communities.

*Thirdly*, the European choice and its foreign policy influence associated with it. European choice is oriented towards a decentralized model of public administration, which is mostly represented in the EU member states and that model has provided economic and social growth, in particular, to the countries of Eastern Europe.

*Fourthly*, the Ukrainian political tradition, since the times of the Cossacks, was mainly focused on the construction of a polycentric (including territorial aspect) model of governance. It manifested itself in the ideas of a “free community” that was produced by all democratic orientation ideologues of Ukraine’s independence.

*Fifthly*, the mentality of the Ukrainian people, who, as a collective unconscious, are oriented towards horizontal rather than vertical constructs.

*Sixthly*, the political benefits of decentralization, which, through dispersion of political power, make it impossible to monopolize politics by one political group, effectively resolves conflicts, provides flexibility in public policy and takes into account local interests by all political actors who have the opportunity to get a lot of platforms for political participation. In general, it provides the stability of the political system and prevention of revolutions, overthrows and other political shocks.

*Seventh*, the undoubted managerial benefits of decentralization, which allows the central governmental structures to be “unloaded” from “small” problems. Decentralization greatly facilitates the search for managerial innovations; it provides competition in public services etc.

Of course, there are significant threats to decentralization, in particular:

- deficit of political will to foster decentralization in connection with the reluctance to reduce the “scope” of obtained political power;
- weakening of the dynamics of decentralization policy in connection with the reorientation to “more important” policies;
- discrediting of decentralization policy among the population due to unreasonable administrative steps that have led to a deterioration in the quality of administrative and other services;
- lack of funds for a decentralization policy;
- influence of lobby groups and sabotage by local leaders;
- emergence of a strong opposition, which will draw the disadvantages in implementing decentralization policy in its arsenal;
- federalist and separatist attitude in some regions, which may be associated with decentralization;
- inhibition in the adoption of legal acts for a decentralization policy;
- relapse of the “état” consciousness of Ukrainian citizens;
- internal political and military conflict in the East of Ukraine with the increased external participation.

While implementing a decentralization policy, complex political and managerial processes regarding the strategies for its implementation, are occurring. They can be conditionally described as:

A) A strategy of the “revolutionary jump”. It is a radical change in the system of territorial construction and territorial arrangement of public administration over a short period of time; shift competences from the institution of state administration to the institution of local self-government through its development at all (regional, subregional, local) territorial levels; relying on the civil society in developing the principles of reforming and reforms.

B) A strategy of the limited rapid reform. It is a partial change in the system of territorial construction and territorial arrangement of public administration over a short period of time; the formation of a full-fledged institution of self-government only at a consolidated local level and the preservation of government’s influence at the region and subregion levels; relying on the civil society in developing the principles of reforming and reforms.

C) A strategy of the profound gradual changes. It is a radical and consistent change in the system of territorial construction and territorial arrangement of public administration for a long period of time; formation of a full-fledged institution of self-government at all levels of territorial division; attributing to the competence of the state only supervisory and control functions at the territorial level; reliance on the civil society and experts in developing the principles of reforming and reforms.

D) A strategy of the limited gradual changes is the internal reorganization processes for a long period of time; preservation of the existing territorial model with some changes in the number of territorial units; gradual redistribution of powers in favour of local self-government, but with the preservation of significant executive functions of the state at the territorial level; the reliance on government officials and experts in developing the principles of reforming and reforms.

In fact, at present, the reforming varies between the choice of strategies C and D, with a greater likelihood to implement the scenario D.

The first among the most obvious trends of reforming, which, as noted earlier, is only the condition of decentralization, but not decentralization itself, is the consolidation of local units within the so-called voluntary consolidated territorial communities<sup>39</sup>. The objective of consolidation is to create a capable entity that is a consolidated local community (CLC), to which one could pass the solution of all issues of local importance and a significant number of issues of regional and national levels. According to the indicative plans of the Ministry of Regional Development of Ukraine, finally the territorial composition of Ukraine should look like the following:

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<sup>39</sup>The territorial division of Ukraine before the beginning of the reform was as follows: the high level is the Autonomous Republic of Crimea, 24 oblasts, 2 cities with special status; the midlevel is 490 rayons and 178 city communities (so called “the cities of oblast significance”); the lower level is 10.2 thousand communities, the center of which are villages, 783 communities, the center of which are townships and 279 communities the center of which are towns (so called “the town of rayon significance”). As optional elements, some cities are divided into districts (111 districts in 24 cities). In general, there are 459 cities/towns, 885 townships, and 28451 villages in Ukraine.

- 24 regions
- from 90 to 110 rayons
- from 1200 to 1500 CLC (gromadas).

Such processes as searching for optimality regarding the size of communities, defining the terms of consolidation, discussing the prospective plans for the creation of the CLC, etc., have greatly intensified the political process at the local level.

In any case, on November 1, 2017, 648 CLCs were formed in Ukraine, which had amalgamated over 3 thousand “old” communities (27% of their total number before the beginning of the reform). There are already 26% of the territory of Ukraine and 14% of the population (mostly rural) of Ukraine in the CLCs.

One CLC consolidates of about 5 “old” communities; the average number of CLCs is about 9 thousand people, at the same time in the “old” rural communities this index varied about 1.4 thousand; the average area of CLC is 233 km sq. The average area of an “old” community is 52 km sq.

According to the existing ratings of oblasts (the parameters of the rating are: the number of CLCs, the scope of oblast area covered by CLCs, the ratio of the number of consolidated and non-consolidated local communities, the number of CLCs with a population of more than 5 thousand people), the first place belongs to Zhytomyr oblast, and the last place belongs to Kirovograd oblast.

Odesa oblast here is in the middle of the ranking with the following indicators (*table 1*).

**Table 1**

**Creation of consolidated local communities in Odesa region**

	<b>Communities (Gromadas)</b>		
	Village	Township	City/town
Number of communities in region in 2014 at <b>01.10.2015</b>	439	32	19
<i>total</i>	<b>490</b>		
Consolidated local communities in 2015-2017 <b>2015-2017</b>	15	6	4
	<b>25</b>		
<i>number of communities that consolidated</i>	62	23	24
<i>settlements in CLC</i>	193	78	40
	<b>311</b>		
Number communities in region in 2014 at <b>01.05.2017</b>	356	31	19
<i>total</i>	<b>406</b>		

To reach the “critical mass” of CLCs means the creation of conditions for the reforming of the rayon’s. The search of its optimality is, in particular, as follows:

- in the consolidation of all local communities within the rayon into one CLC;
- in the covering of the whole area of the rayon with CLCs;
- in the withdrawing of some CLCs from the rayon because of obtaining (by their administrative centres) the status of cities of oblast significance;
- in the formation of Hospital districts;
- in the formation of the districts of local offices of ministries.

The second area of reforming is the so-called financial decentralization. Despite the victorious government reports, the situation here is not so rose-coloured, because an increase in the amount of local budgets’ funds is due to:

- firstly, high inflation, which in the period of 2014-2017 has reached 90%;
- secondly, most of the funds, as in previous times, are transferred to local budgets for the execution of so-called “delegated” competences from the state. At the same time, local communities can freely operate their own funds that make up a small share of local budgets (from 15 to 20% depending on the community).
- thirdly, the transfer of additional functions to the level of CLC and the transfer of the corresponding resources from other budgets, first of all, from rayon budgets. As a result, the cost per inhabitant in the CLC increases by the amount that was previously provided for it in the rayon budget.
- fourthly, one-time financial support of the CLC for the initial arrangement of the CLC infrastructure.

In addition, there is a steady tendency to impose additional competence at the level of CLC without its adequate financial support from the state, which necessitates the realization of state functions at the expense of community resources. This situation is greatly impeding the formation of new CLCs.

Overall, it can be argued that, despite a decrease of subsidization level, CLCs have not become self-sufficient financially and economically. They cannot solve their tasks and functions without subsidies from the state.

The positive phenomenon of the decentralization policy has been the right of local communities to allocate money within their own funds at banking institutions that they immediately began to use actively and receive additional financial resources in the form of interest (transfers from the state budget, which are average of more than 80% of local budgets, are still exclusively in the state treasury). The local self-government bodies have become freer to implement loan policies and apply other financial instruments.

The third area of reform is to increase the competence of local self-government bodies in some areas. Within the policy of decentralization, a number of functions should be postponed:

➤ from the national level to the oblast level (most of the state social programs, programs in the areas of culture, sports, development of transport, road economy, communications, telecommunications and informatics, etc.);

➤ from the oblast level to the level of “new” rayons and communities whose centres are cities of oblast significance (including secondary education for citizens in need, those who need social assistance and rehabilitation, vocational education, specialized outpatient clinics and inpatient care, etc.);

➤ from rayon level to CLC level (in particular compulsory secondary education, educational institutions for people in need and those who need social assistance and rehabilitation, primary health care, outpatient clinics and inpatient care, shelters for children, social service centres, assistance for families with children, low-income families, disabled from childhood, children with disabilities, additional payments for the population to cover the cost of housing and communal services, the maintenance and training-work of children’s and youth sports schools of all types etc.).

Within the decentralization policy, the provision of a number of state administrative functions related to architectural and building control, registration of legal entities, registration of real estate entities, registration at the place of residence, etc. were also transferred to the CLC level.

The following direction of the decentralization policy is revealing – that is introduction of new effective tools of public management, in particular, the creation of administrative services centres, working according to the principles of a “one-stop shop”, the dissemination of so-called public budgets, e-governance systems and the cooperation of local communities. At the same time, it should be noted that the mentioned component of the decentralization policy is still developing rather slowly.

The extension of competences of local self-government bodies should envisage a change of organizational design of the system of public administration at the territorial level. This level (according to a given matrix of reforming policy) should include the creation of executive bodies of oblast and rayon councils, the transformation of local state administrations from executive bodies into control and supervisory bodies, etc.

The development of such a model requires constitutional changes. To create a majority of 2/3 of the parliament for making amendments to the Constitution of Ukraine is almost impossible. The process of institutional reforms has slowed down, although the Verkhovna Rada of Ukraine has approved a bill by a simple majority. Within the legislative changes regarding the organizational design of the territorial arrangement of public administration, it was possible to introduce nothing but the institute of the praepostor (starosta) in the CLC.

Finally, there are some findings regarding the prospects of decentralization. According to the extrapolated forecasts of the World Bank, the level of GDP in 2013 (and it is under the most favourable conditions) will be reached in 2024, and the level of GDP in 1990 – in 2035. At the same time, a significant part of GDP (namely, from 10 to 20 billion dollars annually or exceeding 4% of GDP growth) Ukraine will give



a repay as a payment for loans within the agreement on the restructuring of debts. Thus, taken as a whole, the generation of those who are 30 and more will not have a decent standard of living even in terms of the average developed European country. In addition, the distinction will be differentiated between the regions and individual communities. All these processes will de-legitimize the state. The way out of this “loop” will be in centralization, that is in an attempt (at least somehow, within the framework of the electoral cycle) to ensure social and hopefully political stability using the mechanism of redistribution of resources. Thus, there is a high expectation that the pendulum of decentralization, leaning far to the left, will eventually be at least far to the right. This phenomenon of the recurrence of centralism after decentralization reforms is well described in political sciences’ research.

The draft 2018 state budget has already clearly shown the movement of the pendulum of the reform in the direction of re-centralization. It is assumed that the subvention to the regions will be distributed through the administrative vertical: the Cabinet of Ministers of Ukraine – oblast state administrations – rayon state administrations. This puts CLCs in a significant dependence on oblast and rayon state authorities. It is proposed to change the existing motivational mechanism of horizontal alignment in the budget package and to increase the amount of withdrawals from local budgets to the state budget from 50 to 80%. Such a system was operating until 2014, when 96% of local budgets were subsidized. Such decisions on “centralization” of resources in socially important spheres will mean a “rollback” of a decentralization policy. In addition, this will trigger negative trends in the transfer of authority to a higher level.

But still, a recurrence of centralization is not Ukraine’s fate, although its probability is very high. The transition to a new reform matrix, which has its conceptual expression in the so-called model of multilevel governance, can be a “protector”. Multilevel governance, as it follows from the relevant Charter adopted in 2014 by the Committee of the Regions of the European Union, provides polycentricism of public authority and the need to develop a system of constant negotiations and interactions between the interconnected competences of public authorities, non-governmental organizations, and business structures at different levels – local, regional, national levels with the gradual strengthening of the local level across all sectors through the process of decentralization.