

Modernization experience of municipal sector – the Guideline for its Reformation in Ukraine

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Abstract. In the article the role of the municipal sector in national economic development is revealed. The international experience as for providing financial resources for the development of the municipal sector is considered. The research of functioning of the municipal sector in the provision of municipal made it possible to distinguish organizational forms of service provision and the methods of their provision at the municipal level. The problems of fiscal decentralization, delimitation of spending powers of the central and local levels are analyzed. It is proved that tools decentralization effective enforcement is possible only if consider the criteria of economic efficiency, macroeconomic stability and efficient redistribution, as well as political effectiveness. The system features of state and municipal sector relationships, algorithms of the division of powers and cooperation facilitating between them are distinguished. The functional load and the scale of EU municipal sector is not the constant one, as they are influenced by many factors – regional, national, global, but it always aims at the satisfaction of human needs.

Keywords: *municipality; Municipal sector; financial providing; fiscal decentralization; separation of powers; European Charter of Local Self-Government; expenditure authority.*

Introduction. The need to study the characteristics of the municipal sector in the countries with developed economies is stipulated by the fact that in the process of formation and development of the national model of the sector is useful the experience of these countries as a guideline for its' reformation. Also, it is necessary to take into consideration the fact that the value of the municipal sector in the process of solving social and economic problems increases, and its functions change in the formation of the new economy.

The purpose of the article is to summarize the experience of the EU about the modernization of the municipal sector with the point to be used in Ukraine in the reform of municipal economy and the municipal sector.

The research of the municipal sector in the countries with developed economies has shown that its' limits, the scale and functional load is not conservative, but are in the process of permanent transformation under the influence of national and global economic, social and political factors. Since 1950, the municipal sector in Europe has undergone some changes considering the implementing the concept of establishment of the common welfare state. Later there was a need for additional transformation as the implementation of challenges as for globalization and integration trends, especially in connection with the extending of cooperation within the European Union.

Materials and Methods. The evaluation of the content and direction of municipal reforms allows us to distinguish four stages of reforming the municipal sector in the countries of Western Europe: adjusting the number of administrative units, organizational reforms, financial reform, functional and procedural reforms. During the first wave of reforms by the means of combining was reduced the number of municipalities according to the assumption that the effective and efficient service delivery on the places requires more territorial units to avoid redundancy and to obtain economies caused by the growth of production scale. The most common spreading of these processes is noticed in the Scandinavian countries and the UK. As the result of consolidation, new forms of territorial municipal sector were originated: the provinces

of services providing, district councils and special districts. The organizational reforms envisaged the change of the internal structure of municipalities, mostly under the strong influence of central government. They included: the strengthening the role of mayors and councils; providing decision-making process as more open, public and with democratic character; the introduction of mandatory "rational" method of planning the municipal sector development; the change in the complement of local staff and the local rules of municipal sector organization. Financial reforms included the increasing of resources amount, which center gives to the local authorities, in particular for the implementation of state social programs. This was explained as the central government desire to involve the local governments, and therefore the municipal sector, for participating in state systems. The attempts were made to strengthen the capacity of local authorities to collect taxes by themselves or to provide alternative means of financing. Functional and procedural reforms included a set of diverse changes aimed at the decentralization of the municipal sector and the introduction of effective technology of its' development management on the principles of management. For example, in the UK the provision of social services were decentralized to bring them nearer to specific consumers. In Italy, there was a similar decentralization of many state functions. In addition, the planning system was introduced with the aim of strengthening the control center of the efficiency and effectiveness of services provided by municipalities. System planning within individual programs and reporting were introduced in Germany, France, Denmark etc.

The municipal sector in the countries with developed economies is characterized by a significant level of innermunicipal and intermunicipal corporatization. For example, in Western Europe and the US, most municipalities have the status of corporations that operate as full subjects of market economy in order to obtain economic benefits for the local community. An example in the context of intermunicipal corporation is the US experience on the formation of special and school districts. They are formed as a rule because of the

community initiative to improve the provision of public services. Combining on the functional basis can be both a permanent and temporary basis. There are special districts for providing educational services, water supply, fire protection, drainage and irrigation systems, housing, transport services, conservation of natural resources, protection of architectural monuments [4, p. 54-55].

The study of municipal sector functioning in the provision of municipal services made it possible to distinguish organizational forms of service provision and the methods of their provision at the municipal level. The organizational form of service provision can be represented by four types: a decentralization type, where the functions of providing service of regulation and control are provided by local government agencies; a delegation type when the functions of service providing are ensured by quasi-public structures; a type of power transmission when the rights are granted to state or local political structure for the voluntary or forced services providing; a type of privatization, when the functions and responsibilities for service delivery are focused within individuals or organizations [3]. As a result, according to the legal status among the subjects that provide service delivery within the municipal sector, we can highlight: the individual enterprises, similar in status to individuals; the enterprises with the status of legal personality; the associations that are not intended to profitable activities; local authorities; public institutions of an administrative or commercial nature. In the organization of municipal services delivery local authorities have a special place because they: 1) provide services to the territorial community; 2) their activities has usually non-commercial nature; 3) in their work is present the social dimension. These features define the specific objectives, decision making and the evaluation of process management results.

As the tasks of local authorities (municipalities, local councils) are associated with the interests of citizens, they take into account not only economic but also political and social aspects of the services provision. When decisions are made we take into consideration the social consequences concerning the territorial community in general, so-called external effect. In the organization area of service delivery and private management, the decision is usually based on the principle of optimal allocation of resources (balance of income and marginal cost related to choice). Government (municipal, communal) enterprises are market structures, in which the shareholder is the state or territorial associations (municipality). With its share of the stock of government (municipal, communal) enterprises, state or municipality is not only a shareholder but a regulator and guarantor of economic and social policy [5, p. 44-45].

Significant impact on the structure formation and functional load of municipal sector in the countries with developed economies have the processes in the system of municipal government, hence the expediency of research. The starting principle of building a system of municipal government in the developed countries is the principle of subsidiarity. The principle of subsidiarity, if it is interpreted free, affirms that any public service tasks should be performed at the lowest level of government that is able to execute it. First it dealt with the relationship of private and public sector and affirmed that government

intervention is necessary only in the case if the task solving can not be private. In this sense, it served as a protectionist function of individual freedom. Later this principle has been moved to a system of government arrangement. So, B. Bikkel, for example, applied it to the local authorities which «have to get all tasks, that they are able to perform, to their competence» [2, p. 736]. This principle got a new interpretation in 1992 in the Maastricht Treaty. The principle of subsidiarity became one of the fundamental for the European Union. It must be emphasized that the principle of subsidiarity is regarded as one of the most important principles of municipal sector. It is based on the nonintervention of public sector institutions in solving the local issues, which are related to the performing of the local community and its agencies.

Each country chooses its own model of separation of the central and local authorities powers. In the practice of European countries are used different models of interaction between local authorities and central government, that is stipulated by varying degrees of local authorities autonomy [3, p. 38-41]. Basically, they are determined by state system (federal or unitary). The most common approach distinguish:

a) a model of relative autonomy. The typical characteristics of this model are the independence of local government, free discretion in the limits defined by the legislation, the limited control of local authorities by the central authorities, the important role of local taxes in local budgets forming. According to this model there is a disparity in cost, productivity and quality of service providing in various municipalities. The model is clearly seen in Scandinavia, especially in Sweden;

b) a model of representation. According to this model the local authority is a continuation or agency of central authority, local government functions are regulated in detail in legislation, the high degree of activity control on the places is characteristic, there is a low responsibility for decision-making at the local level, the dominant role of the center is in the financing of local costs. There is a greater cost for services, higher efficiency and fairness in the provision of services, Non Government Organizations may be used to provide services under the control of central authorities. The local government systems of Great Britain, Luxembourg, Iceland tends to the model of representative.

c) a model of interaction. It is characterized by not formal, but real distribution of power at central and local, confirmed by a clear division of financial and legal powers; a common responsibility of both levels of government in making decisions; a combination of local sources of tax subsidies from the central government. There is a use of governmental and non-governmental organizations for services providing. This model prevails in Western Europe and Japan [1, p. 45]. These models of municipal governance arise during the process of decentralization, which is a practical demonstration of subsidiarity and meet certain stages.

The classical theory of decentralization implies that spending powers and financial resources will be distinguished between the levels of government management at the same time and every level of power will finance certain expenditures according to their authorities. But in many countries the authorities are more decentralized than fiscal sources, so there is the need to

transfer financial resources from central to regional governments and local authorities. There are many ways to solve this issues, including building a system of transfers. In each country, the decentralization process will take place differently, at least considering the peculiarities of the political system. In particular, subject to detailed analysis are the central government administrative leverage of impact. This is especially true in the budget law rules of preparation and execution of local budgets because the funding of delegated authority will be made by the transfers from the central budget. In addition, it is necessary to consider the number of levels of government, and the public area of administrative structures and the system of elections to local councils. Effective use of the tools of decentralization is possible only if consider two criteria: economic efficiency, macro-economic stability and efficient redistribution; political effectiveness.

The writings of R. Musgrave about public finance theory proved that of three major state functions (allocative, redistributive and stabilization) only allocative can be differentiated in the authorities of the central level and local level, and local governments. The redistribution of powers must be carried out by the central government, otherwise, competition between government agencies of lower level will cause destabilization of the state social security system. From this perspective K. Velih and R. Byrd examined three types of public services, responsible for the completeness of which and proper financial support have public agencies (central or regional):

- social services, for which demand different jurisdictions do not differ (national security, defense, health and education);
- public services in the process of which there are some spillovers to other jurisdictions (education, environment, transportation);
- public services, the cost of their providing is too high for the financial capacity of local governments.

European Charter of Local Self-Government was developed during the dynamic process of formation of local government. In the late 70's -early 80's XX-th century most European countries carried redistribution of powers and responsibilities between the different levels of government, expanding the competence of the lower levels, and in some cases creating an intermediate level of government.

In a broad sense decentralization is aimed at:

- to transfer powers for providing public services to local baseline governments;
- to increase the financial capacity of local governments for financial compensation topics: splitting ratios of taxes and calculation methodology of expenditure needs;
- to regulate system of state control in order to improve the performance of functions within the delegated powers of local governments.

It should be noted that the European Charter of Local Self-Government is not limited to the right of local authorities to make decisions on local issues, it focuses on the actual ability to do so. The concept of ability is important in the sense that the right to manage local affairs must be accompanied by real means that the local authorities have. This approach is extremely important – it allows us to determine when the local government actually operates, and when it is declarative – its conceptual model is implemented in practice. Conducted

by the author analysis showed that there is a critical amount of functions that local governments can perform, including voluntary. This amount is limited by the availability of material, finance and other resources. Its excess leads to the fact that some of the necessary public events will not be made, the balance of interests will be disturbed. To avoid this conflict, local governments should highly perform common functions including creating favorable living conditions, organization and providing the necessary public services, municipal property management, finance, law and order and security. Conditions that ensure the real capacity of local authorities, are political autonomy, ie elected through direct general elections of representative agencies of the local community, independent of state structures, the formation of the executive bodies of their choice, which may be provided with the right to perform its functions independently of the central government; legal autonomy – the right to exercise their powers, defined in law and delegated by them to other levels of government as they see necessary; administrative autonomy, that is freedom from hierarchical subordination of the levels of government (rejection of democratic centralism principles – the subordination of lower-level authorities to higher level); financial and economic autonomy – availability of material and financial resources and the ability to use and control their movements within the prescribed matters related to the subject of local leading.

Results and its discussion. The survey results point out such systemic features of the relationship of state and local governments:

- legislative initiative relates to the powers of the central government (regional) level. Local governments decide local issues, which are clearly defined by law;
- budget Policy is made by the central authorities; Fiscal decisions of local authorities are limited to changes in tax rates of local taxes or taxes;
- in most countries the associations of municipalities are created, and they are involved in providing public services by local consumers. In some countries, community relations with the government to finance spending powers delegated to communities are coordinated by the decisions of associations;
- financial equalization tools can be applied to the expenditure needs of administrative units for the powers delegated to communities or to the fiscal capacity of communities and their own income.

Municipal level of European countries is very different by institutional structure, size and scope, that is why it is necessary to determine common categories and concepts of local government. A significant difference in the number of residents in the largest and smallest communities is characterized for all countries-EU members. Some states had or currently hold territorial reform and / or administrative-territorial system, providing consolidation of communities aiming at further including even more people. Significant differences in the approaches to the formation of baseline government of each country impede the possibility of a single definition of local government. It is also difficult clearly to distinguish between the second level of local government such that are formed to solving local issues and those bodies which are territorial agencies of state authority.

The relationships between local governments and public authorities are determined by certain principles, most of which form the basis of the Charter. These principles are consistent algorithm for distribution and / or delimitation of powers between local governments and public authorities and algorithm interface between these bodies. The first group of substantive principles is the basis for the division of powers: the principles of self-government, rule of law, the definition of core competencies, subsidiarity and delegation of authority. The second group of toolkit principles is the basis of the relationships between local governments and public authorities in specific areas of public relations, in which revenue and expenditure responsibilities of these bodies are distinguished: the principles of cooperation, information, consultation, financial sufficiency, monitoring. While the first sets where each level of governance and jurisdiction is, the other defines the relationships between them. Toolkit principles provide mutual relationships of authority and responsibilities of state and local governments.

For example, financial sufficiency is associated with the principle of local self-government that provides full implementation of its own authority with unconditional funding. In Switzerland, the adequacy of the financial system is guaranteed by the system of cantonal financial compensation. Operation of this system is aimed at supporting appropriate community financing to perform their own authority, given the significant differences in the financial capacity of each community. In some cantons (Bern) there are special bodies that research this problem. In Finland financial sufficiency is guaranteed by a system of financial equalization and is implemented through equalization transfers from the state budget. The system ensures alignment of each municipality providing local public services at the required (basic) level.

All these principles form the basis for the effective operation of the central government and local governments. Clear definition and recognition of authority and responsibilities of local self-government are guaranteed

by the principles of the Charter, norms of constitutions of most European countries.

Town planning, water supply and drainage, garbage, pre-school and basic secondary education, social services are the main areas of powers of local governments in most developed countries. However, there are significant differences in the limits and sizes of authority in each designated area. For example, differences in administrative and territorial structure are crucial factors influencing the volume of office. Detailed analysis of five areas of authority of local governments indicates that from 3/5 to 4/5 of them are necessary to clarify the nature of the relationships of local governments with public authorities (central and regional).

Conclusions. Generalization of experience of the municipal sector functioning in developed countries suggests that the range of functions that local authorities can take is very wide and differs by countries. However, they can be grouped into three main groups: the control over the observance of law and order in the local community; public services; representing the interests of the local community. The first function is related to the activities of law enforcement agencies (police, courts, prosecutors). In this function, the local government acts as part of the state system. The second and third functions directly related to activities in the interests of local government.

Thus, we can state that the functional load and municipal sector scale in developed economies are not permanent and are in the process of constant changing with the influence internally as municipal and external factors of regional, national and global economies. Each country seeks for the formation and defining recipes of the municipal sector and its boundaries, but the common thing is that this search takes into account the need to ensure quality production by the municipalities public goods designed to satisfy the needs of both the municipality and the person as the main subject of the municipal sector.

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