

# ECONOMICS AND NATIONAL MANAGEMENT

UDC 336.1:352  
JEL O57

DOI 10.26906/EiR.2020.3(78).1993

## THE PROCESS OF DECENTRALIZATION MANAGEMENT BASED ON FOREIGN EXPERIENCE

Viktor Dubishchev \*, D.Sc. (Economics), Professor  
Oleksandr Kudinov\*\*, PhD student  
National University «Yuri Kondratyuk Poltava Polytechnic»

\* ORCID 0000-0001-9460-7054

\*\* ORCID 0000-0003-3196-2520

© Dubishchev V., 2020.

© Kudinov O., 2020.

*Стаття отримана редакцією 05.09.2020 р.*

*The article was received by editorial board on 05.09.2020*

**Introduction.** The start process of European integration in Ukraine encourages learning the integration not only of foreign relations and domestic economic and political processes. One of the key steps to change the economic system of the state is the reform of decentralization, which involves redistribution of powers between the central governing body and local authorities.

The implementation of the decentralization process in Ukraine began in 2014 with the start of the approval of the State Strategy "Ukraine – 2020" which priorities are public administration reform and decentralization, the rejection of a centralized management model and implement an effective system of territorial organization, the financial sustainability of local government, increasing the local budget. However, not all questions of strategy are clearly defined and therefore there is need for research and analysis of the subject. To solve the tasks it is appropriate to learn from foreign experience of countries that have successfully implemented the concept of decentralization.

**Overview of the latest sources of research and publications.** The issue of managing the processes of decentralization and their impact on economic development extensively studied domestic and foreign scientists. The scientific studies [1] deals mostly with problems of economic functions of government that aimed to ensure macroeconomic stability, efficiency of formation of public finances and their proportional distribution.

The conclusions about the feasibility of decentralization reforms based on the concept that the central government may not have sufficient information preferences of residents in certain regions of relatively low cost of services and the level of costs was investigated in scientific studies [2, 3].

Analysis in this research models of local government, the mechanism of formation of local budgets and fiscal decentralization model was implemented in the work of local scientists [4-6]. Decentralization of public power, the formation of financial relationships locally researched scientific paper [7].

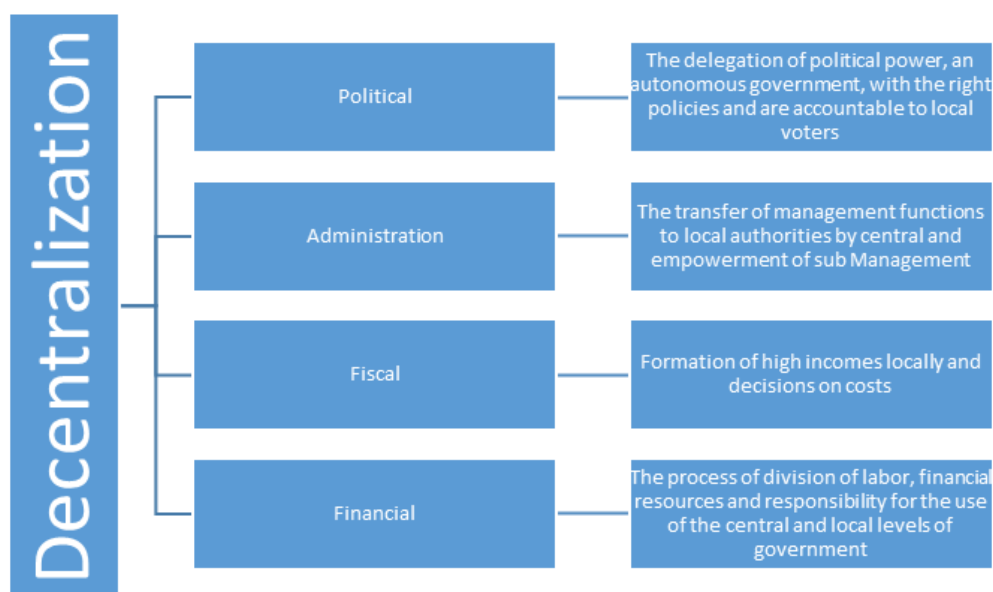
A well-known British scientist Charles Tibu [8] formulated a hypothesis that explains that under a large number of units and the free transfer of population fiscal decentralization will form conditions for achieving higher efficiency supply at the level of regional economic policy.

Thus, today there are many unresolved issues regarding effective strategy adjustment process of decentralization of the management system, uniform distribution of powers to the local level and effective strategy formation and distribution of the local budget.

**Setting objectives.** The aim is to analyze the decentralization process and identifying key problems that Ukraine is expected during the implementation of the process based on international experience.

**Basic material and results.** The democratic changes and the process of European integration in Ukraine need to reform the system of government and reconstruction management processes of regional economic policy. During the entire period of Ukraine has stored and centralized system management. In this system of proportional development of regions is dependent on the allocation of resources at the national level. Based on international experience found that most developed markets even distribution of functions, powers and financial resources between the central authorities and the regions – this axiom on which the welfare state and its residents. One of the regulatory systems of uniform distribution is the process of decentralization.

Decentralization is the transfer of powers and budgets of their implementation by state authorities to local governments to ensure the effective functioning of all power structures, improving the quality of public services and enhance Regions [9]. In practice, the release the several areas of decentralization, that is shown in Figure 1.



**Fig. 1. Types of decentralization and their explanations [9].**

In the extension study decentralization in Ukraine through the prism of the centralized system the authors raise questions that arise in the country: the conflict of interest between levels of government and between regions.

The process of expansion of powers at regional economic policy leads to economic efficiency and effectiveness of public administration at the local level. This significant transfer of powers from the central authority to local governments without basic financial security could lead to the original negative financial results. It is important to search for optimal mechanisms of gradual transition to a decentralized system of primary and support regions corresponding financial resources. The effect of this mechanism was successfully tested and used the example of post-socialist European countries (Poland, Lithuania, Slovakia) and in developed countries (UK, France, Sweden, Germany, etc.). The most effective decentralization reforms emerged in countries such as Poland, the United Kingdom, according to the administrative division, consists of four historically known areas of Northern Ireland, Wales, England and Scotland. Each region has a unique administrative and systematic system. The first steps towards the decentralization of the Criminal Code were taken in 1974 and 2000, when a new law and a law on local self-government were adopted. Was the work done to improve the regulatory framework, formed new target boards that decide questions of education, finance, social assistance and other locally. Transition strategy redistribution of powers Britain was a gradual movement of the financial system from central to local authority.

For a long time, France adhered to the rigid centralization of the system due to the past. However, the first steps towards decentralization introduced in 1982-1986rr, when legislative reform was motivated. Second, not less important stage falls on 2002-2005. During this period, legislative approval was direct

democracy locally established financial stability of local communities, formed and evenly distributed administrative system. Despite the fact that in the past France had enough rooted centralized system today, the government system based on decentralization. French strategy is based on distribution of powers so that the central government has left behind only those functions that are national in scope, and they can not be delegated by law.

Reform efforts in Sweden took place in several stages. At each stage of reforming the management system carried some changes to the administrative structure territory. For example Sweden has chosen strategy and experience in the UK, then find individual country development strategy of reform, based on the principle of national interests and the need for local initiatives. The concept of reform strategy is divided into two communes: increasing the index of human development and human welfare within local government simultaneously with the increase in the index of human development and human development at the national level.

Poland showed the most striking example of forming decentralization reforms. This process began in 1989 and was divided into 3 stages:

- democratization;
- the formation of the free market;
- decentralization.

Reform of the scale led to a national transformation. The positive effect of this reform was effective state management system at different levels. This made it possible to open for change and competition the cooperation of territorial units. The basic principle of the reform is the existence of local authorities to the extent to which it provides to the overall development of the state. That is, the local government is considered an integral part of national development. This gradual approach to reform was a key success of the transition to a decentralized system of governance.

Thus, according to a study can determine the advantages and disadvantages of transition to decentralized management. The main advantages of individual European countries and worldwide representation are presented in Fig. 2. The main advantages are the general economic, political and social development of individual territorial units with well chosen strategy of reform. The main disadvantages of decentralized EU and the world are the following:

1. Rising levels of management, increasing the number of individual issues;
2. Uncertainty in the redistribution of powers;
3. Increased costs;
4. Inefficient use of common serial standards in all municipalities without the economic situation of each region separately;
5. There is a risk of losing control;
6. There is a risk of abuse of the system approach due to loss of adequate external influence;
7. Reducing system integration units necessary to ensure unity of action.

Analyzing the process of Ukraine's transition from a centralized to a decentralized management system compared to the successful reforms of the world is to provide primary errors: formality, not gradual, integrated, systematic changes in the system; formality, not reality changes; No track reform strategy; Not applicable financial decentralization, which is used almost all countries in the transition to a decentralized system. Economic decentralization without financial support increases the risks of recession. Therefore, one could argue that successful decentralization reform is not possible without the actual interest of the state and institutions in this reform. The state receives a strong economic foundation, the real possibility of the functions delegated to local authorities and small and medium businesses getting incentives from the government. Unsuccessful elected reformist strategy could lead to economic instability in the early stages of reform, so Ukraine should define strategic objectives and choose strategies successful transition to decentralized management on the successful experience of foreign countries.

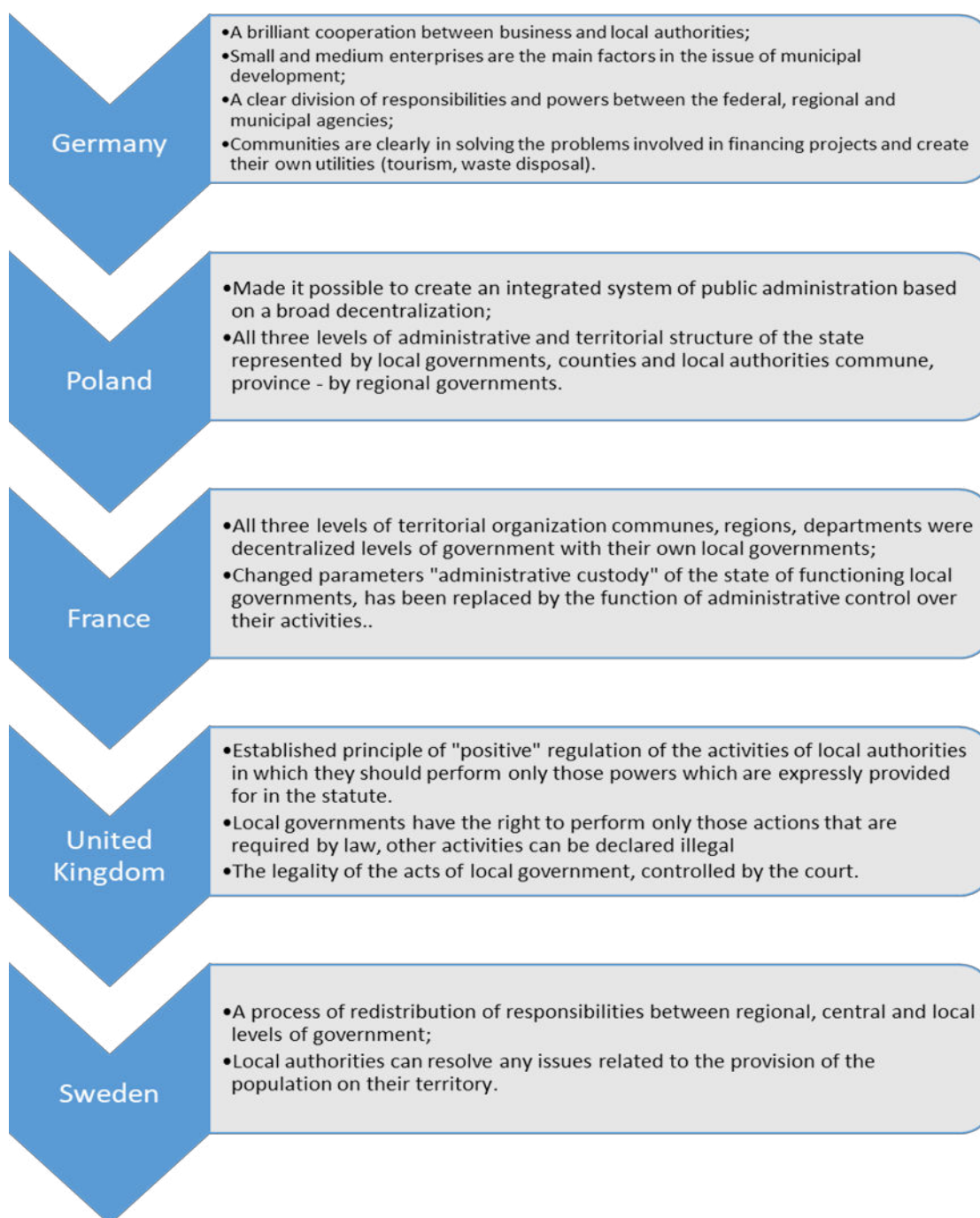


Fig. 2. The benefits of decentralization on the experience of some EU countries [10-14].

**Conclusions and prospects for the further research.** The results of scientific research show that successful decentralization promotes improving efficiency and efficiency of work of state and regional economic policies. However, unfortunate the chosen strategy threatens the political, social and economic instability. One of the main keys to the successful reform of the management system of the state is to ensure economic decentralization of financial support for the central authority in the initial stages. This strategy guided by the most developed countries in Europe and the world. Also, special attention should be paid to the three main principles of the reform succeed neighboring Poland: democratization; the formation of the free market; decentralization.

Our further studies will have focused on decentralization analysis process at the local level to strategize and analyze the formation of local budgets.

**REFERENCES:**

1. Musgrave, R. A. (1959). *The Theory of Public Finance*. New York: McGraw-Hill [in English]
2. Oates Wallace E. (2005). *Toward A Second-Generation Theory of Fiscal Federalism*. *International Tax and Public Finance*, Vol. 12, 349-373 [in English].
3. Tiebout C. M.(1956) . *A pure theory of local expenditures*. *The Journal of Political Economy*, 64(5), 416-424 [in English].
4. Avramenko, K., Deshko, A., & Zhalilo, Ya. (2016). *Biudzhetna polityka: pragmatychni pidhody do strategichnyh rishen [Fiscal policy: pragmatic approaches to strategic decisions]*. Kyiv: ST-DRUK [in Ukraine].
5. Herus, A. (2016). *Finansova decentralizaciia, abo scho robyty z groshyma [Fiscal decentralization, or what to do with money]*. Retrieved from: <http://decentralization.gov.ua/news/item/id/2045> [in Ukraine].
6. Koren, N. (2017). *Analiz i oценка realizacii biudzhetnoi decentralizacii v Ukraine [Analysis and evaluation of the implementation of fiscal decentralization in Ukraine]*, 2 (43) , 81-87. Retrieved from: <http://www.niss.gov.ua/articles/2242/> [in Ukraine].
7. Umland, A. (2019). *Chotiri geopolitichni vimiri detsentralizatsii Ukraïni [Four geopolitical dimensions of Ukraine's decentralization]*, *Dzerkalo tizhnya [Mirror of the week]*, 12(1), 4. Retrieved from: [dt.ua/internal/chotiri-geopolitichni-vimiri-decentralizaciyi-ukrayini-299352\\_.html](http://dt.ua/internal/chotiri-geopolitichni-vimiri-decentralizaciyi-ukrayini-299352_.html)
8. Holodov A.S. and Kosenko S.T. (2012). *Tiebout hypothesis and the possibility of its implementation*, IV Mezhdunarodnaja studencheskaja jelektronnaja nauchnaja konferencija «Studencheskij nauchnyj forum», [IV International Student e-science conference "Student scientific forum."], Sankt-Peterburg [in Russian].
9. Gladka, T. I. (2015). *Decentralizacija vlady v Ukrai'ni jak zasib posylennja demokratii' ta pidvyshhennja i'i' stabil'nosti. [Decentralization of power in Ukraine as a means of strengthening democracy and increasing its stability]*. *Derzhavne upravlinnja: udoskonalennja ta rozvytok [Public administration: improvement and development]*. No 12. Retrieved from: [http://nbuv.gov.ua/UJRN/Duur\\_2015\\_12\\_10](http://nbuv.gov.ua/UJRN/Duur_2015_12_10) [in Ukraine].
10. Boryslavs'ka, O., Zaveruha, I. and Zaharchenko E. and other (2012). *Decentralizacija publichnoi' vlady: dosvid jevropejs'kyh kraïn ta perspektyvy Ukrai'ny [Decentralization of public power: the experience of European countries and the prospects of Ukraine]*. *Shvejcars'ko-ukrai'ns'kyj proekt «Pidtrymka decentralizacii' v Ukrai'ni – DESPRO» [Swiss-Ukrainian project «Support for Decentralization in Ukraine – DESPRO»]*. TOV «Sofia», Kyiv, Ukraine.
11. Kondarenko, H.B., & Ikoenko, K.O. (Eds.). (2011). *Methods of conducting experiments in economics*. (3rd ed., rev.). Kharkiv: Osnova [in Ukrainian].
12. Kosenko, I.S., & Opalko, A.I. (2008). *Applied Economics*. I.S. Kosenko (Ed.). Kyiv: Dumka [in Ukrainian]
13. Mirgorodska L.(2008). *Finansovi sistemi zarubizhnyh krayin: navchalnij posibnik [Financial systems of foreign countries: studies guide]*. Kiev: CUL,
14. Sacchi, A. and Salotti, S. (2014). *The effects of fiscal decentralization on household income inequality: Some empirical evidence*. *Spatial Economic Analysis*, 9(2), 202-222
15. Tselios, V. Rodríguez-Pose, A. Pike, A. Tomaney, J. and Torrisi, G. (2012). *Income inequality, decentralization and regional development in Western Europe*. *Environment and Planning A* 44(6): 1278-1301
16. Site about EU programs «Decentralization. International cooperation. U-LEAD Program». [donors.decentralization.gov.ua](https://donors.decentralization.gov.ua). Retrieved from <https://donors.decentralization.gov.ua/en/project/u-lead> [in English].

УДК 336.1:352

JEL O57

**Дубішев Віктор Петрович**, доктор економічних наук, професор. **Кудінов Олександр Миколайович**, аспірант. Національний університет «Полтавська політехніка імені Юрія Кондратюка». **Управління процесами децентралізації на основі зарубіжного досвіду.** Демократизація відносин у суспільстві серед розвинених країн у більшості випадків супроводжується концепцією фіскальної децентралізації. На сьогоднішній день у світі пріоритетом є реформа державного управління й децентралізація, наслідком якої постає відмова від централізованої моделі управління та впровадження ефективної системи територіальної організації, фінансової самодостатності органів місцевого самоврядування й розширення їх бюджету. У сучасному стані

економіки України та її регіонів спостерігається низка негативних явищ, зумовлена втратою виробничого потенціалу, недостатністю рівня підприємницької активності, наявність значного рівня тіньової економіки, наслідком чого є економічна нестабільність та економічна криза. Таким чином, на сьогодні існує багато невирішених питань щодо ефективної стратегії регулювання процесів децентралізації управлінської системи, рівномірного розподілу повноважень на місцевому рівні й ефективної стратегії формування і розподілу місцевого бюджету. Постає завдання реформування міжбюджетних відносин країни. Однак ключем до успіху вдалого реформування управлінської системи держави є забезпечення економічної децентралізації. Цією стратегією керувалася більшість розвинених країн Європи та світу. Тож доцільно проаналізувати основні переваги, ризики й недоліки децентралізованої системи управління на основі зарубіжного досвіду. Розглянуто історичні та сучасні стратегії реформування системи управління провідних країн світу, проблемні аспекти при проведенні реформ і специфіку їх здійснення в таких країнах, як Німеччина, Польща, Великобританія та Швеція. Визначено перспективи розвитку реформи в Україні й зазначено основні проблеми, що виникли на першому етапі процесу децентралізації.

**Ключові слова:** децентралізація, реформування, система управління, стратегія, регіональна політика.

UDC 336.1:352

JEL O57

**Viktor Dubishchev**, D.Sc. (Economics), Professor. **Oleksandr Kudinov**, PhD student. National University «Yuri Kondratyuk Poltava Polytechnic». **The Process of Decentralization Management Based on Foreign Experience.** The democratization of relations in society among developed countries, in most cases, is accompanied by the concept of fiscal decentralization. Today the priority in the world is the reform of public administration and decentralization which results in the abandonment of the centralized model of governance and the introduction of an effective system of territorial organization, financial self-sufficiency of local governments and expanding their budgets. In the current state of the economy of Ukraine and its regions there are a number of negative phenomena due to the loss of production potential, insufficient level of entrepreneurial activity, the presence of a significant level of shadow economy, resulting in economic instability and economic crisis. Thus, today there are many unresolved issues regarding the effective strategy of regulating the processes of decentralization of the management system, the equal distribution of powers at the local level and an effective strategy for the formation and distribution of the local budget. The task is to reform the country's inter-budgetary relations. However, the key to success in successfully reforming the state's governance system is to ensure economic decentralization with financial support from the central government in the initial stages. This strategy was followed by most developed countries in Europe and the world. Therefore, it is advisable to analyze the main advantages, risks and disadvantages of a decentralized management system based on foreign experience. Historical and modern strategies of reforming the management system of the leading countries of the world are considered. The scientific article considers the problematic aspects of the reforms and their specific implementation in countries such as Germany, Poland, Great Britain and Sweden. Prospects for the development of reform in Ukraine are identified and the main problems that arose at the first stage of the decentralization process are identified.

**Keywords:** decentralization, reform, management system, strategy, regional policy.