

ASEJ

Scientific Journal

Bielsko-Biala School of Finance
and Law

Volume 25 | Number 3 | October 2021

ISSN2543-9103
eISSN2543-411X
www.asej.eu



Bielsko-Biala

Development Strategy Financing Tools at The Local Level: Marketing Dimension for Low-Urbanized Territories

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Abstract—The financial tools used by low-urbanized territories in the implementation of local development strategy are analyzed. Emphasis is placed on the marketing dimension of the tools used. The analysis was conducted in the context of delimitation of powers between central and local authorities involves two interrelated parallel processes. Firstly, it is the distribution of expenditure obligations and revenue sources by the budget system levels: state, regional, and local. Secondly, it is the delimitation of the competence within which authority bodies can estimate their expenses and income.

It has been determined that the problem of legal support for the activities of local authorities is still acute. Although there are many regulatory acts, in our opinion, none of them fully outline the main aspects of the activities of territorial communities as the first level of local authority, in particular in terms of their financial capability and the possibilities of forming financial autonomy in the context of modern reforms. As a result of the analysis the specific features of financial support of strategic development of administrative-territorial formations of the basic level in Ukraine are singled out.

Index Terms— fiscal lever, marketing, Local Economic Development, low-urbanized territories.

I. INTRODUCTION

The administrative-territorial reform, which was launched in Ukraine in 2015 and as a result of which administrative-territorial formations at the basic level were created in 2020 in a new format (as a result of amalgamation, their number was reduced from more than 11 thousand to 1,470), fundamentally changed the role of the institution of local self-government as such, which is responsible for the strategic development of territories. Therefore, Ukraine has launched de facto, and not only formally, the implementation of the basic provisions of the European Charter of Local Self-Government.

A special place on this background is held by low-urbanized territories, which the authors define as administrative-territorial units of the basic level with a predominant (more than 50%) share of the rural population, united by common economic and social interests of development. These territories were chosen as the object of the research due to the fact that they are the vast majority of the newly formed territorial communities (firstly) and they de facto gained subjectivity in local government for the first time (secondly). Until the last period (the beginning of the active phase of administrative-territorial reform in 2015), only large cities could be considered as full-fledged subjects of local government (according to the criteria of existing powers and their resource provision) in Ukraine. In contrast to them, small towns and villages had a minimal set of competencies in all spheres of life: economic, social, and cultural.

Due to this document, adopted by the Council of Europe on October 15, 1985, local self-government is understood as the right and ability of local self-government bodies, acting within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility in the interests of local population (European Charter of Local Self-Government, 1985). Therefore, capability to do something is a key characteristic of local self-government being an independent entity while making managerial decisions.

Local self-government, like the state, is an institution of organizing public life. The split of special functions and tasks assigned to local authorities is an objective reason for the emergence of finances of these bodies. Local finance, like state finance, is a tool for implementing the functions of such an institution. Both finances serve not private, but public interests, they are of a public nature and form the capability of municipalities, which take the form of territorial communities in Ukraine.

Capable territorial communities – "territorial communities of



villages (towns, cities) that due to voluntary amalgamation are able to independently or through the relevant local self-government bodies ensure an appropriate level of service provision, in particular in the field of education, culture, health, social protection, housing and communal services, taking into account human resources, financial support and infrastructure development of the relevant administrative-territorial unit" (Methodology of formation of capable territorial communities, 2020).

II. METHODOLOGY OF THE RESEARCH

In the course of cooperation with territorial communities in Ukraine over a 15-year period, the authors had the opportunity to monitor the transformation of the local government role in the issues of strategic development of territories, and to observe changes in relations with state authorities and business.

Such studies and observations recorded trends and processes that had been developing under evolutionary conditions when changes in the system of public power, the distribution of powers and resources were rather of cosmetic signification. In the current conditions in Ukraine (as emphasized above), complex and comprehensive changes are taking place, which fundamentally are changing the importance of local government bodies in financing the economic development of territories. According to the authors, there have been no separate studies on this topic yet. This fact determines the subject of the research indicated in the title of the article.

In view of the weakly structured and weakly formalized processes in the local government environment (internal and

external), the observation method was taken as a base for empirical researches, taking into account the expected results according to Shuhart-Deming PDCA model (cycle, loop), which provides an appropriate modification through updating and taking into account special / unique conditions and prerequisites at each stage of the mentioned cycle.

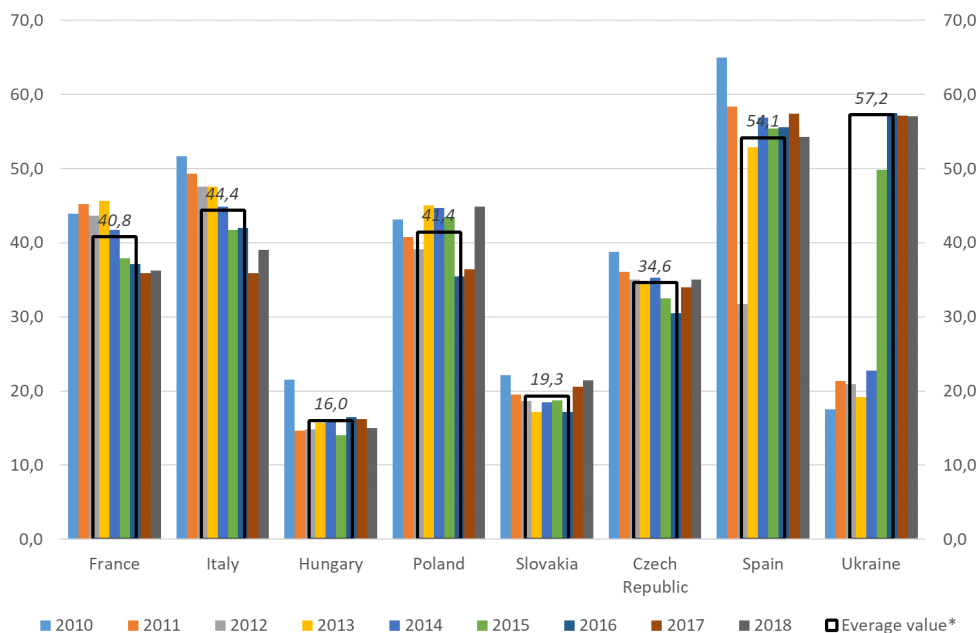
III. IMPORTANCE OF THE ECONOMIC ROLE OF LOCAL SELF-GOVERNMENT

In a frame of the decentralization of public finance management, which can be considered a normative approach in the European Union countries, the effective delimitation of powers between central and local authorities has become a priority.

The delimitation of powers between central and local authorities involves two interrelated parallel processes. Firstly, it is the distribution of expenditure obligations and revenue sources by the budget system levels: state, regional, and local. Secondly, it is the delimitation of the competence within which authority bodies can estimate their expenses and income. The real level of decentralization achieved in political, administrative, and financial aspects depends on the level of completion of these processes.

In this context, the comparative analysis of the dynamics of the importance of the economic role of local self-government (against other public authorities, shown in Figure 1, is indicative.

FIGURE 1. COMPARATIVE DYNAMICS OF THE SHARE OF EXPENDITURES ON THE ECONOMIC ACTIVITY OF LOCAL SELF-GOVERNMENT IN THE STRUCTURE OF TOTAL PUBLIC EXPENDITURES



* - in the case of Ukraine, we calculated the average value based on the last three years

Source: (International Monetary Fund: Fiscal decentralization, 2021)

A comparative analysis of the role of local self-government as an active economic entity in terms of selected countries of the European Union (from its various geographical regions) and Ukraine shows:

- First, the different level of decentralization of economic activity of public authorities, which is partly a reflection of the period of development/transformation of democratic processes in the country (average level of economic activity of local governments in countries not part of the Warsaw Pact);
- Secondly, the exponential growth of the importance of the economic weight of local self-government in low-urbanized territories in Ukraine, which begins in the active phase of decentralization reform. 2015-2016 was a turning point in the issue of profound redistribution of powers of public authorities at different levels. Therefore, to calculate the average value of the share of expenditures on economic activity of local self-government in the structure of total public spending, we did not take the entire analyzed period. Instead, we made calculations only based on the period that concerned the redefinition of the basic level of territorial governance economic role.

In general, the low financial potential of local self-government bodies in low-urbanized territories with the transfer of delegated functions to them without compensation for expenditures with budget revenues limits their full participation in the budget process and at the same time acts as a deterrent to the strategic development of territories. Many projects related to investment in local infrastructure require alternative sources of financing.

At the time the sphere of competence of local authorities is growing exponentially, what is observed in Ukraine (this is especially noticeable in the case of low urbanized areas), it is important to identify and characterize all possible sources of financing for projects and tasks of strategic development plans of territories, which in their integral totality form the financial capability of the socio-economic development of the territorial community as a spatial system.

It is financial decentralization that is the most effective and efficient way to ensure all aspects of the capability of communities to form their financial autonomy in the future.

The financial capability of socio-economic development of a spatial system is defined as the unity of the sufficiency of the financial potential of an entity, the effectiveness of the use of financial resources, and the possibility of independent support for socio-economic development. Thus, the financial capability of a territorial community is its ability to ensure the receipt of a sufficient range of financial resources and the formation of an effective structure of their origin, as well as the qualitative distribution and effective use to overcome destabilizers and achieve stability of socio-economic development of an entity in the short-term and long-term prospects.

At the same time, paying attention to the existence of various approaches and opinions regarding the interpretation of the category "financial resource of a territorial community", it

involves: revenues of local budgets and targeted extra-budgetary funds of administrative-territorial divisions, household incomes, financial resources of business entities and financial and credit institutions, as well as financial resources attracted from outside to ensure the socio-economic development of the territory. Apart from this category, for the interpretation of the notion of "financial capability", it is important to define and have financial reserves that, together with the financial resources of a territorial community, form its financial potential (Mykhailiv, 2010).

In this context, it is worth recalling what is declared in the European Charter of Local Self-Government, which defines the principles of its financial capability:

- the clear subjectivity of local government in the public finance system is determined;
- the requirement is set that financial resources should be commensurate with the responsibilities of local authority;
- the right of local self-government to determine priorities and directions for applying efforts and resources is formulated;
- the possession of own fiscal leverage by means of local taxes and fees is defined;
- the postulate on flexibility in determining the resources available for distribution and their compliance with the increase in the cost of performing tasks of local self-government bodies is determined;
- a mechanism to protect territories that are financially weaker through equalisation procedures is set;
- in the case of applying the financial equalization procedure, it is recommended to determine assistance in a way that does not limit the freedom of local self-government bodies.

IV. SOURCES OF FUNDING FOR STRATEGIC DEVELOPMENT: GENERAL ECONOMIC AND MARKETING DIMENSIONS

In European countries the main components of financial strategic development of local self-government are:

- financial support for social sphere;
- development of local economy;
- budget resources (local budget revenues);
- extra-budgetary resources (municipal borrowings, trust funds, etc.);
- financial resources of municipal enterprises, income from
- management of communal property, privatization, etc.;
- charitable, and sponsorship contributions, donations;
- other resources (Boryslavska, Zaverukha & Zakharchenko, 2012).

In order to deepen the understanding of financial support for the strategic development of a territorial community, it is also worth considering the scheme of structuring types of property, since its increase depends to a large extent on the structure of its property resources.

Property resources (movable and immovable property) of a territorial community together with local budget revenues, extra-budgetary targeted (including foreign currency) and other funds, land, natural resources that are in the communal ownership of territorial communities of villages, towns, cities, districts in cities, as well as objects of their common ownership, which are managed by regional self-government bodies, form the material and financial basis of local self-government, that is, their development contributes to increasing the financial capability of communities.

It is worth noting that over the past six years, Ukraine has already undergone fundamental changes in the system of local self-government, especially in terms of forming local budgets and increasing the subjectivity of local self-government (Table 1) (Global Communities, 2020; Global Communities, 2021).

TABLE 1 TYPES OF PAYMENTS TO LOCAL BUDGETS

Groups of payments	Types of payments	Share of crediting
National tax payments	Personal income tax and fee	60%
	Income tax of enterprises of communal property	100%
	Rental payment for special use of forest resources of national significance	37%
	Rental payment for special use of forest resources of local significance	100%
	Rental payment for special use of water from a local body of water	100%
	Rental payment for the use of mineral resources for the extraction of minerals of national significance	5%
	Rental payment for the use of mineral resources for the extraction of minerals of local significance	100%
	Rental payment for the use of mineral resources for the extraction of oil, natural gas, and gas condensate	3%
	Excise tax on the sale of excisable goods by retail business entities	100%
Local taxes and fees	Fee for parking spaces for vehicles	100%
	Tourist fee	100%
	Single tax	100%
	Property tax	100%
Non-tax payments	Part of the net profit (income) of utility enterprises	According to the council's decision
	Payment for placing temporarily available funds from local budgets	100%
	Income from rental payment for the use of communal property	According to the council's decision
	Other payments (fees, fines, government dues)	100%
Funds from the sources accumulated by the state	Basic / reverse grant	According to formula calculations
	Subventions from the State budget for performing delegated functions	
	Other	

Under the condition of a new reallocation of public finance between levels of government as a result of the reform of budgetary decentralization to meet the needs of territorial communities, the financial resources of various economic agents can be used, in particular, local and central authorities, private business entities, financial institutions and non-

governmental organizations, as well as foreign states and international financial organizations.

Currently, the financing of local development tasks and projects that are identified as strategically important (and therefore included in the strategic development plans of the relevant territories) is based on internal resources. Some resources (investments, charity) can be both internal and external. Territorial communities also gained access to other external financial resources. The elected body at the local level has the right to make local borrowings to the community budget – both internal and external, in particular via obtaining loans from international financial organizations. In many communities a lot of unresolved problems cannot be solved only by means of internal financial resources, so it is worth to think about entering the borrowing markets, as well as attracting investment and other resources from outside.

The examples of budget resources of internal origin are revenues from taxes and fees, sales and leases of communal property objects. The most significant external source of budget funds is the State budget. In particular, external budget revenues may include targeted subventions from the State budget, including within the framework of the implementation of state or regional target programmes, investment projects (programmes), or financing for projects of amalgamated territorial communities from the State Regional Development Fund.

A complete list of fiscal tools, given its share in local budget revenues, is a direct prerequisite for forming the subjectivity of local communities, including in the shape of its policy towards external economic players, potential stakeholder groups. According to the "classic" approach adopted in territorial marketing, such stakeholder groups are residents, investors, and visitors/tourists.

Therefore, the approach in which the fiscal lever of local self-government in the system of public finances played an important role and allowed to influence the directions and intensity of ensuring the development of the territory is important. In this context, the data shown in Figure 3 are indicative.

The data presented in the chart do not include all tax revenues to local government budgets, but only those on the formation of which the subjects of government at the local level have a direct influence. Data representing the situation in Ukraine and the member states of the Organization for Economic Cooperation and Development show that the approach to giving local governments the financial leverage to influence the formation of investment attractiveness of the territory differs significantly.

The cases of Sweden and Estonia are extreme. The most important source of income for local governments in Sweden is income tax. Local governments and governments have a high degree of autonomy in Sweden, and each municipality and region can set its income tax rate. The elected council determines the tax rate for each yearfig at the end of the previous year. Restrictions apply only to establishing benefits under this tax - only the central government can set them.

Since 2008, municipalities in Sweden have also received revenues from their property taxes. Most of it is real estate tax

paid by individuals; relatively more minor is the weight of payments from collecting this tax from legal entities.

In contrast to Sweden, local self-government in Estonia receives almost 80% of the personal income tax, the primary source of local budgets. However, tax rates are generally the same for all communities and set at the state level.

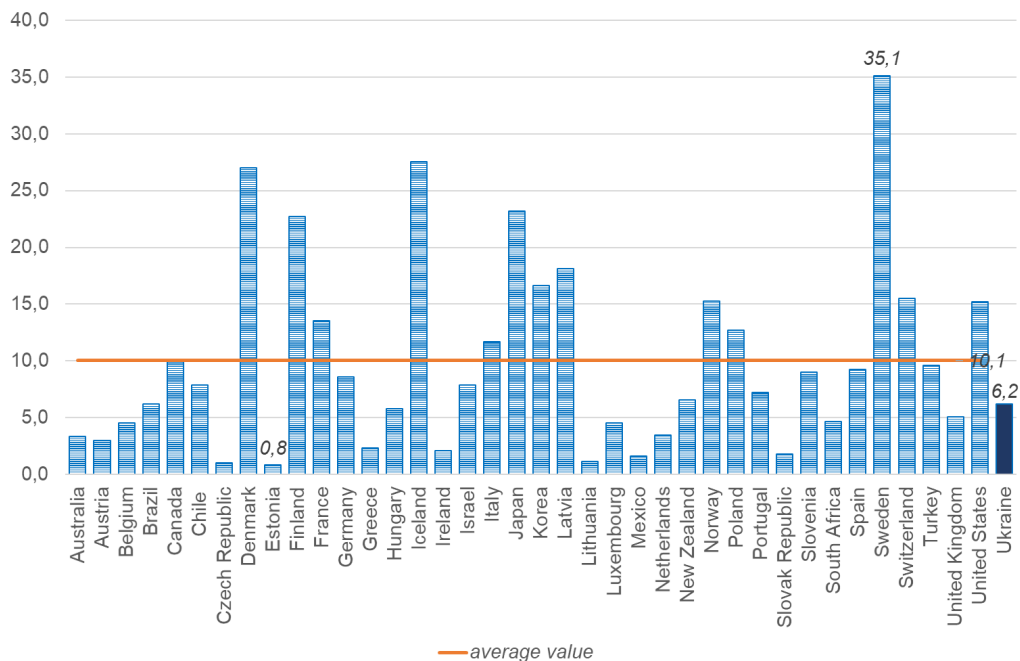
Local authorities can set a land tax within certain limits (from 0.1 to 2.5%), and this makes this tax regulated by local authorities the most significant in its category. However, on average, it is still only about 3% of the revenue side of local budgets.

The next group of resources is investment resources. In world practice, many mechanisms have been developed for allocating costs and risks of implementing strategic projects in the field of local socio-economic development between the public and private sectors, in particular, public-private partnership, tax

incentives for the private sector, concession, local guarantees, etc. (Borshch et al., 2017).

Local authorities can also attract credit resources to finance the development of their community. Credit sources of financing tasks and projects of the strategic development plan have many potential advantages (the ability to get significant financial resources that can be returned gradually over a long period of time, accelerating the development of local infrastructure, etc.), but are also accompanied by significant risks (possible unsuccessful implementation of projects, an increase in the debt burden on the local budget and a decrease in financing current expenses, etc.), and certain difficulties in preparing documents (for example, in the case of obtaining a loan from international financial organizations or additional costs for project insurance and its expertise, etc.).

FIG. 3. THE SHARE OF LOCAL TAXES IN THE TOTAL AMOUNT OF TAXES COLLECTED IN OECD COUNTRIES AND UKRAINE



Source: (Organization for Economic Co-operation and Development: Tax Autonomy Indicators, 2021; Open Budget: Incomes, 2021)

Grant funds should also be considered as a separate source of funding for tasks and projects of the development strategic plan of the territory (Honcharenko, 2017). Today in Ukraine, grant sources are often crucial for financing various local development projects. Grant funds also often serve accompanying and support function for other sources of financing, in particular investments or loans from international financial organizations. Grant assistance can be in the form of both cash (non-refundable grants) and consulting services, equipment, materials that are provided to Ukrainian recipients on a non-refundable basis.

To develop skills of attracting financial resources from all available sources is key to the success of any local development initiatives. Inter-municipal cooperation and public-private partnership deserve special attention. Therefore, the financial resource of a territorial community is developed at the expense

of sources that fill it. However, in order to determine the financial capabilities of a territorial community in ensuring its socio-economic development, it is important to determine its real and potential financial capabilities.

When studying the financial capabilities of a territorial community for the long-term outlook, it is also important to consider the resources of the territory that are not used in the production and economic turnover, such as the availability of natural resources, minerals that are not used at the current time, the creation of new business structures, the expansion of the service sector to the population and business entities. The assessment of the financial capabilities of a territorial community from the use of natural and production-economic resources not used at the time of the study should be based on projected calculations of the feasibility of their use for a certain period of time, taking into account the cost of implementation.

The methodology for calculating such measures foresees the possibility of using the methods for evaluating the effectiveness of investment projects related to attracting new sources of forming the financial potential of a territorial community.

Taking into account the investment attractiveness and investment opportunities of land in localities, their inclusion in economic turnover foresees the attracting of both direct and indirect (through the budget system) investments in both the primary and secondary markets. These should be funds received from the sale of land plots, and additionally attracted by land buyers due to its purchase.

Therefore, the land market in localities can significantly expand the budget revenue base at all levels. According to expert estimates, the budget system can receive at least 3 billion UAH annually from the primary market, that is, from the sale of land plots for business activities, for 10 years (Borshch et al.,

2017). The secondary land market is able to annually target up to 2 billion UAH to the budget system in the form of taxes and fees from the sale of land plots to citizens. Therefore, the effective use of the budget potential of land resources by increasing the receipt of funds from the sale of land plots belonging to communal ownership in the budget revenues of relevant territorial communities and increasing taxes and fees from the sale of private land plots is an urgent problem that needs to be solved.

Consequently, to ensure the implementation of projects within the framework of the implementation of the strategic development plan of the territory, it is possible to attract various financing tools. In general, they can be represented as a set of components for ensuring the financial capability and development of a territorial community (Figure 4).

FIGURE 4. CHARACTERISTICS OF THE COMPONENTS OF THE FINANCIAL CAPABILITY OF LOCAL SELF-GOVERNMENT

COMPONENT	ADVANTAGES	DISADVANTAG
Budget	<ul style="list-style-type: none"> Ability to attract significant resources Additional financing in the form of targeted transfers from the state budget as co-financing of credit programmes, public-private partnership programmes, etc. 	<ul style="list-style-type: none"> Legal instability
Investment	<ul style="list-style-type: none"> Multiplier effect for the local economic system Development of the local labour 	<ul style="list-style-type: none"> Probability of conflict of interest between an investor and a territorial
Grant	<ul style="list-style-type: none"> Non-remuneration and non-repayment 	<ul style="list-style-type: none"> High level of competition for receiving grant support Dependence on the external market environment
Credit	<ul style="list-style-type: none"> Concessional nature of crediting Positive image effect 	<ul style="list-style-type: none"> The need to obtain consent from the relevant ministry Provided on the terms of payment, urgency and property security Intended purpose of funds
Real estate	<ul style="list-style-type: none"> Possibility of planned spatial development of the territory Withdrawal of land plots from state and municipal property for public needs 	<ul style="list-style-type: none"> Dispersion of land management powers
State funds	<ul style="list-style-type: none"> Opportunities to reduce expenditures of development budget Optimization of the use of available resources Integral effect 	<ul style="list-style-type: none"> Conflict of interest of partner communities

In Ukraine, the problem of legal support for the activities of local authorities is still acute. Although there are many regulatory acts, in our opinion, none of them fully outline the main aspects of the activities of territorial communities as the first level of local authority, in particular in terms of their financial capability and the possibilities of forming financial autonomy in the context of modern reforms.

V. CONCLUSIONS

Specific features that should be highlighted in the issue of proper financial support for the strategic development of administrative-territorial entities at basic level in Ukraine are a range of important factors, such as:

- 1) The finances of new administrative-territorial entities – amalgamated territorial communities – cover the territory of several localities. The involvement of representatives of all localities in the management process leads to increased control over the full-scale filling of the budget and activates the competition of individual administrative divisions in the full-scale filling of the budget of an amalgamated territorial community.
- 2) Lack of experience in high-quality management of local finances. The effect of this factor limits the maintenance of a high speed of local finance reform and causes difficulties in solving current problems of financial management. On the other hand, it becomes possible to interrupt inherited drawbacks in this area, and a favourable environment for eliminating corruption in the field of local finance is developed.
- 3) Direct inter-budgetary relations between local budgets and state budget are introduced. This guarantees a territorial community the number of inter-budget transfers calculated for all local government budgets. However, the volume of such inter-budget transfers should be sufficient to finance primarily the social sphere, since the possibilities of obtaining financial support for an amalgamated territorial community for such purposes from other types of budgets (district, regional – as it was before) are significantly complicated.
- 4) A concentration of significant financial resources at the local level takes place, which means that a powerful resource appears that can significantly influence the socio-economic development of the territory. At the same time, the importance of high-quality planning for the development of an amalgamated community and directing resources to correctly defined priorities increases. An increase in the number of financial resources managed by self-government bodies causes an increase in the risks of their unfair distribution or inefficient use.

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