

PERSPECTIVES OF THE DEVELOPMENT OF TERRITORIAL COMMUNITIES DIRECTED TO THE EUROPEAN INTEGRATION: PROBLEMS, IMPLEMENTATION STRATEGY AND SPECIFICITY OF THE PROCEDURE

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Abstract

The article examines theoretical and applied principles of formation and use of the resource potential of territorial communities in the context of reforming the administrative-territorial system and local self-government in Ukraine. The key role in the issue of the territorial development is played by the budget and tax system formed at the central level and represented locally in the form of local budgets. The influence of the budget potential on the development of territories in terms of the main types of budget revenues and expenditures for 2014-2023 was studied. Directions for stimulating economic development of territorial communities through the formation of the investment business environment at the level of local self-government bodies have been determined. The importance of the European integration of Ukraine and possible financing the development of territories through the functioning of EU funds and, in particular, the “cohesion policy” are substantiated.

Keywords: *territorial communities, post-war reconstruction, resource potential, local economic development, public administration, decentralization, European experience of territorial development.*

JEL Codes: *G0, H2, H7.*

Introduction

The reform of the administrative-territorial system and introduction of financial decentralization in Ukraine provided for the creation of a financial, organizational and managerial independent territorial community from the decisions of the central authorities. This independence is possible with full and effective use of all available and potential resources of the territorial community with the maximum benefit from their use. And only then we can talk about:

“balanced economic, social and ecological development based on sustainable (relentless, long-term, sustained) use of resources.” Effective management of the territory, resource base, formation of strategies on the community development are possible only based on the analysis of the resource potential of the territory.

The purpose of the article is to analyse the resource potential of territorial communities and its use for the restoration of territories, stimulation

of the regional economic development with the application of the European experience in financing territorial development.

Literature review

The study of the development of territorial communities as subjects of management of the socio-economic development of territories is devoted to thorough scientific works of leading scientists in public administration. Scientific works (Khirivskiy R. et al., 2020; Kopishynska O. et al., 2024; Garafonova O. et al., 2021) monitored the effectiveness of the use of financial resources of united territorial communities taking into account the processes of European integration, investigated the peculiarities of the implementation of IT projects in the context of the introduction of digital technologies in territorial communities, and also disclosed the functions of state management of the regional development under the influence of the processes digitization.

Of practical importance are studies (McGillivray D. et al., 2024; Tereshchenko T. et al., 2024; Zhavoronok A. et al., 2022), within which the community resistance to territorial stigmatization is analyzed, peculiarities of decision-making when assessing the economic development potential of a territorial community are detailed.

Also worthy of attention are studies (Yevtushenko O. et al., 2022; Zaiats T. et al., 2024; Zakharchenko V. et al., 2024) dedicated to the analysis of the index of communication capacity of united territorial communities under the influence of European integration processes, the study of effective ways of forming capable territorial communities, and consequences of the implementation of the decentralization reform in the context of sustainable development of territorial communities.

Despite the wide range of scientific research, management of the resource potential of territorial communities to effectively ensure the development of territories requires further development. And the solution to this problem is especially relevant in the

conditions of the post-war reconstruction and the search for sources of its financing.

Methodical approach

The research is based on the methods of the correlation-regression analysis using the Excel functionality. Data characterizing the dynamics of tax revenues, official transfers, and gross regional product were examined for linear dependence using the Pearson correlation coefficient, and models were tested for adequacy using the coefficient of determination. The correlation coefficient is an indicator of linear dependence between two variables X and Y, which takes on values from -1 to +1 inclusive. The larger the value of the module, the higher the level of dependence between the selected data.

Results

Local self-government is an important indicator of democratic social life, decentralization of management and an important foundation of the civil society. One of the most important tasks of building a democratic state is the formation of local self-government based on the principles of the European Charter of Local Self-Government.

The Constitution of Ukraine (Verkhovna Rada of Ukraine, 1996) established the concept and system of local self-government bodies, and the main powers of the construction and operation of local self-government bodies are laid down in the Law of Ukraine “On Local Self-Government in Ukraine” (Verkhovna Rada of Ukraine, 1997).

The concept of reforming local self-government and territorial organization of power in Ukraine, adopted by the Cabinet of Ministers of Ukraine on April 1, 2014, defines the main ways of building a system of local self-government based on the principles of decentralization of power in Ukraine (Verkhovna Rada of Ukraine, 2014).

On February 5, 2015, the Law of Ukraine “On the Voluntary Unification of Territorial Communities” was adopted, according to which the process of formation of United Territorial

Communities (UTCs) started quite actively (Verkhovna Rada of Ukraine, 2015).

Thus, the legislative framework created appropriate legal conditions and mechanisms for the formation of financially capable territorial communities of villages, towns, and cities, which combine their capabilities to solve common problems and form common development prospects.

However, during the implementation of the reform, the majority of territorial communities faced various problems that hindered the decentralization process or made it less effective.

The main problems of creating new communities were: insufficient communication between the center of the UTC and the peripheral territories, passivity of citizens, since the inhabitants of the UTC are, for the most part, elderly people; most citizens were not familiar with the essence of the local self-government reform and changes in the community management procedures; when planning the development of the community, the interests of the periphery were often not taken into account. As a result, the communities were created that did not correspond to the prospective plan for the creation

of the UTC, respectively, “poor” and “richer”, larger and smaller communities were formed in terms of territory and population, as a result of which the resource potential of the territories was unevenly distributed between communities.

The community resource potential is an economic category that includes all resources located on a specific territory and the potential for their use to achieve strategic community development goals. It is defined as the sum of the natural resource potential of the territorial community, the budget potential, the financial and economic potential of economic entities that carry out their activities on the territory of the community, the population and their interaction (Patytska H., 2019).

The territorial community as the main subject of ensuring the development of the respective territory, formed as a result of the reform of the administrative and territorial system, decentralization of management powers and financial resources, must ensure the most effective use of all opportunities (aggregate potential) of the territory and direct them to the formation of an independent investment-attractive territorial communities (Fig. 1).

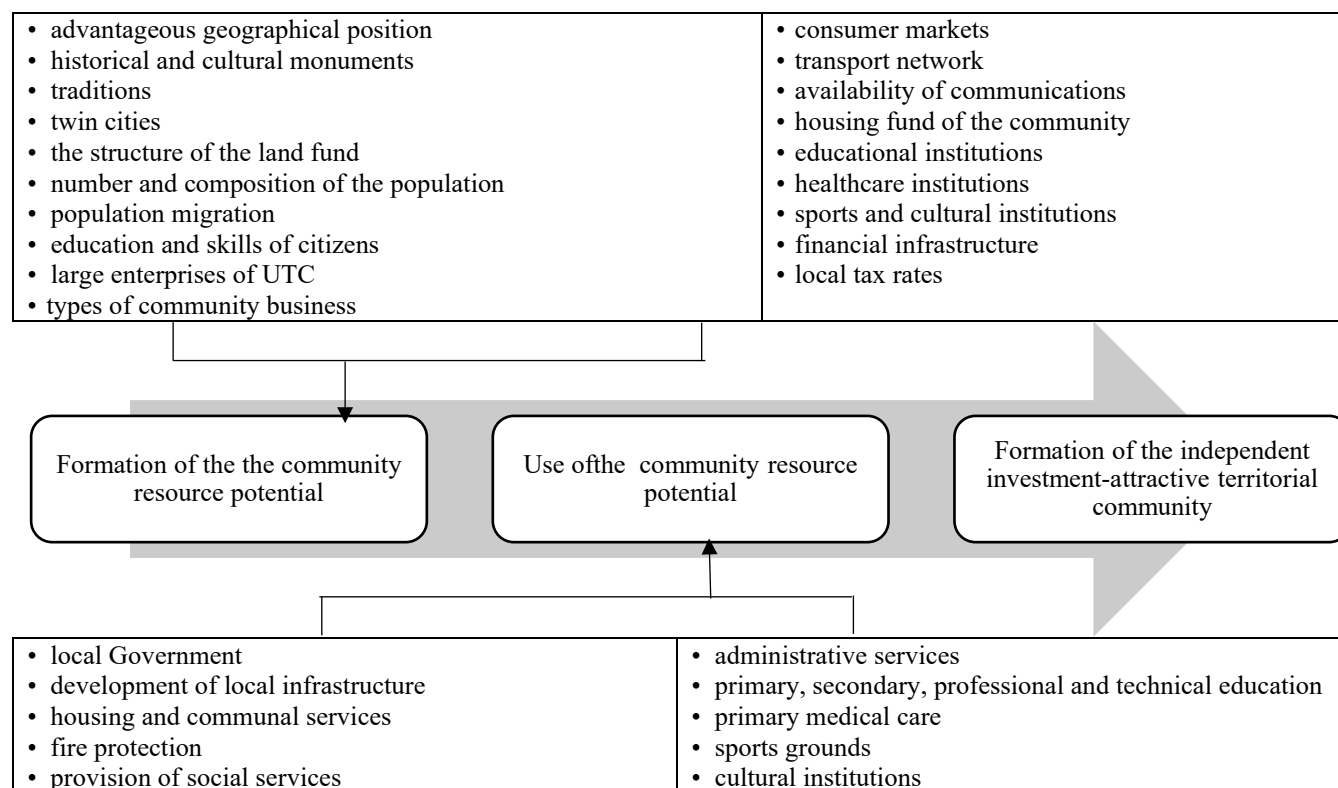


Figure 1. Composition and possibilities of using the resource potential of the territorial community

In order to comprehensively assess the potential of local self-government, we will analyze the composition and structure of revenues of local budgets of Ukraine, which actually reflect the effectiveness of the activities of all community entities through tax and non-tax payments to the budget as a result of their activities, and we will assess their impact on the gross regional product (GRP) (Table 1).

Analyzing the composition and sources of formation of the resource potential of territorial communities of Ukraine, it is possible to highlight the presence of two main components - tax revenues and official transfers. Further, their impact on the volume of the gross regional product in Ukraine as a whole will be analyzed.

Table 1. Dynamics of GRP and revenues of local budgets of Ukraine for 2014-2023, billion EUR

Year	Tax revenues	Personal income tax	Excise tax	Property tax	Single tax	Official transfers	Total income	GRP
2014	10.2	7.3	0.02	0.2	0.9	15.2	27.0	185.0
2015	5.9	3.3	0.5	16.0	0.7	10.4	17.6	119.0
2016	3.9	2.1	0.3	1.0	0.5	5.1	9.6	62.7
2017	5.8	3.2	0.4	0.8	0.7	7.8	14.4	85.5
2018	5.8	3.5	0.3	0.9	0.7	7.5	14.1	89.3
2019	7.4	4.5	0.4	1.0	1.0	7.1	15.3	108.4
2020	8.7	5.4	0.5	1.1	1.2	4.9	14.3	128.3

2021	8.9	5.5	0.5	1.1	1.2	5.2	15.0	140.5
2022	10.2	7.1	0.3	1.0	1.2	3.6	14.4	n/a
2023	11.3	7.5	0.6	1.1	1.5	4.6	17.0	n/a

*Source: open budget (2024).

The analysis of the dynamics of the absolute values of the gross regional product and tax revenues in terms of their components and official transfers gives reason to conclude that the GRP volume and revenues of local budgets are interconnected and interdependent.

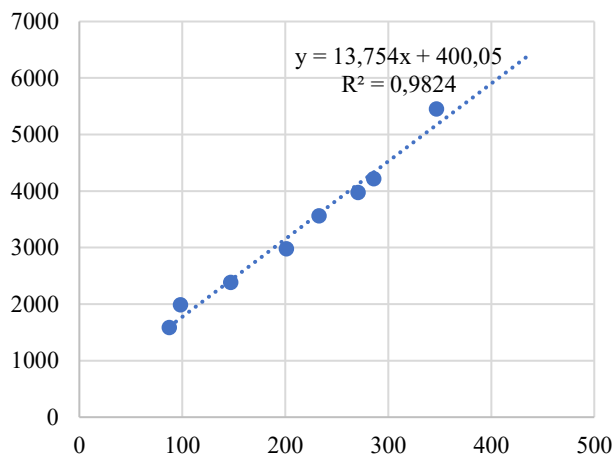


Figure 2 (a). Relationship between GRP and tax revenues of local budgets

There is a linear positive relationship between the volume of gross regional product and the volume of tax revenues of local budgets of Ukraine (Fig. 2 (a)), i.e., the increase in the volume of tax revenues of local budgets affects the increase of gross regional product and plays an important role in territorial development. Different scales are used for qualitative assessment of correlation coefficients, most often - the Chaddock scale . The value of the correlation coefficient is 0.9911, the coefficient of determination is 0.9824 and this means a high relationship between these indicators.

We will also analyze the second important component of revenues of local budgets of Ukraine - official transfers. Moreover, it is worth noting that until 2018, official transfers accounted for more than half of all income. Starting from 2019, the role

For a more accurate analysis of the correlation of these indicators, the coefficients of correlation, determination will be measured, which measure the relationship between the indicators (Fig. 2 (a), (b)).

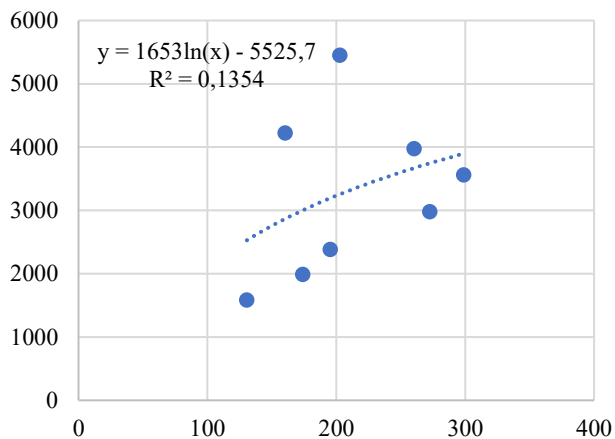


Figure 2 (b). Connection of GRP and official transfers of local budgets

of official transfers in the revenues of local budgets decreased to 27% in 2023. There is no linear relationship between the volume of gross regional product and the volume of official transfers of local budgets of Ukraine (Fig. 2 (b)), that is, the increase in the volume of official transfers of local budgets does not affect the increase of gross regional product and, accordingly, has no impact on the development of territorial communities, and, most likely, ensures their current functioning. The value of the correlation coefficient is 0.3231, the coefficient of determination is 0.1354, and this shows that there is no relationship between these indicators.

The increase in own revenues of local budgets is proof of the positive impact of the local self-government reform in the direction of

increasing the efficiency of using the resource potential of the regions of Ukraine.

Therefore, for the development of territorial communities, local managers need to create opportunities for business development, form the community's investment attractiveness, because taxes are the main source of development.

To determine the role of the component of tax revenues in the regional development, it is worth determining the correlation between GRP and the main taxes of local budgets (Fig. 3 (a), (b), (c), (d)).

The analysis of correlation between individual tax revenues and the gross regional product shows that the closest connection exists between the single tax and GRP (Fig. 3 (d)). The value of the correlation coefficient is 0.9929, the coefficient of determination is 0.9859, and this means a high relationship between these indicators. From this we can conclude that the creation of conditions for the effective functioning and

development of small businesses is a promising direction for the enrichment of territories. Moreover, this connection is closer than the connection between GRP and the budget-forming tax of local budgets - the tax and levy on the income of individuals.

The value of the correlation coefficient between GRP and personal income tax (Fig. 3 (a)) is 0.9755, the coefficient of determination is 0.9717, and this shows a close linear relationship between these indicators, that is, the increase in the amount of tax revenues and personal income tax stimulates increase in the gross regional product.

The analysis of the correlation between GRP and excise tax (Fig. 3 (b)) indicates that this relationship is weak, the value of the correlation coefficient is 0.8724, and the coefficient of determination is 0.7612. We can conclude that the excise tax performs, most likely, a regulatory rather than a fiscal function for local budgets as well.

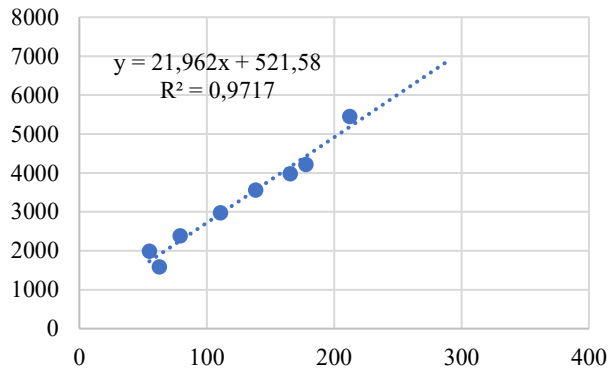


Figure 3 (a). Relationship between GRP and tax and personal income tax

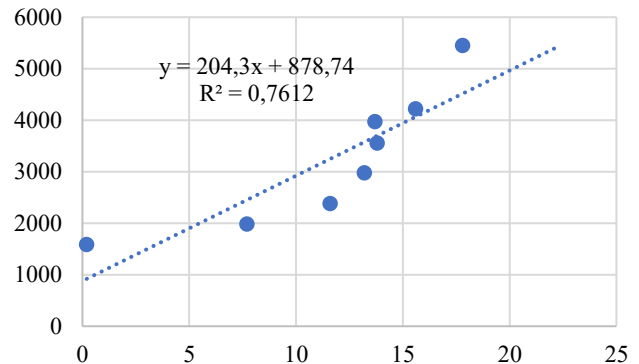


Figure 3 (b). Relationship between GRP and excise tax

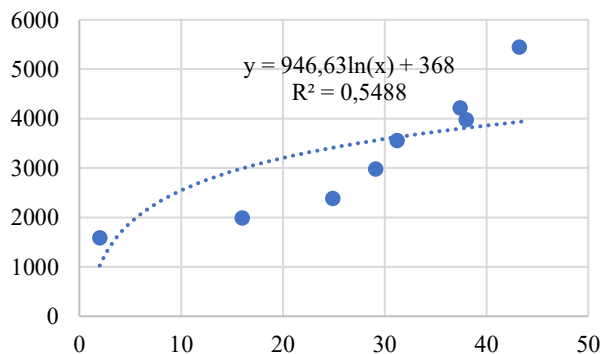


Figure 3 (c). Relationship between GRP and property tax

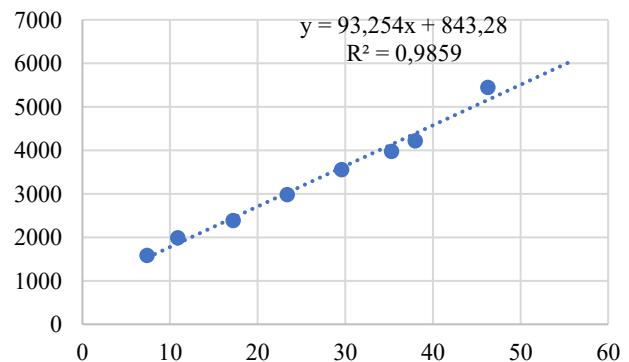


Figure 3 (g). Relationship between GRP and the single tax

A negative factor is the weak connection between the volume of property of tax revenues, where the land tax plays an important role, and GRP. While the value of the correlation coefficient between GRP and property tax (Fig. 3 (c)) is 0.9241, but the coefficient of determination is 0.5488, this indicates that this model is of poor quality and cannot be used for forecast

Investigating the effectiveness of financing the regional development, it is advisable to analyze the investment orientation of expenditures of local budget (Fig. 4).

Comparing the dynamics of the volumes and the share of expenditures of local budgets of Ukraine on investments in 2014 and 2018 shows their growth. The reason for the increase was the

redistribution of budgetary resources and management powers of local self-government as a result of decentralization in favor of regions and administrative-territorial communities of the basic level. Despite the decrease in current expenditures of local budgets in 2019-2020 (pandemic years), the share of capital expenditures of local budgets grew, which is an extremely positive factor. In 2023, it is predicted the recovery in capital expenditure of the local budget funding after a significant drop in the first year of full-scale war. Of course, the lion's share of such capital expenditures went to the restoration of budget and communal institutions as a result of their damage from airstrikes.

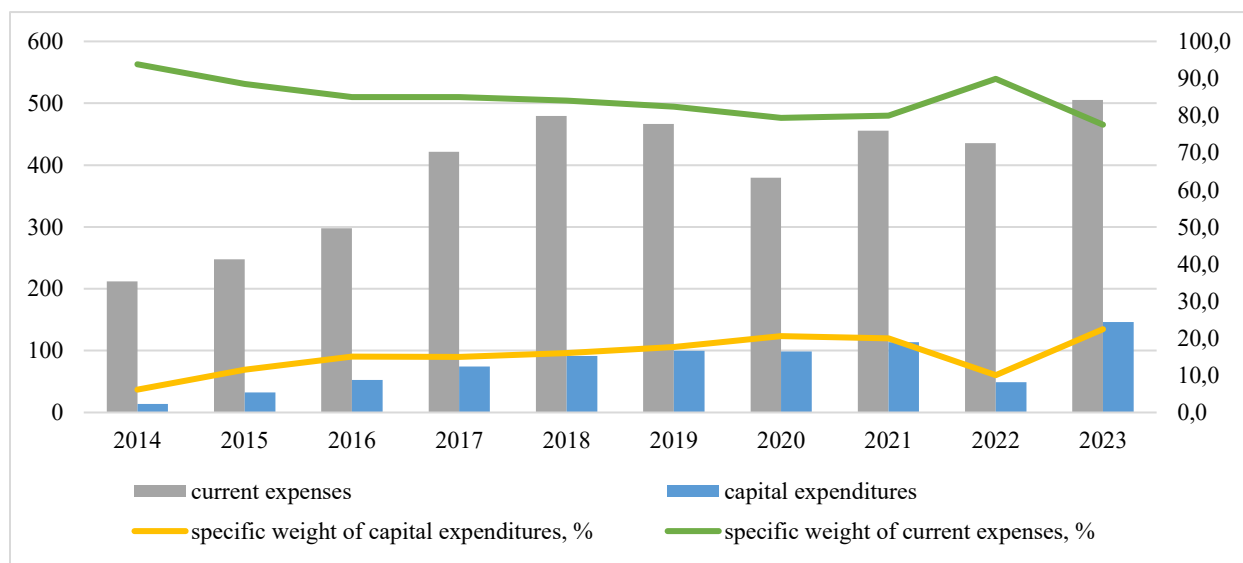


Figure 4. Dynamics of expenditures of local budgets of Ukraine in terms of current and capital expenditures for 2014-2023

*Source: open budget (2024).

As for the ratio of GRP to the volume of capital expenditures of local budgets, on average in Ukraine in 2021, this indicator was 47.9, i.e., 1 UAH of capital expenditures accounted for 47.9 UAH of GRP. Compared to 2014, it is significantly less; in 2014, this indicator was 114.2, i.e., 1 UAH of capital expenditures generated 114.2 UAH of GRP. To answer the question whether the volume

of capital expenditures of local budgets results in the increase in GRP and whether it is worth stimulating capital expenditures for the development of territories, what is the role of current expenditures of local budgets, we will analyze the correlation between these indicators, similarly for the years 2014 - 2023 (Fig. 5 (a), (b)).

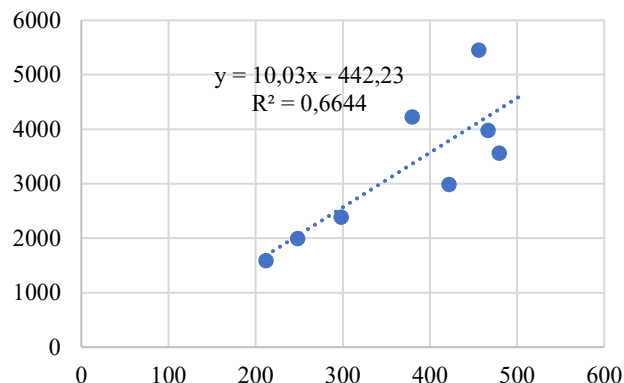


Figure 5 (a). Relationship between GRP and current expenditures of local budgets

The analysis of the correlation between GRP and current expenditures of local budgets (Fig. 5 (a)) indicates that this relationship is weak, the value of the correlation coefficient is 0.8151, and the coefficient of determination is 0.6644. We can conclude that current expenditures of local budgets ensure their functioning, but their role in GRP growth is weak.

Unlike the current ones, capital expenditures have a significant impact on the economic growth of regions (Fig. 5 (b)), the value of the correlation coefficient is 0.9537, and the coefficient of determination is 0.9095.

Of course, the analysis of the correlation relationship between indicators should be done in more or less stable conditions of development. Today, in the conditions of martial law, and even after its end, state priorities and principles of financing territorial communities are changing.

However, it can be considered that it was the reform of local self-government that shaped the resilience of communities, that is, the ability of local executive power to adapt to the various shocks of a full-scale war. After all, a full-scale war is not a single shock, but a source of shocks of different intensity, duration and complexity in different territories for different territorial communities.

After the end of hostilities, it is necessary to restore a large number of communities throughout Ukraine, therefore local authorities need to assess

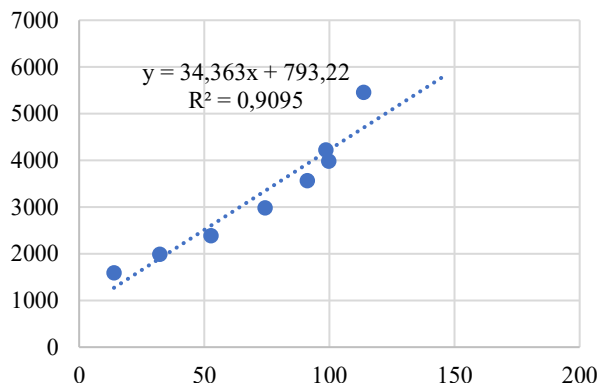


Figure 5 (b). Connection of GRP and capital expenditures of local budgets

the potential of the territory today, form business projects that will interest foreign investors, and especially the European Union, which plays a key role in promoting broad and harmonious development of the entire European communities, seeks to reduce disparities in the development of different regions. Special attention is paid to rural areas, areas undergoing industrial change, and regions suffering from serious and persistent natural or demographic problems.

The cohesion policy is the main investment policy of the European Union (Europarl, 2024). It benefits all EU regions and cities and contributes to economic growth, job creation, business competitiveness, sustainable development and environmental protection.

From the very beginning of the existence of the European Community (now the European Union), there were large territorial and demographic differences that could become an obstacle to integration and development in Europe. The Treaty of Rome of 1957 created solidarity mechanisms in the form of two funds: the European Social Fund (ESF) and the European Agricultural Guidance and Guarantee Fund (EAGF). In 1975, with the creation of the European Regional Development Fund (ERDF), regional issues were also taken into account. In 1994, the Cohesion Fund was established.

For the period 2021-2027, EU funding comes from two sources: the classic Multiannual

Financial Framework (WRF), which sets annual EU spending ceilings, and the Next Generation EU Recovery Plan (NGEU), an emergency recovery initiative designed to help member states recover from the COVID-19 pandemic.

In October 2022, changes were made to the funding programs of the EU countries to improve the effectiveness of the cohesion policy of member states and regions and to increase the flexibility of the use of resources in support of measures aimed at solving the migration challenges caused by Russia's military aggression.

Resources of the EU cohesion policy in 2021-2027 will amount to 322.3 billion EUR and will be distributed as follows:

- 202.3 billion EUR for less developed regions;
- 47.8 billion EUR for regions with transition economies;
- 27.2 billion EUR for more developed regions;
- 42.6 billion EUR for Member States supported by the Cohesion Fund (of which EUR 10 billion will be allocated to the Connecting Europe Facility);
- 1,928 million EUR as additional funding for the outermost regions;
- 500 million EUR for interregional innovative investments (Europarl, 2024).

As a European state, Ukraine has the opportunity to be part of the cohesion program, to be included in EU funding programs for measures related to innovative economic transformation; green low-carbon economy; mobility; implementation of the European pillar of social

rights; sustainable and integrated development of urban and rural areas through local initiatives.

Conclusions

Therefore, to fulfill their own and delegated powers, local authorities must accumulate and effectively use the resource potential of the respective territory. Local budgets of territorial communities mainly consist of national tax revenues, which in turn contradicts democratic mechanisms of the market economy and principles of planning and management of financial resources of territorial communities specified in Ukrainian legislation and European norms. The main revenues of local budgets, which have the greatest impact on the regional development, are tax revenues, namely the tax and levy on the income of individuals and the single tax. No less important for territorial development are capital expenditures of local budgets. Therefore, the most pragmatic steps on the way to the implementation of the ideas of a financially capable and independent territorial community are creation by local authorities of the conditions for business development, attracting investments, including from the European Union, and building a flexible democratic system of government at the local level. Therefore, further research will be directed to the search for additional sources of filling local budgets with the use of resources of unused resource potential that were not used for the period of the research.

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