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ANALYSIS OF APPROACHES OF TERRITORIAL DEVELOPMENT DISPARITIES SMOOTHING ON MUNICIPAL LEVEL IN UKRAINE

Problem starting.

Territorial proportions (disproportions) are definite correlation between two or more components of regional socio-economic systems that are expressed in differences in various indicators of their condition and development. The proportions reflect historical process of economic development of the territory, its place in world and regional economy and aggregate influence on local development of economic and social factors.

Differences in territorial development in Ukraine hinder formation of the integrity of its socio-economic space, and at critical levels they can generate socially unacceptable consequences. Thus, the need to solve the problems of territorial transformation is important task of modern government of territorial development in Ukraine. In this context the territories are understood as relatively isolated economic systems, which form social environment and give reasons for territorial separation of administrative units. City should be identified as one of the most important hierarchical levels of such areas.

Recent researches and publications.

The problem of estimation of inter-territorial disproportions of socio-economic development and improving the ways of their smoothing was lighted up in the works of such foreign and domestic scientists as O. Barabakov, D. Bell, A. Hotlyb, V. Volokhov, L. Ivanchenkov, V. Morhachev, T. Saati, I. Shevchenko, Y. Chepurko.

The main material.

In the context of investigated problem attention should be paid to experience of the countries that have developed mechanism of territorial regulation. "Leipzig Charter of sustainable European city" emphasizes the need of realization of principles of integrated urban development policy. Extract: "The politics of integrated urban development should be understood as simultaneous and fair taking into account the needs and interests relevant to the development of the city.

Integrated urban development policy is a process. This process is carried out coordination of the central areas of urban policy in the spatial, temporal and business plane. It is vitally important to involve business leaders, groups with general interests, public society. Balance of interests, achieved due to integrated urban development, provides a basis for consensus between state, regions, cities, citizens and business entities. Politics of urban development should be secured at the national level" [1].

Thus, European practice indicates need of realization of city development smoothing regarding their specificity and interests.

"Smoothing" is understood as rapprochement of levels of socio-economic development of the cities in terms of reduction of disparities of their development priority to stimulate the economy and social sphere of the most backward communities, creating conditions for economic growth in all municipalities of the region and country. Smoothing can be done through the development of social sphere and infrastructure of problem areas, due to redistribution of financial resources within the framework of intergovernmental relations, or by stimulating accelerated economic growth municipalities.

The most important step of governing asymmetry of urban development is to identify the disparities of socio-economic development, which requires creation of information and analytical base for carrying out balanced smoothing policy. The main task of creating of such database is to build a reliable and objective basis for developing of regulation policy of urban development, to define its priorities and in this regard to take measures for selective support of certain municipalities.

Basic requirements as for the information and analytical framework is the possibility of its using for horizontal (inter-municipal) compare of certain indicators of territorial development, compare data with medium (regulatory) parameters and detection of deviations (imbalances), which will determine the directions of policy cohesion.

The objectives of study of socio-economic development of cities are:

— Collecting of general data about the economy and social sector of the territories and identification of system of parameters that will characterize level of their socio-economic development;

— Detection of asymmetries in some sectors and areas of social services and economic sphere;

— Identifying of groups of territories according to their need of state aid;

— Creation of information base for further development of recommendations for policy of smoothing of asymmetry of cities development.

Table 1

Differences of socio-economic development of cities of Donetsk Region

(σ)

Index	Years					
	2000	2005	2006	2007	2008	2009
Standard deviation of average nominal wages	57,0	155,1	164,9	225,7	276,6	373,9
Standard deviation of investment in fixed capital per capita	576,1	1499,2	1510,0	2523,6	3427,1	1730

Table 2

Differences of socio-economic development of the cities of Donetsk region which differ by population

(σ)

Index	Years					
	2000	2005	2006	2007	2008	2009
Standard deviation of average nominal wages	30,9	98,8	113,4	127,1	158,6	252,5
Standard deviation of investment in fixed capital per capita	268,9	769,6	1174,5	2135,1	2871,4	1609,0

The problem of selecting of indicators that should be investigated for estimation of socio-economic development of cities and their comparison, is not completely resolved neither at the theoretical level nor in management practices. It is caused by various conditions of cities socio-economic systems function, primarily determined by the spatial factor.

Let's illustrate the differences of socio-economic development of cities in Ukraine on example of Donetsk region, examining such factors as average wages and the level of investment in fixed capital per capita. These indicators were chosen by us as such that weakly depend on the spatial factor and characterize social and economic aspects of development in complex. Affiliation of investigated cities to same region gives certain independence from the budget impacts of the regions. The general uniformity of these parameters can be estimated due to index of standard deviation (Tab. 1).

We have investigated the performance of 28 cities of the Donetsk region.

These data illustrate the growing regional disparities of socio-economic development in Ukraine at the city level.

Evaluation of the impact of such spatial factor as population of the city will be held through rate of standard deviation of average nominal wages and investment in fixed capital per capita between different groups of cities, which will be divided according to population. This feature is essential, because it may identify a local "economies of scale" of socio-economic system and also may influence upon efficiency of urban infrastructure.

We have selected the following group of cities in the Donetsk region regarding their population:

1) "small cities" — cities with a population less than 50 thousand. (This group forms 9 cities)

2) "average city" — from 50thousand to 100thousand of population (This group forms 10 cities)

3) "large city" — from 100 thousand to 250 thousand of population (This group forms 5 cities)

4) "big city" — from 250 thousand to 500 thousand of population (This group forms 3 cities)

5) "largest city" — with a population of more than 500 thousand of population, this group corresponds to single city — Donetsk.

Corresponding calculations are given in Table 2.

Analysing the data of table 3 we can conclude that the general differences of socio-economic development of cities of Donetsk Region are more than between group differences, but between group differences also increase. In addition, attention also should be paid to the fact that differences in terms of investment in fixed capital per capita exceeds differences at average nominal wages almost in 10 times. This situation is a consequence of the implementation of smoothing policy.

State policy of smoothing of regional disparities at the level of municipalities is reflected in Ukrainian legislation, namely Law of Ukraine " As for stimulation of regional development" [2] and Resolution of the Cabinet of Ministers of Ukraine "Approval of the Formula of distributing of intergovernmental transfers (grants and funds transferred to the state budget) between state budget and local budgets" [3].

The first document explained the term of "depressed territory". The territory is going to be identified as depressed in order to create legal, economic and

institutional framework for organs of state and local government to take special measures to stimulate the development of such areas.

As depressive the following cities are recognized — city of regional or republican (for Autonomous Republic of Crimea) status, where the level of registered unemployment, particularly long term unemployment, is much higher, while level of average wages is significantly lower than the corresponding averages of territorial development of this group at least for 3 years.

In order to stimulate the development of depressed territories the following measures can be carried out:

— State investments to development of production, communication and social infrastructure;

— State support, including financial, to small enterprises, promotion of infrastructure development businesses, such as business centers, business incubators, innovation centers and consulting, venture funds, etc.;

— Targeting of international technical assistance to decision of socio-economic and environmental problems and for other major events;

— Promoting employment, ensuring the proper funding for retraining and professional development of human resources, promotion of labor migration, improvement of social services, including housing, health and the environment;

— Provision of other state support for these territories.

From our point of view, such approach for determination of the cities that need government support for bringing level of their development to the national average, gives possibility to form the following conclusions:

— Number of studied criteria is very small, and that does not allow to establish the causes of depression and not to allow the detection of large number of socio-economic problems in some cities, in fact it eliminates features of certain territories in the study;

— This approach assesses the situation of the territory comparing it with the provisions of other territories, but does not take into account the dynamics of absolute indicators of the city which change in time. It does not allow identifying existing trends in the development of the municipality;

— The boards of deviation of socio-economic indicators of urban development and forms of state support based on these indicators are not clearly defined.

One of the main mechanisms of smoothing of territorial development in international practice is the budget mechanism. Calculation of intergovernmental smoothing grants in accordance with the said resolution of the Cabinet of Ministers of Ukraine is maid according to the formula:

$$Te = ai\ (Vi — Dizak\ ), \qquad (1)$$

where: Te — the amount of smoothing grants from the State budget to local budgets (or the removal from local budgets — to the State budget);

Vi — expenditures that are fixed by the relevant local budget;

Dizak — revenues that are fixed by the relevant local budget;

AI – smoothing coefficient

If the expenditures assigned to the relevant local budget exceeds revenues (Vi> Dizak), the value of AI is assumed to be 1. I.e. the State Budget ensures costs assigned to the relevant local budget. If on the contrary — the amount of income assigned to the relevant local budget exceeds expenditure (Dizak> Vi), the value of AI made ??is assumed to be less than 1.

For local budgets, which funds are transferred to the State budget, they use smoothing coefficient AI — 0.95, except: the budgets of cities — regional centers, where the number of existing population is more than 950 thousand persons, they use coefficient AI — 0.6; budget of Kyiv, for which the coefficient AI is- 0.93.

The procedure of calculating of fixed income and expenditure is subject to the following parameters:

1) financial standards of budget sufficiency and coefficients to them;

2) the population and number of recipients of social services;

3) index of relative solvency of the territory;

4) the projected revenue index of the basket of local government budgets.

The volume of trash revenues of the budget is determined by using index of relative solvency budget of the territory based on the actual implementation of the budget for the last three budget periods. The index of relative solvency is ratio, which determines the level of solvency of administrative unit compared to the average level for Ukraine calculated per inhabitant. The consequences of using this approach to the budgets of Ukraine are displayed in the table 3.

Data shows that despite the increase in the amounts provided to the municipal budgets in the form of equalization (both in nominal and real terms), the fiscal autonomy of cities decreases; they are increasingly dependent on budgetary transfers. Thus, the Transfer Policy of the country does not create incentives for urban development (this is the main reason that differences in investment to fixed assets grow faster than the differences of mean wages).

To our opinion it is determined by two significant drawbacks of the mentioned approach to the territorial smoothing:

— Firstly, on city level it actually implements the policy of not smoothing of territory development, but ensuring the necessary minimum of social costs (in case of budget deficits the coefficient AI in formula (1) is accepted as being equal to 1);

— Secondly, in case of use of the said rules, increased revenues will be accompanied by a decline in transfers,

Table 3

Use of equalization to the budgets of Ukraine

Index	Years				
	2005	2006	2007	2008	2009
Equalization Grant *, mln. UAH	22880,2	30663,8	27169,5	32555,7	33356,3
Share of equalization grant in local budget revenues, %	20,6	23,0	18,1	21,7	25,1

* Data is presented in comparable form (to that of 2009), conducted by comparing the rate of GDP deflator

which reduces the interest of local authorities to increase budget revenues, the city-donors also do not have in these conditions sufficient incentives to increase their own budgets (in fact 60% to 95% of the amounts of such increase shall be transmitted to the central budget).

It should also be noted that the use of predictive indicators in calculating equalization grant which are based on the previous three-year statistics, from time to time rises in failure to take into account recent significant changes in the conditions of the territory development in relation to the planned budget period.

Conclusion.

Thus, we can say that the current pace of socio-economic development of cities in Ukraine is characterized by increasing differences in their economic and social condition and requires activation of cohesion policy development in these territories.

Existing Ukrainian regulatory framework of territorial smoothing determines the appropriate state policy, based on insufficient indicators studied for its formation (for example, indicators of the infrastructure of cities are not considered at all), so a number of problem territories may remain without government support. This situation requires the development of a more detailed approach to the study of territorial imbalances.

Fiscal equalization mechanism of municipalities' development actually implements the policy of not smoothing of territory development, but ensuring of necessary minimum of social costs. Its operation does not reduce dependence of the cities on transfers. Moreover, its practical implementation makes non-stimulant impact to urban development budget, what actualizes need of its improvement.

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Myedvyedyev D. M. Analysis of Approaches of Territorial Development Disparities Smoothing on Municipal Level in Ukraine

The article analyses dynamics of disparities of socio-economic development in Ukrainian cities and Ukrainian legislation influenced upon the mentioned disparities as well as shows the ways of its improving.

Key words: territorial development, asymmetry, smoothing, inter-budget grants.

Мєдвєдєв Д. М. Аналіз підходів до вирівнювання диспропорцій територіального розвитку на муніципальному рівні в Україні

У статті проаналізовано динаміку диспропорцій соціально-економічного розвитку міст в Україні, розглянуто українське законодавство, що впливає на ці співвідношення, указано шляхи його вдосконалення.

Ключові слова: територіальний розвиток, асиметрія, вирівнювання, міжбюджетні дотації.

Медведев Д. Н. Анализ подходов к выравниванию диспропорций территориального развития на муниципальном уровне в Украине

В статье анализируется динамика диспропорций социально-экономического развития городов в Украине, рассматривается украинское законодательство, влияющее на данные соотношения, указываются пути его совершенствования.

Ключевые слова: территориальное развитие, асимметрия, выравнивание, межбюджетные дотации.