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Local Finance in the Provision of Community Wellbeing: Comparative Analysis of Poland and Ukraine

Abstract. *The concept of wellbeing can be considered from an interdisciplinary perspective, taking into account psychological, social, managerial and economic aspects at different levels (state, regional, local, individual), and adopting a top-down approach. The author analyses the position of Ukraine and Poland in different dimensions of wellbeing and finds significant differences in indices and their constituents. The findings confirm an impact of local finances on regional human development, and the efficiency of local government bodies is found to be positively correlated with the development of human potential. The article demonstrates the necessity of a comprehensive assessment of community wellbeing, taking into account the role of local finances and directions of increasing the efficiency of local government bodies.*

Keywords: *community wellbeing, local finance, human development, local human development, efficiency, local government*

1. Introduction

In modern studies, the nature of local finance is determined by the totality of relationships that arise in the process of formation, distribution and use of financial resources within the competences of local governments and their functions. The formation and development of such relationships is an evolutionary process and, as a consequence, largely due to the political system of the country, its institutional framework, the functioning of the public administration system, and most importantly, the available financial resources and specific ways in which they are used. It is undeniable that both Poland and Ukraine are countries

with market economies, which have undergone similar changes in the process of implementing a decentralized system of public administration; consequently, it is possible to compare them. At the same time, it should be noted that in Poland, the reform of the local government system in order to increase its role in the provision of local public goods and services, was conducted much earlier than in Ukraine, which has only recently succeeded in this area. One should also note the difference between the positions of the two countries in key dimensions of wellbeing, with Poland ranking much higher. In such circumstances, a comparative analysis of two countries (Poland and Ukraine) should reveal differences in wellbeing ratings, causes of such differences, and determine the place and role of local finances in ensuring the wellbeing of the population.

2. The directions for theory, research and practice

There are two directions in theoretical research on local finance and wellbeing. Most Ukrainian and foreign scholars study local finance in the context of: 1) revenue and expenditure autonomy; 2) powers and functions of local government bodies; 3) sufficiency or lack of financial resources; 4) ability to provide public services. Parametrization of the local finance system with a focus on all these issues is extremely important as it determines the possibilities of achieving the end result of the work of local government – ensuring the wellbeing of residents. One should also stress the importance of decentralization, which brings public services closer to citizens and allows local government bodies to identify the basic level of services provision at the community level using bottom-up strategies.

The current scientific understanding of the term “welfare” is increasingly linked to the need of producing alternative measures of the nation’s wealth to the gross domestic product (GDP). Numerous studies confirm the imperfection of GDP, which is seen as not covering all economic operations and inadequately reflecting the level of the population’s wellbeing. Among the most popular indices that can measure wellbeing from different perspectives, there are the Human Development Index, the World Happiness Report, the Better Life Index and the Well-Being Index. Such comparisons can help us determine the position of a given country in the overall ranking. At the same time, they exhibit a rather generalized picture, indicating deterioration or improvement over time, without exploring causes of these trends. These ratings generally ignore variables such as place of residence or affiliation with a particular social group.

The importance of sub-national levels in the measurement of well-being is indicated by the joint initiative of the Institute for Management Research and Radboud University and the OECD. This kind of analysis can determine inequalities within a country and make cross-country comparisons of regions by

population welfare parameters. One weakness of these indices is (as well as in the case of cross-national comparisons) the existence of subregional inequalities related to the lack of information about people's place of residence and their relationship with local government bodies in terms of public services provision. The regional dimension of human development in the aggregated indicators is presented in many countries, though it varies as far as its components are concerned. It is worth noting that these issues are also addressed in the research of scholars from Hungary, Poland, Italy, etc. [Obádovics, Kulcsár 2004: 26-37; Burchi, Gnesi 2016: 170-192].

The need for a more localized approach to wellbeing studies has led to community-based wellbeing research. According to J. Wiseman and K. Brasher, the concept of community well-being is an integrated "combination of social, economic, environmental, cultural and political conditions identified by individuals and their communities as essential for them to flourish and fulfill their potential" [Wiseman, Brasher 2008: 358]. The Kraeger, Cloutier and Talmage study interpreted well-being from the perspective of an individual, society, and community, and found a mutual influence of society and community on the quality of life of its inhabitants [Kraeger, Cloutier, Talmage 2017]. Psychological and geographical approaches to community well-being in the Murgas and Klobučník study allow researchers to analyze different size groups of municipalities and small cities with a comprehensive assessment of the subjective quality of life of community residents [Murgas, Klobučník 2016: 553-570].

The concept of wellbeing can be considered from an interdisciplinary perspective, taking into psychological, social, managerial and economic aspects

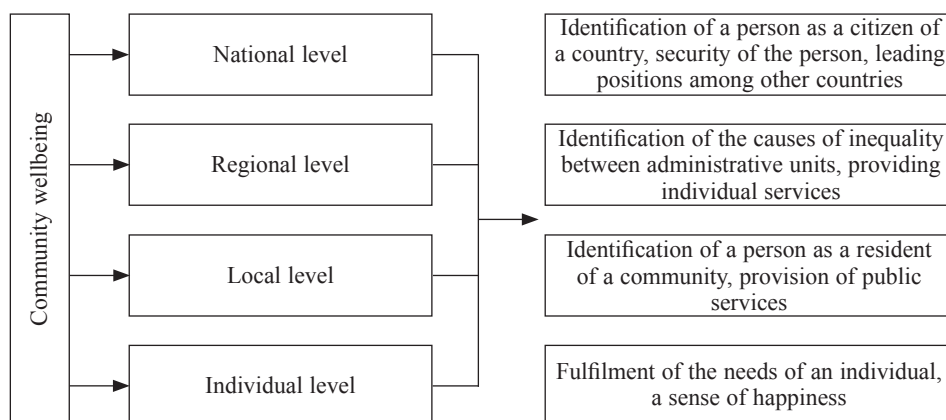


Figure 1. Interpretation of key characteristics of different dimensions of wellbeing

Source: own elaboration.

at different levels (state, regional, local, individual), and adopting a top-down approach. After reviewing theoretical studies (Fig. 1) it was possible to isolate key characteristics that determine the population's wellbeing at national, regional, local and individual level. At the same time, the key role is played by the community, which is a collection of individual residents, and the place where public services are provided.

3. National dimension and cross-national comparisons

According to the Human Development Index, in 2017, Ukraine was 88th in the ranking, having improved its standing compared with the previous year by two places; Poland was 33rd, having moved up one place (Table 1). Thus, by the end of 2017, Poland was in the group of countries with a very high Human Development Index, and Ukraine – with a high Human Development Index. There is a bigger gap between the rankings in the World Happiness Report, which, in addition to objective assessment, also takes into account subjective ratings of well-being. For example, in 2017 Poland ranked 42nd and Ukraine – 132nd. The OECD's Better Life Index covers 40 countries, of which Poland is ranked 29th and Ukraine is not included.

Based on the methodology of the UN Human Development Index, which includes three components: education (expected years of schooling, average years of schooling), health (life expectancy) and standard of living (gross national income per capita), a subnational database on human development is presented¹, which can be used to compare regions of Poland and Ukraine (Fig. 2). It should be noted that the Subnational Regional Human Development Database contains data for Ukraine only at the level of macro-regions. Our study is based on these data, since the ranking of regions in Poland, Ukraine (in this case, macro-regions) and other countries was based on one methodology, which enables comparisons of regional human development between countries.

Ukraine consists of 24 regions (oblasts) and the temporarily annexed part of the Autonomous Republic of Crimea (ARC). In our calculations we used the average values of socio-economic development of regions grouped into the following macro-regions: Western (Lviv, Transcarpathian, Ivano-Frankivsk, Chernivtsi, Volyn, Rivne, Khmelnytsky, Ternopil regions), Central (Poltava, Chernihiv, Vinnytsia and Cherkasy regions), Eastern (Kharkiv, Dnipropetrovsk, Donetsk, Luhansk regions), Northern (Zhytomyr, Kyiv, Chernihiv and Sumy regions), Southern (Kherson, Zaporizhia, Odesa, Dnipropetrovsk and Mykolaiv regions, ARC).

¹ <https://globaldatalab.org/shdi/about/> [accessed: 1.09.2019].

Table 1. Ukraine and Poland in international well-being rankings, 2017

No.	Index	Organization	Main indicators	Number of countries in the ranking	Poland's rank	Ukraine's rank
1	Human Development Index	United Nations Development Program	Life expectancy, education, GDP per person	189	33	88
2	World Happiness Index	UN-sponsored The Earth Institute Research Center	GDP per person, life expectancy, social support, freedom to make life choices, generosity, perceptions of corruption	156	42	132
3	Legatum Prosperity Index	Legatum Institute	9 dimensions Economic Quality, Business Environment, Governance, Education, Health, Safety & Security, Personal Freedom, Social Capital, Natural Environment	149	32	112
4	Better Life Index	OECD	11 dimensions of well-being Housing, income, jobs, community, Education, environment, governance, health, life satisfaction, safety, work-life balance	40	29	–

Source: <http://hdr.undp.org/en/content/human-development-index-hdi>; <https://worldhappiness.report/>; <https://www.prosperity.com/>; <http://www.oecd.betterlifeindex.org> [accessed: 1.09.2019].

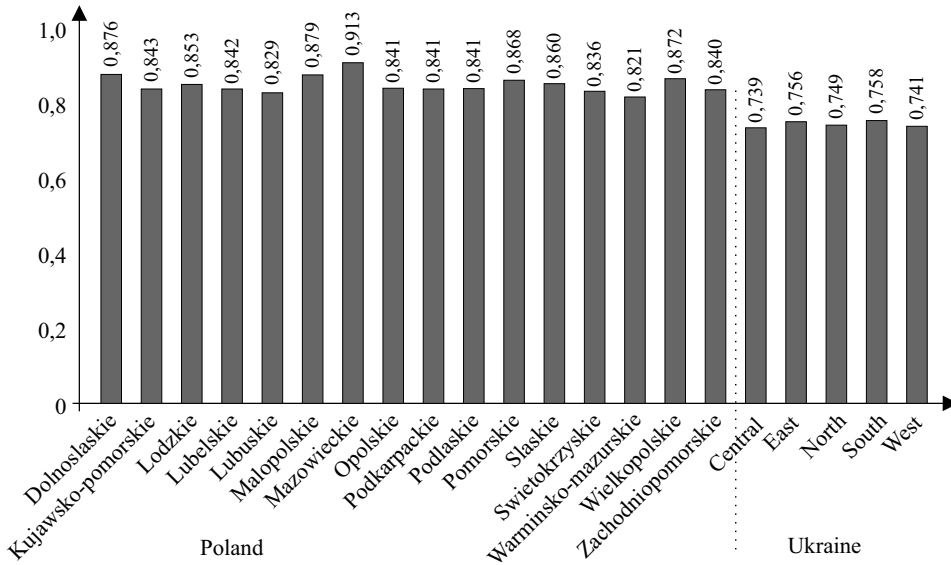


Figure 2. SHDI Ukraine-Poland Comparison, 2017

Source: <https://globaldatalab.org/shdi/about/> [accessed: 1.09.2019].

A cross-regional comparison of the Human Development Index of Poland and Ukraine shows:

- significant differentiation in human development between regions, the difference between the highest and the lowest index is 0.172, which is more due to the higher level of human development of Poland as a whole;
- both in Poland and in Ukraine there are regions characterized by high and low sub-indices, as well as regions in which one of the sub-indices had a significant impact on the overall indicator;
- a higher level of inequality for Polish regions in all components of the regional human development index compared to Ukraine. However, it should be noted that the representation of all 24 regions would show a radically different picture.

In general, many countries often conduct internal assessments of regional human development, using other indicators, stating that the UNDP's subnational human development index is a long-term goal, and this position requires clarifying the internal causes of inequalities in human development across regions.

For example, in 2010 a team of researchers led by P. Arak prepared the "National Human Development Report Poland 2012. Local and Regional Development," which presented local human development (LHDI) results based on a synthetic index including 3 sub-indices: health (estimated life expectancy at

birth, cumulative mortality rate caused by cancer and heart disease), education (percentage of children enrolled in pre-school education, average exam results for lower secondary school: math and science only) and prosperity (average income per capita) [Arak 2012].

In Ukraine, the State Statistics Service,² using the methodology of assessing regional human development, developed by the Ptoukha Institute for Demography and Social Studies of the National Academy of Sciences of Ukraine,³ publishes results of the Subnational Human Development Index (SHDI), including 6 blocks of indicators: population reproduction, social status, comfortable life, prosperity, decent work and education.

Table 2. Comparison of the human development ranking of the provinces of Poland by different assessment methods, 2010

Province	SHDI. UNDP 2010	SHDI ranking	LHDI. Poland 2010	LHDI ranking	Change of rank
Dolnoslaskie	0.844	2	46.3	6	-4
Kujawsko-pomorskie	0.812	12	41.2	13	-1
Lodzkie	0.822	7	39.3	15	-8
Lubelskie	0.812	13	39.6	14	-1
Lubuskie	0.805	15	44.4	9	6
Malopolskie	0.843	3	51.9	2	1
Mazowieckie	0.878	1	60.2	1	0
Opolskie	0.816	9	47.0	5	4
Podkarpackie	0.811	14	43.8	10	4
Podlaskie	0.817	8	44.4	8	0
Pomorskie	0.837	5	51.1	3	2
Slaskie	0.833	6	44.9	7	-1
Swietokrzyskie	0.813	10	36.8	16	-6
Warminsko-mazurskie	0.801	16	42.3	12	4
Wielkopolskie	0.840	4	50.2	4	0
Zachodniopomorskie	0.813	11	42.9	11	0

Source: Arak, 2012; <https://globaldatalab.org/shdi/about/> [accessed: 1.09.2019].

A comparison of the ranking of the Polish regions using the two methods shows differences which are due to the use of different sub-index evaluation characteristics (Table 2); it is difficult to make such a comparison for Ukraine, since only 5 macroregions are listed in the UNDP assessment. At the same time, for example, the western macro-region of Ukraine (Lviv, Ivano-Frankivsk, Transcarpathian, Rivne, Ternopil Volyn, Chernivtsi oblasts), which according to the UNDP has the lowest SHDI rating, contains regions which are in the top of the

² <http://www.ukrstat.gov.ua/> [accessed: 16.04.2019].

³ https://idss.org.ua/ukr_index/irlr_2014 [accessed: 29.04.2019].

ranking according to the national LHDI methodology (1st place: Ivano-Frankivsk oblast to 11th: Volyn oblast).

To link local finance and human development, we used Piotr Arak's approach. Based on local cost effectiveness, he proposes a synthetic indicator that combines local expenditures, the number of doctors per capita, the ratio of teachers to students, and the cost of education. It should be noted that to date, we do not know the study's findings about the impact of local finances on community well-being in Ukraine, which is largely related to their short history of functioning (since 2015), lack of relevant information and lack of methodological bases for calculating local wellbeing. Against this background, let us determine the presence or absence of correlation between regions. The calculations confirmed the presence of a polynomial dependence (Fig. 3) between the level and efficiency of local expenditures (LPDHI) and the regional human development index in Ukraine (LPI).

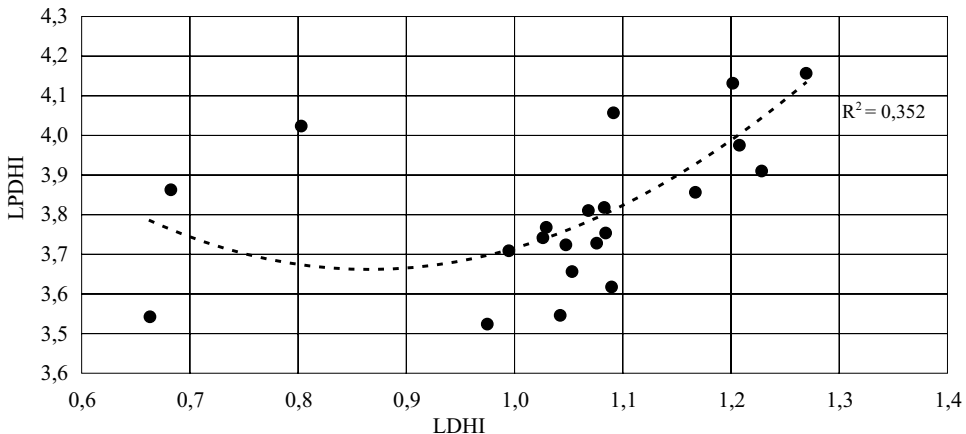


Figure 3. Dependence of regional human development in Ukraine on the efficiency of local expenditures, 2017

Source: own calculations based on https://idss.org.ua/ukr_index/irlr_2014/ [accessed: 29.04.2019].

However, it should be noted that the construction of local well-being indices and the determination of various interdependencies should start at the community level, since:

- the community is the main provider of local goods and services;
- the community is the primary level of interactions between inhabitants and public authorities and the level at which individual persons are identified as community residents;
- improving the efficiency of local government bodies will contribute to the well-being of community residents.

4. Conclusion

The importance of human development as an aggregate assessment of the well-being of residents is confirmed by numerous studies on the construction and measurement of human development. At the same time, its measurement is carried out at the level of countries and regions, which makes it impossible to take into account local differences within a country. In the context of decentralization, there has been a strengthening of the local level (communities) in terms of the financing of goods and services, which indicates the need to intensify the interaction between local governments and residents of the community.

Cross-national and inter-regional comparisons of well-being confirm that there is considerable differentiation between the indices and their components, however, they cannot be used to assess the impact of the causal factors. When human development is assessed at national, regional, local and individual level, it is possible to obtain a picture of development that can help improve the effectiveness of public policy at each level of government. Therefore, there is a need for more research on community well-being, which largely depends on the effective provision of local services and ultimately leads to a high level of human development.

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Finanse lokalne w kontekście zapewnienia dobrobytu społeczności – analiza porównawcza Polski i Ukrainy

Streszczenie. *Koncepcja dobrostanu charakteryzuje się podejściem interdyscyplinarnym i jest traktowana z psychologicznego, społecznego, kierowniczego i ekonomicznego punktu widzenia, na różnych poziomach wymiaru: krajowym, regionalnym, lokalnym, indywidualnym. Zbadano sytuację Ukrainy i Polski w różnych wymiarach dobrostanu. Stwierdzono znaczne zróżnicowanie zarówno wskaźników, jak i ich składników. Potwierdzono wpływ finansów lokalnych na regionalny rozwój człowieka i stwierdzono, że efektywność funkcjonowania organów samorządu terytorialnego jest pozytywnie skorelowana z rozwojem potencjału ludzkiego. Uzasadniona jest konieczność kompleksowej oceny dobrobytu społeczności, z uwzględnieniem roli finansów lokalnych i kierunków poprawy efektywności funkcjonowania organów samorządu terytorialnego.*

Słowa kluczowe: *dobrobyt społeczności, lokalne finanse, rozwój człowieka, lokalny rozwój ludzki, wydajność, samorząd lokalny*