

Impact of financial (rent) payments from the extractive industry for the local community development (by the case of two pilot communities from different regions of Ukraine)

This is a summary of a full report in English-language published by the Local Economic Development Agency of Yavoriv District in Ukraine in April 2021.

Author: Iryna Kuropas

This study analyzes the impact of rental, environmental and other financial revenues from extractive activities on enabling conditions for sustainable development in affected communities. A fundamental issue that comes up in the context of sustainable development of territorial communities is the extent to which financial revenues to their budgets, as well as their structure of expenditures allow harmonization of economic, environmental, and social aspects of community development and use of natural and human resources.

Based on that, the author of this study researched the efficiency of the utilization of local resources in accordance with the principles of subsidiarity and financial self-sufficiency, as well as the optimization of the structure of the local economy. Using theoretical and methodological approaches to sustainable development of territorial communities, on the territory of which hydrocarbon reserves are located and extracted, the author proposes to adapt innovative approaches to the management of natural resource potential of the territory.

Subsoil resources within territorial communities mainly belong to non-renewable, which determines the specifics of approaches to the conceptual foundations of their sustainable use. At the same time, the main emphasis should be placed on reaching acceptable compromises between the needs of using the mineral potential of the community for its economic and social development and the environmental threats that arise. The study analyzes the state policy of sustainable development of extractive territorial communities and suggests ways to improve it, with the support of the principles of democratic self-government. The introduction of democratic practices of public administration in the life of local communities is designed to eliminate most of the shortcomings identified in the research process.

Two consolidated territorial communities (CTCs) were selected to assess the efficiency of the use of the financial-budgetary capacity in consolidated territorial communities, at the territory of which the hydrocarbons are extracted. They are quite similar both by their areas and rent revenues to the local budget from the use of deposits. These are Delyatynska CTC of Ivano-Frankivska oblast and Shehynivska CTC of Lvivska oblast. Both Delyatynska CTC and Shehynivska CTC have deposits of hydrocarbons, especially those of gas. The exploitation of these deposits contributes to the local budget about UAH 3 million annually, which is approximately 10% of the community's revenues.

Key findings:

Comparing the efficiency of the use of financial and budgetary resources on the territory of Delyatynska CTC and Shehynivska CTC, the author identified that the vast majority of these funds are directed to the modernization of social infrastructure, housing and communal services, as well as road repairs. The logic of the described socially-oriented budgeting in the CTCs where the hydrocarbons are extracted is based not only on objective grounds. As mentioned previously, it contributes to meeting the primary and most urgent needs of the communities' residents. Yet, it is also accompanied by a range of risks that can cause negative trends in the economic development of these communities from a medium- and long-term perspective. Even though most local residents support the prioritizing of social and infrastructural projects, in the long run the specifics of financial-budgetary policy implementation can cause the deterioration of investment climate in these communities, especially in the increase of oil and gas extraction capacity at their territories.

Taking under consideration the results of this study, as well as the potential for further deployment of decentralization reform in Ukraine, the author of the study outlines the main priorities of local development policy, as well as management ways of their implementation. Implementing these would allow to increase the efficiency of the financial revenues using local budgets of CTCs from the exploitation of subsoil in the near future, as well as contribute to the introduction of modern mechanisms for implementing their financial policies.

Recommendations:

Along with meeting the primary socio-economic needs of the residents of communities at the territory of which the hydrocarbons are extracted, their local governments must implement the sustainable development policy oriented at a long-term perspective. The policy should be based on and secure the harmonization of the interests of community residents and representatives of the extractive companies. It should include the implementation of the agreed environmental projects, in particular related to preventing environmental and technological catastrophes, improvement of the investment climate, especially in oil and gas extraction and modernization of the productive and institutional infrastructure at the territory of the community.

An important tool for implementing sustainable development policy within the studied communities is introduction of democratic practices of public governance. In the first place, it is about adopting statutory, strategic and program documents designated to stipulate the long-term priorities of their socio-economic development and the mechanisms of adapting the documents in practice.