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EFFECTIVE IMPLEMENTATION OF FINANCIAL DECENTRALIZATION AT THE LOCAL LEVEL

Problem statement. For today priority direction of development of the democratic state is providing of increase of level of prosperity of every separate citizen. According to experience of the developed European ones countries, achievement of this aim it is possible only at the terms of quality state administration that strengthens democratic institutes, will liquidate inequality of possibility of access to the public benefits, improves quality and standard of living of population public services. Accordingly, by the vector of reforms in Ukraine, in this direction, the processes of financial decentralization became as the most effective form of organization of management public money, that answers both the new system of economic relations, built on market principles, and processes of democratization of all spheres of vital functions of society all-round.

Analysis of recent research and publications.

The problems of implementation of the policy of financial decentralization were devoted to such leading Ukrainian scientists as: Bondaruk T.G. [1], Derkach M.I. [2], Lyashenko V.I. [3], Kirilenko O.P. [4], Kravchenko V.I. At the same time, there is a certain fragmentation of research into the problems of theoretical, evolutionary aspects of financial decentralization, budget federalism in the context of territorial development.

The aim of the article is an analysis of the process of establishing financial decentralization in Ukraine and an assessment of the effectiveness of the implementation of the policy of financial decentralization at the local level.

Presenting the main material. The development of Ukraine as an independent state with European values requires the improvement of the quality of public administration in various spheres of economic policy, the formation of effective local self-government on the basis of decentralization of power and budgetary system. Modern institutions of decentralized management, as international experience shows, provide better performance of state functions and more efficient provision of public goods and services. Financial decentralization is one of the fundamental conditions for the independence and viability of local authorities, since the decentralization of decision-making processes increases the opportunities for local authorities to develop their own territory, promotes effective provision of public services

through more thorough coordination of government expenditures with the most urgent local needs.

The significance of financial decentralization lies in the fact that it enables to balance the mechanisms of providing public services with the needs and preferences of local communities and residents, increases the level of responsibility of local authorities for fulfilling the respective functions and the degree of efficiency of the state sector activity in general through the introduction of con currencies

The policy of financial decentralization in Ukraine has undergone several stages of implementation, each of which has its own peculiarities.

The first stage of the formation of the policy of financial decentralization took place in the period from 1991 to 2001. During this period, prerequisites for the development of the principles of decentralization, the introduction of the so-called fiscal federalism were created, as the constitutional provisions foresee the delimitation and independence of the state and local budgets, as well as the financial and material base of local self-government bodies. In addition, Art. 132 of the Constitution of Ukraine was consolidated decentralization as one of the principles of the exercise of state power [5].

The next stage of implementation of the policy of financial decentralization in Ukraine lasted from 2001-2010. The most significant step towards financial decentralization was the adoption in 2001 of the Budget Code of Ukraine. The authors of the Budget Code believed that, with its adoption, local budgets would become independent and receive projected income, and local self-government bodies would be interested in developing the economy of their territories and regions, expanding the tax base of local budgets. However, these budgetary decentralization efforts did not provide the expected results: there was no clear understanding at the time of the very theory of budget decentralization itself, the possibility of a number of problems was not taken into account.

The third phase lasted from 2010 to 2014. One of the priority directions of reform in this period was the reform of the intergovernmental fiscal relations and the tax system, which resulted in the adoption of the new edition of the Budget Code of Ukraine and the Tax Code of Ukraine.

The new version of the Budget Code of Ukraine was aimed at bringing the provisions of certain articles of the code in line with the Constitution of Ukraine and the Law of Ukraine "On Local Self-Government in Ukraine". This improvement should lay the foundations for improving the quality of management of budget funds, democratization and decentralization of financial resources, acculturated in local budgets. And with the adoption of the Tax Code of Ukraine, a long-awaited step towards optimization of the Institute of Local Taxation in Ukraine was made.

The fourth stage of the development of financial decentralization in Ukraine began at the end of 2014. It is from this moment that reforms in the sphere of local self-government of Ukraine are among the priorities of the government, among which the most significant was the adoption of the Concept for the reform of local self-government and the territorial organization of power in Ukraine. The concept defines the directions, mechanisms and timing of the formation of effective local self-government and territorial organization of power for creation and maintenance of a full-fledged living environment for citizens, providing high-quality and accessible services, meeting the interests of citizens in all spheres of life [6].

Substantial changes in the budget and tax legislation have already taken place and entered into force in 2015. In particular, local budgets from the state budget have been charged for the provision of other administrative services and state fees. Revenues to the General

Fund have been expanded by transferring from the special fund the environmental tax, the single tax and real estate tax, which used to be sources of budget development. Also, changes relate to the consolidation of stable sources of local budgets, namely, personal income tax on new standards and corporate income tax, the inclusion in the local budgets of a tax on the sale of excisable goods at a rate of 5% of the value of the goods sold, and an increase in the percentage of environmental tax. The changes made allowed local budgets to use funds for different purposes, and not only for capital expenditures. Since 2015, local budgets have received new types of transfers, such as educational subvention, a subvention for the training of labor cadres and a medical subvention.

Changes in tax and budget legislation have affected the state of local budget revenues in Ukraine (excluding official transfers), which decreased to 6.1% of GDP in 2015 compared to 6.5-7.2% in 2011-2014. Due to transfers from the state budget to local government duties (at the place of commission and issuance of documents) and fees for providing certain types of administrative services, non-tax revenues from local budgets increased to 1.02% of GDP compared to 0.78% in 2014 [7].

Income based on intergovernmental transfers amounted to 14.87% of GDP, roughly equivalent to the 2014 figure (14.79%), but lower than the corresponding figures for 2012-2013, when they exceeded 15% of GDP (table 1).

Table 1

Revenues of local budgets of Ukraine during 2011-2015, % of GDP
[it is improved the authors on the basis of source 7]

Indicator	Years				
	2011	2012	2013	2014	2015
Tax revenues, including:	5,61	6,08	6,27	5,57	4,96
Income tax	4,15	4,33	4,44	3,99	2,77
Income tax for private enterprises	0,00	0,00	0,00	0,00	0,12
Tax on immovable property other than land	0,00	0,00	0,00	0,00	0,04
Parking fees for vehicles	0,004	0,005	0,004	0,004	0,003
Tourist tax	0,002	0,003	0,003	0,002	0,002
Single tax	0,15	0,34	0,46	0,47	0,55
Fee for the conduct of certain types of entrepreneurial activity	0,03	0,04	0,04	0,03	0,00
Fee for land	0,82	0,89	0,88	0,77	0,75
Excise tax on sales of excisable goods by business entities	0,00	0,00	0,00	0,00	0,39
Ecological tax	0,09	0,11	0,11	0,08	0,08
Non-tax revenues, including:	0,84	0,90	0,83	0,78	1,02
Own receipts of budgetary institutions	0,63	0,67	0,61	0,61	0,77
Income without official transfers	6,66	7,14	7,23	6,45	6,09
Official transfers	7,29	8,82	7,96	8,34	8,79
Income based on official transfers	13,94	15,96	15,19	14,79	14,87
Official transfers	7,29	8,82	7,96	8,34	8,79

The share of tax revenues in total local budget revenues declined to 33.4% in 2015, compared with 37.7% in 2014 and 40.3% in 2011. This is due to a decrease in the inflow of PIT to local budgets as a result of

a 25% tax transfer to the state budget. If in 2011-2014 the local budget revenues from the PIT amounted to 4.0-4.4% of GDP, then in 2015 they decreased to 2.8% of GDP [7].

Tangible source of revenues to local budgets was the excise tax on the sale of excisable goods by business entities – about 8 billion UAH. (0.39% of GDP), or 7.8% of tax revenues of local budgets. Transport tax and real estate tax, other than land, provided less than 0.5% of local budget revenues.

Consequently, changes in the formation of local budgets and intergovernmental relations in 2015 were, first of all, prerequisites for ensuring the functioning of the budgetary system of Ukraine in a special period, rather than a step towards fiscal decentralization. An important component of the full development of Ukraine in the conditions of financial decentralization is the formation of financially-secured local self-government bodies, that is, stable and sufficient sources of their filling in order to effectively carry out delegated, transferred to their places and their own powers on the one

hand and operational solution of socio-economic problems at the level territorial community - on the other. In almost every country, local budgets are the most numerous link in the budget system. In Ukraine there are more than 10 thousand local budgets. Up to the reform of local self-government, more than 70% of resources were concentrated in the state budget, the rest – more than 20% – in local budgets [8].

Starting from 2014 (fig. 1), a gradual increase in the share of local budgets in the consolidated budget (from 37.5% in 2014 to 49.3% in 2017) is observed, which directly indicates the strengthening of the financial base of local self-government bodies and is, in our opinion, a direct consequence of the implementation of the Concept of Local Self-Government Reform and the Territorial Organization of Power in Ukraine, approved on April 1, 2014.

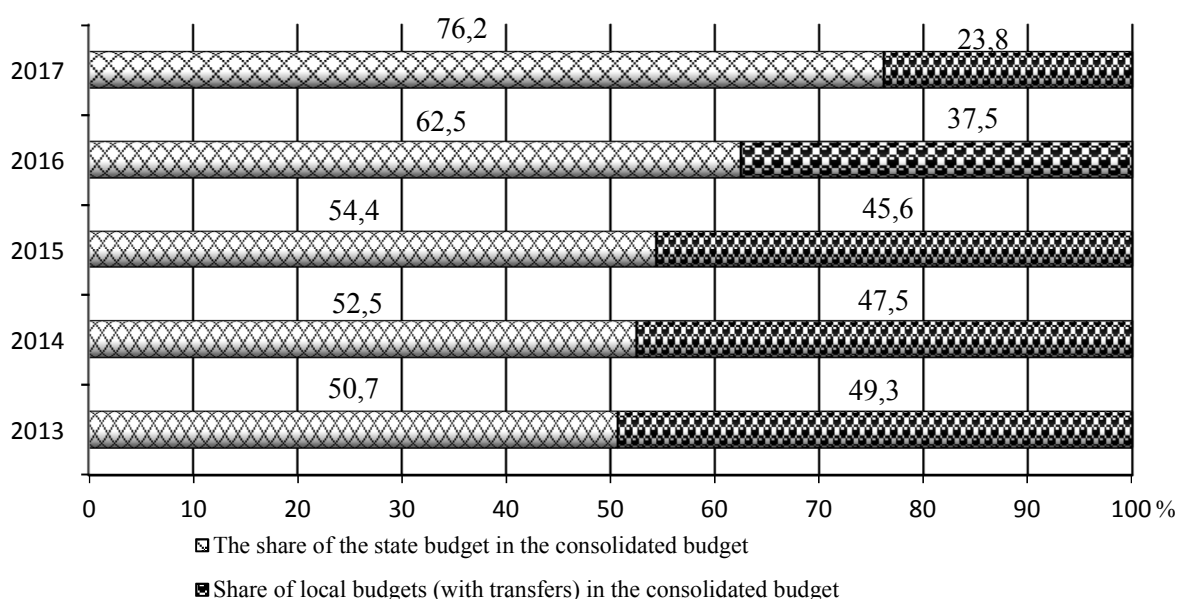


Fig. 1. Dynamics of the share of local budgets (with transfers) in the consolidated budget of Ukraine for 2013 - 2017, % [it is improved the authors on the basis of source 8]

The Law of Ukraine "On Local Self-Government in Ukraine" stipulates that "local budgets should be sufficient for the implementation of the OMCs granted by law to them and provide residents of the communities with high-quality public services" [9]. As already noted, in the context of the analysis of the impact of decentralization processes on the local budgets of Ukraine, a great deal of attention is paid to the issues and problems related to the formation of their revenue side and the search and implementation of reserves for its filling.

The study of actual revenues of the general fund of local budgets of Ukraine during 2013-2017 showed a significant increase in the total volume of their income. By 2014, the increase was an average of 4%. With the start of reforms, the situation changed dramatically: the amount of revenues to local budgets in 2016 amounted to 241.3 billion UAH, which is 24.5% more than in 2015 and 49.3% less than in 2017. In addition, if the bulk of

the revenues of the general fund of local budgets during the years 2013-2015 were carried by transfers, then from 2016 the share of transfers was just over 30%, and the main weight in budget revenues began to occupy own resources (more than 60%), the volume of which from the moment of realization of the reform has increased almost 2.5 times (from UAH 68.6 billion in 2014 to UAH 170.7 billion in 2017) (fig. 2).

Also, convincing evidence of the effective impact of financial decentralization on local government budgets in Ukraine is to reduce their share of subsidies for the period under study (from 96.3% in 2014 to 72.5% in 2017) and the amount and amount of loans granted by the Treasury to cover temporary cash breakdowns (from UAH 28.1 billion in 2014 to UAH 0.1 billion in 2017), indicating that local budgets have been able to improve their solvency since the adoption of the local self-government reform.

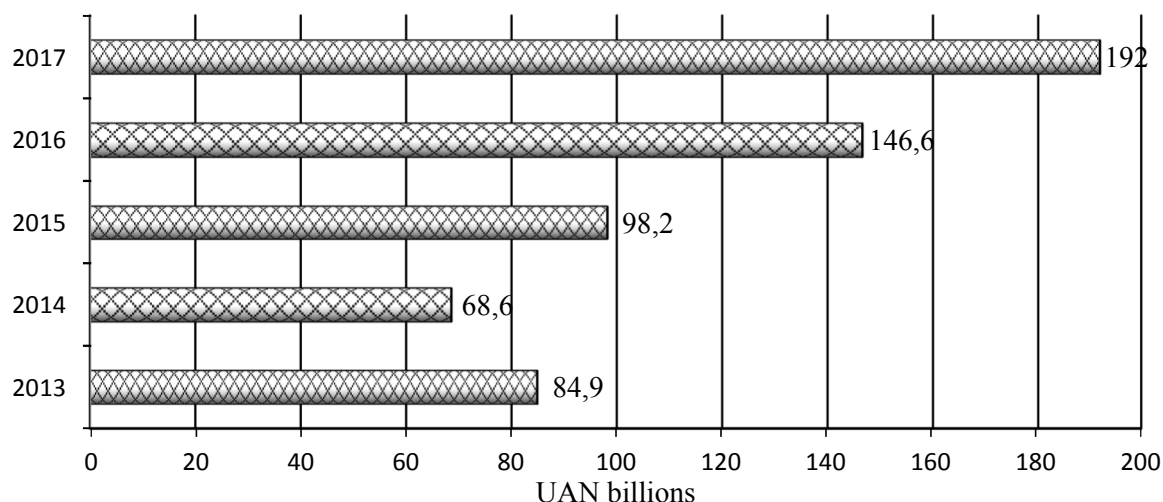


Fig. 2. Dynamics of own resources of local budgets for 2013-2017, UAH billions
[it is improved the authors on the basis of source 10]

At the same time, it should be noted that a significant increase in public support for community development and infrastructure development (Fig. 3), which is another positive consequence of fiscal decentralization, and, directly, a step from the budgets of "eating" to the budgets of development. As of August 1, 2017, the total budget support to local authorities for the development of territorial communities and the development of their

infrastructure amounted to 14.9 billion UAH, which is more than 30 times, compared with 2014 (0.5 billion UAH). For these funds, 5904 local and regional development projects were implemented, and 523 local governments received funding for socio-economic development projects [8], which enabled them, with the support of the country's leading resources, to implement their own development strategies.

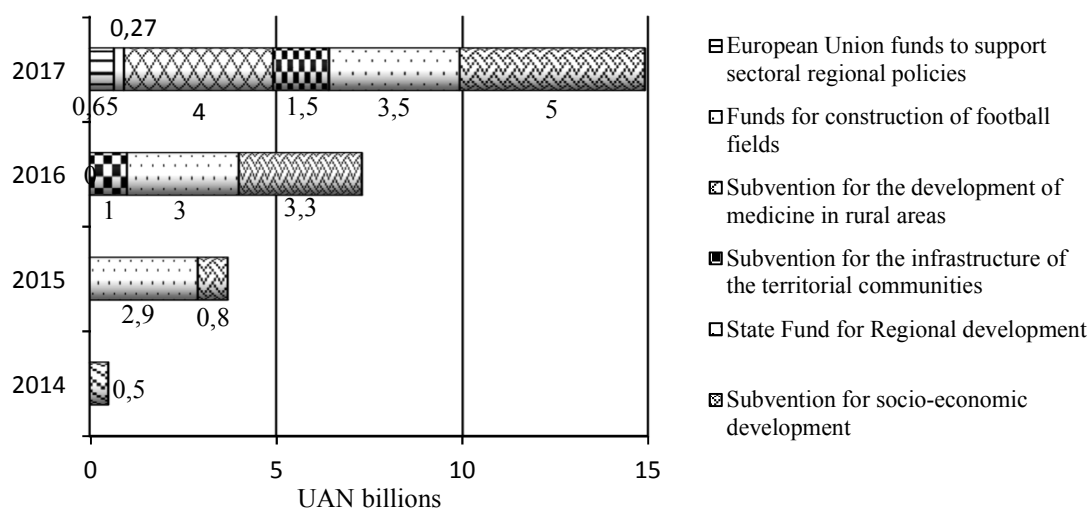


Fig. 3. The dynamics of state support for community development and infrastructure development for 2014-2017, UAH billions [it is improved the authors on the basis of source 11]

Thus, the study of the impact of financial decentralization on local budgets of Ukraine has shown significant positive developments in the system of local self-government in the country. Apart from the fact that municipalities have become more independent and self-sufficient through reform, they have come up with serious funds (due to increased own revenues) that they are absolutely calm, without any indication from the center, that they can use for the needs and development of the

community, which, of course, is one of the significant benefits of financial decentralization. In the process of financial decentralization it is necessary to eliminate the main shortcomings of the formation of local budgets of Ukraine in order not only to increase the autonomy of local authorities but, above all, to create conditions for ensuring the responsible execution of the functions of public authorities by local authorities, maximizing the benefits of the benefits and the interests of citizens in

relation to local public goods and services, the effective use of budgetary resources, and thereby create conditions for increasing social welfare.

The first issue to be solved in the process of financial decentralization is the question of which functions of the state (state in the broad sense as a set of bodies of general government) are more cost-efficiently implemented centrally, and which is decentralized.

The next component of financial decentralization is the clear legal separation of the functional powers of the central and local authorities, as well as in the system of local self-government bodies, which should define the areas of exclusive powers of local self-government bodies and eliminate duplication of functions of central and local authorities.

Modernization of the budgetary system of Ukraine on the principles of decentralization requires the transition to a new paradigm of state administration, based not on the opposition of authorities of different levels, but on a clear division of powers between state authorities and local self-government. Undoubtedly, the distribution of powers for the provision of public goods and the adoption of appropriate budgetary decisions is ultimately a political decision, but for the effective functioning of the budget system it is necessary that such a division be based on economic criteria.

Conclusions. Taking into account the current political situation and the process aimed at consolidation of all branches of power in order to carry out first-rate reforms, it is expedient to establish a system of institutions that can not only ensure the coordination of political positions on the reform of local self-government, but also carry out functions of monitoring, ongoing control, information and methodological support the entire complex of measures aimed at modernizing the modern system of local self-government in Ukraine.

Based on the analysis, it can be concluded that in Ukraine, which seeks to become a democratic state, the urgent need for further implementation of the policy of financial decentralization, which is one of the forms of decentralization, has become acutely over. This is due to the fact that the specifics of the organization of financial decentralization are more in line with the political, administrative and economic conditions that have developed in Ukraine.

Consequently, the further implementation of the policy of financial decentralization should include real budget and tax reforms, which in turn should correlate with the reform of the institution of local self-government and the administrative-territorial structure of the country, which will increase the level of financial independence of local self-government bodies.

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Касьянюк С. В., Мишура В. Б. Эффективность реализации финансовой децентрализации на местном уровне.

Ринкові перетворення, що відбуваються в Україні, потребують нових підходів до формування державної політики регіонального розвитку та реформування місцевого самоврядування. У статті здійснено аналіз етапів політики фінансової децентралізації в

Україні, визначено основні досягнення кожного з етапів. Виокремлено актуальні теоретичні і практичні проблеми фінансової децентралізації. Проаналізовано динаміку доходів місцевих бюджетів на основі останніх змін бюджетного та податкового законодавства. Акцентовано увагу на реформі фінансової децентралізації як однієї з ключових реформ, що дасть змогу побудувати сучасну систему управління державою і створить умови для розвитку громадянського суспільства.

Ключові слова: децентралізація, фінансова децентралізація, державний бюджет, місцеве самоврядування, місцеві бюджети, доходи місцевих бюджетів.

Касьянюк С. В., Мишура В. Б. Эффективность реализации финансовой децентрализации на местном уровне

Рыночные преобразования, которые происходят в Украине, нуждаются в новых подходах к формированию государственной политики регионального развития и реформирования местного самоуправления. В статье осуществлен анализ этапов политики финансовой децентрализации в Украине, определены основные достижения каждого из этапов. Выделены актуальные теоретические и практические проблемы финансовой децентрализации. Проанализирована динамика доходов местных бюджетов на основе последних изменений бюджетного и налогового законодательства. Акцентируется внимание на реформе финансовой децентрализации как одной из ключевых реформ, которая даст возможность построить современную систему управления государством и создаст условия для развития гражданского общества.

Ключевые слова: децентрализация, финансовая децентрализация, государственный бюджет, местное самоуправление, местные бюджеты, доходы местных бюджетов.

Kasianiuk S., Mishura V. Effective implementation of financial decentralization at the local level

Market transformations that occur in Ukraine need new approaches to the formation of a state policy of regional development and the reform of local self-government. The article analyzes the stages of the financial decentralization policy in Ukraine, identifies the main achievements of each stage. The actual theoretical and practical problems of financial decentralization are highlighted. The dynamics of incomes of local budgets based on recent changes in budget and tax legislation is analyzed. Attention is focused on the reform of financial decentralization as one of the key reforms that will enable to build a modern system of government and create conditions for the development of civil society.

Keywords: decentralization, financial decentralization, state budget, local government, local budgets, incomes of local budgets.

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