

Financial decentralization in Ukraine: prerequisites, problems, prospects

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The purpose of the article is to analyze the prerequisites, advantages, problems and prospects for the development of the processes of financial decentralization in Ukraine. Initially, the article reveals the features of the federal and unitary arrangements of states. As research has shown, the principles of fiscal federalism have been increasingly used by unitary states. The legislative and normative legal acts regulating the implementation of the decentralization policy in Ukraine are justified and given. Characteristics of the formation of new structures, such as: united territorial societies and their sources of financing are characterized. Changes in incomes in local budgets as a result of decentralization are analyzed, and their significant growth is observed. The mechanism of horizontal leveling of the tax ability of territories has been developed, which helps to remove imbalances and unevenness, most of the budgets of Ukraine are recipients of budgetary funds, since they receive a basic subsidy. The influence of the development of information technologies on entrepreneurial activity in small towns and villages is determined. Information technology is a tool of points of growth of territories. Decentralization will not gradually increase due to urbanization processes, but will be accompanied by new development mechanisms, where the labor force and the means of production will unite and help create a qualitatively new environment.

Keywords: finance, decentralization, financial decentralization, intergovernmental fiscal relations, taxes, information technology.

Introduction

In recent decades, decentralization has become one of the main development strategies of countries. As originally developed by Musgrave [17-18] and Oates [19-20], the “theory of fiscal federalism” concerns the division of public-sector functions and finances in a logical way among multiple layers of government [14]. Much of the literature of fiscal federalism consists of relatively unrelated treatments of such issues as the “decentralization theorem” [19-20], models for the assignment of powers [18], discussions of intergovernmental spillovers and intergovernmental grants [3], fiscal mobility and migration [36], and vertical fiscal imbalance and dependence [13]. The theoretical discussion of

local public goods that has taken place in the context of the Tiebout model [36] is not part of “fiscal federalism” as defined here because it is concerned only with governmental relations at the same jurisdictional level. A more general, and relevant, theoretical framework to approach some of these problems might be the theory of overlapping clubs [8], but as yet this has been little developed [5]. Initially, stabilization and distribution were considered to be essentially “central” functions, with the only role for “subcentral” (state and local) governments arising in the allocative sphere. From this perspective, the main analytical task of fiscal federalism is to define the appropriate functions and finances of local governments as

efficiently as possible—that is, in such a way as to maximize community welfare.

In accordance with the classification of the International Monetary Fund, intergovern-

mental relations are divided into [34]: classical federalism; cooperative federalism and the regime of administrative custody of local government.

Material and Method

2. Decentralization and federalism

While discussions of decentralization and federalism are often intertwined, the concept of decentralization in unitary systems should be kept distinct from the concept of federalism. While federalism is a form of decentralization – especially at the level of regions, states or provinces – a federal system differs from a unitary, decentralized system in two fundamental ways. The first difference is structural: a federal system involves the decentralization of responsibility and authority to fully constituted governments at the regional or provincial level. The provinces are themselves often represented in institutions of government at the central level, for example in an upper chamber of the legislature. Federal nations typically have: (1) at least two levels of government whose powers are enshrined in the constitution and (2) representation of the regional level of government in the national legislature [1]. In unitary systems, by contrast, lower levels of government are not necessarily enshrined in the constitution, and these levels are not usually represented in the national legislature [35].

In addition, provinces in federal systems are generally fewer in number, larger in size, more autonomous, and with more extensive and secure powers than local governments in unitary systems.

The second variation involves the different objectives of federalism on the one hand and of decentralization within a unitary system on the other. Federalism is often – although not always – motivated by the need to provide a solution to problems of division in diverse societies where distinct groups within society (usually located in a particular geographic region of the country) may make demands for greater autonomy [1]. The distribution to provinces of substantial political autonomy and authority over matters

of policy, alongside the representation of provincial interests in structures of central government, may allow a nation to come together under a single flag, even though there may be significant differences in identity, culture, language and political preference across different regions of the country. Federalism can manufacture national cohesion and prevent the break-up of a state, by recognizing and accommodating political differences. One consequence is that one of the primary concerns in federal systems is the legal relationship between the levels of government (i.e. the central government and provincial governments), and the distribution of competences or powers between the central and provincial governments [2].

Decentralization, on the other hand, is less concerned with satisfying calls for regional autonomy. Rather, decentralization is primarily concerned with increasing the effectiveness with which services are delivered, usually at the local or municipal level. This is not to suggest that a decentralized unitary state will provide services more efficiently or effectively than a federal state, but simply to point out that the objective of decentralization is often no more than improved service delivery and political accountability at the local level, rather than the broader socio-political objectives that justify federal systems.

2.1. Decentralization in individual countries

Finally, it should be noted that decentralization exists along a spectrum. Unitary countries can adopt more or less decentralized structures, and there are variations across unitary countries in the extent to which they are decentralized. There are examples of unitary countries that have adopted systems of decentralized government that strengthen local as well as regional or provincial governments in ways that move those countries

towards federalism, even though the constitution does not recognize or establish a formally federal state structure (see, for example, the decentralized government systems in Bolivia, Chile, Peru, the Philippines and Uruguay) [35].

In fact, some unitary countries are, in practice, more decentralized than some formally federal countries [1]. Questions about the transfer of responsibility and authority to local governments are equally relevant in unitary and federal systems of government [35]. Принципы федерализма в последнее время все шире применяют унитарные государства. However, this article focuses on decentralization specifically in the context of unitary systems.

A unitary state structure presupposes a relationship between subnational level budgets and local government bodies through intergovernmental transfers. Studies have shown that many developing countries face strong resistance to decentralization because of the uncertainty of the final result. Local authorities do not have competence or are corrupt. Ineffective decentralization can also worsen the country's position, due to soft budget constraints or a mismatch of resources for the subnational government. Eaton K. [10], for example, argues that decentralization in Colombia exacerbated its conflict because the control of local governments provided the different groups with resources and authority useful for fighting. The bottom line is that we know too little about whether decentralization — or under what circumstances in combination with which specific forms of decentralization — helps mitigate conflict. Therefore, in many developing countries, cross-cutting decentralization can be problematic.

The problem of interbudgetary relations in any country usually manifests itself more sharply, the higher the territorial differences. The more socially and economically different the different territories within the country are, the more urgent is the task of mitigating or completely bridging the gap between them by redistributing resources, especially at the level of individual recipients of goods / services provided by state or local authorities, but the

problem is even more acute incentives, the problem of harmonizing social justice and economic efficiency.

Decentralization of the power and financial authority of the state in favor of local self-government is one of the most important reforms since the days of Ukrainian independence.

The main tasks of modernizing the system of public administration and territorial organization of power, which is being implemented today, is the formation of effective local self-government, the creation of comfortable living conditions for citizens, and the provision of high-quality and affordable public services. Achieving these goals is impossible without the appropriate level of economic development of the respective territories, their financial provision and sufficient sources for filling local budgets.

2.2. Prerequisites decentralization in Ukraine

Decentralization of the power and financial authority of the state in favor of local self-government is one of the most important reforms since the days of Ukrainian independence.

Studying the experience of financing regions and local governments in the leading countries of the world (federal and unitary) involved in the settlement of the conflict in the Donbass in Ukraine, demonstrates the need to expand the rights of these structures in Ukraine, especially in the tax sphere. Only in this way can we reduce the centrifugal tendencies in our country and return the occupied regions of Donbass (and eventually the Crimea) to Ukraine. In addition, fiscal decentralization in our state will help to remove from the agenda the issue of federalization, which is imposed on Ukraine from the outside. Based on the experience of the leading countries of the world, the emphasis in reforming the financial system of our country should, among other things, be made on increasing the tax powers of both territorial communities and regions, rather than expanding transfer payments.

3. Theoretical-practical basis for the formation of decentralization in Ukraine

The main tasks of modernizing the system of public administration and territorial organization of power, which is being implemented today, is the formation of effective local self-government, the creation of comfortable living conditions for citizens, and the provision of high-quality and affordable public services. Achieving these goals is impossible without the appropriate level of economic development of the respective territories, their financial provision and sufficient sources for filling local budgets.

It is the financial aspect that is one of the most important, on which the success of functioning of the united territorial communities depends to a large extent. The presence of economically active subjects of entrepreneurial activity, a sufficient number of skilled labor resources, developed industrial and social infrastructure – all this and much more is the basis for the successful development of society.

The result of the reform was an increase in the interest of local governments in increasing revenues to local budgets, finding reserves for their filling, improving the efficiency of administration of taxes and fees. The combined communities show high and dynamic growth rates of their own incomes. With regard to the use of funds, attention is focused on the need to form the most optimal structure of budget expenditures, to create an effective, not very numerical administrative apparatus, to carry out a constant analysis of spending budget funds and to prejudice the cases of their irrational expenditure.

Indicators of implementation of local budgets reflect the overall socio-economic situation of the respective territory and its potential for sustainable development. The availability of sufficient resources in local budgets is a guarantee that the territorial community has the opportunity to provide better and more diverse services to its residents, to implement social and infrastructure projects, to create conditions for the development of entrepreneurship, attract investment capital, develop local development programs and fund other measures for

comprehensive improvement of living conditions of the community.

Since the beginning of 2017, decentralization in Ukraine has entered a critical phase after the parliament passed a number of laws to support the further unification of communities. This legislative success gives hope for continued real progress on the ground. So far, not all parliamentary parties are ready to fully support rapid decentralization, but many participants in the process, including government officials, mayors and new members of local councils, are responding more and more favorably to the content and results of local government reform. Foreign partners – both states and international organizations – actively support Ukrainian decentralization through various special financial assistance programs, such as U-LEAD, DOBRE or DESPRO, with a total volume of approximately 200 million euros [11]. If the changes at the local level are successful, decentralization will help radically change the post-Soviet relations between Ukrainian society and the state.

3.1. Regulatory framework in the field of decentralization in Ukraine

Reforming of local self-government and territorial organization of power should be carried out on the basis of the Constitution [7] and the laws of Ukraine, the European Charter of Local Self-Government with observance of the following principles [6]:

- the rule of law; openness;
- transparency and public participation;
- ubiquity of local self-government;
- subsidiarity; accessibility of public services;
- accountability and control of bodies and officials of local self-government to the territorial community;
- subordination of local self-government bodies to executive authorities in matters of compliance with the Constitution and laws of Ukraine;
- legal, organizational and financial capacity of local government;
- state support of local self-government;
- partnership between the state and local self-government;
- sustainable development of territories.

At present, the Cabinet of Ministers of Ukraine approved the State Strategy of Regional Development for the period up to 2020 [9], which states that the decentralization of power is aimed at avoiding a centralized model of governance in the state, ensuring the ability of local self-government and building an effective system of territorial organization of power in Ukraine, the full provisions of the European Charter of Local Self-Government. Also, the Decree of the Supreme Council of Ukraine endorsed the Plan of Legislative Support for Reforms in Ukraine [21], which covers issues of decentralization of power and reform of local self-government. To solve problems at the level of territorial communities, it is necessary to unite the efforts of communities and their territories, and also financial support of the state is needed. It was for this purpose that two laws of Ukraine were adopted: "On the Voluntary Association of Territorial Communities" [29] and "On Cooperation of Territorial Communities" [24], in spite of the fact that the Constitution of Ukraine entitles residents of villages on a voluntary basis to unite into a single territorial community, to form local self-government bodies, the mechanism for resolving this constitutional provision at the legislative level has not yet been settled. The goal of the Law of Ukraine "On voluntary association of territorial communities" is the creation of legal conditions and opportunities for strengthening the guarantees of local self-government; assistance in the creation of capable territorial communities; the formation of effective councils and their executive bodies, whose main task should be to improve the provision of citizens' needs, to provide them with the necessary social services of high quality; ensuring sustainable development of the relevant territories, effective use of budgetary funds. The Law of Ukraine "On Cooperation of Territorial Communities" is developed using the best European experience and defines the organizational and legal basis for cooperation of territorial communities, the principles, forms, mechanisms for such cooperation, its stimulation, financing and control, the grounds and peculiarities of

termination of cooperation, as the current Ukrainian legislation provided for only the general framework for the implementation of intermunicipal cooperation, presupposed the pooling of resources of local authorities to solve common problems, but did not contain legal norms that would allow such cooperation.

Also, the Law of Ukraine "On the Basics of State Regional Policy" [28] plays an important role in the development of territorial communities in Ukraine and defines the legal, economic, social, environmental, humanitarian and organizational bases of state regional policy as an integral part of Ukraine's domestic policy.

At the end of 2015, a number of laws were adopted to optimize the distribution of powers – transferring them from the executive to the local government, which would strengthen the functional and financial viability of local government. The Law of Ukraine "On Amendments to the Law of Ukraine" On the State Registration of Legal Entities and Individual Entrepreneurs" [27] and some other legislative acts of Ukraine on the decentralization of powers on state registration of legal entities, individuals, entrepreneurs and public entities" to the executive bodies of the local self-government of cities of regional importance are transferred powers on state registration of legal entities, individuals-entrepreneurs and public enterprises and provides the opportunity for other bodies of the Executive Board to acquire such powers. This law includes regulations on the state registration of legal entities in local self-government bodies aimed at eliminating shortcomings in the legal regulation of the process of voluntary association of territorial communities in parts: the establishment of a simplified system of reorganization and state registration of local self-government bodies as legal entities of public law, elimination of shortcomings in the legal regulation of legal succession united territorial communities, their councils and executive committees (decision, d reservations, implementation of individual budgets for the adoption of a joint, etc.). The Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine on Expanding the

Powers of Local Self-Government Bodies and Optimizing the Provision of Administrative Services" [25] gave local governments additional authority regarding the possibility of establishing centers for the provision of administrative services, the possibility of maintaining a register of a territorial community, land cadastre, registration of the place of residence of citizens and other items.

3.2. Budget legislation and decentralization in Ukraine

In the area of budget legislation, there has also been a significant development. The sources of income of the newly united territorial communities have been expanded through the adoption of the Law of Ukraine "On Amendments to the Budget Code of Ukraine on the Admission of Certain Administrative Fees to Local Budgets" [30]. The Law of Ukraine "On Amendments to the Budget Code of Ukraine on the Specifics of Formation and Execution of the Budgets of the United Territorial Communities" specifies the specifics of the formation and implementation of the budgets of the united territorial communities, including direct interbudgetary relations between the united territorial communities and the Ministry of Finance of Ukraine. The Law of Ukraine "On Amendments to the Budget Code of Ukraine on the Reform of Intergovernmental Fiscal Relations and the Tax Code" [23] determined, in particular, the composition of the revenues of the joint territorial communities. The introduction of the norms of these laws into the practice of budgeting has already made it possible to substantially increase the financial resource of local budgets. Thanks to these changes, local budgets grew by UAH 123.4 billion: from UAH 68.6 billion. in 2014 to 192 billion USD. in 2017. The share of local budgets in the consolidated budget of Ukraine is constantly growing and at the end of 2017 it was 51.2% (in 2015 – 45.6%).

In early 2017, new laws were adopted to implement the decentralization reform. In particular, the Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine Concerning the Status of Village and Village Headman" defines a new concept "Starostinsky District"

[32] – part of the territory of the united territorial community formed in accordance with the Law of Ukraine [29], where one or several settlements (villages, settlements) are located, except for the administrative center of the united territorial community, defined by the village, township, city council for the purpose of ensuring the representation of interests of inhabitants of this settlement (settlements) prefect. In addition, the law provides for the authority of the elder and his legal status.

With the help of the Law of Ukraine [31], the gap in the legislation, which for a long time prevented the appointment of the first elections in the united territorial communities by the Central Election Commission (CEC), was finally overcome. The Central Election Commission justified its decisions on the refusal to appoint the first elections of deputies and heads of joint territorial communities to the preliminary introduction by the Supreme Council of Ukraine of changes to the boundaries of the respective regions, and therefore the appointment of the first elections of village, town and city councils of the united territorial community and the corresponding rural, allowed to begin to form a basic level of local self-government. As of early April 2018, there were already 728 joint territorial communities (GTR). These UTO included 3378 former local councils. Now 6,300,000 people live in the UTO. Such rates of inter-municipal consolidation by international experts are called very high. The law also introduced the institution of elders in the UTO, which represent the interests of villagers in the council of the community. Today, there have already been elected 640 headmen, more than 1800 people are serving as elders.

However, according to [31], such provisions are regulated:

the formation of an integrated territorial community, which includes the territorial community of the city of the republican significance of the Autonomous Republic of Crimea and the regional significance and the territorial community (Territorial Communities) of the village, town, other city of the adjacent region, and no change in the boundaries of the districts;

the decision of the CEC to appoint the first election of deputies of the village, township, city council and the corresponding village, town, city mayor of the united territorial community is made to change the boundaries of the respective districts.

The Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine on the Voluntary Accession of Territorial Communities" solves the problem of those communities that have not fallen into any unified territorial community located nearby [33].

Now such communities have the opportunity to join the already formed joint territorial communities, however, not all provisions of the Ukrainian Parliament's legislative reform support plan are fulfilled according to the

schedule. Discussion of bills is difficult, many amendments are made, disputes begin, legislative processes are delayed. In particular, the fact that the changes in the Constitution of Ukraine have not been accepted by the Verkhovna Rada of Ukraine in the second reading, entails a rejection of a large number of laws that must finally consolidate the powers of the newly united communities. To complete the process of decentralization, it is vitally important to adopt a number of legislative and other normative legal acts.

The Law of Ukraine "On Cooperation of Territorial Communities" [24] created a mechanism for solving common problems of communities: recycling and recycling of garbage, development of a common infrastructure.

Results and discussion

4.1. United territorial societies and decentralization in Ukraine

The role of the united territorial societies (UTS) in ensuring the interests of citizens in all spheres of life in the corresponding territory is at the present stage a key one. The decentralization reform is aimed at creating a modern system of local self-government in Ukraine on the basis of European values for the development of local democracy, granting territorial communities the powers and resources that will provide local economic development, providing the public with high-quality and affordable public services.

A small amount of income does not provide real opportunities for local authorities to be financially independent and to influence social and economic processes in the regions. Access to the borrowing markets is constrained by high rates, the payment of which exceeds the burden on local budgets. Income from utility companies does not always cover the costs of their maintenance. The mechanism of using budgetary funds does not ensure satisfaction of social needs. The main obstacles to achieving the effectiveness of financial support for the development of territorial communities at the current stage are the following: the inconsistency of current trends in the formation

of local budget revenues for rural territorial communities to improve their financial viability; lack of incentives for effective use of the financial potential of the territories; significant differentiation of territorial communities according to the level of budget provision; Inefficient structure of local budgets of the region, as well as their vertical and horizontal imbalances; The scanty amounts of expenditures of local budgets of territorial communities for financing the development of territories. In Ukraine, the practical implementation of the process of uniting territorial communities began in mid-2015. In 2016, there was a significant progress in the formation of UTS – their number increased by 2.3 times. As of the beginning of 2017, there were 366 UTS in Ukraine, which combined 1,740 local councils. After the adoption of a number of normative and legislative acts that resolved the problematic issues of the association, the process of forming the UTS received a new impetus to the revitalization. So, as of April 2018 in table 1, the number of UTS by regions is characterized.

According to the amendments to the Budget Code, the merged territorial associations received new financial resources (table 2) after the merger.

Thus, the growth rates of own revenues indicate that the dynamics of revenues in the budgets of UTS outstrips the growth rates of income at other levels of local budgets.

The receipt of own revenues of local budgets of 366 UTS for 2017 increased by 87.0% and amounted to 9.3 billion UAH (+4300 million UAH).

Given that the new 207 UTS, in which the first local elections were held in 2016, only this year received 60% of the income from personal income

tax in their local budgets, then their own resources increased in comparison with the same period last year 2.9 times and amounted to 4.9 billion UAH (+3200 million UAH) (graph 1).

At the same time, the growth rate of own revenues of 159 UTS, already in 2016 received 60% of personal income tax (PIT) in its budgets, which is 34.2% (1100 million UAH), and this is almost 3% more than the average for Ukraine.

Table 1. Quantitative characteristic of the united territorial communities

| Region | Area of the region, km ² | Number of population | Number of territorial communities | Number of unified territorial communities | Area of united territorial communities, km ² (%) |
|------------------------|-------------------------------------|----------------------|-----------------------------------|---|---|
| Vinnitsia region | 26513 | 1576599 | 490 | 35 | 3995,352 (15,07) |
| Volyn region | 20144 | 10337095 | 412 | 41 | 9044,965 (44,90) |
| Dnepropetrovsk region | 31914 | 3228399 | 569 | 60 (+1) | 17037,19 (53,38) |
| Donetsk region | 26517 | 4210544 | 389 | 10 (+5) | 6025,94 (22,72) |
| Zhytomyr region | 29832 | 1237101 | 631 | 45 (+1) | 16652,91 (55,82) |
| Transcarpathian region | 12777 | 1255721 | 337 | 6 | 616,12 (4,82) |
| Zaporozhye region | 27180 | 1731056 | 299 | 43 (+2) | 15115,294 (55,61) |
| Ivano-Frankivsk region | 13900 | 1376211 | 711 | 25 | 2418,307 (17,40) |
| Kiev region | 28131 | 1737989 | 659 | 9 (+3) | 2614,14 (9,29) |
| Kirovohrad region | 24588 | 954992 | 415 | 16 (+1) | 3232,52 (13,15) |
| Lugansk region | 26684 | 2177607 | 332 | 9 (+3) | 5631,881 (21,11) |
| Lviv region | 21833 | 2513807 | 556 | 35 | 3832,18 (17,55) |
| Mykolaiv region | 24598 | 1145389 | 365 | 28 (+1) | 8815,68 (35,84) |
| Odessa region | 33310 | 2373490 | 707 | 28 | 9352,518 (28,08) |
| Poltava region | 28748 | 1413014 | 503 | 41 (+1) | 7626,732 (26,52) |
| Rivne region | 20047 | 1160856 | 419 | 28 | 5011,6 (25,00) |
| Sumy region | 23834 | 1097651 | 298 | 29 (+1) | 8540,559 (35,83) |
| Ternopil region | 13823 | 1052755 | 615 | 42 | 5477,7 (39,63) |
| Kharkov region | 31415 | 2682492 | 458 | 16 | 4423,381 (14,08) |
| Kherson region | 28461 | 1050188 | 271 | 27 (+1) | 7430,644 (26,11) |
| Khmelnytsky region | 20645 | 1277137 | 348 | 41 | 11438,023 (55,40) |
| Cherkasy region | 20900 | 1222650 | 516 | 26 (+1) | 3905,415 (18,69) |
| Chernivtsi region | 8057 | 904331 | 313 | 28 (+1) | 2816,1943 (34,78) |
| Chernihiv region | 31865 | 1018732 | 605 | 37 | 16395,982 (51,45) |
| Generally | 575756 | 39435806 | 11215 | 727 | 177451,2273 |

Source: formed by the authors on the basis of data [4, 12, 14, 15] (2018).

In the revenues of local budgets, the largest share is taken by the income from the payment of the personal income tax of -110.7 billion UAH

or 57.4% of the total revenues of local budgets. Compared to 2016, the total PIT revenues in Ukraine increased by +31700 million UAH or by

40.1%. According to the budgets of cities of regional significance, the increase is 37.5%. According to the budgets of 159 UTS, the increase in PIT revenues was 41.2%, which is 1.9% more than in Ukraine as a whole.

Table 2. Financial Resources of United Territorial Communities

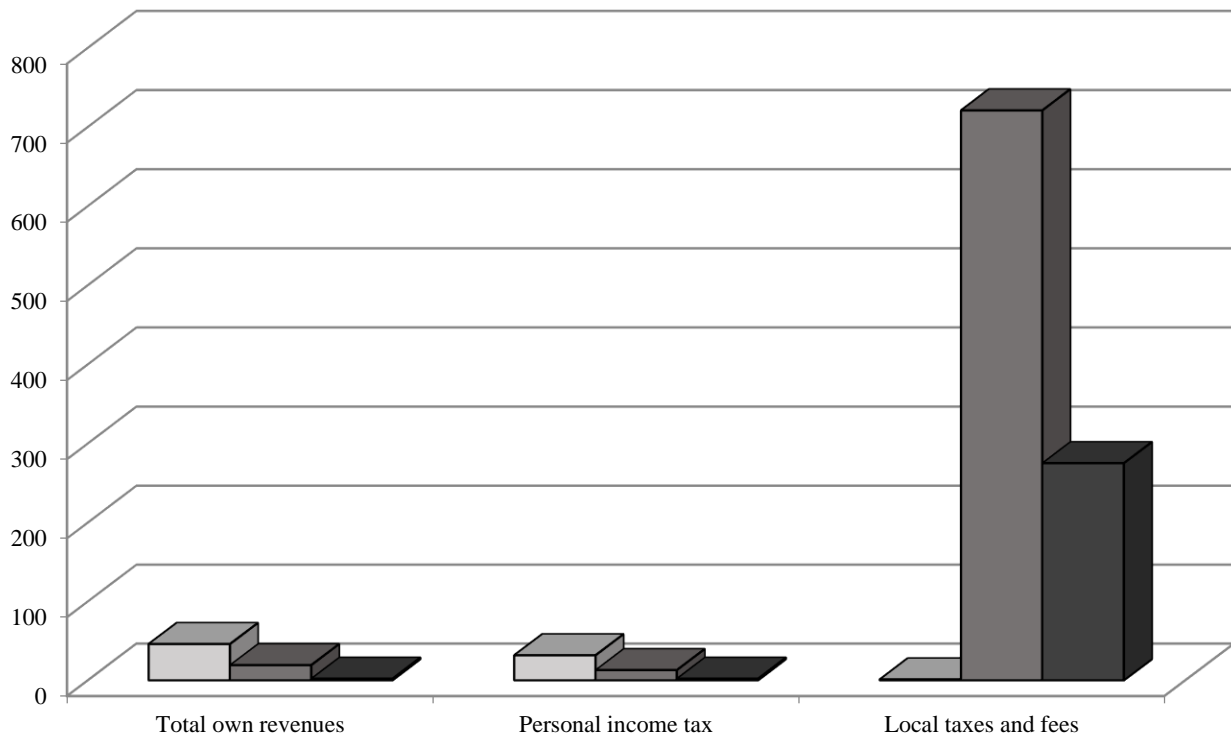
| Taxes | Fees and other payments | Other income |
|---|---|--|
| 1) 60% of personal income tax; 2) 25% of the environmental tax; 3) 5% excise tax on the sale of excisable goods by retail trade entities; 4) 100% of the single tax; 5) 100% of the profit tax of enterprises and financial institutions of municipal property; 6) 100% of the property tax (real estate tax other than the land plot, payment for land, transport tax); 9) part of the net profit (income) of communal unitary enterprises and their associations, which is withdrawn to the budget, in the manner determined by the relevant local councils; 10) payment for the provision of other administrative services, consults the place of service provision; 11) Penalties for violation of patenting legislation; 12) administrative fines; 13) 80% of funds received by enterprises, institutions and organizations from the budgets of joint territorial communities, district and city budgets, for gold, platinum, platinum group metals, precious stones, and 50% of funds received in the form of scrap and waste by these enterprises, institutions and organizations for silver, scrap and waste; 14) other incomes to be credited to UTS. | 1) tourist tax; 2) charge for parking spaces for vehicles; 3) payment for licenses and certificates for certain types of economic activities; 4) state fee; 5) 50% of rent for use of subsoil, for special use of water and water bodies, forest resources; 6) rent for water bodies, parts thereof, are provided for use on a lease basis; 7) concession payments for communal property objects; 8) receipts from the rent for the use of the planned complex and other property in communal ownership; | 1) various transfers; 2) own receipts of budgetary institutions; 3) targeted and voluntary contributions from enterprises, institutions, organizations and citizens to local environmental funds; 4) local borrowing; 5) income from assistance programs and grants of international financial organizations and the European Union; 6) funds from the sale of ownerless property, finds, inheritance property; 7) repayment of loans provided from local budgets to individual rural developers, young families and single young citizens for the construction and purchase of housing, as well as interest and penalties for using them. |

Source: formed by the authors on the basis of data [4, 22] (2018).

4.2. Research indicators of decentralization in Ukraine

In the structure of income of the general fund, 27.3% are local taxes and fees, which in 2017 received 52600 million UAH. For all budgets of Ukraine, the increase in local taxes and fees in relation to 2016 is 24.4%, on the

budgets of cities of regional significance – 25.9%. For all UTS budgets, revenues from local taxes and fees increased by 28.5%, (including 26.3% on the 159th UTS budget), which is 4.1% higher than the growth rate for local budgets of Ukraine.



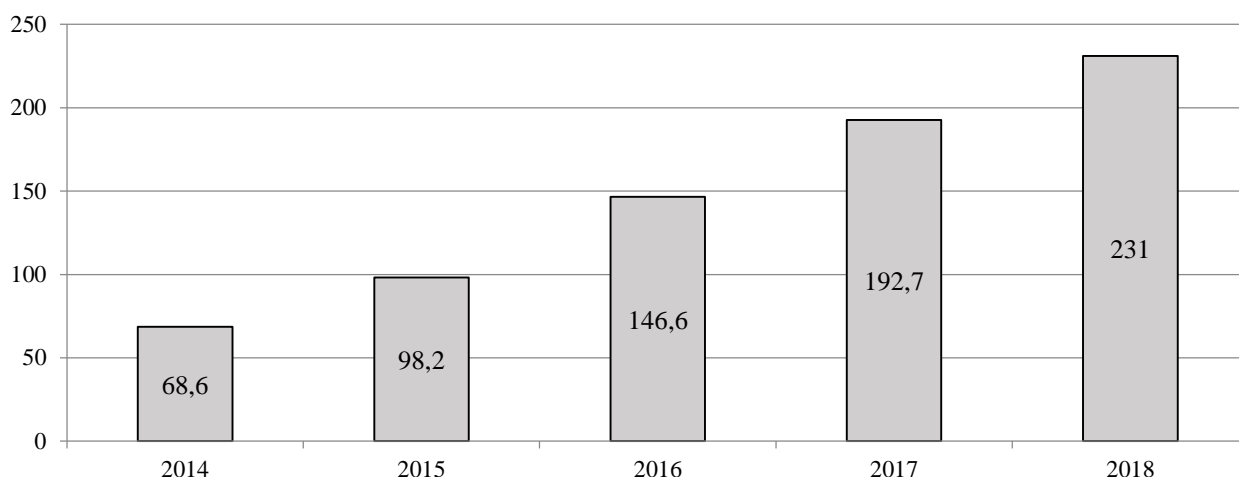
□ Local budgets of Ukraine ■ Budgets of cities of regional importance ■ UTS budget 159, which merged in 2015

Graph 1. The growth rate of incomes in the general fund of local budgets in 2017 in comparison with 2016 (in %)

Source: formed by the authors on the basis of data [12, 16] (2017).

Cities and villages have a number of issues that are difficult to solve on their own. For example – collection, utilization and recycling of garbage, provision of quality centralized water supply and water disposal, repair and cleaning of roads, organization of passenger transportations, maintenance of fire protection and the like. To cope with this is easier if to cooperate – to pool resources and efforts with neighboring communities, which are also interested in this. The mechanism of such intermunicipal consolidation is provided for by the Law of Ukraine "On Cooperation of Territorial Communities" [24] adopted in 2014. Since then, hundreds of communities have improved the quality of services provided through their cooperation agreements through their territories.

Throughout 2017, revenues to the general fund of local budgets of Ukraine (excluding inter-budget transfers) amounted to 192.7 billion UAH, which is 46.0 billion UAH. or 31% more than in 2016 (graph 2). Over the past three years, since the start of the financial decentralization reform, incomes of local budgets have increased 2.8 times – from 68.6 billion UAH in 2014 to 192.7 billion UAH according to the results of 2017. This became possible due to the expansion of powers and the increased interest of local governments in increasing revenues to local budgets, implementing measures to attract reserves for their filling and improving the efficiency of administration of taxes and fees.

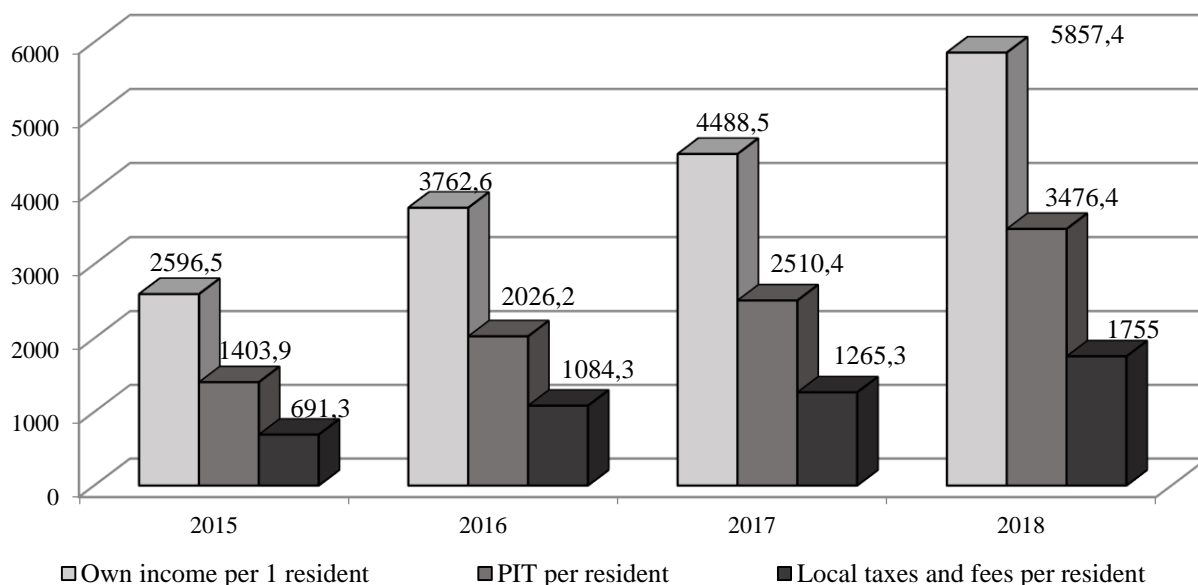


Graph 2. Own revenues of local budgets for 2014-2018 (in billions of UAH)

Source: formed by the authors on the basis of data [12, 16] (2014, 2015, 2016, 2017, 2018).

As a result of 2017 (graph 3), the total revenues of the general fund per 1 resident increased by 19.3% compared to 2016 and amounted to UAH 4,488.5. The volume of income tax on personal income per 1 resident increased by 23.9% and amounted to 2510.4

UAH., Local taxes and fees per 1 resident increased by 16.7% and amounted to 1265.3 UAH. In 2018, it is forecasted a further increase in the total fund income per 1 inhabitant by 30.5%, income from personal income tax by 38.5%, local taxes and fees by 38.7%.

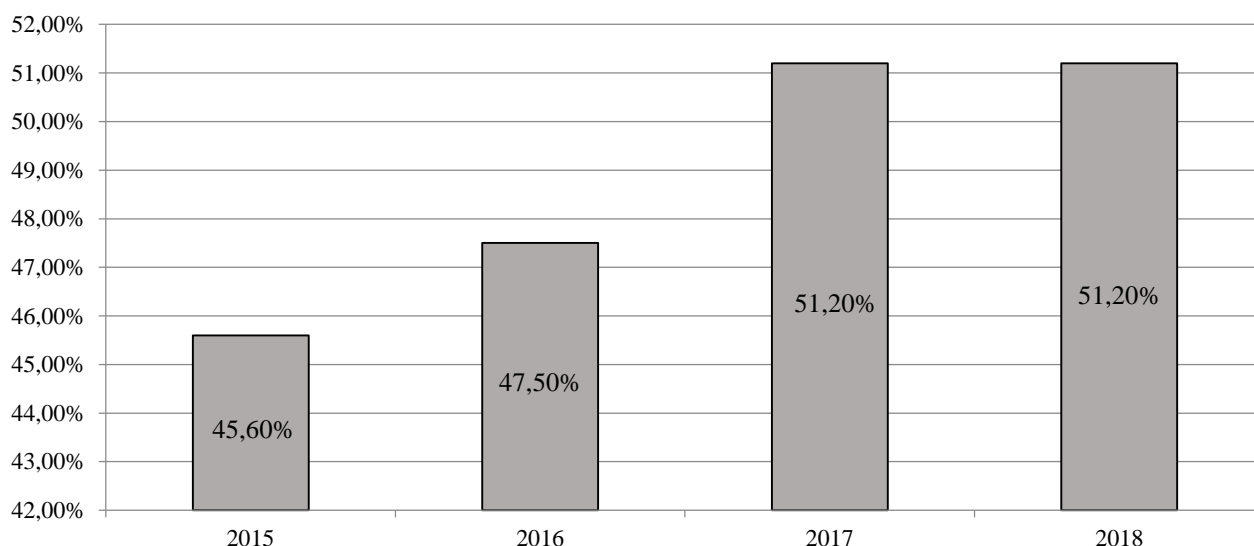


Graph 3. Growth of incomes of the general fund of the local budget for 1 inhabitant for 2015-2018 (in UAH).

Source: formed by the authors on the basis of data [12, 16] (2015, 2016, 2017, 2018).

Despite the expansion of the revenue base of local budgets, the share of local budgets in the total consolidated budget of Ukraine increased (graph 4). At the end of 2017 for the first time the share of local budgets exceeded 50 percent. The share of local budgets in the revenues of the

consolidated budget of Ukraine is 51.2%, which is almost 6% more than the same indicator for 2015. That is, local authorities have significant financial resources to be able to effectively manage and direct them to the development of communities.

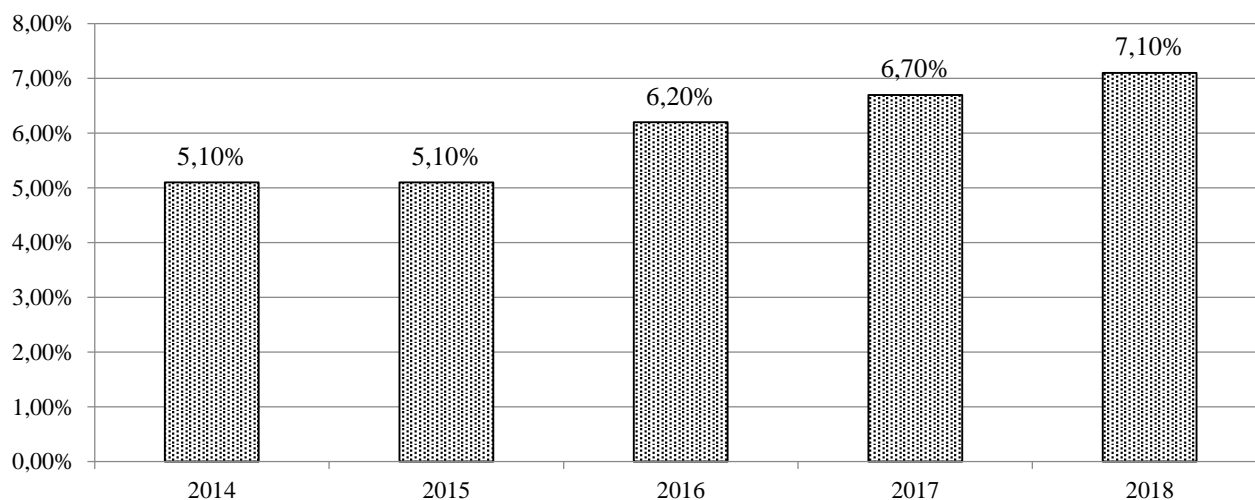


Graph 4. The share of local budgets (with transfers) in the total budget of Ukraine for 2015-2018 (in %)

Source: formed by the authors on the basis of data [12, 16] (2015, 2016, 2017, 2018).

Simultaneously with the increase in the share of local budgets, the share of the country's financial resources in the gross domestic product is also growing (graph 5).

In 2014-2015, this indicator was 5.1%, in 2016 – 6.2%, according to the results of 2017 – it is projected that the share of local budgets in the country's GDP will be 6.7%.

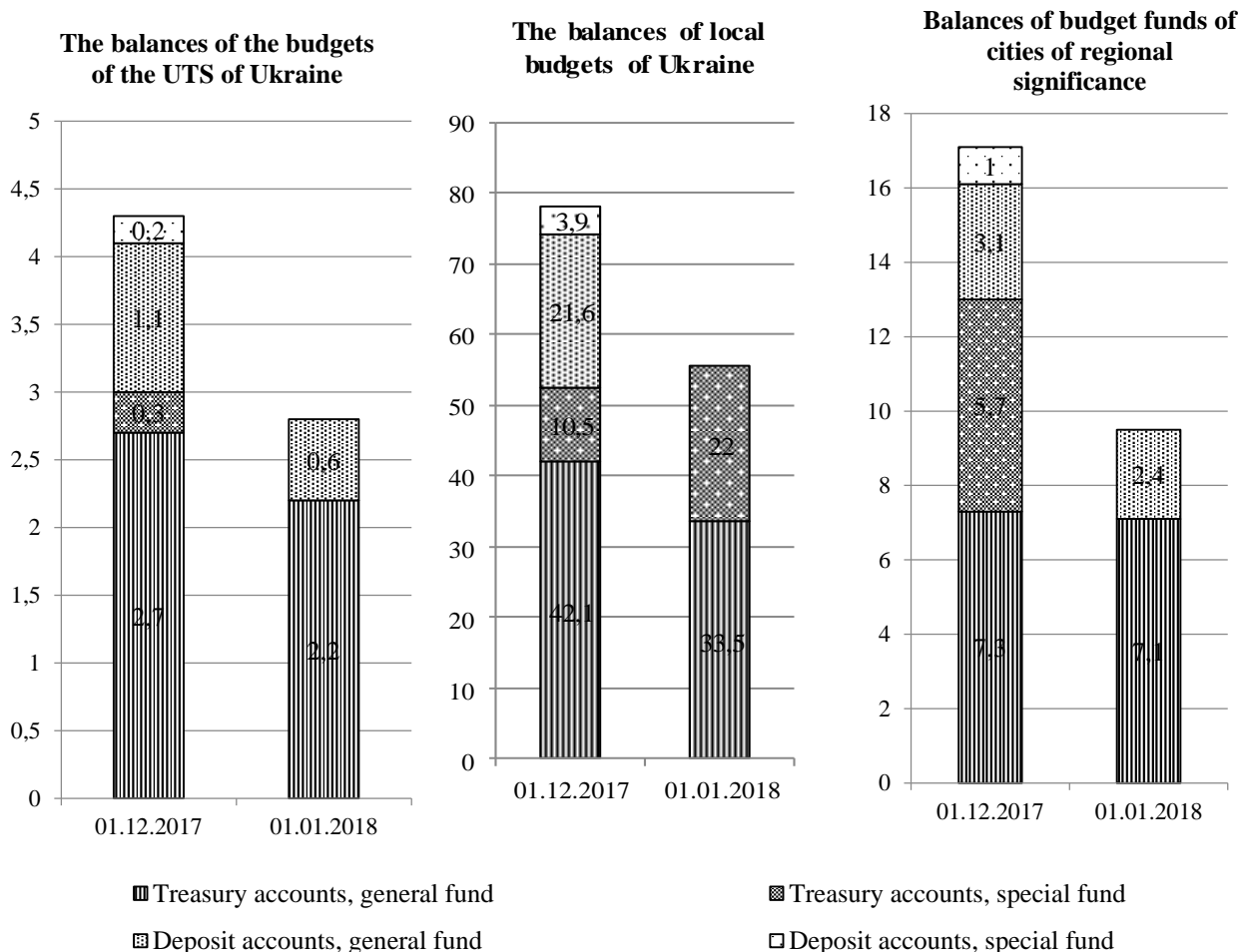


Graph 5. Part of the own revenues of local budgets (general fund) in GDP for 2014-2018 (in %)

Source: formed by the authors on the basis of data [12, 16] (2014, 2015, 2016, 2017, 2018).

The financial solvency of local budgets is also evidenced by the balances of funds that existed on the accounts as of January 1, 2018 (graph 6). On treasury accounts, the balances of all local budgets of Ukraine as of January 1, 2018 amounted to 55.7 billion UAH, of which 33.5 billion UAH were on the accounts of the general fund. The remaining funds of local

budgets of cities of regional significance amounted to 9.5 billion UAH, of which on the accounts of the general fund – 7.1 billion UAH. The balance of funds on the accounts of the united territorial communities amounted to UAH 2.8 billion, of which 2.2 billion UAH were on the accounts of the general fund.



Graph 6. The balances of local budgets, the general fund of the budget 366 UTS and the means of budgets of cities of regional significance (in billions of UAH)

Source: formed by the authors on the basis of data [12, 16] (2017, 2018).

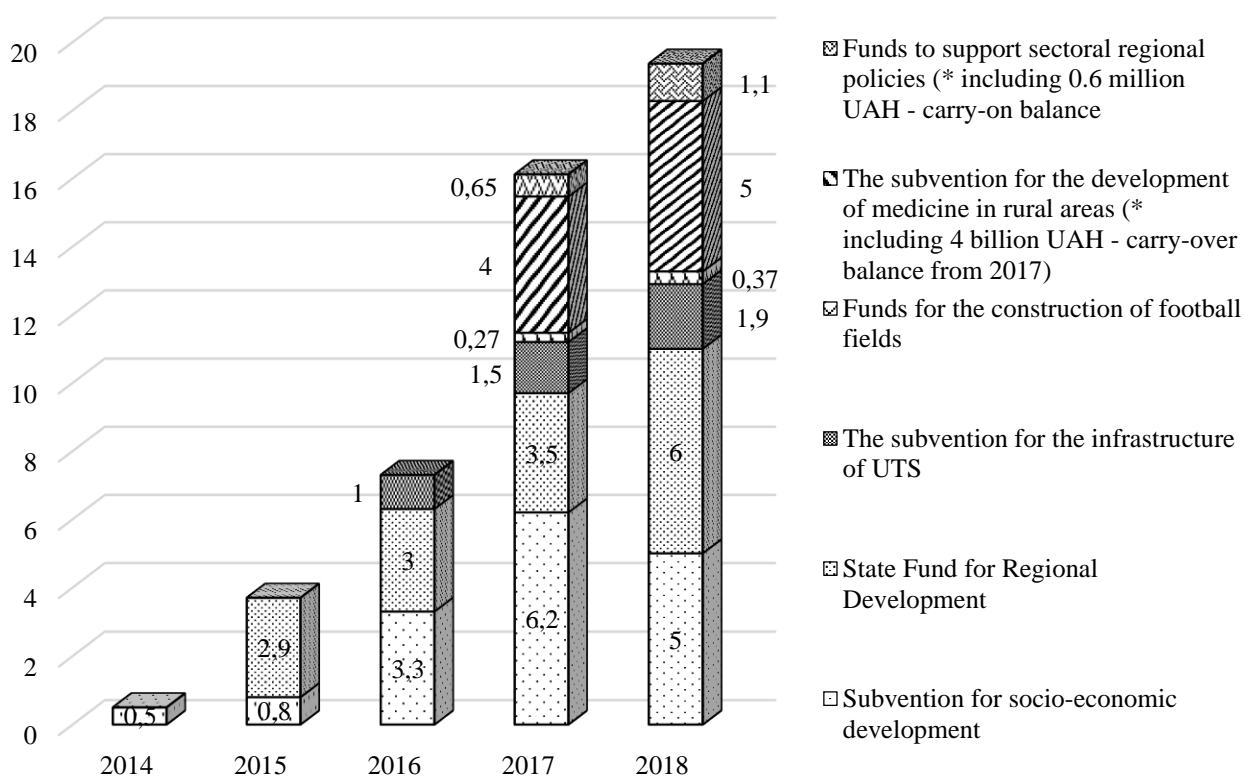
The state also increased the amount of state budget support to local governments for community development and infrastructure development.

So, if in 2014 only UAH 0.5 billion was allocated to regions from the state budget to support social and economic development, then in 2017 the volume of funds for the implementation of infrastructure projects amounted to more than 16 billion UAH, and in 2018 it is envisaged more than 19 billion UAH, which is 39 times more than in 2014. State support for the development of territorial communities and the development of their infrastructure has grown.

In addition, for 2018, a subvention from the state budget is envisaged for local budgets (graph 7) for the construction, reconstruction,

maintenance and maintenance of public roads of local value in the amount of 11.5 billion UAH.

So, it is worth noting that the performance indicators of the budgets reflect the overall socio-economic situation of the respective territory and its potential for further development. The availability of sufficient resources in local budgets shows that the territorial community has the opportunity to provide better and more diverse services to its residents, to implement social and infrastructure projects, to create conditions for the development of entrepreneurship and attract investment capital, to develop local development programs and to fund other measures for comprehensive improvement living conditions of the community.



Graph 7. Dynamics of state support for community development and infrastructure development (in billion UAH)

Source: formed by the authors on the basis of data [12, 16] (2014, 2015, 2016, 2017, 2018).

5. New system of interbudgetary relations and methodology

Today, there is every reason to assert that the decentralization reform is fulfilling the tasks set for the creation of an adequate living environment for community residents.

According to the Budget Code of Ukraine [4], intergovernmental transfers are funds that are transferred from one budget to another without compensation and irrevocably.

With the rapid process of decentralization, a new system of interbudgetary relations began to function in the country.

The new system of interbudgetary relations is based on a fundamentally new mechanism for the horizontal equalization of the tax capacity of the territories, the components of which are basic and reverse subsidies.

The basic subsidy is a transfer provided from the state budget to local budgets for horizontal equalization of the territory's tax capacity [4].

Reverse grants – funds that are transferred to the state budget from local budgets for

horizontal equalization of the taxability of territories [4].

Alignment is carried out only on two taxes [4]:

- Income tax on private sector enterprises (10%) – on regional budgets;
- Income tax for individuals – on the budgets of cities, regional and regional budgets.

The remaining payments remain fully at the disposal of local authorities.

The algorithm for determining the volume of the grant of equalization to local budgets is calculated by the formula [4]:

$$T = \alpha (V - (D + AD)), \quad (1)$$

where: T – grant of equalization;

α – the leveling factor for local budgets is between 0.9 and 1;

V – the estimated volume of the expenditure indicator;

D – the forecasted indicator of the volume of income (the basket of incomes);

AD – the estimated volume of income adjustment.

The equalization factor is used in calculating the volume of the equalization grant and the funds transferred to the State Budget of Ukraine from local budgets in order to strengthen the revenue base of local government budgets [4]:

below 0.9 per cent of the average in Ukraine receive a basic subsidy (80 per cent of the amount needed to reach 0.9), which will increase their level of security;

in the range from 0,9 to 1,1 – the alignment is not carried out;

above 1.1 of the average for Ukraine, part of the proceeds are transferred to the state budget (reverse subsidy). At the same time, the funds are

not withdrawn in full, as under the current system, but only 50 percent of the excess of the index of tax capacity is 1.1 to the average value for Ukraine. Alignment to the budget of the city of Kiev, given its special status as the capital of Ukraine in accordance with the Law of Ukraine "On the Capital of Ukraine – Hero City Kyiv", is not implemented.

Let us examine in more detail the structure of distribution of interbudgetary transfers at the level of territorial administrative units, namely regional budgets. In Table. 3 distribution of subsidies at the level of the regional budgets of Ukraine in 2015-2017 is given.

Table 3. Distribution of subsidies at the level of the regional budgets of Ukraine in 2015-2017 (in thousands of UAH)

| Regional budgets | Base Subsidy | | | Reverse grant | | |
|----------------------------|-------------------|------------------|-------------------|-------------------|-------------------|-------------------|
| | 2015 | 2016 | 2017 | 2015 | 2016 | 2017 |
| Vinnitsia region | 72 812,1 | 46 095,6 | 41 477,5 | 0,0 | 0,0 | 0,0 |
| Volyn region | 76 153,3 | 69 437,7 | 60 169,5 | 0,0 | 0,0 | 0,0 |
| Dnepropetrovsk region | 0,0 | 0,0 | 0,0 | 325 281,2 | 392 048,9 | 453 342,0 |
| Donetsk region | 0,0 | 0,0 | 0,0 | 254 627,5 | 65 816,0 | 27 775,8 |
| Zhytomyr region | 58 270,3 | 39 994,7 | 41 317,4 | 0,0 | 0,0 | 0,0 |
| Transcarpathian region | 115 785,1 | 99 510,7 | 106 142,3 | 0,0 | 0,0 | 0,0 |
| Zaporozhye region | 0,0 | 0,0 | 0,0 | 14 973,2 | 40 872,9 | 81 298,2 |
| Ivano-Frankivsk region | 90 873,8 | 101 005,0 | 115 496,7 | 0,0 | 0,0 | 0,0 |
| Kiev region | 0,0 | 0,0 | 0,0 | 36 575,2 | 45 023,7 | 58 693,7 |
| Kirovohrad region | 34 846,2 | 23 950,4 | 27 358,7 | 0,0 | 0,0 | 0,0 |
| Lugansk region | 24 823,0 | 15 132,0 | 21 540,3 | 0,0 | 0,0 | 0,0 |
| Lviv region | 44 898,1 | 15 859,0 | 29 022,2 | 0,0 | 0,0 | 0,0 |
| Mykolaiv region | 33 120,6 | 34 823,3 | 25 782,7 | 0,0 | 0,0 | 0,0 |
| Odessa region | 10 232,0 | 13 012,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Poltava region | 0,0 | 0,0 | 0,0 | 81 448,6 | 19 351,8 | 28 324,2 |
| Rivne region | 72 427,6 | 58 492,3 | 67 367,5 | 0,0 | 0,0 | 0,0 |
| Sumy region | 8 459,5 | 13 019,5 | 16 050,6 | 0,0 | 0,0 | 0,0 |
| Ternopil region | 68 798,8 | 54 096,9 | 90 832,8 | 0,0 | 0,0 | 0,0 |
| Kharkov region | 0,0 | 0,0 | 0,0 | 4 520,1 | 12 237,0 | 2 813,0 |
| Kherson region | 76 984,1 | 61 244,4 | 70 728,8 | 0,0 | 0,0 | 0,0 |
| Khmelnitsky region | 75 863,1 | 45 044,5 | 52 755,6 | 0,0 | 0,0 | 0,0 |
| Cherkasy region | 36 385,8 | 26 135,9 | 21 884,3 | 0,0 | 0,0 | 0,0 |
| Chernivtsi region | 87 723,1 | 77 942,7 | 96 841,6 | 0,0 | 0,0 | 0,0 |
| Chernihiv region | 46 134,4 | 31 854,2 | 24 383,0 | 0,0 | 0,0 | 0,0 |
| Total for regional budgets | 1034 590,9 | 826 650,8 | 909 151,5 | 717 425,8 | 575 350,3 | 652 246,9 |
| Total for Ukraine | 5357 985,4 | 4840266,7 | 5911 564,6 | 3644 169,9 | 3114 876,5 | 3922 882,5 |

Source: formed by the authors on the basis of data [12, 16] (2015, 2016, 2017).

According to Table 3, we can conclude that the majority – 18 of the 24 – oblast budgets are recipients of budgetary funds, since they receive a basic subsidy. And only 6, that is 25%, are donors, providing financial opportunities for redistribution of funds from the receipt of the main direct taxes – PIT and income tax. Donors of budgetary funds are the regional budgets of Dnepropetrovsk, Donetsk, Zaporozhye, Kiev, Poltava and Kharkiv regions. It should be noted among the recipient regions that there is a positive trend towards a decrease in the amount of the basic subsidy since its introduction (2015), which indicates an increase in the financial viability of administrative-territorial units as a result of fiscal and budgetary decentralization.

6. International experience the system of interbudgetary relations

Considering the system of interbudgetary relations through the prism of budget equalization in world practice, four main models stand out: the German, American, Canadian and the model of interbudgetary relations that has developed in unitary states [15].

The German model focuses on equalizing the tax potential of the federal states as the main factor in smoothing the horizontal fiscal and fiscal imbalances. Interbudgetary relations are based on "common" taxes, the proceeds from which are distributed among all its levels, with a partial redistribution, so as to reduce the gap between "rich" and "poor" lands. Direct financial assistance from the higher levels of budgets is relatively small, but there are numerous and fairly large federal and joint regional development programs.

The US model of budget equalization is characterized by a high decentralization of the budget system, based on a clear delineation of fiscal authority between levels of power, including the delineation of tax sources. The subjects of interbudgetary relations have broad financial independence, which gives them the right to establish so-called "their" taxes. As a result, the responsibility of each level of government and, especially, of local self-government to provide the public with the necessary set of public services increases.

The Canadian model for organizing intergovernmental fiscal relations (implemented in Canada, Switzerland, and Austria) uses elements of German and American models simultaneously. It is based on the use of non-targeted transfers, leveling, and targeted grants. Transfers that equalize provide each entity with an average level of budget income, subject to applying average rates for each of the revenue sources and guaranteeing to all entities a standard level of expenditure. The main criterion for providing equalizing transfers is the population indicator.

The fourth model of the organization of interbudgetary relations is characteristic for unitary states (Japan, Sweden, Denmark and other countries) actively apply schemes of financial equalization in relations between the center and municipalities. Transfers are equalized, in this model they are defined as the difference between basic financial needs and basic financial incomes, and they are not related to the actual implementation of territorial budgets.

7. Discussion

7.1. Forming model of budget equalization in Ukraine

Despite the wide variety of models of interbudgetary relations available in the world, there is no ideal model. Each country chooses in various models exactly those elements that, under specific conditions, can give the greatest effect in the current political and economic situation in this country.

The model of budget equalization, implemented in Ukraine, is combined. The definition of the volume of interbudgetary transfers in Ukraine and their distribution is based on a formula approach that involves the inclusion of incoming cost norms, and only a few use the per capita ratio for the transfer calculation formula. Ukraine has a high level of equalization of needs and at the same time, compared with other countries, a low level of equalization of resources, which means a low orientation of intergovernmental transfers to equalize the taxability of local authorities and ensure horizontal equalization of fiscal resources.

The effectiveness of interbudgetary relations and budget equalization should be ensured by a clear delineation of revenue and expenditure powers, and each level of government must have sufficient sources of revenue to realize the functions assigned to them. In addition, in the context of implementing the concept of reforming local self-government and territorial organization of power, local authorities should strive to ensure financial sustainability of local budgets, which will lead to a reduction in budget imbalances in the territories, ensuring the best possible approximation of the provision of guaranteed services to their direct consumers, and, in ultimately, will contribute to the socio-economic development of Ukraine.

Studies have shown that in the process of fiscal decentralization, imbalances arise which, especially in social terms, can lead to political depreciation. Unevenness and imbalance lead to duplication of production, development of unfair competition in access to natural resources. Implemented decentralization processes need more coordination and analysis of results, as well as the development and planning of individual territories.

Realizing the processes of reforming interbudgetary relations, it is necessary to focus

on the development of entrepreneurial activities, especially in villages and small towns, which are donors of regions and regions. The basis for the development of territories can be information and financial and technological support.

With the development of information technology, it became possible to manage enterprises at a distance, when their central offices work separately from production. If information technologies are rationally used on the basis of territorial development strategies, it is possible to apply the potential of the city where the main offices with financial resources, management level, international relations and other opportunities are potentially located. Regarding rural areas or small towns where better access to natural resources, transportation interchanges, energy resources, environmental security. Experience of enterprises located outside the city shows a higher level of profitability, which can be used by the main office in the interests of attracting new financial resources in the interests of expanding production. Thanks to such mechanisms, territorial communities will develop and local, regional and regional budgets will be replenished through tax revenues.

Conclusions

Thus, as a result of research into the federal and unitary structure of the state, it can be concluded that, despite the diversity of models of interbudgetary relations in the world, there is no ideal model. Each country chooses in various models exactly those elements that, under specific conditions, can give the greatest effect in the current political and economic situation in this country. The unitary state structure implies the interrelationship between state budgets – interbudgetary transfers – by local budgets. Federal state structure: subnational level budgets – intergovernmental transfers – local government bodies. In modern conditions of decentralization, the principles of fiscal federalism have recently been increasingly applied by unitary states to so-called fiscal federalism.

The problems faced by all countries in the process of financial decentralization are the imbalance between the incomes of different territories. The budget equalization model implemented in Ukraine is a combined one, combining the principles of the German, American, Canadian and the model of interbudgetary relations that has developed in unitary states. The definition of the volume of interbudgetary transfers in Ukraine and their distribution is based on a formula approach that involves the inclusion of incoming cost norms, and only a few use the per capita ratio for the transfer calculation formula. Ukraine has a high level of equalization of needs and at the same time, compared with other countries, a low level of equalization of resources, which means a low orientation of intergovernmental transfers to

equalize the taxability of local authorities and ensure horizontal equalization of fiscal resources.

The effectiveness of interbudgetary relations and budget equalization should be ensured by a clear delineation of revenue and expenditure powers, and each level of government must have sufficient sources of revenue to realize the functions assigned to them. In addition, in the context of implementing the concept of reforming local self-government and territorial organization of power, local authorities should strive to ensure financial sustainability of local budgets, which will lead to a reduction in budget imbalances in the territories, ensuring the best possible approximation of the provision of guaranteed services to their direct consumers, and, in ultimately, will contribute to the socio-economic development of Ukraine.

The decentralization reform is aimed at creating a modern local government system in Ukraine on the basis of European values for the development of local democracy, creating territorial communities and empowering them with the resources and resources that will provide local economic development, providing the public with high-quality and affordable public services.

Indicators of implementation of local budgets reflect the overall socio-economic situation of

the respective territory and its potential for sustainable development. The availability of sufficient resources in local budgets is a guarantee that the territorial community has the opportunity to provide social and infrastructures

Indicators of implementation of local budgets reflect the overall socio-economic situation of the respective territory and its potential for sustainable development. The availability of sufficient resources in local budgets is a pledge that the territorial community has the opportunity to provide social and infrastructure projects, create conditions for the development of entrepreneurship, attract investment capital, develop local development programs and finance other measures to fully improve the living conditions of the community.

Thus, decentralization will not gradually increase due to urbanization processes, but will be accompanied by new growth points, where the labor force and the means of production will unite and will contribute to the creation of a qualitatively new environment. Efficiency for enterprises is the ability to combine in a network, complexes to achieve a systemic and synergistic effect for themselves and the country as a whole.

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