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*Igor Oliychenko, Maryna Ditkovska***FEATURES OF INTER-BUDGETARY RELATIONS IN THE CONDITIONS OF DECENTRALIZATION OF POWER IN UKRAINE***Ігор Олійченко, Марина Дітковська***ОСОБЛИВОСТІ МІЖБЮДЖЕТНИХ ВІДНОСИН В УМОВАХ ДЕЦЕНТРАЛІЗАЦІЇ ВЛАДИ В УКРАЇНІ**

The article examines the features of inter-budgetary relations in the context of decentralization of power as an important tool for the formation of local budgets and their effective implementation with limited financial resources. The authors considered the factors influencing the decentralization process such as the taxation system, transfer policy, giving greater powers to local governments in developing programs of socio-economic development and analyzed the sources of financial resources of the region, problems of their formation and use, revenues and expenditures last years. Decentralization reform has made it possible to increase the revenue side of local budgets and strengthen the financial and resource base of the regions, improve the use of intergovernmental transfers and diversify their sources. The study revealed the main problems of formation and use of financial resources of the region. These include inconsistencies in the movement of financial resources, tax pressure, various goals of economic entities and public authorities, low level of financial literacy of local government officials, inconsistencies in budget legislation, and lack of an effective mechanism for redistribution of state revenues. Among the ways to conduct budget decentralization and ensure the effectiveness of inter-budgetary relations, based on expanding the rights of local governments, strengthening their budgetary independence and responsibility, it is proposed to provide local authorities with opportunities for budgeting, redistribution of financial resources between public authorities, clear definition of local government and united territorial communities, application of modern methods of social planning, mechanisms of interaction of public authorities, enterprises, the attraction of investment resources through the development of local funds of regional development, granting to investors advantages, support of cooperation and interaction of enterprises, reduction of expenses for maintenance of public authorities, expansion sources of revenue to local budgets. The processes of fiscal decentralization must be constantly improved by overcoming the contradictions that arise in intergovernmental relations and modernizing the main institutions of the budget system.

Keywords: local government reform; territorial organization of power; local budgets; intergovernmental transfers; expenditures; revenues; decentralization reform.

Fig.: 2. References: 22.

У статті досліджено особливості міжбюджетних відносин в умовах децентралізації владних повноважень як важливого інструменту формування місцевих бюджетів та ефективного їх виконання при обмеженості фінансових ресурсів. Розглянуто фактори впливу на процес децентралізації, такі як система оподаткування, трансфертна політика, надання більших повноважень органам місцевого самоврядування при розробці програм соціально-економічного розвитку та проаналізували джерела формування фінансових ресурсів регіону, проблеми їх формування і використання, досліджено доходи та видатки місцевих бюджетів України за останні роки. Реформа децентралізації дала можливість збільшити дохідну частину місцевих бюджетів та зміцнити фінансову та ресурсну базу регіонів, удосконалити застосування міжбюджетних трансфертів та урізноманітнити їхні джерела. Дослідження виявило головні проблеми формування і використання фінансових ресурсів регіону. Серед них неузгодженість руху фінансових ресурсів, податковий тиск, різні цілі суб'єктів господарювання та органів публічної влади, низький рівень фінансової грамотності посадових осіб органів місцевого самоврядування, неузгодженість бюджетного законодавства, відсутність ефективного механізму перерозподілу державних доходів. Серед шляхів проведення бюджетної децентралізації та забезпечення ефективності міжбюджетних відносин, на основі розширення прав місцевих органів влади, зміцнення їх бюджетної самостійності та визначення відповідальності, пропонуються надання місцевим органам влади можливостей формування бюджетів, перерозподілу фінансових ресурсів між органами публічної влади, чітке визначення повноважень органів місцевого самоврядування та об'єднаних територіальних громад, застосування сучасних методів соціального планування, механізмів взаємодії органів публічної влади, підприємств, залучення інвестиційних ресурсів через розвиток місцевих фондів регіонального розвитку, надання інвесторам переваг, підтримка співпраці та взаємодії підприємств, скорочення витрат на утримання органів публічної влади, розширення джерел надходжень до місцевих бюджетів. Процеси фіскальної децентралізації мають постійно вдосконалюватись шляхом подолання суперечностей, які виникають у міжбюджетних відносинах та модернізації основних інститутів бюджетної системи.

Ключові слова: реформа місцевого самоврядування; територіальна організація влади; місцеві бюджети; міжбюджетні трансферти; видатки; доходи; реформа децентралізації.

Рис.: 2. Бібл.: 22.

JEL Classification: H77

Problem statement. Finance plays an important role in the socio-economic development of the territory. It ensures the distribution of gross regional product, the involvement of economic resources of the region, the circulation of economic resources, the use of levers of eco-

conomic control and management. With the help of finances, the organization of effective use of economic entities and regional management of attracted economic resources, the creation of reserves, the use of income to ensure the current social, economic and other activities. The most important functions of the region's finances are the distribution of borrowed resources; resource mobilization; control over the use and formation of resources; organization of rational use of resources [15]. Through financial instruments, an entity attracts economic resources to perform a number of specific tasks. With the help of finance is the organization of rational and efficient use of borrowed resources. When resources do not provide the necessary return, it leads to losses and destabilization of economic development in the region. Then there is a need for significant changes in both the structure and methods of using the resources involved. Analysis of resource use reveals areas for their optimization [22]. The task of achieving financial results in the activities of local businesses is the targeted and effective use of financial resources involved.

Analysis of recent research and publications. Problems of inter-budgetary relations and strengthening the financial independence of local authorities were studied in the works of V. Bazylevych, N. Baldych, I. Burkovsky, O. Vasylyk, J. Zhalil, A. Maksyuta, N. Oliynyk, I. Rozputenko, J. Stiglitz, W. Tarangul, P. Samuelson. This question was studied by T. Bondaruk, N. Prots, I. Lukyanenko, T. Umanets, N. Belikova, O. Ivanova. Despite the significant achievements of experts and scholars in dealing with this issue, there is an objective need for further in-depth study of intergovernmental relations in the context of decentralization of power in Ukraine

The purpose of the paper is to study the features of inter-budgetary relations for a more complete formation of local budgets and effective implementation in conditions of limited financial resources.

The main results of the study. Financial resources are distributed among different groups of the population through assistance, subsidies, lending (business and consumer), staff training, funding to stimulate the creation of additional jobs. The volume of movement of economic and financial resources between the territories is growing. There are different ways to allocate resources. Such methods include intergovernmental regulation, lending, creation of joint ventures, financial groups, holding companies, clusters [20].

Recommendation Rec(2005)1 of the Committee of Ministers to member states on the financial resources of local and regional authorities (Adopted by the Committee of Ministers on 19 January 2005 at the 912th meeting of the Ministers' Deputies) provides:

1) a fair distribution of public financial resources between the different tiers of government;
2) the guarantee local authorities a system of financing their expenditure that is based on the following principles:

– local authorities' resources and their allocation must be consistent with the requirement that they discharge their responsibilities effectively;

– local authorities are entitled, within the framework of national economic policy, to raise adequate resources of their own;

– a substantial proportion of transfers, and, generally, of their own resources, must not be earmarked for specific purposes;

– the amount of state grants must be fair, transparent and foreseeable; fairness demands that allocation rules be universal, non-discriminatory, stable, and neither arbitrary nor negotiable on an ad hoc basis [18];

– the financial equalization system should allow local authorities to provide their citizens, if they so wish, with broadly comparable levels of services in return for comparable levels of taxation and charges;

– where the demands of national economic policy so require, measures should be taken to ensure that the system of financing local authorities is consistent, overall, with those demands;

– specific limitations which apply to a limited number of local authorities should be lifted as soon as the situation permits;

3) review – if necessary – the legal and administrative framework for local taxation and grants to local authorities so as to encourage the improvement of services and their efficient provision, and the legal and administrative framework for financial equalization;

4) involve local councilors in the debate on reforms needed in this area, particularly those undertaken pursuant to this Recommendation, and on arrangements for implementing such reforms.

The economic structure of finances of the regions of Ukraine consists of revenues of state and non-governmental organizations and enterprises, local budget revenues, subsidies, local budget trust funds, extra-budgetary, centralized regional funds, household revenues, etc.

In general, the financial resources of the region can be structured as follows:

The first group includes funds from local budgets. The most important points that increase the level of financial security of the region are:

- increase in local budget revenues;

- concentration of funds of several local budgets for the implementation of regional programs.

The second group includes state budget funds. In this category, more effective support from the state can take place in the following positions:

- development of the region at the expense of subventions and transfers provided in the state budget;

- measures for socio-economic development of the regions, which are carried out at the expense of the state budget and are included in the relevant state programs;

- reimbursement by the state of interest for loans taken under regional development programs.

The third group includes funds raised for the purposes of socio-economic development of the territory through participation in the implementation of regional projects.

Today, one of the important issues of the local budget is its fair distribution and efficient use. In order for a community to properly exercise its powers, it must be provided with the necessary financial resources to cover its own costs.

Decentralization is important in modern Ukraine, especially in the process of uniting communities and territories where local budgets are formed. It should be borne in mind that decentralization is a complex reform that will change the whole system of governance, according to which communities have the opportunity to make their own decisions and be responsible for their implementation. Decentralization of local budgets began with the adoption of amendments to the Budget and Tax Codes, which transferred not only additional budgetary powers but also stable sources of local budget revenues for their implementation [3; 13].

The local budgets of the united territorial communities (UTC) contain two important funds - the general and the special. The largest share in the structure of the general fund of local budgets is made up of official transfers and the share of personal income tax and other taxes defined by law. The highest share in the special fund of local budgets of Ukraine belongs to the own revenues of budgetary institutions, as well as official transfers and certain types of taxes. 60% of personal income tax goes to local budgets of UTC. This significantly improves the lives of both large cities and small towns and villages [4].

Sources of formation of financial resources of the region are divided into sources of internal and external origin. The main part of the financial resources of the region consists of financial resources of the budget of the respective territory, financial resources of enterprises and funds of the population [16]. Also, important sources of formation of financial resources of the region are own means of the enterprises and the organizations, the involved loans and investment funds which arrive both from internal, and from external sources [2].

The current problems of formation and use of financial resources of the region are: the relative separation of the movement of financial resources of each of the entities, which reduces the overall economic effect; tax pressures that contribute to the flow of funds to the shadow sector; differences in the interests of business entities and local governments as representatives of the territorial community [5]. However, it should be noted that with additional sources of funding and broader powers, local governments do not implement effective regional development policies, which indicates a low level of financial literacy of local governments [1].

Budget decentralization in Ukraine in the form of increasing the powers and financial base of local governments has been going on for a long time, and every year it is declared in the Main Directions of Budget Policy, and in fact, there is a process of increasing budget centralization. Decentralization of budgetary financial resources provides: change in the taxation system, which changes the specific revenues in favor of local budgets [14]; change of transfer policy, which will not be able to be based on the Soviet principle “from everyone according to possibilities - to everyone according to need”; granting local governments greater powers in the development and implementation of various programs of socio-economic development [10].

The decentralization reform has significantly increased the revenue side of local budgets. However, at the same time, most of the living expenses of local communities are now funded from their budgets. The local budget own revenues value ranges from 45 to 47 % of total local budget revenues in the last three years. In 2018, local budget revenues received UAH 562.4 billion, of which UAH 263.5 billion were own revenues, and UAH 298.9 billion was transferred from the state budget. The second part of local budget revenues is transferred to them from the state budget in the form of grants and subventions. Grants are mostly directed to finance the current needs of the local community. In the state budget for 2019, UAH 25.9 billion was set aside for all subsidies for local budgets (excluding the reverse one, which is transferred from local budgets to the state budget). The state budget for 2019 provided for 44 separate subventions totaling UAH 262.4 billion. The “most expensive” among them are education subvention (UAH 69.6 billion), subvention for the payment of assistance to low-income families (UAH 63.0 billion), medical subvention (UAH 55.7 billion), subvention for the provision of benefits and housing subsidies to the population to pay for natural gas (UAH 35.1 billion) and a subvention for road construction (UAH 14.7 billion). In total, they absorb more than 90 % of all funds allocated for subventions.

Figure 1 shows the revenues of local budgets of Ukraine [7].

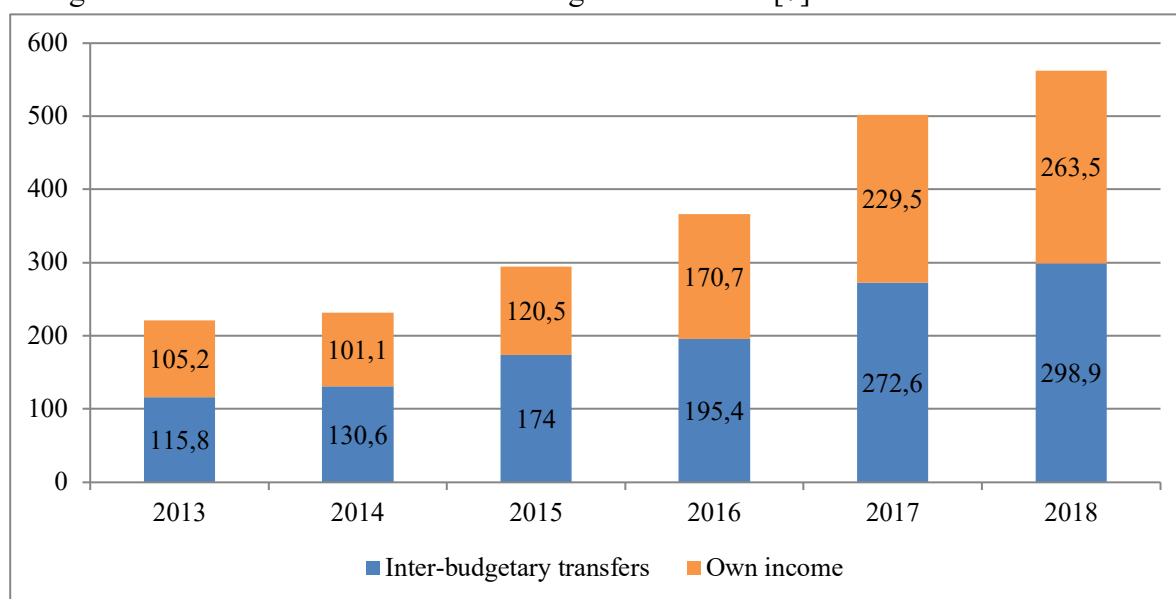


Fig. 1. The revenues of local budgets of Ukraine

During 2018, UAH 570.6 billion was spent from local budgets. The "most expensive" expenditures were: secondary schools (16.3 % of all local budget expenditures), housing subsidies (11.6 %), general hospitals (7.6 %), assistance to low-income families (7.4 %), repair and construction of roads (5.8 %), kindergartens (5.6 %), housing and communal services (5.3 %) and maintenance of local authorities (4.8 %). In total, almost two thirds of all local budget expenditures were financed by them. Figure 2 shows the expenses of local budgets of Ukraine [7].

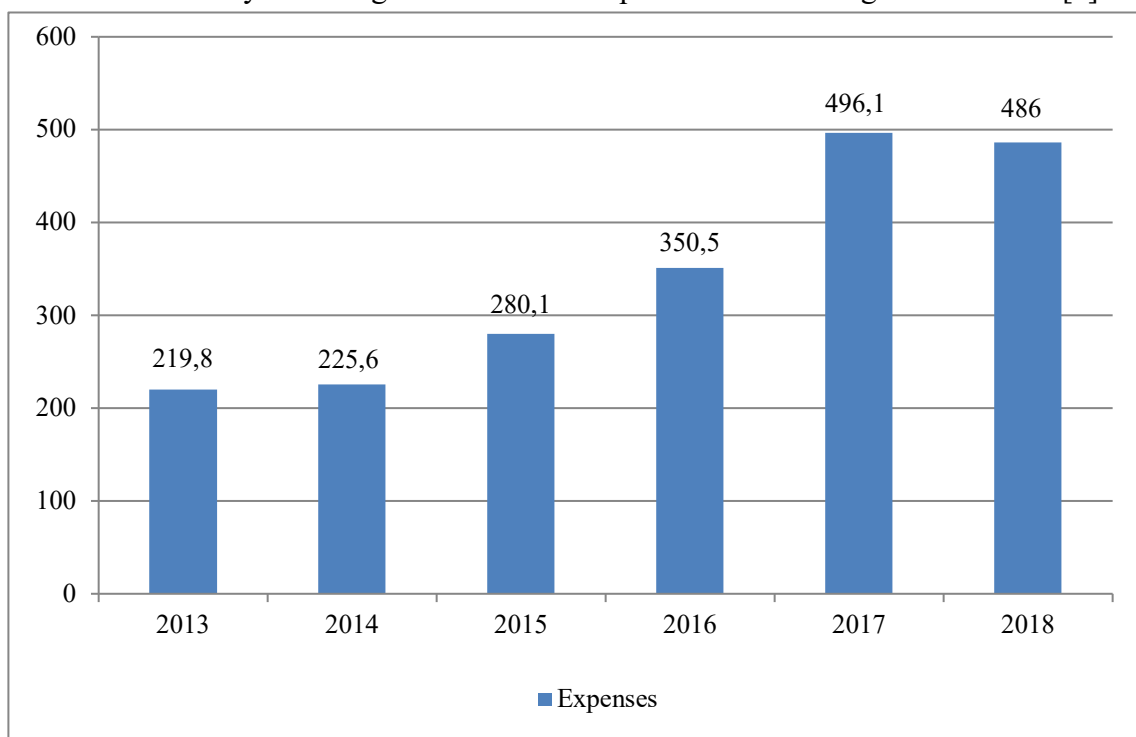


Fig. 2. The expenses of local budgets of Ukraine

In 2018, the largest share in the own revenues of the general fund of local budgets is accounted for by revenues from the payment of personal income tax, which amounted to UAH 138.1 billion or 59 % of the total amount of own revenues of local budgets. Compared to 2017, personal income tax revenues in Ukraine as a whole increased by UAH 27.5 billion or 24.9 %. In the structure of revenues of the general fund, 26.1 % is the share of local taxes and fees, which in 2018 received UAH 60.9 billion. In all local budgets of Ukraine, the increase in local taxes and fees compared to 2017 is 16.1 %, in the budgets of cities of regional significance – 12.6 %. According to the budgets of 665 UTCs, revenues from local taxes and fees increased by 19.4 %, which is 3.3 % higher than the average growth rate in local budgets of Ukraine.

The state has also increased budget support to local governments for community development and infrastructure development. Thus, if in 2014 the regions were provided with only UAH 0.5 billion from the state budget to support socio-economic development, in 2018 the amount of funds for the implementation of infrastructure projects amounted to UAH 19.37 billion, and in 2019 it was provided 20, UAH 75 billion, which is 41.5 times more than in 2014. In addition, a subvention for the construction, reconstruction, repair and maintenance of public roads of local significance in the amount of UAH 14.7 billion was envisaged for 2019.

Decentralization reform contributes to the qualitative improvement of the living environment for community residents, the creation of real conditions for the comprehensive development of territories and human resources, the formation of the foundations of effective local self-government [9].

ФІНАНСОВІ РЕСУРСИ: ПРОБЛЕМИ ФОРМУВАННЯ ТА ВИКОРИСТАННЯ

Revenues of local budgets in 2020 will amount to about UAH 314.553 billion. Resources of local budgets for 2020, according to government forecasts, should amount to about 465.647 billion UAH. Of these, almost UAH 413.117 billion is expected for the general fund, and UAH 52.53 billion for the special fund. The projected amount of local budget revenues is set at about UAH 323.315 billion, including about UAH 296.116 billion for the general fund and about UAH 27.198 billion for the special fund.

The basic subsidy from the state budget in 2020 is proposed to be provided to 1,032 local budgets, including 19 regional budgets, 38 budgets of cities of regional significance, 356 district budgets and 619 budgets of united territorial communities.

It is expected that in 2020 the reverse subsidy to the state budget will be transferred to 235 local budgets, including 5 regional budgets, 53 budgets of cities of regional significance, 38 district budgets and 139 budgets of united territorial communities.

The amount of the basic subsidy, which will be provided to local budgets from the state budget in 2020, is almost UAH 13.272 million, the amount of the reverse subsidy, which will be transferred from local budgets to the state budget, is about UAH 8.761 billion [8].

The most important areas of strengthening the financial and resource base of the regions based on the experience used in other countries and similar factors that have a significant impact on similar processes in Ukraine are:

- improvement of legislative support for the formation and effective use of financial resources of the regions, inter-budgetary relations and transfers [17];
- strengthening the financial capacity and capacity of local budgets by increasing their revenues, as well as opportunities for borrowing and other forms of raising funds;
- improving organizational and methodological approaches to state regulation and management of regional development processes and, in particular, the processes of financial support for the implementation of regional development programs, primarily through the Regional Development Fund;
- carrying out a set of organizational measures aimed at involving on a mutually beneficial basis the processes of implementation of regional development programs of local business and the public, including on the principles of public-private partnership, ensuring transparency and efficiency of this process [21];
- ensuring the real participation of regions in the formation and implementation of national programs implemented at the expense of the state budget and implemented in the region or subregion, as well as improving the mechanism of distribution of subsidies allocated from the state budget to the regions;
- use of the mechanism of inter-municipal cooperation to solve common problems and search for resources;
- development and implementation of regional investment promotion programs;
- significant strengthening of the role and importance of regional financial structures (insurance companies, private pension funds, venture investment funds, etc.) in the accumulation of financial resources and their use to finance regional development programs.

The need for intergovernmental transfers stems from the fact that in the public finance system with this distribution of taxes and functions between levels of government there are vertical and horizontal imbalances that can be overcome only by transferring funds from the state budget to lower budgets [19]. The sources of intergovernmental transfers are mostly deductions from one or more taxes or annual allocations from the relevant budget, which is currently the most common and does not allow to provide transfers for economic development. In Ukraine, the system of intergovernmental transfers is imperfect and needs further changes [12].

Ensuring the effective implementation of economic reforms aimed at building Ukrainian statehood and addressing the priorities of socio-economic development at the present stage, actualizes the search for modern conceptual approaches to solving urgent problems of fiscal policy and appropriate modernization of its levers and tools. Further budget decentralization and ensuring the effectiveness of inter-budgetary relations require expanding the rights of local authorities, strengthening their budgetary independence and determining responsibility. The priority steps at this stage should be:

- providing local authorities with rights and opportunities to form budgets from their own sources and make changes to the mechanism of providing centralized state support to regions [11];
- solving the problem of optimal redistribution of powers and financial resources between central and local authorities and local self-government;
- determination of the rights and powers of local self-government bodies and united territorial communities created in accordance with the law and the long-term plan for the formation of community territories;
- development and implementation of methods for calculating the cost of social services, implementation of a social planning system at the local level to solve social problems [6];
- formation of mechanisms of interaction of executive bodies, local self-government bodies, private enterprises, streamlining the management of the communal property and common property of communities;
- creating conditions for attracting investment resources through the development of local regional development funds, providing investors with preferences, supporting cooperation and interaction of enterprises;
- supporting of expenditures of enterprises to ensure their level of development and promote their stabilization, rationalization of expenditures on the social sphere, reduction of expenditures on the maintenance of public authorities, to create investment platforms;
- expanding sources of local budget revenues.

Modernization as a tool to ensure the transition from one state of the system to another on the basis of its renewal, improvement and compliance with modern conditions and requirements involves not only the creation of new but also the preservation of existing effective components that can form transformations. Further fiscal decentralization should provide a consistent improvement on the basis of an institutional renewal of contradictions of inter-budgetary relations, and also restoration in new opportunities of the basic institutes of the budgetary system.

Conclusions. One of the characteristic features of local budgets today is the high level of their dependence on the state budget. For comparison, in European countries, it is about 10 %, in Ukraine - 20 % or more. In addition to the above-mentioned problem, today there are many other problems that need to be taken into account when reforming local budgets, including the provision of opportunities to use budget resources in conjunction with private funds, the program orientation of budget funding and others.

After analyzing the selected topic, we can highlight the current problems of local budgets in Ukraine: inconsistency of regulatory and legal support for the formation and use of financial resources; centralization of local budget management; lack of clear division of competencies between central, regional and local governments; instability of sources of local budget revenues and lack of an effective mechanism for interregional redistribution of state revenues; problems of inter-budgetary relations are caused by rapid change.

At the same time, the main areas of solving problems related to the formation of local budgets are a clear division of powers of the authorities to form the revenue side of local budgets; improving control over the use of local budget revenues; identification of alternative sources of filling budget revenues; formation of the revenue side based on an assessment of

their tax potential; application of criteria and calculations for local budget indicators. Reforming local budgets should take into account the negative factors that affect the implementation of the local budget process together with the reform of budget legislation.

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