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### FEATURES OF FISCAL DECENTRALIZATION IN UKRAINE

*The article discusses the basic features of fiscal decentralization in Ukraine in terms of known typologies of decentralization in the world. We search for new tools to optimize the fiscal component of macroeconomic mechanism of state and regional development through the implementation of the policy of fiscal decentralization. Ukraine's peculiar features of fiscal decentralization are determined.*

*Keywords:* decentralization, fiscal decentralization, Ukraine.

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### ХАРАКТЕРНІ ОСОБЛИВОСТІ ФІСКАЛЬНОЇ ДЕЦЕНТРАЛІЗАЦІЇ В УКРАЇНІ

*У статті розглянуто основні характерні риси фіскальної децентралізації в Україні з точки зору відомих у світі типологій децентралізації. Досліджено пошук нових інструментів оптимізації фіскальної складової макроекономічного механізму державного та регіонального розвитку шляхом впровадження політики бюджетної децентралізації. Визначено характерні лише Україні особливості фіскальної децентралізації.*

*Ключові слова:* децентралізація, фіскальна децентралізація, Україна.

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### ХАРАКТЕРНЫЕ ОСОБЕННОСТИ ФИСКАЛЬНОЙ ДЕЦЕНТРАЛИЗАЦИИ В УКРАИНЕ

*В статье рассмотрены основные характерные черты фискальной децентрализации в Украине с точки зрения известных в мире типологий децентрализации. Исследуется поиск новых инструментов оптимизации фискальной составляющей макроэкономического механизма государственного и регионального развития путем внедрения политики бюджетной децентрализации. Определены характерные только для Украины особенности фискальной децентрализации.*

*Ключевые слова:* децентрализация, фискальная децентрализация, Украина.

**Introduction.** Fiscal policy of local authorities in many countries are an important tool in influencing the distribution of productive forces, the development of depressed areas, for scientific and technical progress. Establishing preferential tax regimes, local authorities attract additional investment, promote construction works, development of foreign relations, establishment of special economic and industrial zones. Experience of other countries shows that the smaller is a territory, the more tax credits provide its authorities to overcome the gap. The state is often involved in creating favorable conditions for the development of depression financial areas. The system of privileges known as preferences forms specific budgetary regimes, tax holidays, special modes of exchange control and visa regimes.

**Analysis of recent research and publications.** Today, many countries declare fiscal decentralization. This movement became a part of their legislation, as argued by C. Tiebout (1956), who already in 1956 emphasized that the decentralized production of goods and services better meets the needs of individual citizens. Many scien-

tists today who are trying to find an answer to the question of what is best for the financial condition of a country and its government – centralization or decentralization – give reasoned proof that positive impact on macroeconomic stability of the country has decentralization. S. Yilmaz (1999) displayed the hypothesis that decentralization has a positive impact on the pace of economic growth in any country, whether federal or unitary. His hypothesis is confirmed and complemented by the studies, proving that the overall impact of decentralization is positive and essential to economic growth in developed countries (US, UK, France, Germany etc.) and positive but unimportant in developing countries (Bolivia, Colombia, Chile, Ukraine etc.). The same ambiguous conclusions concerning different impact of decentralization on economic growth in developing countries are in of J.K. Brueckner (1999) and H. Zou (1998). Working independently, they put forward the hypothesis that the reason for the slightly positive impact on macroeconomic performance in developing countries has the effect of corruption and tax evasion, which in these countries are of total character. But, unfortunately, these authors did not provide evidence to confirm or refute this hypothesis.

Another view on the matter was proposed by W. Oates (1993), who claimed that the rising costs for municipal infrastructure in total expenditures of local governments increases the possibility of spending inappropriately and getting profits from local governments and organizations that perform work by their order. This situation is primarily due to fact that the infrastructure is assigned to local governments, as they are closest to the needs of local community. Also, it is spelled out in the legislation of many countries, including the Budget Code of Ukraine. Another reason for shifting the responsibility for financing infrastructure to local governments was given by J.K. Brueckner (1999), who believed that the diversity of needs of local communities in the construction and infrastructure financing result in consolidation of these powers by local authorities.

**The object of this research** is the features of fiscal decentralization in Ukraine.

**The aim of the research** is the systematic and comparative analysis of fiscal decentralization in Ukraine.

Unfortunately, the role and importance of fiscal policy of local governments for economic development in Ukraine are still extremely low. Unlike most European countries, where local taxes and fees are the primary revenue sources of local authorities, in Ukraine they play a minor role. In 1996 the local taxes generated less than 3% of the revenues, in 2000 this figure increased, but was no more than 10%. That is why the development of the local fiscal authorities in Ukraine is the key area to strengthen their impact on the state of the economy.

Extremely important for effective decentralization policies is the role of financial resources of local authorities in the provision of public services. Logical for most European countries is the division of responsibilities between the state and local governments in the provision of public services when the local has the primary responsibility for the social services. The central government is focused on economic services, defense, security etc. This trend is most clearly manifested in the postwar period. Already in the 70s 90% of all government spending on education and training in the US, Canada, UK and other countries was carried out at the expense of local governments. In the same period from 70 to 99% of the costs for healthcare is provided by

local governments (US, Germany, and Canada). With regard to social security, there is also a significant role of local authorities. In this period German share of local governments in the total government expenditures on these items was 65%.

In Ukraine, the trend also holds. Local authorities finance the bulk of government social spending. In 2012, local budgets financed 83.3% of all expenditures of the consolidated budget of Ukraine on social protection of the population and 81.8% of the socio-cultural sector. Local budget financed 74.8% costs on education, 66.8 – on culture and media, 92.1 – on healthcare, 66.3% – in youth programs, physical culture and sports.

Expenditures on utilities are almost entirely financed from local budgets (in 2012 – 96.5%). It is no exaggeration to say that local authorities dominate the market of social services and they determine the social climate in the society.

Another social sphere with extremely strongly affected finances of local authorities is employment. Local authorities are one of the largest employers at the labor market. In Sweden in the early 90s municipal enterprises and the utilities sector employed around 19% of the total population. Another 10% worked on the farms owned by the province. For comparison, the public sector had only 9% of the total employment in the economy. In many countries, employment in the municipal sector far exceeds the employment by the state. The local government of Denmark employs 75% of all civil servants. In the UK the figure is 60%. Significant is the municipal sector in Germany (30% of all civil servants) and in the Netherlands (34%), France (27%).

In Ukraine, the role of the municipal sector in employment is also quite significant. In 2012, communal enterprises and public organizations were employing 2 mln 616 ths people. This is almost 17% of all the employees within the national economy while 24.6% worked in the public sector.

Local governments bear the main burden of retraining and employment of the unemployed. This has its roots in the Soviet period, when the repeated resolutions by higher authorities were to "enhance the role of local councils".

An important factor of economic growth is the work of local authorities at the capital market. Loans placed by local authorities and bank loans received by these structures are used exclusively for investment programs and equipment purchases. Legislation of developed European countries prohibit the use of borrowed funds for current needs. This utility loans and credits differ from loans of the central government, where there are limits. Thus, the activities of local authorities at the capital market focus solely on expanding the scope and quality of services provided by their territorial communities. Mobilized local government funds are used to develop civic sectors of the economy and social sphere, that is 70 to 90% of all the investments.

In Ukraine, the capital market exists only in a few cities: Kyiv, Kharkiv, Dnipropetrovsk, Odessa, Donetsk, Mariupol, Lviv and others. The share of the borrowed resources in 2012 did not exceed 0.1% of the revenues, while in many developed European countries each year it ranges from 6 to 19% of the municipalities income.

Significant impact on the economic situation has the activity of local authorities at the land market and in real estate. Now large land owners and real estate local authorities have effective leverage development on their territory. Through various

land transactions and real estate (lease, alienation, redundancy etc.), local authorities have significant impact on the level of business activity of businesses that use this land and real estate.

In Ukraine the land market is yet to be developed. Some cities have auctions for long-term land lease. Only after the adoption of legislation that will define the legal regime of community property as property of non-government, including land, local authorities in Ukraine will become full participants of the land market. This factor will enhance their impact on economic growth.

One of the important prerequisites for a democratic state is the autonomy and independence of local governments. The financial side of this issue is also crucial. The degree of financial autonomy of local authorities characterizes the independence of the state as a whole, the potential for economic development, the level of democratic rights and freedom. The state can not thrive and prosper without giving guarantees of financial independence to local authorities.

In modern terms, local authorities should ensure that comprehensive development of the area is proportional to the development of production and non-production sectors jurisdiction over the area. This causes further expansion and strengthening of the financial base for regional authorities.

So with all of the above, the following **conclusions** are:

1. Economic relations are the leading indicators of the revenues for local budgets.

2. Society and government agencies in Ukraine, unfortunately, have not fully defined the role of local authorities in Ukraine and their financial resources to perform the tasks assigned to them. This definition is necessary to implement the program of action for the development of local government finance by strengthening the revenue base for local budgets, which will be a significant factor in improving the efficiency of government and the key to effective decentralization.

3. The formation of the revenue base of local budgets is influenced by various factors: economic, social and political.

4. Formation of the revenue base for local budgets in the context of decentralization, under certain conditions, is more effective than centralization of budgetary funds in the state budget and promotes economic growth. Local authorities can optimally produce and distribute public goods.

5. To date, no clear answer to the question about the optimal level of decentralization and its impact on macroeconomic indicators of a country is given.

6. The state should create conditions for economic development, but also the administrative and territorial entities should use the rights granted to them for their own development. In addition, each level of government should have a clear list of their powers and their sources of funding. For administrative-territorial entities to develop long-term development strategy, these sources have to be real and stable. At the same time, there should be clear criteria for evaluation of regional managers and their exact responsibility in case of the negative consequences of such activities.

7. The experience shows that the problem of transition to market requires a comprehensive approach in shaping local finance and tax policy that brings to the fore with the modernization of management. Management reform must go through a gradual replacement of the administrative-command system by the market one

involving acceptable for Ukraine examples of foreign experience. Attempts to conduct such reforms can be demonstrated on the example of the local budget in Irpin. As the basis of such a reorganization Swedish experience was taken and enshrined in Ukraine-Swedish agreement "On the development and restructuring of local government in Irpin" (Kravchenko and Martin, 1999).

8. Strengthening local government by ensuring the minimum revenues to local budget, acquisition by local authorities the leading role like the one performed by Western municipalities – all these requires rapid development of local finance.

9. Local authorities should hand over the part of the functions of providing public services to private, mixed, and other structures. Local authorities should not only directly provide social services but also provide them with the market mechanisms.

10. To achieve positive results during the economic reforms the government should create an effective legal framework and reduce the impact of negative factors such as bureaucracy, corruption of public officials, asymmetry of regional development.

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### КНИЖКОВИЙ СВІТ



СУЧАСНА ЕКОНОМІЧНА ТА ЮРИДИЧНА ОСВІТА  
ПРЕСТИЖНИЙ ВИЩИЙ НАВЧАЛЬНИЙ ЗАКЛАД  
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Має гриф підручника від МОН України.

У підручнику в концентрованому вигляді викладено зміст усіх нормативних дисциплін по спеціальності «Маркетинг». По кожній з дисциплін базового курсу пропонуються контрольні питання, тести, глосарій і література.

Для викладачів, майбутніх бакалаврів і магістрів, аспірантів, маркетологів-практиків, наукових працівників, а також для всіх, хто цікавиться сучасними технологіями маркетингу.

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