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*Olena Rohova***THE SPECIFICS OF IMPLEMENTATION OF FISCAL DECENTRALIZATION IN THE CONTEXT OF PROVIDING THE LOCAL BUDGETS' INDEPENDENCE***Olena Rogova***ОСОБЛИВОСТІ РЕАЛІЗАЦІЇ ФІНАНСОВОЇ ДЕЦЕНТРАЛІЗАЦІЇ В КОНТЕКСТІ ЗАБЕЗПЕЧЕННЯ НЕЗАЛЕЖНОСТІ МІСЦЕВИХ БЮДЖЕТІВ***Елена Роговая***ОСОБЕННОСТИ РЕАЛИЗАЦИИ ФИНАНСОВОЙ ДЕЦЕНТРАЛИЗАЦИИ В КОНТЕКСТЕ ОБЕСПЕЧЕНИЯ НЕЗАВИСИМОСТИ МЕСТНЫХ БЮДЖЕТОВ**

The content of the concepts of "decentralization" and "fiscal decentralization" has been explored. The dynamics of indicators of local budgets and their share in the structure of the consolidated budget has been analyzed. The effect of fiscal decentralization has been substantiated. A number of additional components have been identified, which determine the absolute increase of local budgets' own resources. The existence of inconsistent and ambiguous government's decisions in the context of the implementation of fiscal decentralization has been spotted.

Key words: decentralization; fiscal decentralization; reform; local self-government; territorial organization of power; amalgamated hromadas; own revenues.

Fig.: 3. Bibl.: 7.

Досліджено зміст понять «децентралізація» та «фінансова децентралізація». Проаналізовано динаміку показників місцевих бюджетів та їх частки у структурі зведеного бюджету. Обґрунтовано вплив власне фінансової децентралізації. Визначено додаткові компоненти, що обумовлюють абсолютне збільшення обсягів власних ресурсів місцевих бюджетів. Встановлено наявність непослідовних та неоднозначних рішень з боку уряду в контексті виконання фінансової децентралізації.

Ключові слова: децентралізація; фінансова децентралізація; реформа, місцеве самоврядування; територіальна організація влади; об'єднані територіальні громади; власні надходження.

Рис.: 3. Бібл.: 7.

Исследовано содержание понятий «децентрализация» и «финансовая децентрализация». Проанализирована динамика показателей местных бюджетов и их доли в структуре сводного бюджета. Обосновано влияние собственно финансовой децентрализации. Определен ряд дополнительных компонентов, обуславливающих абсолютное увеличение объемов собственных ресурсов местных бюджетов. Установлено наличие непоследовательных и неоднозначных решений со стороны правительства в контексте выполнения финансовой децентрализации

Ключевые слова: децентрализация; финансовая децентрализация; реформа, местное самоуправление; территориальная организация власти; объединенные территориальные общины; собственные поступления.

Рис.: 3. Библ.: 7.

JEL Classification: H72

Target setting. In today's conditions of the economic crisis and internal instability, dependence on external partners, the implementation of the reform of local self-government and territorial organization of power in our country is considered to be a key to political stability and economic growth. Undoubtedly, decentralization of power is the main reform at present in Ukraine and the effectiveness of reforms in other sectors depends on the success of its implementation. The first stage of the reform was the implementation of fiscal decentralization, the essence of which was the transfer of additional expenditure powers and stable sources of revenue for their realization to amalgamated hromadas. Accordingly, the study of the process of financial decentralization and the assessment of the results of government activities becomes extremely relevant.

Actual scientific researches and issues analysis. During the period of the ongoing reform of local self-government and territorial organization of power, the attention of a sufficient number of experts and analysts is devoted to the issue of ideology, content and efficiency of decentralization. Among them are: A. Tkachuk, S. Zakirova, Y. Kazyuk, Y. Vdovenko, A. Gerus, O. Sas, O. Khoruzhenko and others.

Defining the uninvestigated parts of general matters. Given the importance and significance of the issue, the issue of implementing local self-government reform and assessing the changes in the resource base of local budgets requires further scientific research.

The research objective. The main purpose of this article is to study the impact of fiscal decentralization on the amount of own revenues of the amalgamated hromadas budgets.

The statement of basic materials. Recently, in the scientific and journalistic publications, monologues of politicians and officials of various ranks, official documents and everyday communication, the term "decentralization" has become firmly established as an objective, and, in the opinion of some, as a fairly fictitious phenomenon of the modern social life of the Ukrainian state. The content of this concept, as stated on the official website, which highlights the reform of government in Ukraine, is "the transfer of significant authority and budgets from state authorities to local self-government authorities" [1]. The main task of the local self-government reform, which began in April 2014, was "to achieve an optimal division of authority between local governments and executive authorities at different levels of the administrative and territorial system based on the principles of subsidiarity and decentralization" [2]. Building a system of government based on the above mentioned is, in our opinion, quite logical and, moreover, under the current conditions of crisis and uncertainty in many areas (substantiated in [3; 4], necessary and fully compliant with the best world standards, in particular the European Charter of Local Self-Government.

Fiscal decentralization is one of the most important aspects and a prerequisite for the decentralization of power in any country. A complete renovation of the budget system and the provision of amalgamated hromadas with sufficient resources to face the urgent issues and to provide their full-scale development are highlighted by the fourth of five necessary steps for implementation of the decentralization of power reform [1]. It is clear that without proper financial support of rights and powers, transferred to the level of amalgamated hromadas, any real independence of lower and basic level of local self-government is not possible in principle. That is why the obvious consequence of the proclaimed course of decentralization of power in Ukraine was the introduction of amendments to the Budget and Tax Codes aimed at the creation of financially-based foundations at the disposal of the amalgamated hromadas that are adequate to the tactical and strategic tasks set for them.

It should be noted that the public is being regularly informed about the successes of domestic authorities, as well as the leaders of the first wave of amalgamated hromadas concerning the fiscal decentralization and the transfer of additional stable sources of income to local governments to implement their expenditure powers and, as a consequence, "an annual growth of volumes of local budgets own resources, their shares in the structure of the consolidated budget of Ukraine, and the possibilities of local self-government to direct funds for development expenditures, implementation of infrastructure projects, etc." [2].

As the first stage in the achievements of fiscal decentralization in 2014–2016, the Cabinet of Ministers and the Ministry of Regional Development, Construction, Housing and Communal Services of Ukraine state:

- expansion of the principle of autonomy of local budgets - a clear definition of deadlines for approval of local budgets, irrespective of the approval of the state budget;
- local budgets were assigned about 50 sources of revenues and promotion of taxpaying capacity of hromadas was initiated;
- balancing system was replaced with fiscal equalization system, which implies horizontal equalization of taxpaying capacity of territories depending on the level of revenues from personal income tax (and income tax for regional budgets) per capita;
- line ministries were empowered to allocate funds of Education and Healthcare subsidies and provide transfers to local self-government bodies with the purpose of fulfillment of their powers;
- expenditure powers of state authorities and local self-government bodies were redistributed according to the principle of subsidiarity;
- hromadas were encouraged to amalgamate and shift to direct inter-budget relations with the state budget with appropriate resources, the same as for towns of regional significance [5].

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Consequently, as a result, a significant strengthening of the resource base of local budgets and the formation of prerequisites for acceleration of the process of hromadas' voluntary amalgamation is expected.

The statistics provided by the national statistical sources and various financial and analytical materials clearly confirms the given above conclusions. Thus, over the period from 2015 to 2017, the volume of own revenues of local budgets of Ukraine increased by 2.49 times (Fig. 1), while the share of the latter in the consolidated budget of Ukraine has increased to almost half (Fig. 2).

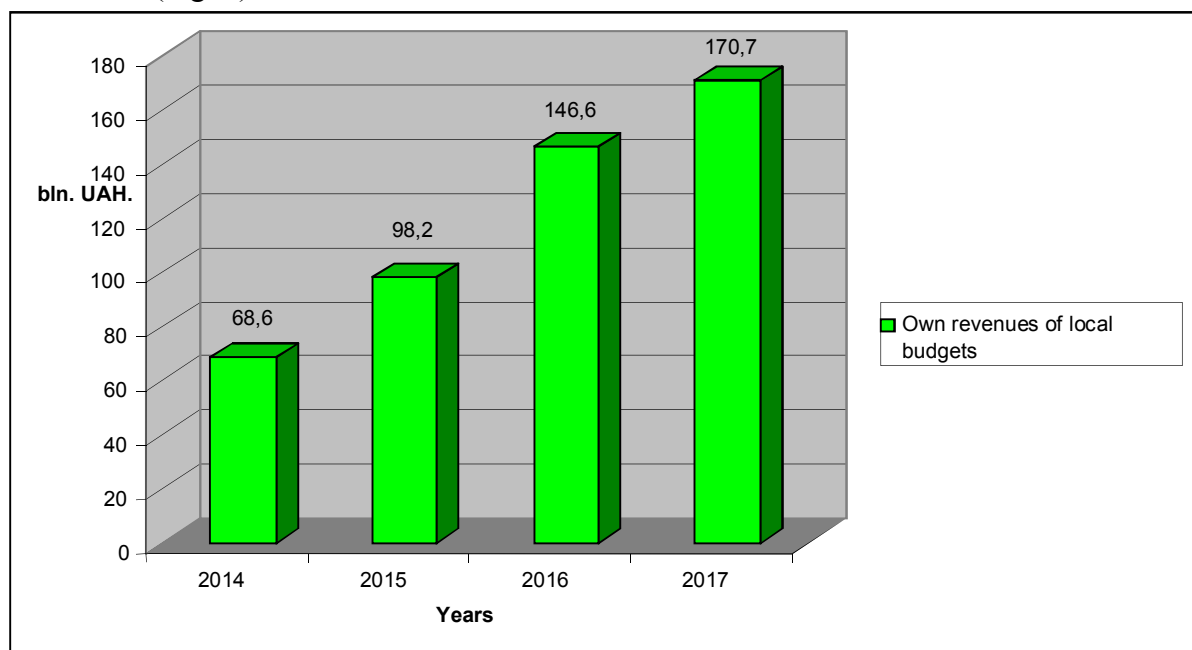


Fig. 1. Dynamics of own revenues of local budgets in Ukraine in 2014–2017

Source: arranged by the author according to the data [2].

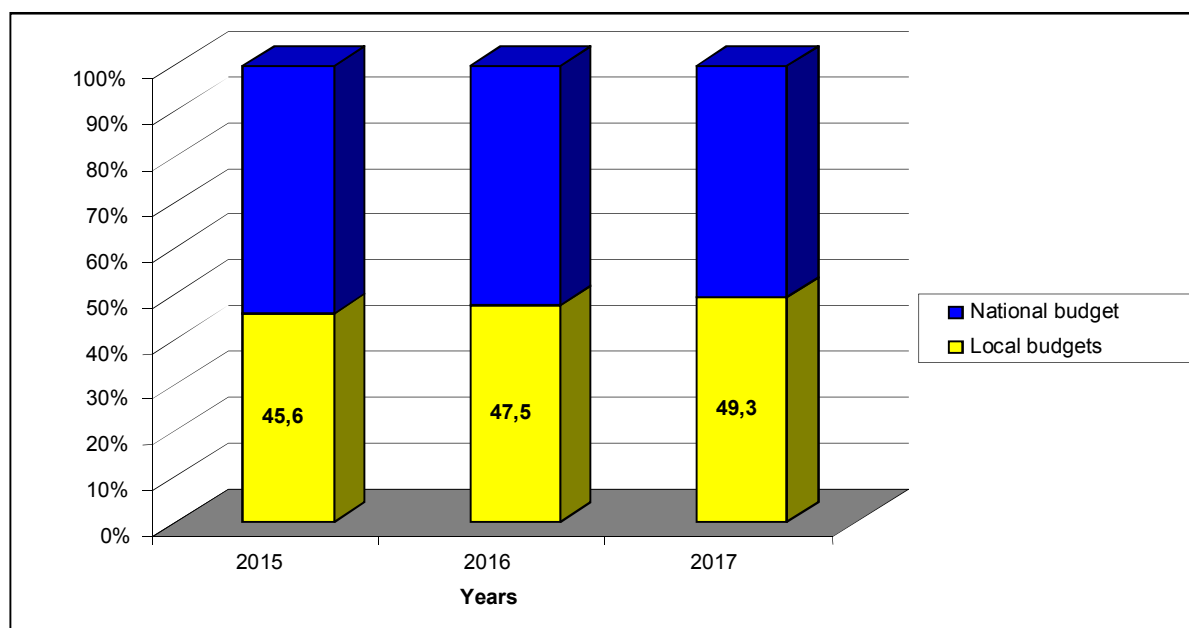


Fig. 2. Share of local budgets (with transfers) in the consolidated budget of Ukraine in 2015–2017

Source: arranged by the author according to the data [2].

However, in our opinion, it is fundamentally wrong to consider the indicated dynamics of statistical indicators as a result of purely decentralizing processes, that is, the transfer of authority from higher hierarchical levels of government (primarily state) to lower (first of all, amalgamated hromadas).

Immediately we should note that we do not doubt the existence of significant achievements on the way of real implementation of fiscal decentralization in Ukraine. In this regard it is sufficient to mention at least the appearance of additional rather powerful incentives for the newly elected leaders of the amalgamated hromadas to develop the financial and tax base in the respective territories. We will not deny the statement on increasing the degree of independence of local budgets from the state one, creating opportunities for planning the development of territories, the implementation of real projects, etc. (this list can be significantly expanded).

However, it is not superfluous to ensure maximum objectivity in covering issues of reforming state management in Ukraine with the allocation and taking into account (if possible) all the components that determine one or another, albeit rather attractive, dynamics of indicators of financial security of local self-government activity.

Separating the contribution of actual fiscal decentralization to the dynamics of budget indicators will allow to more objectively consider the situation with the most reasoned and rational planning of further steps towards the construction of a domestic system of local self-government that is compliant with the European principles. The fact is, that statements, for example, concerning the increase by 3 times of the own revenues of the amalgamated hromadas' budgets in 2016 compared to 2015 due to the fiscal decentralization without further explanation raise some questions [5].

In this regard, let's take a look at some of the following points.

1. The standard list of budget indicators of official reporting consists, as a rule, of indicators of nominal nature. Consequently, the inflationary factor, of course, among other factors, performs a significant influence on their dynamics. Taking into account the inflation rates in Ukraine in recent years, one can not be completely abstracted from its impact on budget indicators.

2. In many cases, the revenues of local budgets are viewed taking into account the inter-budgetary transfers, and, therefore, only indirectly allow to assess the parameters of local self-government own financial base. With all the attractiveness of this source of income as a means of financing the maintenance of, first of all, vital for every amalgamated hromada institutions of social infrastructure, and from the recent past the formation of infrastructure, we should note that its consideration as a stable source of financial provision of the amalgamated hromadas in the long run is, in our opinion, debatable. As a confirmation we will make the assumption that the first such amalgamated hromadas can always safely rely on additional financial support from the state budget because of reasons, obvious for all.

3. Funds directly transferred from the state budget to local ones are only part of the overall increase in their financial resources. For example, in 2015, it was 7.5 billion UAH out from 24.7 [5].

4. Expansion of the tax base due to traditional local taxes and fees can be considered as fiscal decentralization, in our opinion, only with a number of the proviso.

5. The amalgamated hromadas, except the villages, settlements, towns of district significance, received in their budgets the revenues, previously allocated to the budgets of administrative districts. We believe that under the present conditions it is more correct to speak not about decentralization, but about the replacement of one local self-government bodies by the others.

6. When highlighting the changes introduced into the system of inter-budgetary relations in our country, the attention is usually drawn only to those that take place in favor of local budgets, primarily the budgets of the amalgamated hromadas. At the same time, sometimes other important transformations of budget legislation take place without unnecessary advertising.

The most striking example of the selective approach to informing the public about decentralization is rather “advertised” in the media transfer to local (regional) budgets of 10 % of corporate income tax (starting from budget year 2015) with a parallel “compensatory” withdrawal to the state budget of 25 % of personal income tax. The latter, with some non-decisive exceptions, since the adoption of the first edition of the Budget Code of Ukraine, as a national tax, was fully transferred towards local budgets, while being a relatively reliable and stable source of revenue and making a lion's share of these budgets own revenues. Without going into discussions about the reasonableness of introducing such amendments to the Budget Code, let's just mention that, for example, as a result, in 2016, the loss of local budgets could have been estimated at UAH 34695.5 million (in reality, somewhat lower, as it is the specified percentage out of the total collected personal income tax). This would have amounted up to 23.7 % of all own local budget resources of the specified period. Instead, 10 % of corporate income tax in the same year is only UAH 6022.3 million, and in reality, due to the set by the Budget Code features of the inter-budgetary delineation of the results of the taxation of enterprises profits of various forms of ownership, local budgets received only UAH 5879 million of this tax (Fig. 3) [6].

Let's add that in conditions of constant financial complications of the Ukrainian state connected with, for example, the necessity to carry out large-scale payments related to the state debt in the near future, transfers seem to be considerably more risky source of formation of the income base of local budgets than the personal income tax.

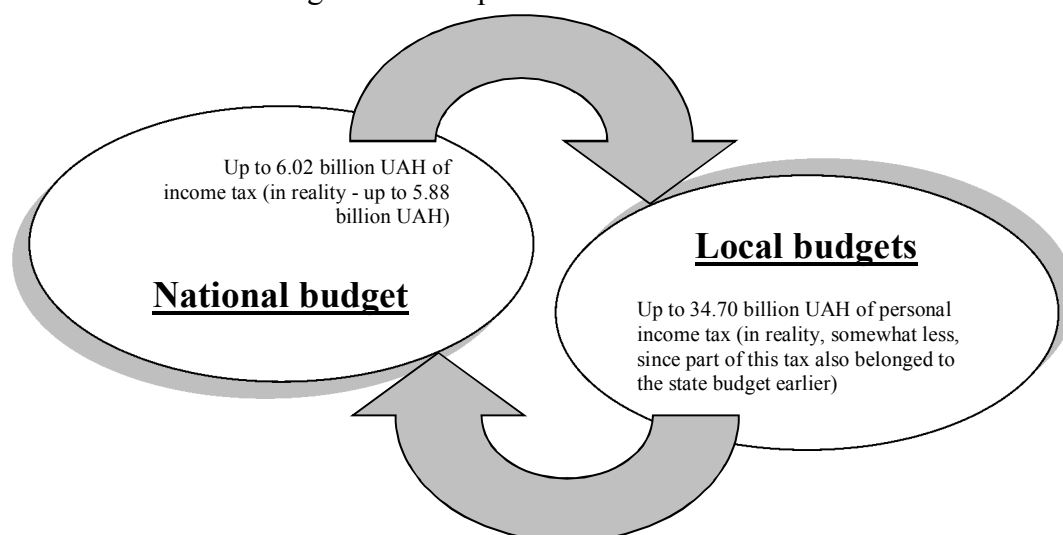


Fig. 3. The approximate results of the inter-budgetary “change” of the income tax with the personal income tax in the year 2016

Source: arranged by the author according to the data [6; 7].

Conclusions and suggestions. As a result, there are grounds to note that the proclaimed course on decentralization in our country is not always marked by one-sided direction, at least, in the budgetary sphere. As far as decentralization, including fiscal, is, in our opinion, not only desirable but also non-alternative (if, of course, the significant increase in the efficiency of public administration in Ukraine is considered as a valid, but not a declarative goal of perspective public reforms) in the current national realities activity, the complex of measures implemented within it should, among other things, be consistent and comprehensible to the general public. According to the principles of the availability of information and the openness of budget reporting as key principles of the transparency of the budget sphere, in accordance with the International Standard of Requirements to it, any interested citizen has the right to receive comprehensive and presented in a clear form information on all key budget issues, including real transformations of the model of domestic budgetary federalism in the context of decentralization. In our opinion, ensuring public confidence in the information pro-

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vided, as a key precondition for the perception and adoption of the reforms, is far more important than providing an attractive look to some budgetary indicators and tendencies, taking into consideration the situational political and managing condition.

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Rohova Olena – PhD in Economics, Associate Professor of Department of Finance, Banking and Insurance, Chernihiv National University of Technology (95 Shevchenka Str., 14027 Chernihiv, Ukraine).

Рогова Олена Володимирівна – кандидат економічних наук, доцент кафедри фінансів, банківської справи та страхування; Чернігівський національний технологічний університет (вул. Шевченка, 95, м. Чернігів, 14027, Україна)

Rogova Elena Vladimirovna – кандидат экономических наук, доцент кафедры финансов, банковского дела и страхования, Черниговский национальный технологический университет (ул. Шевченко, 95, г. Чернигов, 14027, Украина).

E-mail: rogovaolena@gmail.com