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PREFACE

Despite the complexity of the topic and the limitation of suitable information to work on my dissertation, I am very glad that I chose such an interesting and relevant topic.

I want to thank the Taras Shevchenko National University of Kyiv and Northern University for such a great opportunity to join this double degree program and for all the knowledge that I received during this program.

I am also grateful to everyone who supported me during my thesis. This includes all professors, staff and informants who have dedicated their time and efforts to help me.

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18.05.2021

ABSTRACT

Fiscal decentralization is one of the levels of a major reform designed to change the country's governance system and the connection of local governments with central governments, empowering local communities to independently shape and implement socio-economic development priorities. The reform has been going on since 2014 and has already had significant positive results, but at the same time there are still a number of problems that conceal the formation of financially viable and effectively functioning united territorial communities.

Fiscal decentralization reform in Ukraine is now in its final stages. Admittedly, the contribution of the Ukrainian academician was indeed significant, as the number of articles and the issue raised demonstrate great concern and interest in the development of an effective local government finances in Ukraine.

I decided to learn about local government finances under fiscal decentralization because it is the biggest reform in Ukraine since getting independence of Ukraine. I realized that I am really impressed with foreign experience of increase of financing local governments after fiscal decentralization. However, that is great opportunity for the Ukrainian regions to get more financial independence and make better conditions for locals.

A comprehensive study of the local government finances under fiscal decentralization in ensuring the economic development of the territories allowed to formulate generalized conclusions of theoretical and practical nature, which solve the main tasks of the master's thesis. Based on an analysis of academic articles, this research provides more understanding of how local government finances has been changed fiscal decentralization.

This research contributes to literature that performance measuring and supplier monitoring is a challenge of the catalogue model. Moreover, this research is an empirical research, so this adds value to the limited research available on this topic. Last but not least, this research gives insight and guidance for municipalities with the same kind of challenges.

Keywords: public finances, local government, local government finances in Ukraine, fiscal decentralization.

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LIST OF ACRONYMS

PRC - People's Republic of China

UTC - united territorial communities

I. INTRODUCTION

1.1. Background of the study.

Fiscal decentralisation is a relevant subject in Ukraine nowadays, because of its low degree of distribution by regions and low speed of implementation of innovations. Ukraine is a unitary country with an excessive concentration of management and control of resources at the highest level - the government. This type of government, formed gradually after the collapse of the USSR, was especially evident in the period 1999-2016. In this way of state formation that led to the formation of monopolies in various spheres of the economy and monopolized the right to control the use of land, material, financial resources while managing human resources chaotically, not systematically, which creates significant social problems. (Britchenko, Bezpartochnyi, Maslii, 2019)

These problems have to be solved at the local level without the lack of sufficient leverage and financial resources. Fiscal decentralisation gives Ukrainian Local governments opportunities to have powers and resources to meet the needs of the regions.

The purpose of the work is to study and compare fiscal decentralisation issues from open academic sources. It will help to find possible solution for improvement of the studies of fiscal decentralisation in the future. It became possible to explore and explain local government finances under fiscal decentralisation on evidence from Ukraine through literature review of the academic articles and empirical research. This goal is reached by comprehension of academic literature on fiscal decentralisation and survey the competency of fiscal decentralisation at the local level in Ukraine is presented there. This knowledge will help to understand of different fiscal decentralisation system, how increase local government`s budgets, predict possible future changes and to find solutions to some existing problems in the process of transformation relationship between central and local government.

For the reaching the goal is involved the following tasks:

- generalize economic approaches to fiscal decentralisation reform;
- explore foreign experience in the implementation of fiscal decentralization and the formation of local budgets in developed countries;
- analyse the formation of revenues and the use of local government funds in Ukraine;

- research academic articles on the topic of local government finances under fiscal decentralization.

The process of transformation of public system in Ukraine in a way of fiscal decentralisation is presented by the following research question. Also it is important to learn about substantiate the theoretical aspects of the functioning of local government finances in the context of ensuring the economic development of territories and provide practical recommendations for determining strategic priorities for the effective functioning of local government finances in Ukraine. (Manthorpe, 2018)

The new changes in Ukrainian legislation fixed stable sources of income for local budgets and also delegated more functions from central government to local authority. As a result of realized fiscal decentralisation reform incomes of local budgets are rising from 2014 with significant growth coefficient. The outcome of fiscal decentralisation reform, which was introduced in 2014, is a transformation of figures to new consistently high quality of public service and level of life for citizens in regions of Ukraine.

In different countries, the policy of the relationship between the central government and the local government is formed to different types. In federal states such as the United States, the policy of fiscal decentralisation appeared in 1980s. It was Reagan administration's main long-term goal to advance reforms in this direction, because it gave the state economy more opportunities to progress, as it said by Elsie M. Watters (1969).

The fiscal decentralisation is a leading economic direction in most European countries, for example in Italy government advanced reforms to increase the fiscal autonomy of lower tiers of governments in 2000s. "Increasing fiscal decentralisation implies a better alignment between spending and funding responsibilities and, as suggested by economists, a potential improvement of the efficiency (as well as of the effectiveness) of public services provided to citizens." (Alesina , Danninger , Rostagno , 2001)

In Asian countries, the unitary structure of government-local relations is attractive, similar to the Ukrainian level, however, most Asian countries have always been market economies, so the experience of Asia allows us to identify a special approach to decentralisation as the main concentration of financial resources. So in Asia government decentralisation process gained momentum and started to progress from the 1990s. (Morgan, Peter, Trinh, Long, 2016)

In most developed Asian countries fiscal decentralisation processes are in progress, for example in People's Republic of China (PRC), Cambodia, India, Indonesia, the Republic of

Korea, and the Philippines. After strong economic growth central governments couldn't provide community its needs, so local governments seized the initiative as it said by Morgan, Peter, Trinh, Long (2016)

Fiscal decentralisation is one of the key problems in progression of Ukrainian local government`s economy. Local governments face different problems, due to incomplete reforms in this directions. This forces to find effective ways to deal with it and to make a perspective plan of progression of fiscal decentralisation policy (Diachenko, 2018)

There is considerable influence of fiscal decentralization reform on business activity in small towns and villages. Because the local government can make its own decisions on the formation of the base taxation, determination of rates of relevant local taxes and fees, introduction tax incentives for industries at the regional level as well formation of the structure of expenditures for the provision of public goods to the population. (Britchenko, Bezpartochnyi, Maslii, 2019)

The problems of fiscal decentralisation have been thoroughly studied for developed countries. The results of these studies are covered also in the works of the following foreign authors Haldma, Boex, Litvack, Seddon, Ahmad, Bahl, Rodríguez-Pose, Buchanan, Fuente, Manthorpe, Oates, Kee, James, Schlosstein, Watters, Morgan, Peter, Trinh, Long.

At the same time, the fiscal decentralisation reform is a new experience for Ukraine and therefore requires perfect development and substantiation of scientific and theoretical principles. A number of researches have been made in this direction by the authors such as Petlenko, Rozhko , Sepulveda, Altsyvanovych, Diachenko, Britchenko, Bezpartochnyi, Maslii , Prikhodko, Lopushnyak , Lobodina, Livdar , Luitiy, Vasilik, Evdokimova, Kirilenko, Kravchenko .

However, despite the significant scientific results obtained by scientists, issues related to the theoretical and methodological study of fiscal decentralization and local government financing under fiscal decentralization remain insufficiently developed and substantiated. This takes into account the effective implementation of the reform of the relationship with the financial autonomy of local government through the regulation of socio-economic development of local communities. This opinion determines the relevance and choice of research topics.

1.2.The Purpose of the study.

The purpose of this study is to discover and compare issues of fiscal decentralisation on level of local government finances. Development of administrative-territorial formations determined by a significant number of factors and the synergy of their socio-economic relations. The main tool of public administration is such interaction redistributive relations that allow the national economy to function as a single whole.

Responsible financial relations are built into the mechanism functioning of the national economy, determine its capital and efficiency functioning. However, at the present stage of social development is observed a certain tendency to the separatisation of territorial economies and their acquisition of their own institutions of financial autonomy.

So, the main research question is how the local governments budgets structure of incomes is changed under the reforms of fiscal decentralisation. Also it is important to discover is it the budget incomes enough for financing the local governments expedites.

Since there I will compare evidence from developed countries (countries with High-income economies, such as USA (Akai, Sakata, 2002), Swiss (Feld, Kirchgaessner, Schaltegger, 2003), Italy (Alesina, Danninger, Rostagno, 200), e.t., and experience of Ukraine. I am sure that this study will make a new contribution to empirical knowledge of local public finances.

1.3.The scope of the study.

In this study, the main is theoretical aspects of fiscal decentralisation influencing on local government finances and analysis of local government finances structure in Ukraine. To become more conscious of the theoretical ambition, the literature review was conducted.

The literature on local government finances are presented first, followed by the studies relating fiscal decentralisation. The local level of authority is seen as a community of principals and agents, intended to create a benefit, satisfying the demands of local government.

The civil servants are managers who have a certain freedom in choosing option of administrative decision and simultaneously their performance results are closely monitored by the authorities. Such approach brings features, previously inherent only to the private sector.

Furthermore, the analytical model of the research is constructed on the basis of the theory to provide reader with the understanding of how the chosen theory works in solving the research problem of the study.

However, there is currently a live discussion about whether we have the right governance framework for local government in a period during reform and after ending proses of reform and post reform period.

The object of research is the local government finances under fiscal decentralization.

The subject of research are various academic articles on the topic of local government finances under fiscal decentralization.

To answer the questions and the tasks in the research process used general and special methods of scientific knowledge, namely: logical method - to study economic and financial theories; studies of domestic and foreign scientists; system analysis and generalization - in determining the essence of local government finances and its economic content; methods of analysis, synthesis and statistical comparisons – fir the analysis of the formation and use of local budgets in Ukraine; abstract-logical method - for theoretical generalization and formulation of conclusions.

1.4.The structure of the study.

The study consists of six chapters: introduction, theoretical chapter, methodological chapter, empirical chapter and conclusion. Introduction explicates actuality of the problem, briefly defines main issues and scope of the study. Theoretical chapter addresses the basics of these study explaining the role and general knowledge on fiscal decentralisation reform in Ukraine and its elements of the system and how fiscal decentralisation influence on local finances.

Also I am going to discover international experience of process of fiscal decentralisation in countries with transition economy. The third chapter contains methodological foundations of the study (how data were collected, how data were analysed, which theories and methods were used).

The chapter number four is devoted to the analysis of empirical data. The main part of this part is based in summary of the data collected from empirical dates and various academic

articles. The next chapter focused on discussion of empirical data within theoretical framework. Thesis ends with conclusion where propositions for further research are stated.

II. THEORETICAL BASIS OF FISCAL DECENTRALIZATION

This chapter presents the theoretical basis for further analysis. The purpose of the theoretical basis is to provide a conceptual basis for the local government finances under fiscal decentralisation. The second chapter clarifies the definition of fiscal decentralization and the influence on local government finances by fiscal decentralisation, presents its concept and describes the stages, goals and principles of local government finances and fiscal decentralisation.

2.1. The concept of fiscal decentralisation

The study focuses on fiscal decentralisation, which is part of a major decentralization reform designed to change the country's public sector governance system and the interaction of local governments with central government, give more power to local communities to independently form and implement priorities for socio-economic development.

By Ahmad (2002) fiscal decentralisation involves shifting some responsibilities for expenditures and/or revenues to lower levels of government.

Follows Litvack and Seddon (1999), define fiscal decentralisation means: “Decentralisation is the transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent organisations or the private sector.”

Bahl’s (2005) definition of fiscal decentralisation is: “[Fiscal] decentralisation is the empowerment of people by the [fiscal] empowerment of their local governments.”

By Rondinelli (1980), decentralisation is not a policy goal as such, but a national strategy is pursued in order to reorganize the work of the public sector and increase its efficiency and responsibility for the needs and preferences of the population of the country.

Just like we will see this assertion above is also true of poverty and income inequality: the degree of efficiency decentralisation depends on a wide range of socio-economic, institutional and historical factors. I focus on fiscal decentralisation, unlike other forms of decentralisation, such as administrative and political.

Historically, local taxation has been a principal source of finance where local independence against state formation is strongest, an appropriate local resource base exists, and

services provided have been considered to be primarily of local interest. Both the United Kingdom and the United States reflect this pattern, with even the level of local taxation in the United Kingdom being left in local hands until rate-capping was introduced in 1984. (Shah, 1999)

Results in Haldma's (2016) study about the capacity of the performance management systems of Estonian local governments in promoting public accountability to its stakeholders using the PDCA cycle model show that the annual budgeting, reporting and decision-making follow a closed-loop cycle, but the integration of strategic planning into the on-going management process is still not observable to the general public, resulting therefore also in weak public accountability and poor governance arrangements.

By Rodríguez-Pose (2009) Considering the experience of forming local budgets in developed European countries, special attention should be paid to the level of fiscal decentralisation in these countries. In European legal and financial practice, fiscal decentralisation concerns three aspects:

1. procedural and organizational independence - the right of local self-government to independently draft budgets, approve and implement plans for socio-economic development of territories, estimates, ensure their reporting and control without the participation of the central government;

2. decentralisation of expenditures - expanding the powers of local self-government in the context of providing the necessary services to the population and ensuring the proper standard of living of communities;

3. decentralisation of revenues - fixing for local budgets a clear list of own revenues sufficient to perform the functions of local self-government at the appropriate level, as well as the right to set their size.

Fiscal decentralisation involves shifting some responsibilities for expenditures and/or revenues to lower levels of government. One important factor in determining the type of fiscal decentralisation is the extent to which subnational entities are given autonomy to determine the allocation of their expenditures.

Buchanan (1980) questioned the effectiveness of state intervention in the economy by Keynesian methods without taking into account the political factor. He and his followers studied a field that has traditionally been considered the field of activity of political scientists, lawyers, and sociologists. Criticizing government regulation for inefficiency, the theory of social choice

has determined that the object of analysis is not the impact of financial measures on the economy, but the very process of government decision-making.

So, the theory of social choice studies the political mechanism of formation of macroeconomic decisions.

Next, we take into account the pluralistic nature of this economic theory, using its "economic imperialism" (going beyond purely economic relations) to analyse the budget, budgetary mechanism and fiscal policy, because this is the approach most relevant to the subject. It brings together various aspects of these multifaceted phenomena, develops new approaches to understanding the effectiveness of fiscal policy.

In academic economic literature there is no unity of views on the definition of "budget". The budget means objects of different nature: economic category; financial plan of the state; centralized cash fund; the central link of the financial system.

At the same time, some definitions were characterized by a dualistic approach and represented the local budget as: financial resources, economic category, legal act, financial plan, schedule of revenues and expenditures of the administrative-territorial unit, organizational form of financial resources mobilisation and financial relations, a separate sphere of economic relations.

The constitutional obligations of the state to citizens are ensured by its constitutional right to collect taxes and fees established by law. This reveals a set of relations of a kind of exchange - the consent (obligation) of citizens to pay taxes in exchange for public goods.

As follows, the state, which is both a public entity and the owner of state property, has obligations defined directly by law, and obligations established in the field of legal relations, ie agreements in which the state is a party, as well as financial assets in the form of statutory taxes and fees and assets from state property management. This provision also applies to such type of public-law organization as administrative-territorial entities, which are at the same time owners of municipal property.

In the process of implementation of fiscal policy and management of relevant assets and liabilities there are certain economic relations between the state (local governments) and other economic object (which have a business in local region), resulting in the formation of cash flows, which further find their place in the budget.

Thereby, we can conclude that the budget is secondary to state (municipal) assets and liabilities that arise in the process of implementation by the state (local government) of its constitutional powers.

In fact, much of the annual expenditure is related to the fulfillment of pension obligations, social benefits, government debt obligations arising from other laws, and agreements. Obligations of the state (local governments) in relation to them are valid until the repeal or implementation of relevant legal acts.

In addition, the budget law approves appropriations, which give the executive authorities the right to take action, the results of which will be new obligations in amounts not exceeding the amount of appropriations established by the budget law. This applies to agreements (contracts, agreements), the payment of obligations under which should be made from the budget.

From the above it can be concluded that the law (decision) on the budget in terms of costs does not directly give rise to state (municipal) obligations, but sets the maximum amount of rights to exercise them. This confirms the correctness of the provisions of the theory of social choice that budgetary relations are partly the result of negotiations between the parties, partly market relations.

However, this provision does not apply to the amount of expenditures approved within the intergovernmental relations, in respect of which the law (decision) on the budget gives rise to the obligation of one public entity to transfer a certain amount of budget funds to another public entity. However, this is more of an exception than a common practice for modern budget systems.

The peculiarities of the law (decision) on the budget are, firstly, that it is adopted for the planned period (usually based on the financial year) and, accordingly, does not generate legal relations that go beyond these limits, and, secondly, that the report on budget execution, adopted in the form of a law (decision), does not generate legal consequences at all (this is a formal law (decision)).

In Ukraine, by the Budget Code of Ukraine the definition of "budget" clarifies contained as: "Budget - a plan for the formation and use of financial resources to ensure the tasks and functions performed by public authorities, authorities of the Autonomous Republic of Crimea and local governments during the budget period".

White (2014) shows in his study international definition of the word "budget", that means the anticipated revenues or receipts expected to arise in the annual or multi-year budget period,

based on current plans and the anticipated economic conditions during that budget period, and expenses or expenditures approved by a legislative body, being the legislature or other relevant authority.

So, the summary is that two definitions have the same that the budget as a legal category is an act that establishes a plan for the formation and use of financial resources to ensure the tasks and functions performed by public authorities and local governments during the budget period.

In addition, we can draw a general conclusion, which is that the budget is based on economic relations, legal norms and the state system of the country. On the one hand, the definition “budget” has economic nature, and on the other -institutional nature. The budget is the result of a negotiation process.

By the Varnaliy (2019) based on the theory of social choice as a methodological basis, we distinguish the necessary stages of budget analysis. The budget should be considered at the level of:

- 1) essential economic relations;
- 2) unity of content and form;
- 3) patterns of development of specific historical forms of the budget, the process of political decision-making.

This sequence of logical comparisons and conclusions together reflects the movement from essence to phenomena and further to reality, which corresponds to the general logic of the ascent from the abstract to the concrete, from the general to the special.

The budget is expressed in the form of indicators of income and expenditure, as well as sources of funding. In this sense, the form of the budget is, on the one hand, a reflection of the essence of the budget, and on the other - a reflection of the relationship of the actual budget relations with the subject side of the budget process.

The criterion for the truth of our knowledge of the budget, its form is the practice of their use - the third stage of analysis. It is at this stage that budgets are used in the form of plans, documents and other tools for implementing budgetary relations.

The budget as an economic category is implemented through budget policy through a budgetary mechanism, which is an element of state regulation of the economy.

It should be noted that the functions of fiscal decentralization and local government finances under fiscal decentralization cannot be considered separately from the definition local budget and budget in general, as local finance acts as a component of the country's financial system and their purpose is due to the nature, role and functions of finance as one of the most important economic categories.

2.2. The goals of fiscal decentralisation

The expansion of rights and powers also entails an increase in the level of responsibility for decision-making. Such a change should also provide for the establishment of stable and sufficient sources of revenue for local budgets in order to perform the additional functions assigned to local governments.

After the acquisition of independence in Ukraine, the European model of legal and financial relations between the central government and local self-government is gradually being introduced. The forerunner of fiscal and political decentralisation in Ukraine was the ratification of the European Charter of Local Self-Government, which was ratified by the Verkhovna Rada of Ukraine on July 15, 1997. This Charter states the administrative, financial and political independence of local authorities.

Many countries around the world are currently pursuing policies to reduce poverty and improving income distribution, and most of them are also implementing fiscal decentralisation reforms. Although separate fiscal decentralisation, poverty and income distribution have been the subject of extensive theoretical and empirical research, and today we have little understanding of the impact of fiscal decentralisation on poverty and inequality. We took over shed light on this relationship.

I describe the possible channels through which the fiscal decentralisation can affect poverty and income inequality and conduct empirical analysis use of panel data for a large number of countries.

Sepulveda (2010) find that fiscal decentralisation can have significant impact on poverty and inequality. In particular, fiscal decentralisation seems to be leading to increase the level of poverty that we use, but it also seems to reduce income inequality if public administration represents a significant share of the economy (20% or more).

Improving the efficiency of local financial management primarily depends on the effective functioning of local governments. Therefore, we substantiate the methodological provisions for the formation of an effective system of local self-government, which should be based on creating favorable conditions for the transition of the region's economy to full market relations, stimulating the development of production, filling the market with goods that best meet the needs of citizens. territories.

Not only state authorities, but also local self-government bodies should take part in the process of creating the necessary conditions for the development of territories.

Achieving the set development goals becomes possible by combining the efforts of all governments in fulfilling the tasks of improving the functioning of territories on the basis of an effectively functioning system of local self-government, which allows to increase the regional economy and socio-economic development of the country as a whole.

By the Altsyvanovych (2018) at the state level, the following tasks are key:

- stimulating the activities of local governments;
- expansion of areas for attracting financial resources to the territory of administrative units;
- drawing up of existing organizational restrictions;
- improvement of legal regulation.

Following Altsyvanovych (2018) , at the level of regional government, in order to create conditions for improving the efficiency of local self-government, it is necessary to address such issues as:

- growth of competitiveness on the territory of the administrative unit;
- reducing the level of social tension;
- increasing the level of public confidence in local governments;
- creation of new jobs;
- increasing responsibility for the implementation of management decisions;
- increasing the level of informatisation;
- creation of special councils for the development of territories.

As Altsyvanovych (2018) noticed in his study, at the level of local governments it is necessary to perform the following main tasks:

- increasing the quality of services;
- reduction of the price for social service of citizens; placement of citizens' funds in priority projects of administrative-territorial units;
- raising awareness of the population of the territories about the activities of local governments;
- publication of the annual financial report in the media;
- publication of annual, quarterly reports on the work performed;
- bringing information about the goals and objectives of local governments to citizens.

These tasks show that at the state level the measures necessary for the implementation of administrative entities are more general, at the level of regional bodies - refined tasks are offered, at the level of local self-government tasks are characterized by purposefulness taking into account the peculiarities of the territory.

Thereby, in order to create an effectively functioning system of local self-government, it is necessary to overcome the stereotypes that have developed at all levels of government, provided that the responsibility for the decisions made at each level is increased.

At the same time, the solution of operational issues should not prevail over strategic goals, and modelling the process of regional management of the masses should be a consistent mechanism focused on the interaction of local governments and economic entities involved in market relations in adapting to environmental factors.

The implementation of this mechanism should include the following stages:

- identification of goals for improvement and development;
- identification who can be participant in the development of the region's economy;
- identification of available resources;
- detailing the decisions made while reflecting the links between the main elements of the regional structure and the results.

At the same time, the identification of goals involves determining the most promising areas of development, taking into account current trends and the peculiarities of the functioning of all economic entities involved in this process.

By Fuente (2002), the goals of economic development of the region should be:

- increasing the competitiveness of organizations, industries in the region;
- increasing the efficiency of social facilities in the region;
- increase in the number of jobs;
- improving the demographic situation;
- raising the level of culture of the population of a certain area;
- wage growth and pension increases.

In order to achieve optimal results in the process of economic development of the region, it becomes necessary to involve in the management process of local governments, as well as the leadership of major enterprises in the region and the population.

This approach will take into account the needs of all participants in regional development and create the necessary preconditions for further relations.

It is important to find financial resources to achieve the set targets. It is necessary to analyse both the region's own resources and search for potential sources of their involvement. To achieve a positive result, local budget funds should be used both in the financing of regional programs and in development projects.

This will allow to involve more investment resources in such projects and create a favourable image for a particular area. At the same time, the role of local self-government bodies should be to increase the guarantee of return of investors' funds when making financial investments.

I want to note that short-term investment resources can be either profitable or risky. However, in the formation of an effective mechanism of financial security, attracting investment in the short term will strengthen the competitive advantages of the territory.

Therefore, local governments must create the necessary conditions that will encourage investors to invest in the region's economy.

The role of local governments should be to increase their importance in the overall system of government. Since local governments are closest to the problems of the population, they should be entrusted with the function of detailing the decisions made.

At the same time, the consistency of the measures taken should become a prerequisite for the formed conceptual model of local budget development taking into account the needs of the regional economy.

In this regard, the development of territories requires a comprehensive implementation of the tasks of improving the efficiency of local finances. This should take into account the main components of the local structure: the management subsystem, information subsystem, infrastructure, innovation and investment.

2.3. Budgets of local governments and how fiscal decentralization is affecting on its restructuring

The changes that became as a result of the reform have provided not only a significant increase in local government resources and sources of revenue, but, above all, the development of local budget management. The innovations, first of all, concern the expansion of the powers of local governments in the field of local financial management, increasing their responsibility to communities for the implementation of budget programs and development of territories.

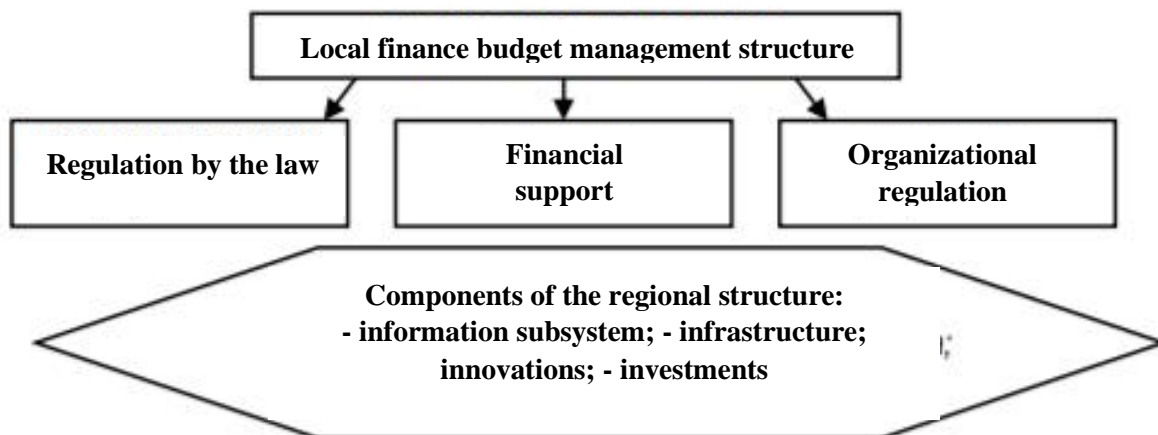
Important changes concerned the relationship between the budgets of different levels: the united territorial communities were given the right to switch to direct budget relations. This, in turn, gave an incentive for small towns, villages, settlements to unite and form capable communities and, accordingly, to have advantages in the formation of their own revenues and expenditures for the development of territories.

United territorial communities is a special administrative-territorial local entity formed in Ukraine during the decentralization reform in 2015-2020 in a way of association of adjacent territorial communities of villages, settlements, cities (relevant village, settlement and city councils). United territorial communities are the managers of local government finances. (Manthorpe , 2018)

On figure 2.3.1 presents a figure showing the control subsystem and the elemental composition of the local finance budget management structure. We can see below, that in budget management controlling is take place by organizational and law regulation and supporting by the

finances. These the directions is based on information subsystem; infrastructure; innovations and investments.

Figure 2.3.1 Local finance budget management structure



Source: Manthorpe (2018)

The purpose of the state regional policy of regulation of self-development of territories is to create conditions for comprehensive, balanced development, elimination of the basic territorial disproportions. The policy to support regional development should be aimed at activating all resource potential as a basis for strengthening the competitiveness of territories, to become a key factor in regional policy.

It should be noted that the priority task of territorial economic policy aimed at improving the self-development of the economy of the regions should be to ensure the sustainable development of scientific, technological and innovative potential of the territories.

Conditions must be created for the formation of an effective production complex in each region, capable of developing and meeting its own needs, increasing the export of competitive products, increasing the production of science-intensive industrial products based on the fullest use of local production potential.

The foundation of regional self-development should be the independence of regions in determining the goals of their development and the possibility of financing measures for their implementation primarily through their own sources and attracted investments.

It is said that the basis of economic growth policy at the local level should be the rational use of labour potential and production resources, the maximum promotion of small and medium-sized businesses, ensuring the rational use of the environment.

This approach involves increasing the role and responsibility of local governments for the future of the territory, the need to find new tools to stimulate economic development, including the joint efforts of local businesses, the public, self-government and the state. Local governments should become key in organizing the development of territories.

At the same time, the state delegates a number of powers to them in order to bring administrative and public services as close as possible to the population, to strengthen the capacity of territorial communities and their representative bodies to solve local problems on their own.

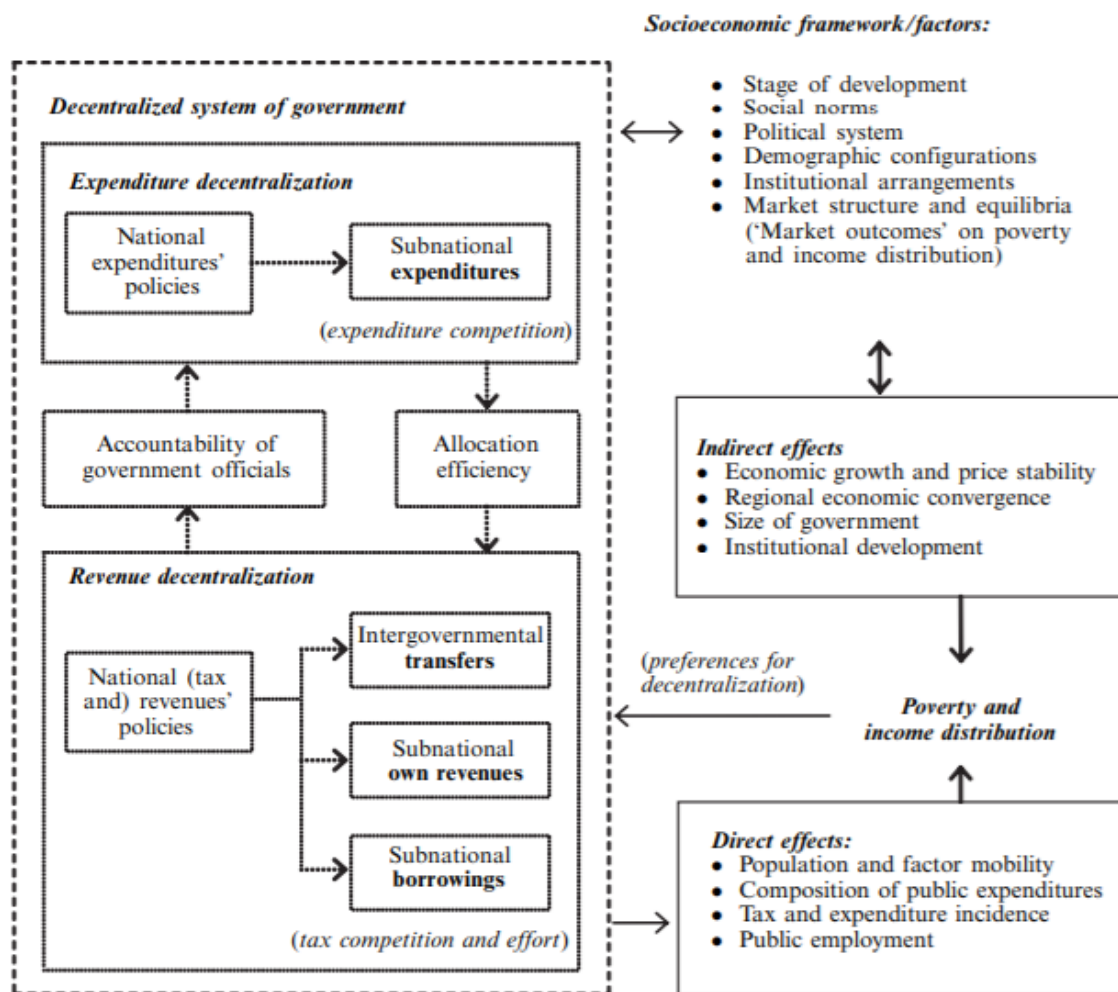
Potential related channels fiscal decentralisation to poverty and income distribution are numerous and leads to potential complex interactions.

In Figure 2.2.1 we can see a schematic summary possible connection of causes and consequences of fiscal decentralization. Socio-economic frameworks represent the context in which fiscal decentralisation is carried out and where public policy is there are macroeconomic results.

Socio-economic framework is defined by a number of factors, including the stage of development of the country and its regions, social norms, demographic configuration, political system, markets, etc. institutional arrangements. In turn, these factors jointly determine as well as exist under the influence, volume and characteristics of the process of fiscal decentralisation, as as well as other socio-economic outcomes, such as poverty and income inequality.

In order to identify potential channels through which fiscal decentralisation is carried out can affect poverty and income inequality, we clearly distinguish among the main components of a fiscally decentralized management system. From the budget prospectively, the costs should be equal to the amount of own taxes and fees, net transfers received plus net borrowing. Any decentralized system works in a certain combination of these four sources of public funding, and each element can have its own effect on poverty and income distribution.

Figure 2.3.2. Potential effects of fiscal decentralisation on poverty and income inequality



Source: Manthorpe (2018)

Of course, the degree of “true” decentralisation, or the degree of effective autonomy granted to subnational governments will usually be vary on each side of the budget. As a consequence, decentralisation of costs and Income decentralisation can be seen as an alternative source of impact on poverty and income distribution.

The classic argument is that fiscal decentralisation is said to improve the social situation welfare is provided by Oates (1972) and focuses on government spending. Taking into account that, under the financially decentralized system, decisions are made on public expenditures "Close to the people", fiscal decentralisation allows them to better meet (probably heterogeneous) preferences and, therefore, for unambiguous effectiveness benefits to society. The literature on decentralisation also emphasizes the important role of Russia own revenue

collection, providing appropriate incentives for proper functioning decentralized management system.

The larger the share of local costs funded by its own revenue collection, more responsible local governments will become their voters, who, they say, can correctly assess the performance of local governments and either punish elected officials or reward them in voting booth. In turn, this accountability mechanism serves as an incentive for local residents' authorities to make more responsible and efficient decisions on taxes and expenditures.

The potential direct effects of fiscal decentralisation on poverty and income inequality includes a general unresolved question of what it should be like the role of subnational governments in the implementation of redistributive policies.

On the other hand, there is growing and universally recognized recognition of the important role of the subnational governments in promoting, catalysing and coordinating implementation proportional policy. Indeed, poverty reduction and inequality seem to be in Russia practice, the inevitable concern of subnational governments; frank redistribution policy is a fairly common practice of subnational governments in decentralized environment countries (Bahl et al, 2002).

The fundamental changes that have taken place as a result of the fiscal decentralisation reform have provided not only a significant increase in local government resources and sources of their revenues, but, first of all, the development of the local budget management system. The innovations, first of all, concern the expansion of the powers of local governments in the field of local financial management, increasing their responsibility to communities for the implementation of budget programs and development of territories.

Important changes concerned the relationship between the budgets of different levels: the united territorial communities were given the right to switch to direct budget relations. This, in turn, gave an incentive for small towns, villages, settlements to unite and form capable communities and, accordingly, to have advantages in the formation of their own revenues and expenditures for the development of territories.

The "proper" distribution of tax authorities and responsibility for expenses extremely difficult question. Economists tend to focus on issues of efficiency and equity, while scholars in public administration and political science tend to focus on distribution authority, efficiency and accountability, as well as tax competition and coordination. The structure of economist Richard

Musgrave for the analysis of roles or functions is broad accepted (Musgrave, 1959, 1961; see also Oates, 1977).

The stabilisation function assumes the role of tax and expenditure policy and monetary policy in the management of the general level of economic activity. This is widely agreed that this macroeconomic function should be entrusted to the national government. It stipulates that the national government must have a broad tax suitable for this role.

However, Oates' (1993) analysis of 58 countries showed a positive relationship between economic growth and fiscal decentralisation - pointing to a role for local governments, especially infrastructure development.

Additional public management concerns have to do with overlapping of taxes and roles, and responsiveness and accountability for service delivery. This framework is most useful for thinking about what taxes are levied on each the level of public administration and the general tax authority of each level.

Finally, fiscal decentralisation is thought to enhance political participation at the local level. This has the potential to enhance democratic values and political stability at the local level. It provides a forum for local debate about local priorities, and can be a proving ground for future political leaders (Kee, James, 2004)

Summary of chapter II

Fiscal decentralisation means expanding the rights and powers of local authorities while reducing the influence of central government on the economic and administrative activities of administrative-territorial units.

The administrative approach involves decentralisation by expanding the powers of local authorities. The democratic method is more complex and involves the formation of local self-government without the intervention of the central government, when communities themselves elect the heads of local government and take an active part in addressing local issues, budgeting, monitor their implementation.

The basic principle of funding is "finance should follow functions" if certain cost roles are available assigned to the management level, this level must have the resources to meet them

responsibilities. Taxes are the main source of revenue for own sources for governments at all levels.

If tax collection or fiscal capacity does not meet the requirements for then this level of government should have additional tax powers, develop a usage fee or rely on intergovernmental transfers (such as grants and common taxes) to support them costs.

III. METHODOLOGY

3.1. Research design

Sekaran (2003) states that research design is based on the following elements: the purpose of the study, the type of the investigation, the unit of analysis, the horizon of the study and data collection methods. Thus the research methodology of this study will be explained through the elements mentioned above.

3.1.1. The purpose of the study.

The purpose of this thesis is to explore and explain local government finances under fiscal decentralisation on evidence from Ukraine through literature review of the academic articles and empirical research. It will allow to find and compare existing problems, and probably, find solutions to these problems existing in these systems.

Also the purpose of the study is theoretical foundations, development of methodological approaches and practical recommendations for determining the effective level of financial autonomy of local authorities' municipality.

3.1.2. The type of investigation.

Since the purpose of the thesis is to analyse the change of incomes to local government budgets before and after fiscal decentralisation reform. I will also try to find reasons and explanations for both variants and try to find advantages and disadvantages of decentralisation.

I will make a review of academic literature to get information from secondary sources.

Therefore, the study will use both quantitative and qualitative methods to explain the studied phenomena. Quantitative methods will be used in the empirical section, presenting the results of the empirical section. Qualitative methods will be used in the analytical section when analysing and comparing the content of articles used in the literature review.

3.1.3. The unit of the analysis.

The study is focused only on academic articles which are the unit of analysis of the present study. In empirical part I will analyse article`s group of articles and explore methods, positions, types from this sources. The explanation of such choice is that Ukraine has started a multi-tier fiscal decentralisation reform in 2014. At the end of previous 2020 also was started very important stage - reducing the number of independent local governments and improving fiscal legislation to help increase local government finances.

3.1.4. The time horizon of the study.

2014-2020 years is the time horizon of the study. It can be explained by the following limitations. First, in 2014 Ukraine has started a fiscal decentralisation reform. The reform is still updating and improving.

Secondly, the process of collecting and cataloguing the content of academic articles for Ukraine is very typical, not to mention the problems associated with access to the unit of analysis, which is quite limited because many articles are not publicly available via the Internet, and they are contained in the libraries of different cities and countries.

In theoretical chapter I am going to analyse articles, literature and other academic sources for the last 40 years (1980-2020).

3.1.5. Data collection method.

A review of the academic literature was created by the method of collecting empirical data. It is worth noting that much attention was focused on academic articles, after a long time academic research on fiscal decentralisation was neglected to some extent, but the chosen temporary researcher of horizons can be described as an intensive period of decentralisation reform in Ukraine.

This method (review of the academic literature) of data collection was chosen because it is the best way to see how actions may differ from the norm. The norms are set out in various acts, but academic articles explain how these norms are enforced and reflect the actual situation.

Thus, in the light of the institutional theory used in this work, a review of the literature, in my opinion, is the best way to present the analysed topic.

3.2. Data collection

The research will be based on articles and official government reports analysis from Ukrainian and international authors. Language of resources – English and Ukrainian.

There are diverse publications about local government finances under fiscal decentralisation and its parts. Since the reform was made, it is considered that the definition is supplemented with various features.

After analysing different resources and articles of well-known authors, it could be observed that each reform should assist in main goals, and process of successful achievement of it.

3.3 Data analysis

For my thesis research, I have used the official government website “Government portal“ ([https:// www.kmu.gov.ua](https://www.kmu.gov.ua)) where I can get main information about reforms in Ukraine, about its purposes and descriptions. From the resource «State statistical service of Ukraine» (<http://www.ukrstat.gov.ua/>) I can get different statistic information about main numbers and growth of local government economy.

3.4. Reliability and validity of the study

Reliability and validity of the study is in opportunity of the further development of theoretical and scientific-methodical provisions that determine the directions of improving the functioning of local finances and their impact on the economic development of the regions of Ukraine in terms of financial decentralisation.

The interpretation of the essence of financial decentralisation as a form of economic relations aimed at stimulating the socio-economic development of territories by taking into account the degree of consolidation of financial resources and organizational and functional independence of local governments was further developed.

The main strategic priorities for the development of the local finance system in Ukraine in the conditions of decentralisation of power have been identified. Scientific and practical recommendations for strategic budget planning of local governments have been formulated.

The practical significance of the obtained results is that the findings of the study and recommendations can be used to improve the formation and use of financial resources of local governments, which in turn will improve the quality of public services in Ukraine and develop recommendations for effective strategic priorities. local finances and local budget planning in Ukraine.

Summary of chapter III

In this chapter was mentioned research design, the purpose of the study, the type of investigation, the unit of the analysis, the time horizon of the study, data collection method, data analysis, reliability and validity of the study.

The aim of this thesis is to explore and understand how fiscal decentralization influence on local government finances, how local government budgets increased and and compare existing problems, and probably, find solutions to these problems existing in these systems through literature review of the academic articles and empirical research.

IV. EMPIRICAL FINDINGS

The aim of this empirical chapter is to show and explain the researched empirical data using the operationalized concepts and models. The sources of empirical data are academic articles concerning local government finances under fiscal decentralisation. The structure of the empirical description is represented and explained in the methodological chapter of the thesis.

4.1. Fiscal decentralisation in Ukraine

In 2014, Ukraine has started a multi-tier decentralisation reform, whose goal was proclaimed as “the formation of the efficient local government and territorial organization of power for the sake of creating and maintaining sufficient living environment for the citizens, providing them with high-quality and affordable public services, establishing institutes of direct democracy, complying the interests of the state with the ones of the territorial governments.

The finances of local government organizations noted some changes due to fiscal decentralisation, which became possible due to the reform of financial relations in the budget system of Ukraine after 2014. At the same time, there is still a transition from a centralized to a decentralized model of distribution of finances of local administrations that are in the air with the implementation of administrative reform.

As suggested by its ambitious goal, the reform in Ukraine is financial fiscal reform, which represents classical decentralisation reform from the literature with one nuance – it is conditional on the first component, i.e. amalgamations. Namely, local governments receive bigger financial resources not only due to new on-purpose government grants, which still represent a third of their incomes, but due to retaining a bigger number and scope of collected taxes in their budgets. The government reported about an increase in own revenues of local budgets by 200 billion UAH (or by 29%) from 2014 to 2018 being “a real instrument to make an impact and fulfil the expectations of a community” (Cabinet of Ministers of Ukraine).

However, no rigorous empirical research was conducted to estimate the pure economic effect of the reform and support the above statement with more evidence than manipulations with absolute numbers.

For analysing I decided to take local government finances in Ukraine as the area of my research topic, because I am interested in process of improvement after fiscal decentralisation reform. This reform is aimed to form efficient local governance and territorial organization of power for the purpose of creating and maintaining adequate living conditions for individuals, provision of high quality, affordable public services, establishing direct democracy institutions, coordinating the interests of the state and those of local communities.

The reform means that local bodies will be responsible to their communities for their operational efficiency while reporting to the central Government for the legality of their work.

The decentralisation process was launched in Ukraine in 2014 with the adoption of the Concept of Local Governance Reform and Territorial Organisation of Power in Ukraine (01 April 2014), Law of Ukraine “On Local Community Cooperation” (17 June 2014), Law of Ukraine “On Voluntary Consolidation of Local Communities” (05 February 2015) and financial decentralisation-related amendments to the Budget Code and Tax Code.

The process has helped to form, under the principles of the European Charter of Local Self-Government, a basic yet considerable, effective and empowered local governance system — united local communities (ULC).

Efficient local governance and progressive socio-economic development of the regions require more resources and finance. Proper exercise of decentralized powers is conditioned upon adequate resources.

To this end, after amendment of the Tax Code and Budget Code local governments began to receive more funding to increase their economic capacities from 01 January 2015.

The united communities were given powers and resources of cities of regional significance, e.g. 60% of the personal income taxes are now paid to the ULC budgets to be used for exercising the local-governance powers. In addition, the following taxes remain entirely in the communities: single tax, corporate and communal financial institution income tax, and property tax (real estate, land, vehicles).

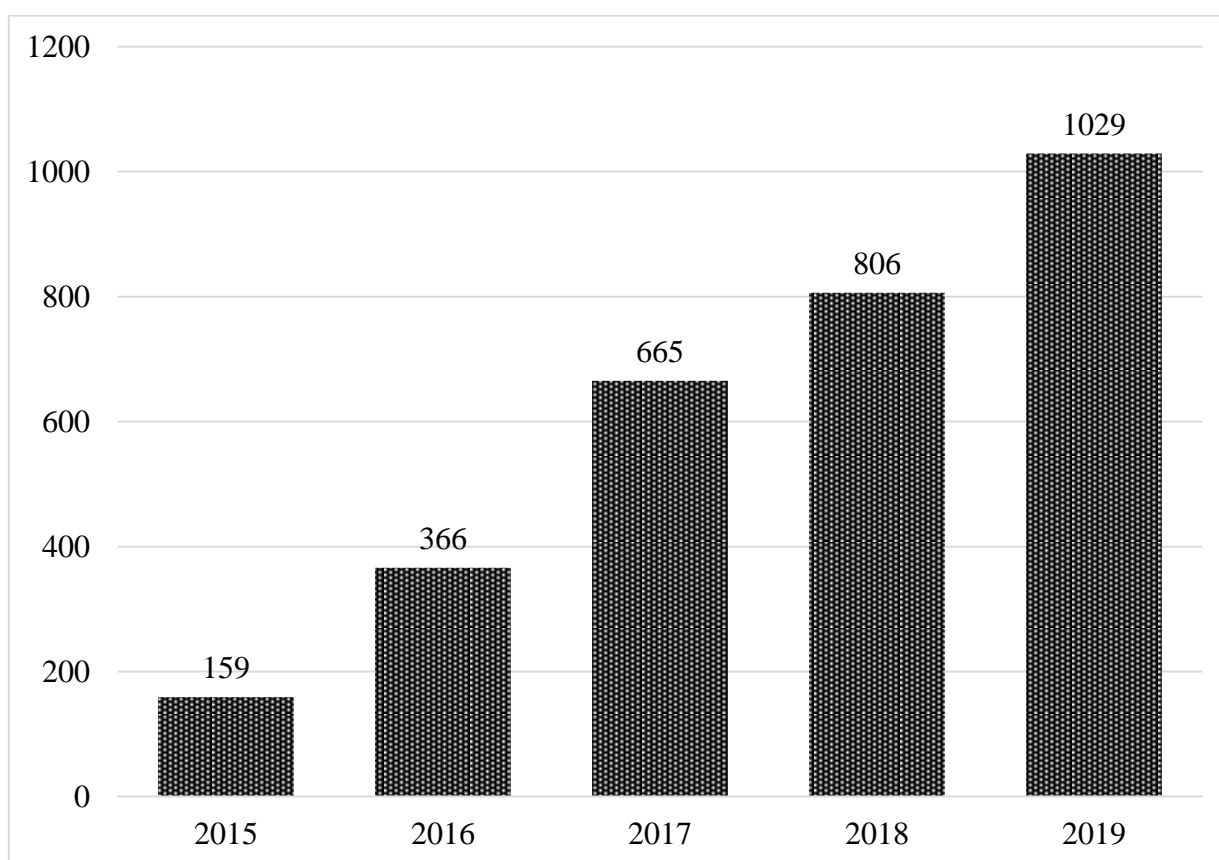
ULCs also have direct inter-budget relations with the state budget (only regional and district budgets and budgets of cities of regional significance had direct relations before the reform); ULCs are given certain benefits (such as grants, educational and healthcare transfers, community infrastructure development subsidies, etc.). for exercising the powers delegated to them by the central Government. As a result of the legislative changes local governments have

also acquired the right to approve local budgets regardless of the date of adoption of Law of Ukraine “On State Budget”.

These improvements have already produced first meaningful results. The local budget revenues have increased by UAH 200 billion (from UAH 68.6 billion to UAH 267 billion) over the period from 2014 to 2019. It is a real tool for influencing the outcomes and responsibility for community trust.

Prior to the reform, the system of intergovernmental transfers operated on the following principle: funds were allocated from the central budget to the region, then they were distributed to districts and then moved to cities of district significance, settlements and villages. After the formation of the united territorial communities (UTC), according to the Budget Code, were equated to cities of regional importance and received the same powers and sources of resources. As of the end of 2019, 1,029 UTCs were formed in Ukraine (Figure 4.1.1).

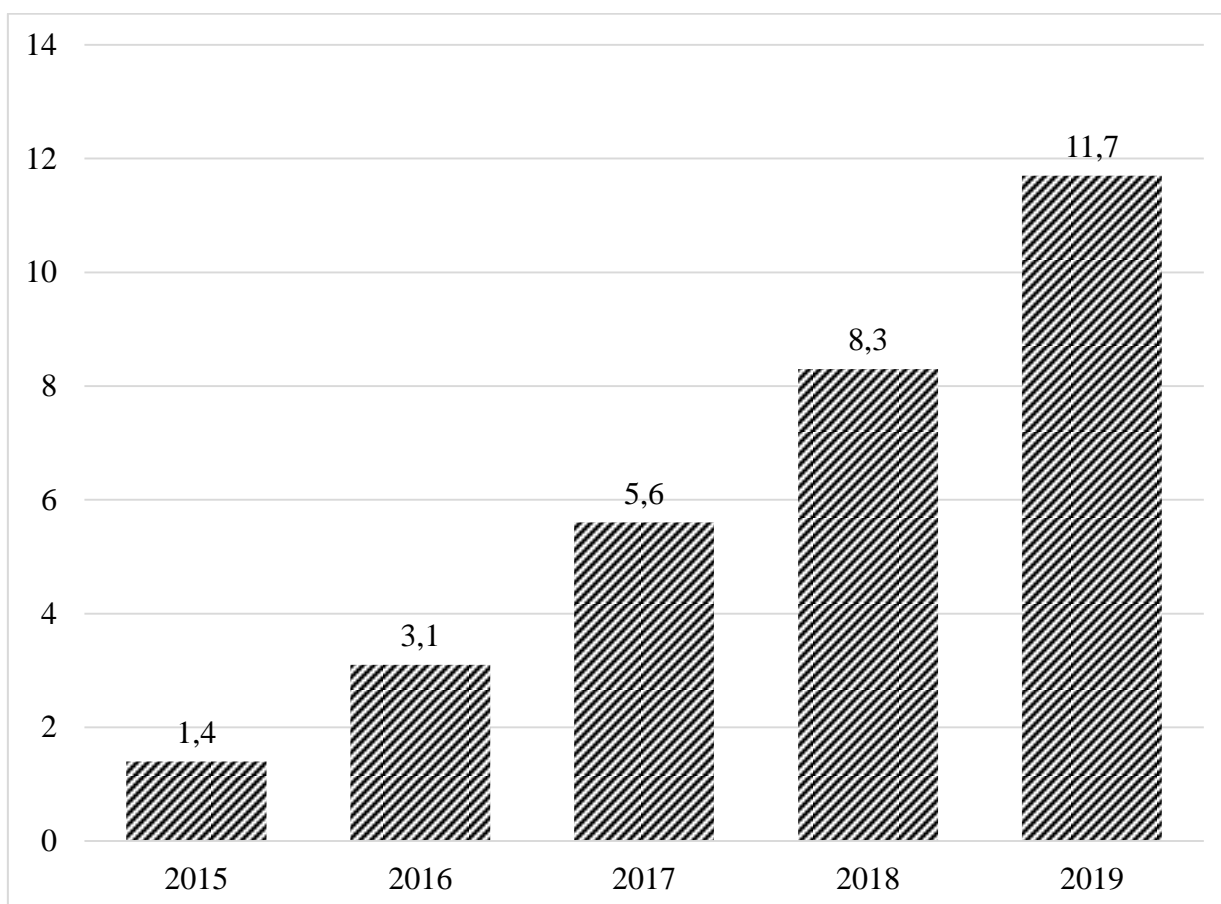
Figure 4.1.1 Number of united territorial communities in 2015-2019



Source: Varnaliy (2019)

One more important indicator is the number of residents of newly created UTCs, because one of the main tasks of decentralisation was to simplify the redistribution of local funds of financial resources to meet the needs of citizens (Figure 4.1.2).

Figure 4.1.2. Number of united territorial communities residents in 2015-2019, million people



Source: Varnaliy (2019)

The newly formed administrative-territorial units switched to direct relations with the central budget, which in turn significantly reduced the degree of bureaucratic burden in inter-budgetary relations.

It is possible to identify 6 main advantages of decentralisation reform:

1. independence of budgets of united territorial communities;
2. the right to direct inter-budgetary transfers, which acts as an incentive to unite villages and settlements into UTCs;
3. the percentage of taxes and fees assigned to local budgets has been increased, which allows local authorities to better plan their revenues and, accordingly, the goals of socio-economic development;
4. introduction of new types of transfers to support regional initiatives and financing of additional functions assigned to local self-government bodies: basic subsidy, educational subvention, medical subvention;
5. the right to place UTC's own receipts not only on the accounts of the Treasury, but also in banking institutions, which avoids the situation when the payment is not paid, because the treasury account temporarily has no funds;
6. local authorities have the right to provide local guarantees, as well as to borrow from international financial organizations. This tool will significantly strengthen the investment capacity of communities and will allow the implementation of large infrastructure projects.

The decentralisation reform has reached a stage where quantitative indicators must be converted into a new quality: a new quality of service delivery, a new quality of life. The reform must move inwards, so the main task - its sectoral promotion - in education, medicine, security, land relations.

Thanks to the implementation of the U-LEAD program with Europe, the Centres for Local Government Development were opened. Tasks of which: strategic planning, strengthening of social communications, project management and development of investment route maps in UTC. These centres will further coordinate the implementation of the reform at the regional level.

In addition, the study of the theoretical foundations of local government finance leads to the conclusion that local finance is a system of economic relations associated with the formation, use, distribution and redistribution of funds of financial resources needed by local governments to perform their functions and ensuring the socio-economic development of territories. Local finances perform three main functions: distributive, control and incentive.

4.2. General description of the academic articles on local government finances before and after fiscal decentralisation.

I analysed 28 academic articles related to the fiscal decentralisation in Ukraine and in other countries. A list of all articles, together with some descriptive characteristics, is provided in Appendix 1. The following is a general description of the articles included in the list.

First, it should be noted that the vast majority of these articles are written in Ukrainian. Only 19 of the 28 articles are written in English. 7 of these articles, written in English, were published in international journals, the were English articles published in Ukrainian journals.

The same can be said about the authors of the articles under discussion. Only 2 articles were published by non-Ukrainian scientists (one written by an academician from Great Britain, the other by scientists from Russia), the other articles were published by Ukrainian scientists, representatives of Ukrainian universities.

As suggested in the methodological part, one of the classifications to be used in this project is based on the measurement of the field of science covered by the article. It should be noted that in fact, sometimes it was really difficult to distinguish the specific field that covers the article, because most articles are a kind of mixed nature.

This can be explained by the subject of research (public procurement), which is also ambiguous in nature and cannot be included in one branch of science.

However, a deeper analysis of the experience of scientists and the sources where the articles were published gave a clue to the definition of the relevant field of science and allowed to distinguish these articles in terms of measurement in the field of science. The figure below shows which areas of science are covered by the studied articles.

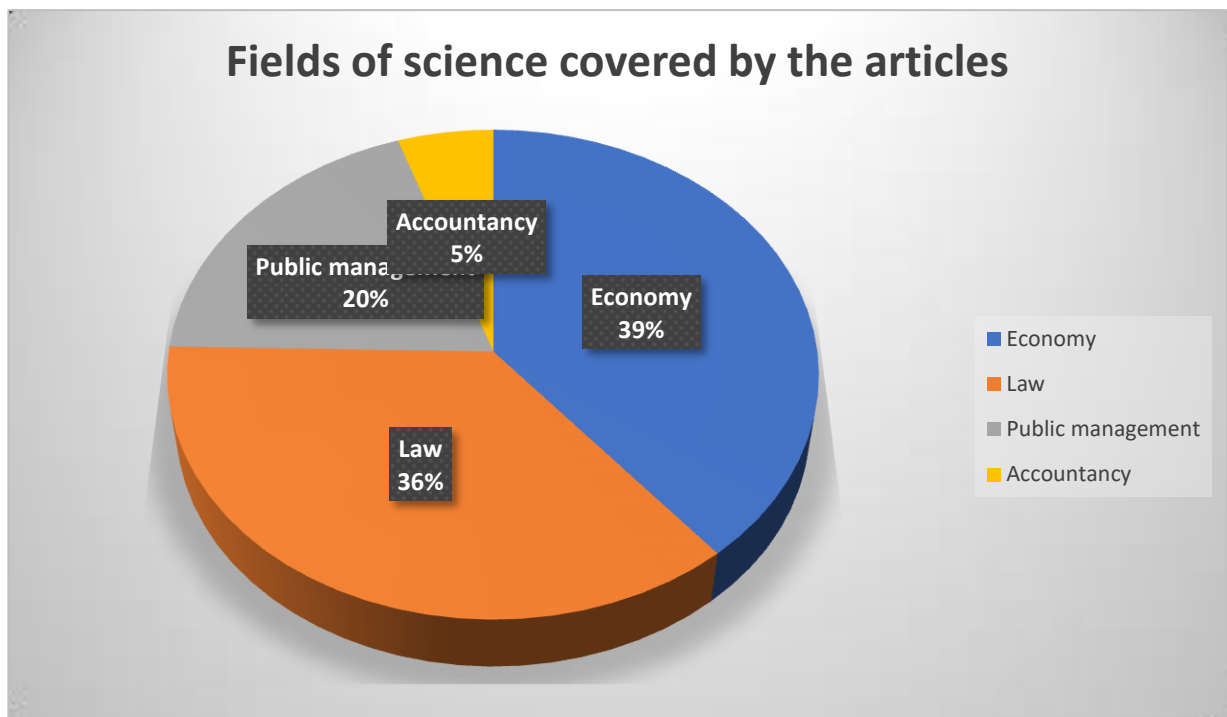


Figure № 4.2.1. Fields of science covered by the articles.

Source: constructed by the author

The figure shows that most of the articles relate to the field of economics 28 articles have been published as pertaining to rights. 15 articles dedicated to public administration. And the minority (4 articles) concerns accounting. Again, among all these articles, there are no articles that can be clearly classified as belonging to only one group, described above, a larger number of articles, due to the nature of public procurement, are different stages.

- (a) analysis based on description;
- (b) official analysis based on data;
- (c) experiment;
- (d) an interview;
- (e) document analysis;
- (f) comment
- (g) mixed methods (Goddard, 2010).

It should be noted that there were very few articles that were based on only one of the above methods. And there were no articles where experimentation and interviews were used as a methodological approach. Only one article was based on the analysis based on the survey, 2 articles used the official analysis based on data, the analysis of documents was chosen as a research method in 3 articles, 5 articles were based on comments as a methodological approach. All other articles used different methods to address the research topics. Thus, most articles were based on a mixed method.

The research methods used in the empirical data can be represented as follows:

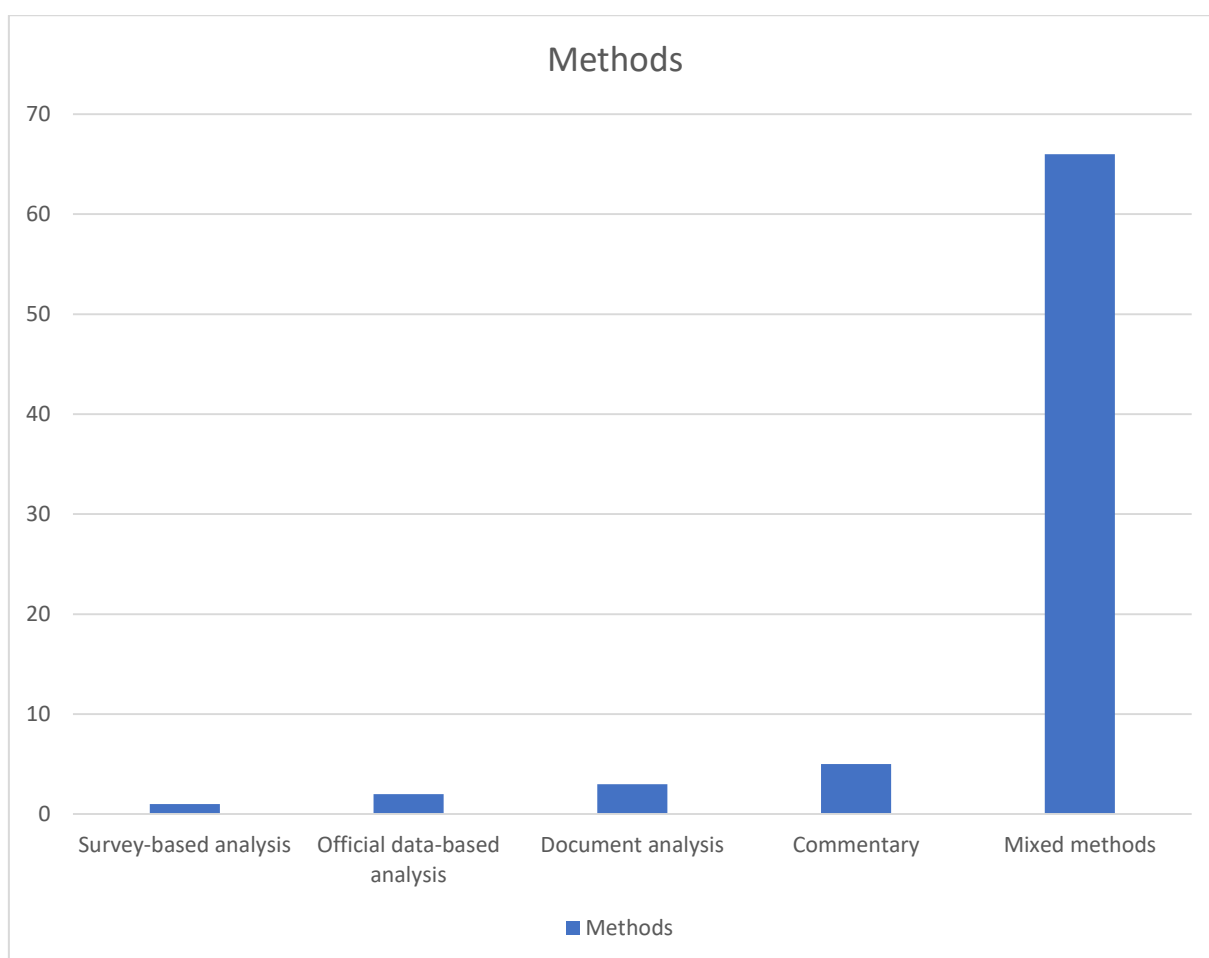


Figure № 4.1.2. Methods used in the researched articles (Ukraine).

Source: constructed by the author

Interest in the topic of research and its significance can be demonstrated by analysing the time period of the articles, i.e. when the articles were published. The table below shows that in 2016-2017 there was a sharp upward trend. The highest attention to the topic was paid in 2017. Such increase of interested can be explained by the introducing fiscal decentralisation reform in Ukraine.

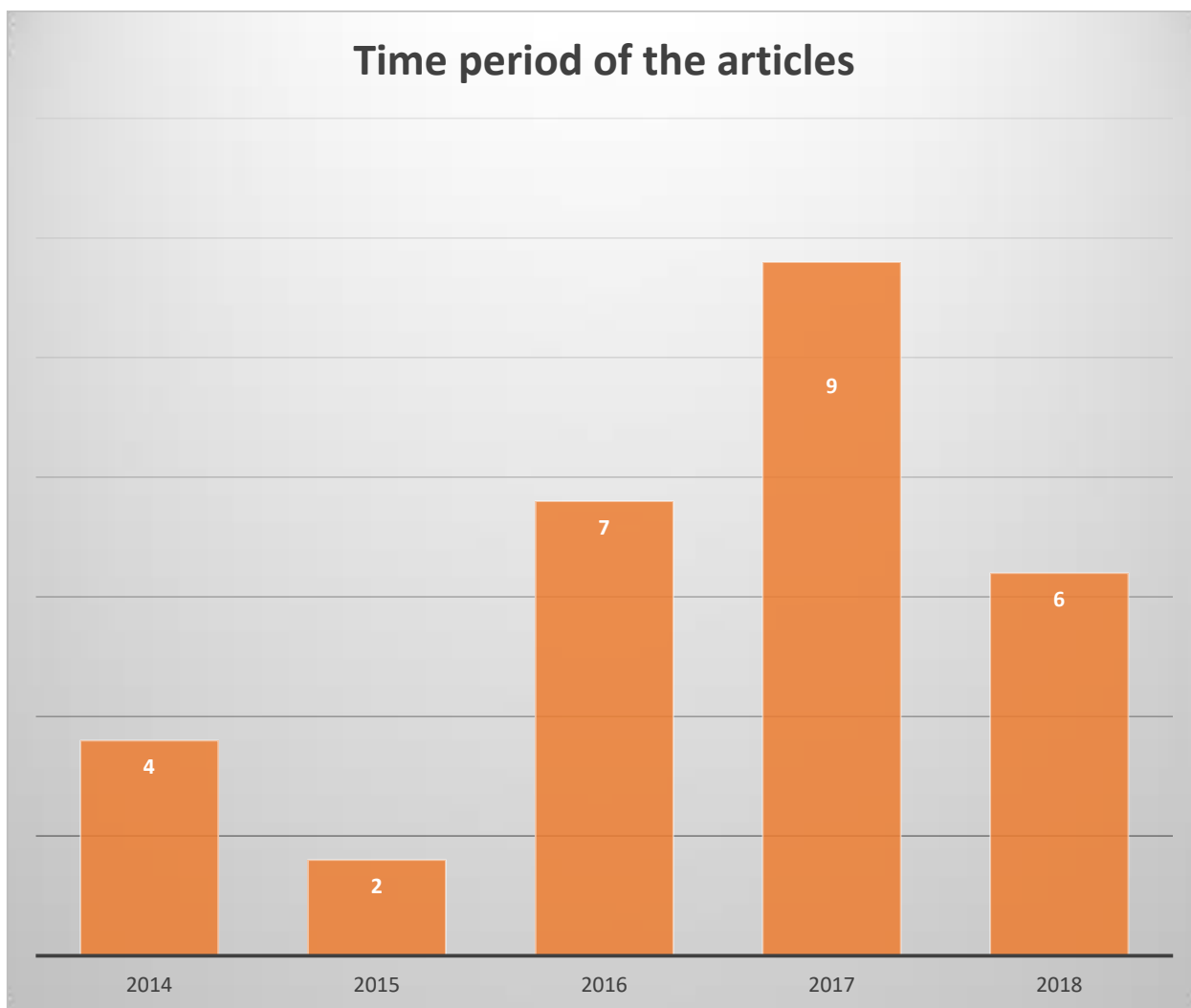


Figure № 4.1.3. Time period of the articles (Ukraine).

Source: constructed by the author

The table below represents the numbers of articles according to perspectives in the present classification.

Table № 4.1.4. Norm-action classifications (Ukraine).

Perspective	Number of articles	%
Norms	6	25,97%
Actions	9	27,27%
Norms and actions	14	46,76%
Total amount of the articles	29	100%

Source: constructed by the author

The largest of the classification groups is a group of norms and actions, consisting of 36 articles (46, 76%). Articles on actions only represent the second largest group, which consists of 21 articles (27.2%). The normative group of articles is 20 articles (25.97%), which is one less than the second group. This may tell us that norms and actions play an equal role in the development of the Ukrainian local government finances. At the same time, the predominant position of the group of norms and actions demonstrates that scientists are much more focused on the application of norms and the interaction between norms and actions in terms of the fiscal in Ukraine.

Table № 4.1.5. Topics-concerned classifications (Ukraine).

Specific topic	Number of articles	%
Corruption	2	12.9%
Foreign experience	4	18.1%
Fiscal decentralisation reform	5	19.4%
Administering issues	4	18.1%
Others	18	31.5%

Source: constructed by the author

There are many different topics in the researched articles. However, some topics are given more attention, and this can be seen from a number of articles on these topics. Thus, such topics were divided into independent groups. The group "others" consists of separate questions which cannot be united in one big group.

This table shows which topics are problematic in Ukrainian fiscal decentralisation, and what worries scientists and public authorities.

The largest group is represented by articles on e-procurement. This is due to the fact that at the end of 2015 Ukraine introduced a system of Fiscal decentralisation reform. Therefore, many articles about this topic, as this reform is new to Ukrainians, and much attention is paid to finding shortcomings and possible improvements.

The second largest group are articles related to the analysis of foreign experience. This is due to the fact that Ukraine has signed an Association Agreement between Ukraine and the EU, and try to use European experience. That is why scientists are so concerned about comparing Ukraine's experience in Fiscal decentralisation reform with the EU experience.

As already mentioned, the group "others" contains various separate issues, which cannot form one separate group.

Table № 4.1.6. Cross-sectional classification (Ukraine).

Specific topic	Norms	Actions	Norms and actions
Corruption	4	0	6
Foreign experience	6	1	7
Electronic procurement	1	1	13
Administering issues	5	1	8

Source: constructed by the author

It should be noted that I have chosen not to include the “other” section in the cross-sectional classification, as this is irrelevant to show the prevailing trends in the themes, as the “other” section includes many different topics.

The table below shows that articles and norms and actions are dominant in all relevant topics. However, a clear dominance and a huge gap between other prospects can be seen in articles on e-procurement. Articles on actions are not widely distributed within the analysed topics. The norms of the articles are approximately equal in number to the articles on norms and actions.

The table below shows the share of perspectives of norms-actions in the mentioned topics. As shown below, most regulations and articles are written on e-procurement. The largest share of normative articles is published on foreign experience. As for actions, the shares in the mentioned topics are quite equal.

Not all the articles studied contain information that can help to deduce the institutional logic of the statements or conclusions made in the articles. However, most articles contain such information. It should be noted that in the studied articles, institutional logic was not used to explain the causes of a phenomenon.

However, the content of the articles allows us to trace the interest and influence of some logical institutions. This interest can be seen in the results and suggestions of the studied articles, as well as in the main parts of the articles, where the results of the research indicate a possible impact on a particular institution among the three types mentioned earlier in the theoretical chapter.

In the theoretical section, three types of institutional logic were identified, their actors and goals were explained. Thus, having understood that the actors of one of the mentioned institutions will be interested in the results of the researched article or will influence them, I noted in Appendix 1 that one of the intuitive logics is mentioned in the corresponding article. In one article we can mention several logics.

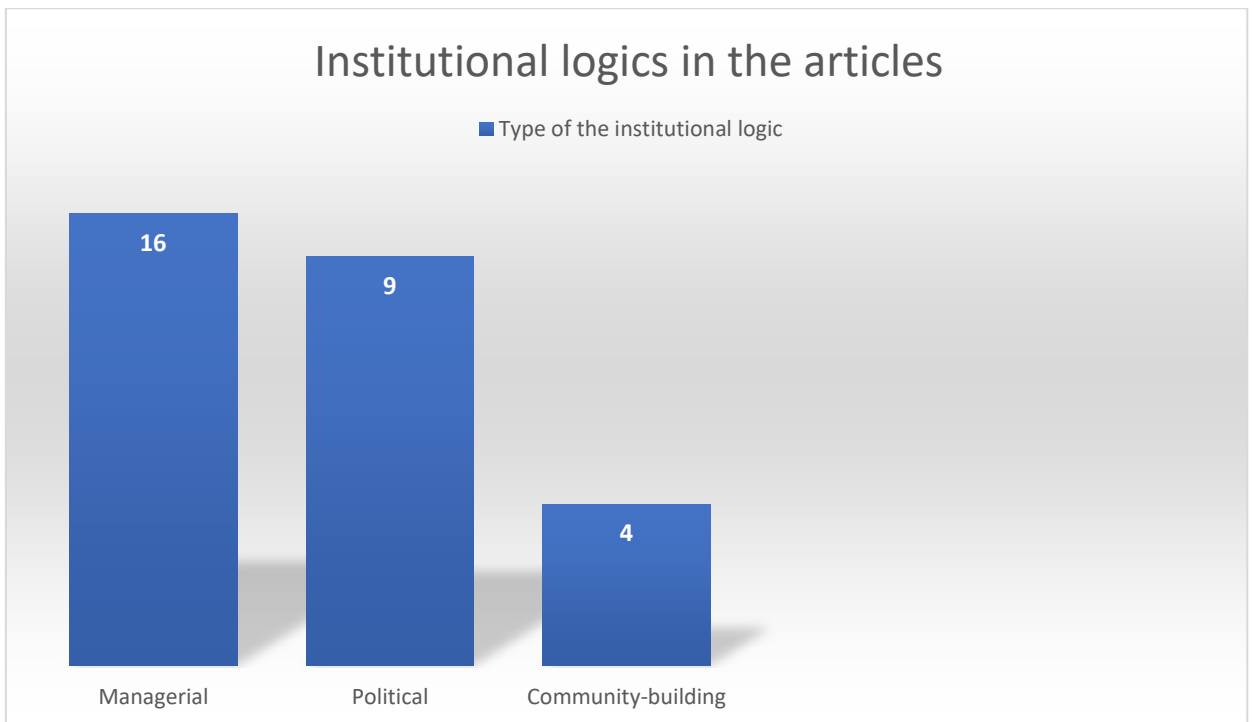


Figure № 4.1.7. Institutional logics classification (Ukraine).

Source: constructed by the author

This figure shows that the research logic prevails in the studied articles. Thus, most of the articles are addressed to the heads of the local governments. Such issues may include, for example, the financing and organization, control, monitoring, performance evaluation, and so on.

Political logic is mentioned in 9 articles. This means that 9 articles can be useful for politicians, and the results of these articles pursue democratic values and contribute to the implementation of the advisory model of democracy.

Summary of chapter IV

There are a lot of changes in revenues in local budgets as a result of fiscal decentralisation and their significant growth is observed. A mechanism for horizontal levelling of the tax capacity of territories in Ukraine has been developed, which helps to eliminate imbalances and inequalities. Most budgets in Ukraine are recipients of budget funds, as they receive a basic subsidy.

The reform of decentralisation of power has played a key role in a qualitatively new change in approaches to local government financial management. The expansion of powers also included an increase in sources of funding to cover the functions entrusted to local governments. Amendments to the tax and budget codes have significantly expanded and secured stable sources of revenue for local budgets.

Important changes also concerned inter-budgetary relations, the newly formed OTGs were granted the right to direct budgetary relations with the state budget, as well as the right to place their own funds not only in State Treasury accounts but also in banks, which greatly simplified the budget disposal procedure.

V. ANALYSIS OF TEORETICAL ASPECTS (LITERATURE REVIEV)

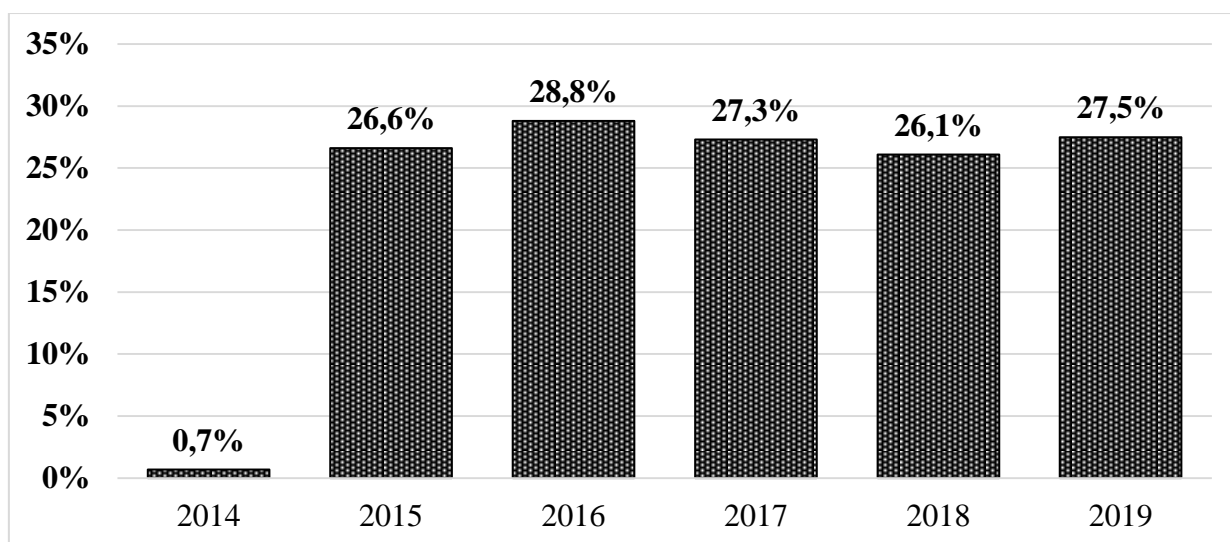
Before it is possible to draw any conclusion based on the empirical data it is important to make in-depth analysis of the literature studied and reports to find and to understand similarities and differences in the public local government finances before and after fiscal decentralisation.

5.1. Analysis of incomes from taxes to government finances in Ukraine

Considering the importance of local government finances in the context of economic development of territories, it is necessary to analyse the sources of local government revenues, as well as the effectiveness of the use of financial resources on the ground.

After the beginning of fiscal decentralisation, local tax revenues and fees to the local government budgets have increased significantly. In 2014, their share in local budgets' own revenues was only 0.7%, which indicated the lack of fiscal autonomy of local governments. Amendments to the Tax Code of Ukraine led to a rapid increase in the share of local taxes and fees in relation to own revenues of local governments, in 2015 this figure was 26.6%, which is 38 times more than in the previous year.

Table 5.1.1 Share of local taxes and fees in own revenues of local budgets (general fund), in%

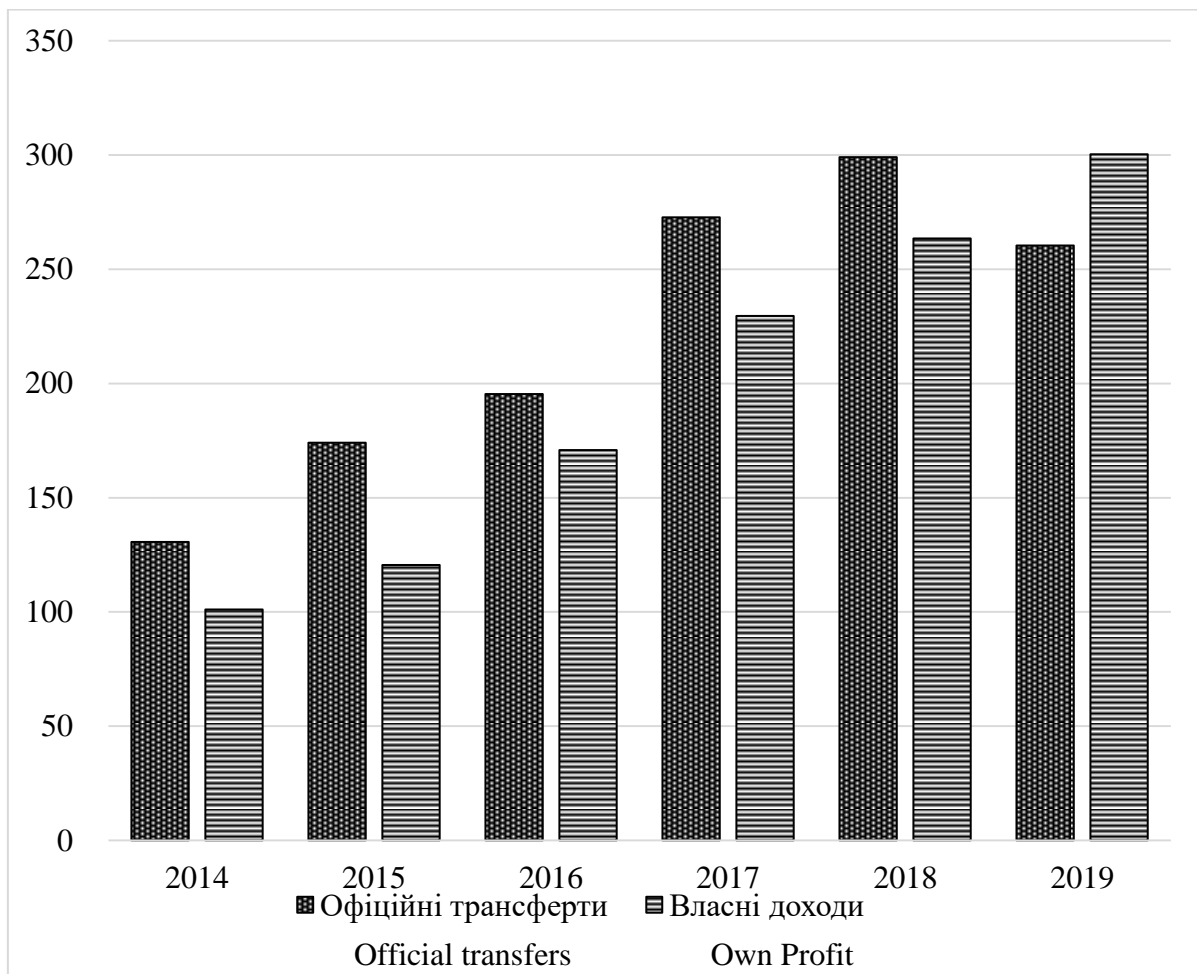


Source: Shkolnyk (2018)

During 2014-2018, the share of received transfers in the structure of local budget revenues was over 50%, which is evidence of the significant influence of central authorities on the formation of local self-government, but it should be noted that since 2015 in contrast to equalisation grants provided to local non-earmarked budgets, the structure of transfers is dominated by targeted subventions of the Government of Ukraine, which are aimed at the development of local medicine, support of education, culture, infrastructure projects.

According to the results of 2019, the share of local budget revenues exceeded the volume of received transfers and amounted to 54%, which undoubtedly indicates positive changes in the context of fiscal decentralisation and growth of local budget autonomy.

Table 5.1.2. Structure of local budget revenues in 2014 - 2019, UAH billion



Source: Shkolnyk (2019)

Summarizing the analysis, I can make important methodological conclusions.

1. I believe that local budget is a system that include set of interconnected elements that interact to achieve a certain goal.

2. At the same time, the form of realisation of local finances is monetary funds, separated from the total amount on a certain basis (purpose or specifics of formation) funds of financial resources.

3. In addition, local finances begin to work only in the interaction of their subjects, ie is, firstly, an element of their external (but not internal) environment and, secondly, participate in the processes of formation, distribution, redistribution and use results of economic activity.

As follows arguments above, I can make a conclusion that local finance is a set of economic relations that arise in the process of formation, distribution and use of funds of financial resources for the implementation of their own and delegated functions and powers of local governments.

Local finances are one of the main elements of the financial system of the state, the basic prerequisite for stable socio-economic development of the respective territories. The presence of a strong financial resource base enables local governments to fully perform their functions.

To emphasize the structural, elemental and functional features of local finance, we highlight their categorical essence. Given this reasoning, we consider it possible to propose a definition of the local finance system.

It is a set of groups of similar relations between local governments and local and regional LG's, formed on the basis of their functional unity, united by a common cash flow to provide all subjects of these relations with the necessary financial resources for their effective functioning.

There is a cyclical process of moving money from one entity to another (cash flow) both within these groups and between them, and the ultimate goal of this process is the distribution of funds, which will allow the entity to meet its own needs and fulfil his obligations to others.

The purpose of the system of local finances formulated in this way is ideal, i.e. practically (in relation to all subjects of monetary relations) unattainable. However, we believe that it is necessary to strive for the closest possible to it.

The organizational basis of local self-government is manifested in the forms of organization and activity of local self-government, its bodies and officials and is designed to activate the entire system of local self-government in order to ensure the implementation of its

functions and competencies. The essence of the forms of local self-government is that they are based on the power of the territorial community of the municipal economy.

The financial mechanism is a set of legally established measures, forms and methods used by public authorities for financial influence on production in order to solve socio-economic problems, the implementation of financial policy of the state. The financial mechanism is a tool for managing financial relations in the country and in its individual territories.

A component of the financial mechanism is the budgetary mechanism. We believe that the budgetary mechanism should be considered in accordance with the essence of the budget as an economic category and its role as a tool for regulating socio-economic processes. To cover such multifaceted phenomena as the budget, the budgetary mechanism of regulation, fiscal policy, it is advisable to consider their methodological basis, i.e. some provisions of neo-institutional theory.

5.2. Changes of the local governments budgets structure of incomes

The main driving changes concerned the change in the principle of distribution of tax revenues and fees between the state budget and budgets of Local Government.

The Budget Code of Ukraine establishes and consolidates stable sources of local budget revenues. Financial decentralisation has been an instrument of change in the regulation of intergovernmental relations - new subventions have been introduced with state budget to local budgets (educational and medical) in order to implement expenditures on delegated by central authorities' powers in the fields of education and health.

Among the value collections I have received, those related to the development of institutional support for local government finances provide for the transfer to local authorities not only additional budget funds for the implementation of owners and delegated state functions, but also the consolidation of stable sources for local budgets. The main changes concerning the distribution of data and fees between the budgets of different levels, made in table 5.2.1.

Table 5.2.1 Taxes and fees

Taxes and fees	Revenues to local government budgets (before 2014)	Current state (2020)
Personal income tax	75% of tax revenues - to state budgets, 25% - to local government budgets (50% of revenues are withdrawn from the budget of Kyiv in favor of the state budget, Sevastopol keeps them in full)	60% of tax revenues - to the budgets of cities of regional importance, 15% - to local budgets, 25% - to the state budget (75% of revenues are withdrawn from the budget of Kyiv in favor of the state budget)
Corporate income taxes	The main part of tax revenues is received by the state budget (except for the profit tax of enterprises and financial institutions of communal ownership, which is transferred to local budgets)	90% - to the state budget, 10% - to city and regional budgets. Revenues from the income tax of communally owned enterprises are transferred in full to local budgets
Ecological tax	35% of tax revenues - to local budgets, 65% - to the state	25% of tax revenues - to local budgets, 55% - to the regional, 20% - to the state
State duty	100% to local budgets	100% to local budgets
Land fee	National tax	Local tax
Other payments	50% of fees for special use of forest resources, water, subsoil use (except for oil, gas and gas condensate), which were being transferred to the city budgets of Kyiv and Sevastopol	50% of the rent for the special use of forest resources, water, 25% of the rent for the use of subsoil (except for oil, gas and gas condensate), which were being transferred to the city budgets of Kyiv and Sevastopol

Source: Shkolnyk (2017)

The information above allow to form a summary that introduction of the offered legislative changes will allow to increase receipts to local budgets and will promote additional accumulation

of means for development of a social infrastructure of local governments. The formation of local government revenues in Ukraine has changed significantly since the start of the decentralisation reform.

The real state of affairs with the financial support for the performance of local government functions is quite difficult. The functioning and development of local self-government largely depends on the availability of local self-government bodies of material, financial and other resources necessary to perform their functions. Territorial communities or local self-government bodies formed by them must be capable in their right to independently resolve issues of local significance within the framework of the Constitution of Ukraine and the laws of Ukraine.

Local budgets play an important role in financing the activities of local governments in relation to the provision of public services, primarily social. At the expense of local budgets, additional payments are made to the population to cover the costs of housing and communal services, assistance and benefits to war and labour veterans, families with children, low-income groups, lonely elderly people in need of care, etc.

Given that most of the services of the population of Ukraine receive from local governments, the share of local budgets in the consolidated budget and gross domestic product of the state should grow, which is an important means to increase financial security of local governments and a significant factor for real local functions. municipality. Applying a formulaic approach in determining the amount of intergovernmental transfers cannot solve the problem of local government funding.

However, the current situation in Ukraine proves that the revenue side of local budgets is formed mainly at the expense of national taxes and fees, the distribution standards of which are constantly changing. Thus, local governments are not able to really plan their activities to perform functions in the field of administrative-territorial formation for the future.

In particular, the relative share of local taxes and fees is particularly low, averaging 3-5% for most Ukrainian cities and even lower for villages and settlements (about 1%). This threatens the principle of autonomy of local budgets and financial independence of local self-government.

The financial independence of local self-government should be understood as the possibility of independent solution of issues of complex financial support of economic and social development of this territory, which are within the competence of the relevant level of local government. (Manthorpe, 2018)

The limits of financial independence of local self-government should always be determined by law, ie the law should clearly define the functions of local self-government and, accordingly, the sources of resources that will constitute the financial support of these functions.

A significant problem of sufficient financial support for the performance of local government functions is that budget expenditures are carried out in a real market economy with its inherent negative manifestations - inflation, often unpredictable price increases and so on. This creates significant problems for local governments in performing their functions and powers provided by law. The state must not only control the performance of local governments of the functions and delegated powers provided by current legislation, but also financially ensure their implementation.

The relevance of determining the total financial potential at the level of each local economy is the initial stage in the development of any consolidated programs and development forecasts. We single out six main sectors in which the formation of financial capacity to ensure the functions of local governments. Five of them are internal, one is external. The latter accumulates all loans received in the region from sources located outside the territory, ie combines all external borrowings into a separate group.

It should be emphasized that the budget provision per capita of the village, town, city is 50-700 UAH per year (Vasylieva, 2018) , while EU standards provide for 2000 euros (Peter, 2016), and the budget system of Ukraine is aimed at supporting the self-sufficient (those who have their own financial base) , and subsidized territorial communities and regions.

By Shkolnyk (2017), in general, the current state of local development is characterized by:

- the lack of an effective system of guarantees for the performance of functions and powers of local governments and adequate material, financial, personnel and other resources for their provision. The state is still insufficiently fulfilling its obligations to create conditions for the development of local self-government;
- deepening disparities in the socio-economic development of territorial communities and regions;
- unresolved urgent issues of reforming the system of administrative-territorial organization of Ukraine;
- shortage of financial resources of housing and communal services, energy, fuel, water supply and social infrastructure systems.

By Vasylieva (2018), the issue of multidimensionality of ways of financial and economic development of the local economy is largely a continuation of the main directions of policy to ensure financial stabilisation:

- creating a favourable investment climate;
- establishment of tax benefits by priority activities;
- regulation of prices and tariffs;
- implementation of regional orders that ensure the implementation of targeted programs;
- involving financing from the citizens.

It is important for a fuller and more accurate understanding of the nature, composition and structure of the mechanism of financial support of local government functions is to clarify the meaning of the definition of "financial support", because today it does not have an unambiguous, generally accepted interpretation.

Financial security must be considered in conjunction with the stability and competitiveness of the regional economic system. This unity has a complex structure and includes known aspects: food, information, social, investment, energy, environmental and others. They are partly controlled by local governments, partly by the exclusive competence of state authorities or various LG's.

Financial security is a system of sources and forms of financing the development of economic and social spheres of society. In particular, financial security means the allocation of a certain amount of financial resources to solve certain problems of the financial policy of the entity. At the same time distinguish its supporting and regulatory action. The security effect is manifested in the establishment of sources of funding, ie to cover daily needs, and characterizes the passive effect of financial security. Regulatory action has an impact through the allocation of sufficient funds and through a specific form of financial security and characterizes the active action of financial security.

Financial security should be understood as a set of financial resources that are in the service sector of economic LG's and are the basis of their development.

Given the complex nature of local self-government, which combines elements of state and public power and territorial-corporate form of self-organization of local society, we believe that the financial support of local self-government is a set of financial resources formed in the relevant funds. , and with the basis for the development of administrative-territorial formation.

Most budget funds are accumulated in the state budget, and the share of local budgets is only about 23% of the consolidated budget (Vasylieva, 2018), although it is the local governments that provide the most important social services to the population. Local self-government revenues are used primarily to finance the maintenance of public utilities, the relative share of these revenues is insignificant, they are clearly insufficient to finance even the most basic needs of livelihoods.

All factors above significantly affect the efficiency of the system of financial support of local government functions in Ukraine. But the main disadvantage and problem of the current system is that it does not stimulate local governments in terms of filling the revenue side of the budget and responsibility for the use of resources.

The system of inter-budgetary financing cannot function effectively if it does not create effective incentives for local governments to build their economic base without the threat of complete loss of additional revenues or a significant part of them.

The participatory system of financial support for local self-government in Ukraine stimulates consumer sentiment in spending rather than actively mobilizing them from potentially possible sources.

Thus, when studying the financial support of local government functions, we note that the ability of local governments to independently form and manage funds of financial resources aimed at addressing issues of local importance is quite fundamental.

The implementation of local government functions can be ensured by various methods. Given that local self-government is recognized and guaranteed by law, decisions taken by local governments within their powers are binding on all enterprises, institutions and organizations located in the local economy, regardless of their legal form, as well as citizens. At the disposal of local governments are administrative methods of implementing their own functions.

However, in modern conditions, economic methods of ensuring the implementation of local government functions, which provide its bodies with sufficient financial resources, are becoming increasingly important.

At its level, the local government attracts, accumulates and spends a certain amount of money, thus forming a mechanism for financial support of local government functions.

Considering the mechanism of financial support for local government, most researchers reveal important factors that determine the formation of financial support for local government, taking into account: the degree of state influence on the construction of local tax system and its

relationship with the tax system: local taxation; LG's involved in the formation of local revenues; the rights of local governments to use non-tax sources of local budget revenues; the procedure for establishing and collecting taxes received by the local budget; the degree of influence of local governments on these processes.

Thus, the mechanism of financial support of local government functions is a system of principles and methods of forming a fund of funds available to local governments.

Based on the proposed definition, we consider the methods, principles and methods of forming the studied mechanism, which remained out of the attention of researchers.

We believe that to implement sufficient financial support for local government functions it is necessary to apply a number of methods: organizational method, method of economic interaction of local governments and business LG's: regulatory, informational, organizational and financial.

The organizational method should include management systems focused not only on solving current issues, but also on the implementation of long-term tasks. It is possible to use a reasonable, aimed at creating the most favourable environment for production and life of the system using market principles of regulation of territorial organization of society and ensuring the competitiveness of regional economic policy to identify and assess the main factors of investment activity in the regional economy.

The principles of regional investment policy include: the principle of invariability of decisions, which gives the investor confidence in the security of his investments; the principle of equality of investors. To minimize investment risks associated with the activities of local governments, regulations should be developed that contain guarantees of local governments to support investment and determine the order of relations.

Another method of implementing the financial support of local government is related to the formation of a system of economic cooperation between local governments and businesses in solving problems of socio-economic development of the region, the so-called mechanism of strategic partnership, which is to involve the most important areas of development. business LG's on the basis of partnership with local governments.

At the same time, economic regulators are used to attract financial resources - from the establishment of direct tax benefits and tax holidays to investors to the provision of loans and credits. The strategic partnership mechanism will make it possible to use private capital more efficiently and expediently to ensure the functions of local self-government.

The normative-legal method includes the adoption of normative-legal acts, on the basis of which local self-government bodies have at their disposal a certain financial base for the performance of functions that meet the conditions of competitive, sustainable and safe development.

There is an obvious need to adopt laws that should define the basic principles of the strategy of financial support for the development of territories: goals, objectives and key areas of regional development; principles, methods and forms of modern regional policy; formation and spending of budget funds, which will contribute to the financial support of the functions of local governments.

It is necessary to adopt regulations that ensure the implementation of the principles of regional programming and planning, increase the efficiency and responsibility of local governments in the successful development of subordinate territories.

To implement the mechanism of financial support of local government functions, it is necessary to improve the information method, which includes a system for monitoring regional socio-economic indicators.

The task of monitoring is to assess the level of socio-economic development of administrative-territorial LG's. The new system of indicators should:

- to promote the assessment of infrastructural opportunities for the implementation of large investment projects in administrative-territorial LG's, the identification of formal and informal barriers to doing business (including the formation of competitive economic clusters) and the implementation of investment projects;

- objectively assess the need for state support of the region or administrative-territorial unit; activities of local governments.

The mechanism of financial support of local self-government functions is impossible without the formation of organizational and financial method, which includes the system of implementation of the strategy of socio-economic development of regions with state organizational and financial institutions responsible for certain areas of this strategy.

At the same time, it is necessary to ensure the transition from financial support to specific regions to solving systemic problems of their self-sufficiency.

Having considered the mechanism of financial support, we formulate the main principles of ensuring the functions of local self-government:

1. The principle of interconnection and sequence of financial support functions. Functions at each stage of implementation should be divided into groups of tasks.

2. The principle of increasing financial resources. It is necessary to ensure the reproduction of resources in the course of implementation of functions, ie the ability to use in subsequent stages of the resources formed in previous stages.

3. The principle of saving resources. In the process of implementing the functions, it is important that the effect was broader than the direct execution of program tasks. It is a question of creation of the general favourable social, technological, institutional and organizational conditions which increase efficiency of economy and social sphere in particular.

4. The principle of infrastructure. The effectiveness of financial support for local government functions is determined by changes in the organizational and institutional spheres.

However, it is impossible to implement an effective mechanism for financing the functions of local self-government bodies only on the basis of methods and principles.

The socio-economic situation in Ukraine is convincing that the reasons for the country's uneven financial security are regional in nature and are differentiated as follows:

- territorial concentration of productive forces and bank capital in a few highly urbanized areas;
- clear differentiation by levels of monetary saturation; fluctuations in the level and forms of employment; economic separation;
- centrifugal tendencies and separatism;
- corruption of institutions and government;
- territorial and sectoral monopoly, etc.

Depending on the degree of concentration of these reasons, the unevenness of regional socio-economic development increases, and accordingly the financial support of local governments.

Modern ways and methods of systemic action on the negative results of the mechanism of regional governance in the economic, financial, investment and social spheres are insufficiently

related to the analysis of the degree of economic development of the region, which reduces the effectiveness of the system as a whole.

Thus, the structural mechanism of financial support of local government functions should be considered as a complex system of blocks. which covers the relevant areas of financial activity at the local level. The studied mechanism, which is based on the construction of a strategic approach, is presented at figure 5.2.2.:

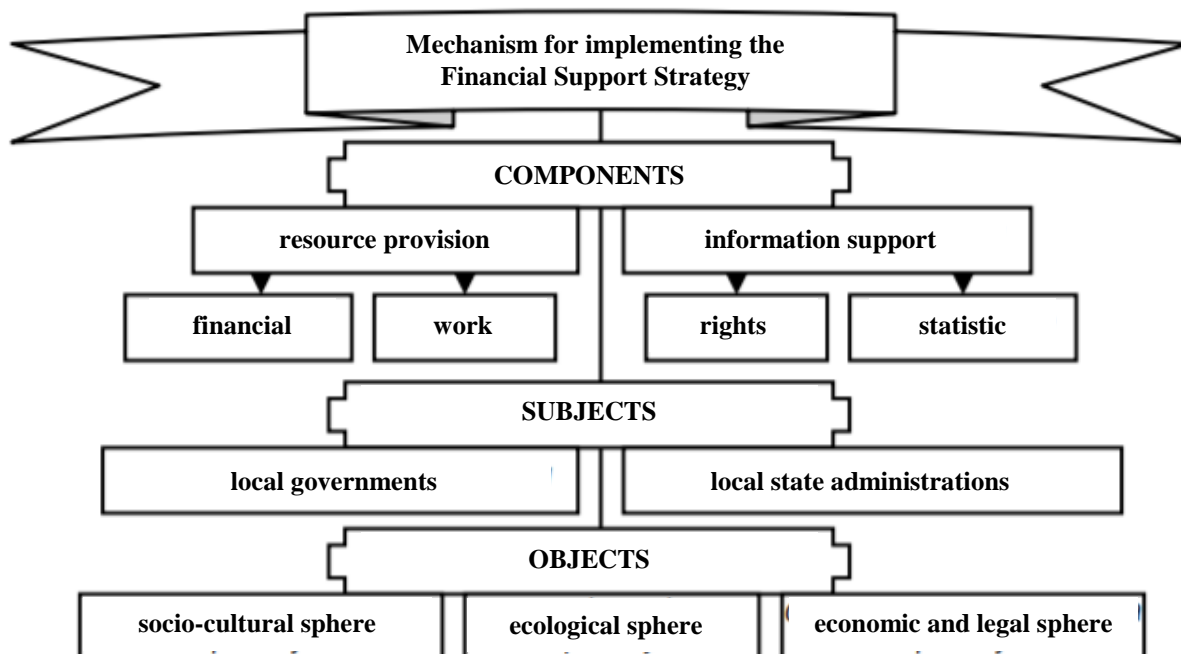


Figure 5.2.2. Mechanism for implementing the Financial Support Strategy

Source: constructed by the author (based on Vasylieva, 2018)

The mechanism for implementing the strategy of financial support for the functions of local self-government bodies will depend on the degree of interaction of LG’s representing economic, environmental and social interests.

Local self-government bodies and local state administrations act as subjects, but society and its subjects are also interested in performing the functions of local self-government bodies: the state, enterprises, and the population.

The block of means to achieve the goals includes standard methods of strategic transformation of the regional economy, which include the organization of planning, financing, pricing, licensing, standardization, rationing, lending, investing, taxation, etc.

The systemic nature of the regional economy necessitates the systematic application of these methods, depending on the available means. A special place in it is occupied by a set of effective tools (rates, prices, tariffs, benefits, subsidies, subventions, grants, rates, quotas, licenses, rules, fines, rents, grants).

With their help the mechanism of attraction of funds from various sources (budgets and extra-budgetary funds, private savings, own accumulations of the enterprises and credits, charitable contributions, etc.) which are provided in various forms is specified.

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A special place in it is occupied by a set of effective tools (rates, prices, tariffs, benefits, subsidies, subventions, grants, rates, quotas, licenses, rules, fines, rents, grants). With their help the mechanism of attraction of means from various sources (budgets and extra-budgetary funds, private savings, own accumulations of the enterprises and credits, charitable contributions, etc.) which are provided in various forms is specified.

The controlling unit should monitor the strategic development of the region by continuously obtaining, using and storing information on the state of the economy in the system of adopted indicators and the dynamics of their changes. Its tasks also include ensuring the rapid exchange of necessary information with interested bodies, institutions, public organizations and the media.

The control unit in the mechanism of strategic development should provide the basis for the correction of the strategic course.

So, in the course of restructuring the mechanism of budget formation, a number of issues should be resolved, including: what share of budget revenues should go to the state budget, which should remain in place; in this regard: what should be the rate of deductions from territorial budget revenues, which will be reflected in the norms of deductions from national taxes and fees.

It is also necessary to determine whether a single or differentiated standard should be applied. If a single standard for budget formation is established for all regions, then due to

different levels of economic and social development in some regions the budget formed according to this standard will be smaller than achieved, and in some - larger.

To eliminate contradictions, we offer:

- it is possible to allocate from the budgets of higher levels of subsidies and subventions to those local governments whose budget will not have enough funds to finance the needs of the established standards;

- a fund for inter-territorial financial equalisation should be created to regulate local budgets.

It is important that most of their own needs can be financed from the tax sources of the current budget of local authorities. In this case, their dependence on the decisions of higher authorities regarding the revenue side of local budgets will be minimal. In addition, the revenue side of the local government development budget should be replenished mainly through active state support in the form of investment subventions.

VI. CONCLUSIONS

6.1 Summary of the study

The conducted research showed that none of the studied fiscal decentralisation reform is perfect. Also both mechanisms of formation of local government finances (before and after the reform) has their own gaps and advantages. However, both systems can learn from each other, despite their significant differences due to their nature.

Fiscal decentralisation reform in Ukraine is now in its final stages. Admittedly, the contribution of the Ukrainian academician was indeed significant, as the number of articles and the issue raised demonstrate great concern and interest in the development of an effective local government finances in Ukraine.

I decided to learn about local government finances under fiscal decentralisation because it is the biggest reform in Ukraine since getting independence of Ukraine. I realized that I am really impressed with foreign experience of increase of financing local governments after fiscal decentralisation. However, that is great opportunity for the Ukrainian regions to get more financial independence and make better conditions for locals.

A comprehensive study of the local government finances under fiscal decentralisation in ensuring the economic development of the territories allowed to formulate generalized conclusions of theoretical and practical nature, which solve the main tasks of the master's thesis.

As can be seen from the analysis of both the empirical and analytical sections, Ukrainian scholars are very concerned about the problems of transparency in the filling of local budgets and taxation at the local level. This concern is quite justified, as the previous system in Ukraine (which was a reform before fiscal decentralisation) was criticized for its non-transparent schemes and corruption.

However, Ukraine's fiscal decentralisation reform has spawned its very transparent, well-functioning fiscal system of financing local governments.

1. Local finance is a system of economic relations related to the formation, use, distribution and redistribution of funds of financial resources needed by local governments to perform their functions and ensure the socio-economic development of territories.

Local finances perform three main functions: the distribution of the community's generated income between its residents and local funds; control of local governments over the drafting of budgets, their approval and implementation; encouraging local communities to increase the revenues of local budgets, the funds from which are used to meet the needs of the local population.

2. In April 2014, the Government approved the Concept of Reforming Local Self-Government and Territorial Organization of Power, which initiated the reform of decentralisation of power, which provided for political, administrative and fiscal decentralisation. During this time, the main legislative acts on the institutional and legal regulation of these changes have already been adopted: Laws on amendments to the Budget and Tax Codes of Ukraine.

3. It is substantiated that the reform of decentralisation of power has played a key role in a qualitatively new change in approaches to local government financial management. The expansion of powers also included an increase in sources of funding to cover the functions entrusted to local governments. Amendments to the Tax and Budget Codes have significantly expanded and secured stable sources of revenue for local budgets.

4. The developed foreign experience shows that the initial stage of decentralisation was the reform of the administrative-territorial system, which provided for the consolidation of administrative-territorial units and the formation of demographically, materially and financially viable communities. An important condition for the creation of self-sufficient budgets was fiscal decentralisation, which consists of three aspects: procedural and organizational independence, decentralisation of revenues and decentralisation of budget expenditures.

5. It is substantiated that the consequence of the necessary changes in the Tax and Budget Codes in the context of financial decentralisation was a significant increase in local budgets' own revenues, as well as their share in the structure of Ukraine's GDP.

The calculation of the coefficients of fiscal decentralisation in Ukraine indicates the average level of fiscal decentralisation in Ukraine with a clear tendency to strengthen the financial autonomy of local governments. It was also determined that Ukraine has a Latin model of financial support for local self-government.

6. The main strategic priorities for the effective functioning of local government finances are identified: increasing the revenue base of local budgets by increasing the number of local taxes and fees, increasing the level of fiscal autonomy of local budgets, stimulating

entrepreneurial activity in local communities. Important changes should be made to reduce the dependence of local budgets on intergovernmental transfers from the state budget.

In order to implement infrastructure projects and projects of socio-economic development of territories, it is necessary to intensify cooperation of local governments with international financial and grant organizations. Implementation of significant projects on the principles of co-financing will significantly increase the level of community development. In this context, an important component is the monitoring and evaluation of the effectiveness of the use of funds by local governments, as well as public involvement in the budget process and control of local government actions.

7. Practical steps to improve the mechanism of strategic planning of local budgets in Ukraine are proposed: introduction and development at the central government level of an effective mechanism for monitoring and identifying problems of budget planning and execution by local governments; raising the educational and qualification level of local government officials; formation and support of the information base of budget planning, which should contain information about assets, available resources, activities of budgetary institutions and economic LG's in the UTC; improving communication with public authorities in the context of intergovernmental transfers.

6.2. Propositions for further research

In the course of the research, some ideas arose about possible further research questions. First, it is interesting to clarify the role of the feedback from local governments about the procession of the reform and its results, because, as can be seen from the empirical part, it is an element that is hardly considered. The analysis of the content of the articles showed that this element is quite important, especially when developing a policy that creates a field for further development.

Secondly, I assume that one of the issues that needs to be addressed further is the introduction of special requirements and greater regulation at the legislative level. I guess sooner or later it will happen. However, Ukrainian scientists and the government are not currently working on this issue.

Also, the empirical part showed that there are very few issues and points in the process of economic transition after fiscal decentralisation reform that are common to most countries. I assume that this is due to the different stages of development of the economies of different countries.

Successful implementation of strategic priorities of economic development of territories requires a change in approaches and mechanisms for implementing budget policy. The experience of European countries with a developed system of local self-government shows the significant advantages of medium-term budget planning, which is based on clearly defined goals and priorities, assesses the feasibility of a policy and its compliance with fiscal strategy, increases transparency and accountability. efficiency of use of budget funds in the long run.

Medium-term plans are developed for a period of 1 to 5 years. Along with these advantages of medium-term budget planning, there are also disadvantages that need to be considered:

- excessive focus on long-term projected budget indicators, which can lead to inflexibility in fiscal policy, especially during crises;
- optimistic development projects can be manipulatively used as a justification for unreasonable budget expenditures;
- preparation of multi-year budgets entail additional financial and administrative costs.

The practice of European countries that use long-term planning as part of the budgetary mechanism shows that the impact of the above impact factors can be offset by applying certain approaches to forecasting key budget indicators:

- involvement in the process of expert forecasting of specialists who are well acquainted with the peculiarities of budget revenue and expenditure planning in certain conditions;
- the forecast of budget indicators should take into account their dynamics for previous years, as well as determining the impact of exogenous and endogenous factors in the forecast period;
- economic forecasting uses statistical and mathematical methods, but its main disadvantages are the low accuracy of forecasting results and a significant amount of information needed for its implementation.

The system of strategic budgeting should be based on indicative planning, which, unlike directive planning, is more flexible and does not define a complete list of tasks for the main managers of budget funds that should be performed under any circumstances. Thus, indicative

budget planning allows to achieve strategic development goals, but at the same time promptly and fully respond to the volatility of economic and political conditions.

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