

СЕКЦІЯ III. ФІНАНСИ ТА БАНКІВСЬКА СПРАВА; ОПОДАТКУВАННЯ, ОБЛІК І АУДИТ

FOREIGN EXPERIENCE OF FISCAL DECENTRALIZATION AND POSSIBILITIES OF ITS IMPLEMENTATION IN UKRAINE

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Abstract. *The specifics of the implementation of decentralization reforms in European countries are analyzed. Based on foreign experience, the positive and negative aspects of decentralization are summarized, and ways of implementing reforms on decentralization of power in Ukraine are determined. The main opportunities and contradictions of decentralization in Ukraine are identified.*

Keywords: *fiscal decentralization, subsidies, state budget, local budgets, taxes, transfers.*

Problem statement. The trends of decentralization of local government, which became widespread in Europe in the second half of the 20th century, also influenced the formation of the domestic model of relations between the center and the regions. Signed by Ukraine in 1996 and ratified by the Verkhovna Rada of Ukraine in 1997, the European Charter of Local Self-Government was the first step towards the decentralization of budgetary powers. However, to date, Ukraine has not yet formed a decentralized model of relations between different levels of government that would contribute to the economic growth of both individual regions and the country as a whole. However, starting in 2014, decentralization processes have become a priority for the Ukrainian state, which has embarked on the path of democratic development.

European countries have gone through fiscal decentralization and continue to work on it. Their experience should be studied and taken into account in the process of decentralization in Ukraine. Successful

decentralization in Ukraine is necessary both for the formation of a modern civilized society and for strengthening competitiveness in the world market. The strategic task of Ukraine today is the international regional integration of the national economy into the world economy on equal terms that meet national interests.

Analysis of recent research and publications. The issue of decentralization was studied by such scientists as Gogol T. V., Melnychuk L. M. [1], Dorosh U. M. [2], Ruban M. O. [3], Tsabeka A. [4], Guo S., Pei Y., Xie Z. [5] and others. At the same time, aspects of the study of foreign experience in decentralization of power and the possibilities of its implementation in Ukraine remain insufficiently covered.

Purpose. The purpose of the article is to study foreign experience in implementing decentralization reforms, identify their advantages and disadvantages, and justify the possibility of applying the achievements of developed countries in the field of decentralization in Ukraine.

Results. The system of arguments in favor of the introduction of fiscal decentralization appeared at the beginning of the twentieth century, and in general, it is based on the provisions of economic theory and includes four main theses. First, decentralization ensures a more efficient allocation and distribution of resources in the public sector. Second, decentralization contributes to the growth of accountability of state authorities regarding the use of state budget resources. The essence of this argument is that with decentralization, the relationship between taxes collected and public benefits provided becomes more transparent. Third, the presence of their own tax base obliges regional and local authorities to take measures to expand it, that is, to encourage the development of local and regional economies. It also contributes to better management of local and regional taxes. Fourth, granting regional and local authorities the right to independently manage budget funds encourages them to reduce the amount of inefficient spending in the real sector of the regional economy. Fiscal decentralization depends not only on the distribution of revenues and the decision-making powers of local governments. Even when these conditions are met, the fiscal autonomy of local governments may be limited by strict regulation and control over expenditures, financial planning, and the organization of the provision of local public goods (fig. 1.).

A feature of the modern Ukrainian model of municipal organization is that local administrative bodies are created and function not to control and monitor the legality of municipal activities (as in Western countries), but to assume the

bulk of powers in the relevant territory, which complicates the distribution of functions between administrative bodies and local government bodies. Reforms are needed to resolve this dilemma, including further decentralization [1].

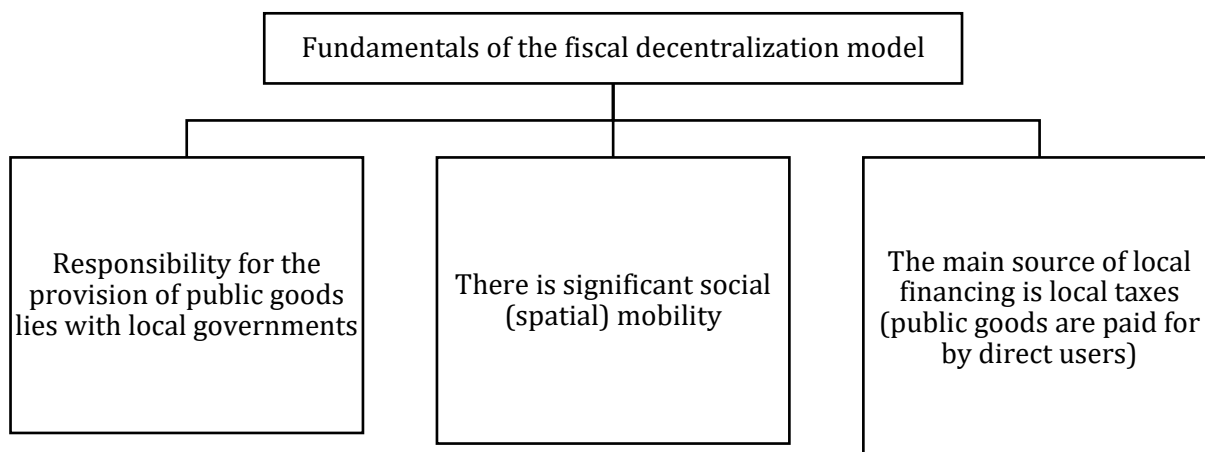


Fig. 1. Fundamentals of the fiscal decentralization model
compiled by the author based on [3]

In European countries, decentralization has led to a redistribution of functions in favor of local governments: the state has delegated to local governments mainly the functions of providing mixed public goods. This has necessitated the implementation of financial reforms to decentralize not only the functions of the state, but also the possibilities for their implementation. Over the past 20 years, a significant number of European countries have carried out reforms in terms of redistribution of budget resources between different administrative levels.

Analysis of research shows that fiscal decentralization in countries with a multi-level system of government consists in granting local authorities the authority to establish and collect taxes in the budget. Expenditures are made on the basis of decisions made locally. And the existence of several levels of administrative production of public goods and services is explained by the difference in the size of regions.

Tax revenues of local governments differ in the level of tax autonomy, that is, the ability to influence the parameters of taxation. Therefore, even in countries with the same tax decentralization coefficient, tax autonomy may differ. The ratio of tax autonomy of local governments is higher in federations

than in unitary countries, although the difference is not statistically significant (table 1).

Table 1

Tax decentralization ratio in OECD member countries, % of GDP

Years	2016	2017	2018	2019	2020	2021	2022
Austria	41,8	41,9	42,3	42,6	42,1	43,3	43,1
Belgium	43,3	43,8	43,8	42,4	42,3	42,5	42,4
Canada	33,3	33,0	33,5	33,1	34,7	33,9	33,2
Chile	20,2	20,2	21,3	21,0	19,3	22,2	23,9
Colombia	19,1	19,0	19,3	19,7	18,8	19,2	19,7
Costa Rica	23,5	23,0	23,2	23,4	22,6	25,0	25,5
Czech Republic	34,0	34,4	35,0	34,8	34,8	34,7	33,9
Denmark	45,5	45,5	44,2	46,9	47,3	47,4	41,9
Estonia	33,5	32,5	32,9	33,5	33,3	33,5	32,8
Finland	43,7	42,9	42,4	42,3	41,8	43,2	43,0
France	45,4	46,1	45,9	44,9	45,4	45,2	46,1
Germany	37,8	37,7	38,5	38,6	37,9	39,3	39,3
Greece	38,9	39,4	40,0	39,5	38,8	39,4	41,0
Hungary	39,0	37,8	36,8	36,3	36,0	33,7	33,2
Iceland	50,3	37,1	36,5	35,1	36,4	35,1	34,9
Ireland	23,6	22,5	22,3	21,9	19,7	20,7	20,9
Israel	31,1	32,3	30,9	30,2	29,7	32,5	32,9
Italy	42,2	41,9	41,7	42,3	42,6	42,4	42,9
Japan	30,3	30,9	31,5	31,5	33,0	34,1	
Korea	24,7	25,4	26,7	27,2	27,7	29,8	32,0
Latvia	30,7	31,1	31,1	30,9	30,9	30,5	30,2
Lithuania	29,7	29,6	30,2	30,3	31,2	32,1	31,9
Luxembourg	35,5	36,6	39,4	39,5	38,2	38,4	38,6
Mexico	16,6	16,1	16,1	16,3	17,7	17,3	16,9
Netherlands	38,4	38,7	38,8	39,3	40,0	39,2	38,0
New Zealand	31,4	31,3	32,2	31,4	33,7	34,6	33,8
Norway	38,7	38,5	39,1	39,7	38,7	42,4	44,3
Poland	33,6	34,2	35,1	35,2	35,6	36,7	35,2
Portugal	34,1	34,1	34,7	34,5	35,2	35,3	36,4
Slovak Republic	33,1	34,0	34,0	34,5	34,8	35,4	34,8
Slovenia	37,4	37,1	37,2	37,2	37,2	37,9	37,4
Spain	33,6	33,9	34,6	34,7	36,8	37,8	37,5
Sweden	44,1	44,1	43,8	42,8	42,4	42,7	41,3
Switzerland	26,9	27,7	27,2	27,7	28,0	28,5	27,2
Turkey	25,1	24,7	24,0	23,1	23,9	22,8	20,8
United Kingdom	32,4	32,7	32,8	32,5	32,8	34,4	35,3
United States	25,9	26,7	25,0	25,1	25,7	26,5	27,7
OECD average	33,6	33,3	33,5	33,4	33,6	34,2	34,0

based on [6]

As international experience shows, the most successful models of regional development include, as a prerequisite, a sufficiently high level of financial autonomy of local authorities. This allows local authorities to independently plan their own development strategies and coordinate their implementation with the necessary level of budgetary support, thus increasing the realism and quality of implementation. European practice in the field of financial support of local self-government confirms the fact that there is no universal model or algorithm for resolving the issue of decentralization of powers, property and financial resources of local self-government bodies. It is necessary to highlight several key stages of decentralization in European countries [5]:

– the obligatory priority was the expansion of the financial base of local budgets. At the same time, various approaches were used to the distribution of taxes between the levels of the budget system, including:

a) a clear distribution of specific types of taxes by levels of government (state and local) and their assignment to the corresponding levels of the budget system (the principle of one tax - one budget);

b) the distribution of tax rates by fixing for each level a certain part of the tax within the framework of a single tax rate (the principle of quotas);

c) the introduction of local surcharges to national (federal or regional) taxes;

– an important role was assigned to the optimization of intergovernmental relations both between budgets of different levels and between budgets of the same level. At the same time, an effective step was the elimination of the system of horizontal (budgets of the same level) financial equalization. The solution of such issues was concentrated at the level of the central government of the countries. In addition, the practice of refusing delegated powers was widely used (for example, in Finland);

– special attention was paid to ensuring budgetary discipline as one of the basic prerequisites for the stability and sufficiency of financial resources at the local and national levels.

At the same time, European countries have different levels of fiscal independence of local authorities. In some countries, local budgets are highly dependent on subsidies from the central budget (in Spain, for example, up to 40% of revenues are financed by subsidies from the state budget). For European countries, reducing disparities in financial support for local budgets is an urgent issue at this stage. It should be noted that the positive effects of fiscal decentralization are manifested only in economically homogeneous

areas. This assumes a sufficiently high level of GDP per capita, if the institutional environment is sufficiently favorable. In this case, the transfer of expenditure and revenue powers to lower levels of the budget system can have a multiplier effect on economic growth and an increase in the quality of life of the population. However, if decentralization is carried out in conditions of weak budgetary capacity and significant external and internal regional disparities, a conflict of interests between budgets of different levels can offset its positive effects. [2].

Financial equalization models differ across countries in terms of the degree of decentralization of the budget and tax system, the scope of powers of local authorities, the choice between economic efficiency and social justice, the scale of regional asymmetry, and the structure (unitary or federal). However, what is common in inter-budgetary relations based on these models is that state authorities do not apply direct methods of controlling the activities of local governments. Financial support for regions is provided through non-targeted, transferred funds that the local government can use at its own discretion, and targeted financial resources that are directed to meeting specific, legally defined needs. Budget subsidies (non-targeted transfers) are most widely used in Sweden and Germany. The development of the regulatory framework for regulating inter-budgetary relations directly affects the functioning of local budgets. Such a framework is effective in France, Germany, and Sweden. Thus, in France, the main types of budget transfers are determined by special laws, consolidated in the Administrative Code of Local Self-Government, the Code of Communes, etc.

In Germany, their types are enshrined in the Basic Law (Financial Constitution), and the mechanism for their provision is in special regulatory legal acts, in particular the laws “On the Equalization of the Different Economic Power of Lands”, on certain types of cash payments attributed to special competence. An interesting example of resolving issues of strengthening the financial base of local budgets on the basis of resource redistribution is Italy, whose budget system, like in Ukraine, is strictly centralized. In order to increase the economic independence of local budgets, Italy adopted a number of laws of the so-called fiscal federalism. For example, transfers to local budgets were “frozen”, and local authorities were asked to introduce new local taxes or improve old ones. The country's economic development plan includes a provision on the further distribution of functions between central, local authorities and local self-government bodies in order to provide the population

with quality services. A review of inter-budgetary relations and the formation of the revenue base of local budgets in foreign countries covers the characteristics of the administrative-territorial structure of the state, the tax system and interaction between central and local authorities, and the procedure for providing budget transfers. The structure of revenues indicates a constant trend of increasing self-government funds, which are redistributed through the state budget. When forming local budgets, the ratio of tax revenues and subsidies is not ensured [2].

Local budgets, as the main financial base of local governments, have a special place in the budget system of Ukraine. Local budgets also play an important role in the socio-economic development of regions, because it is from local budgets that educational institutions, culture, public health, and mass media are financed; various youth programs and expenditures on the improvement of settlements are also financed. Local budgets also cover expenses for social protection of the population. Today, the problem of developing an effective budget mechanism that would determine new principles for the formation of local budgets, a clear delimitation of the functions and powers of all levels of government, and hence - the expenditures of each type of budget and, most importantly, revenues between different links of the budget system, is particularly acute. The reform of the system of financing local governments includes the redistribution of budget functions between levels of state power, as well as a change in the inter-financial competence of regional and other units, which allows local authorities to take the initiative and seek sources of meeting local needs themselves. This will inevitably entail a transition from the conditions of independence of local budgets to the allocation of a certain range of own revenues to local self-government bodies, regardless of the center. In other words, the independence of local authorities increases inversely proportional to the amount of subsidies allocated from the state budget [1].

Analysis of the expenditure part of local budgets shows that the budgets are very similar in terms of expenditure, and there are significant differences in the structure of income. Therefore, changes that provide for the reform of the budget system are mainly reduced to reviewing the revenue part of local budgets so that the share of local taxes itself grows. It is necessary to clearly distinguish the revenue sources of local budgets into own and borrowed with the appropriate forms of their calculation. The performance by local authorities of functions related to financing the activities of the education, healthcare,

science and culture sectors should be based on the fact that every person living in a certain territory, or an enterprise located on it, bears financial obligations in accordance with their financial status. These significant expenses should be evenly distributed among all residents and enterprises, taking into account their tax potential. This principle underlies local taxes and taxes on enterprise income [4].

Conclusions. Based on the conducted research, it should be noted that the implementation of fiscal decentralization in Ukraine is not sufficiently effective and requires further development. There is a significant reduction in the share of tax revenues to local budgets and the role of inter-budgetary transfers is increasing. An analysis of foreign experience in the implementation of fiscal decentralization was conducted in the context of federal and unitary OECD countries based on the calculation of the tax decentralization coefficient, which made it possible to substantiate the position that the most successful models of regional development include a sufficiently high level of financial autonomy of local authorities as a mandatory condition, which allows them to independently plan their own development strategies, coordinating them with the necessary level of budget funds for their implementation, which increases their realism and quality of implementation. The so-called "own" revenues of regional and local budgets are the main ones in fiscal decentralization, since they provide the relationship between tax revenues and the production of public goods. Taking into account the above, further measures in the field of fiscal decentralization in Ukraine should be:

- strengthening the revenue side of local budgets by granting local authorities more fiscal powers, in terms of introducing additional tax payments, taking into account the natural and economic potential of the relevant territory;

- strengthening the role of capital expenditures in the structure of local budget expenditures, in particular those aimed at restoring and modernizing infrastructure and fixed assets, which in the future contributes to attracting investments and accelerating economic growth.

The implementation of these measures will make it possible not only to increase the independence of local budgets, but also to achieve progressive economic development in the future.

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