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REGIONAL DEVELOPMENT IN THE CODITIONS OF FINANCIAL DECENTRALIZATION IN UKRAINE

ROZWÓJ REGIONALNY W WARUNKACH DECENTRALIZACJI FINANSOWEJ NA UKRAINE

РЕГИОНАЛЬНОЕ РАЗВИТИЕ В УСЛОВИЯХ ФИНАНСОВОЙ ДЕЦЕНТРАЛИЗАЦИИ В УКРАИНЕ

Abstracts

The implementation of decentralization involves the transfer of additional powers and financial resources from the central to the local level. The decentralization reform is one of the eight priority reforms of the Ukrainian government. The article analyzes the main indicators and trends of financial decentralization in Ukraine in 2014-2016. The influence of financial decentralization on regional development in Ukraine from 2014 to 2016 is characterized.

Keywords: financial decentralization, regional development,

Streszczenie

Realizacja decentralizacji polega na przeniesieniu dodatkowych uprawnień i zasobów finansowych ze szczebla centralnego na szczebel lokalny. Reforma decentralizacji jest jedną z ośmiu priorytetowych reform rządu ukraińskiego. Artykuł analizuje główne wskaźniki i tendencje decentralizacji finansowej w Ukrainie w latach 2014-2016. Został przedstawiony wpływ decentralizacji finansowej na rozwój regionalny w Ukrainie od 2014 do 2016 lata.

Słowa kluczowe: decentralizacja finansowa, rozwój regionalny, budżety lokalne

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Аннотация

Осуществление децентрализации предусматривает передачу дополнительных полномочий и финансовых ресурсов из центрального на местный уровень. Реформа децентрализации является одной из восьми приоритетных реформ украинского правительства. В статье проанализированы основные показатели и тенденции финансовой децентрализации в Украине в 2014-2016 годах. Раскрыто влияние финансовой децентрализации на региональное развитие в Украине с 2014 по 2016 год.

Ключевые слова: финансовая децентрализация, региональное развитие, местные бюджеты,

Introduction

Since 1991 till now, issues of decentralization of power, formation of financially self-sufficient regions and territorial communities remain relevant in Ukraine. In our opinion, systemic changes in terms of financial decentralization, as well as decentralization of power, began only in 2014, when the Concept of Reforming Local Self-Government and Territorial Organization of Power in Ukraine was adopted [9]. One of the main directions of this concept is the creation of proper material, financial and organizational conditions for ensuring the implementation by local governments of their own and delegated authorities, which is the reference point for implementing financial decentralization.

Actually, by the term “financial decentralization” we mean the process of transferring financial resources, powers, rights to decision-making from central bodies to local self-government bodies in order to better meet the needs of the population in obtaining public goods,

intensification of economic growth of the corresponding territories. The study of

financial decentralization was carried out by such scientists as N.A. Buck, I.M. Vakhovych, Yu.I. Ganushchak, S.D. Gerchakovsky, B.M. Danilishin, I.O. Lunina, O.P. Kirilenko, V.I. Kravchenko, A.I. Kryovaty.

However, the implementation results of financial decentralization in Ukraine in 2014-2016 and their impact on regional development remain insufficiently illuminated in Ukrainian and international economic publications. Evaluation of financial decentralization, trends in the development of regions, is carried out mainly by governmental structures and non-governmental organizations.

Given the above, the tasks of this study are: 1) an analysis of the main indices of financial decentralization in Ukraine in 2014-2016; 2) a description of the impact of financial decentralization on regional development in Ukraine from 2014 to 2016.

1. Analysis of the main indices of financial decentralization in Ukraine in 2014-2016.

In the study of financial decentralization, it is necessary to

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determine the quantitative parameters of its evaluation. Only with the help of specific numerical data there could be made the reasonable conclusions about the independence of local self-government, the decentralization of power in the country.

When choosing indices to assess the level of financial decentralization, three conditions must be taken into account: firstly, financial decentralization is a process. So, it can be measured only in dynamics using indices that characterize the state of local finance at one time or another. Secondly, financial decentralization should not be an end in itself. The central government carries out financial decentralization in order to ensure optimal provision of the public with common goods and accelerate economic development. Thirdly, indices of financial decentralization should be comparable so that they can be compared with different reporting periods, regardless of fiscal changes adopted by the Verkhovna Rada of Ukraine and/or central executive authorities.

Analyzing the work papers of V.I. Kravchenko [3], I.M. Vakhovych [8], I.O. Lunina [4], M.V. Korneev [11] and other Ukrainian specialists dealing with local finances and problems of local self-government bodies, we determined the absence of unified criteria for assessing the level of financial decentralization, the availability of different names and characteristics of the same indices, the complexity of obtaining the necessary data from open sources of information. Also, many indices give, in fact, the same type of information, not bringing useful results for the conclusions. Therefore, for the most reliable assessment of the financial decentralization level, we selected the

following indices:

1. The share of interbudgetary transfers in the incomes of local budgets. It is calculated by dividing the volume of interbudgetary transfers from the state budget to local budgets for the total amount of local budget incomes.

2. The share of local taxes in the local budgets incomes. It is calculated by dividing the incomes of local budgets from local taxes by the total amount of incomes of local budgets.

3. Share of the development budget in the incomes of local budgets. It is calculated by dividing the volume of interbudgetary transfers from the state budget to local budgets for the total amount of local budget incomes.

4. Share of expenditures of local budgets in GDP. It is calculated by dividing the total expenditure of local budgets by the nominal GDP of the country.

5. The share of protected items in expenditures of local budgets. It is calculated by dividing the expenditures for protected statistics of local budgets by the total amount of expenditures of local budgets.

6. The share of non-targeted interbudgetary transfers in the total volume of interbudgetary transfers. It is calculated by dividing non-targeted budget transfers (subsidies of the financial equation in 2014, basic and stabilization subsidies in 2015-2016) on the total amount of interbudgetary transfers from the state budget to local budgets. The calculation of the indices of financial decentralization was carried out on the basis of the annual monitoring of the Institute of Budget and Socio-Economic Research and is shown in Table 1.

Table 1. The indices of financial decentralization in 2014-2016,%

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No in order	Indices	2014 year	2015 year	2016 year
1	The share of interbudgetary transfers in the incomes of local budgets	56,4	59,1	53,4
2	The share of non-targeted interbudgetary transfers in the total volume of interbudgetary transfers	46,3	4,2	3,4
3	The share of local taxes in local budget incomes	3,5	9,2	11,6
4	Share of the development budget in local budget incomes	4,8	7,9	12,8
5	Share of local budgets in GDP	14,4	14,2	14,7
6	The share of protected items in local budget expenditures	75,7	74,0	72,9

Source: *Institute for Budget and Social and Economic Research*, <http://www.ibser.org.ua/publications/monitoringcategories/richnyy>, access from 28.08.2017.

Based on Table 1, the share of interbudgetary transfers in incomes of local budgets remained high during the period under study, accounting for more than half of all incomes of local budgets. It reflects the fact that the local government has a limited influence on the formation of its own financial resources, there is a centralized balancing of incomes and expenditures of local budgets in Ukraine.

The sharp drop in the share of non-targeted interbudgetary transfers in the total volume of interbudgetary transfers from 46.3% to 3.4% occurred as a result of the adoption of the Law on Reform of Interbudgetary Relations, through which, in particular, a basic grant was introduced instead of an equalization grant and the

procedure for its calculation was significantly improved for the purposes of stimulating local self-government bodies [6]. At the same time, a high proportion of targeted interbudgetary transfers, among which the lion's share is the social protection subvention, educational subvention and medical subvention, indicate inefficient distribution of powers between public authorities. Expenditures for which local authorities are not directly affected should be directly from the state budget or be backed up by appropriate financial resources.

An increase in the share of local taxes in local budget incomes from 3.5% in 2014 to 11.6% indicates that the capacity of local authorities to influence the

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formation of their own incomes has been expanded. That increase was made possible due to the Law of the tax reform in which to a number of local taxes (as components of property tax) there have been included the payment for land transportation tax and expanded base of taxation on real estate tax. In addition to the single tax payers there were attributed former payers of the fixed agricultural tax, which also led to an increase in budget incomes from local taxes. [5]

The increase in the share of the development budget in local budget incomes from 4.8% to 12.8% indicates an increase in funding for construction and reconstruction of social, transport and industrial infrastructure.

The share of expenditures of local budgets in the runway was more than 14% during the period under research. This figure in Ukraine is more than in Poland, the Czech Republic, Hungary, Latvia, Romania and other countries of central-eastern Europe [10]. At the same time, only a slight decrease in the share of protected items in expenditures of local budgets indicates a high level of state intervention in the field.

Thus, the measures of financial decentralization in Ukraine are shown by a slight decrease in the share of interbudgetary transfers in local budget incomes, the share of protected items in local budget expenditures, and a significant increase in incomes from local taxes and development budgets. However, the level of influence of central authorities on the formation of financial resources of local budgets in Ukraine remains high.

2. Characteristics of the financial decentralization impact on regional development in Ukraine from 2014 to 2016.

Regional development is the process of

social, economic, environmental, humanitarian and other positive changes in the regions. At the same time, the concept of “region” for the purposes of our study covers the region of Ukraine and/or some part of it, characterized by territorial integrity and developmental features, within the framework of which regional development projects special for this territory are implemented [7].

The most common index for measuring the development level of the region is the gross regional product. In 2014-2016, the economy of Ukraine was characterized by the continuing external aggression for the third consecutive year, negative dynamics of economic indices, freezing of social standards, slow steps towards entering the markets of the EU countries, which, in fact, affected the overall development indices. Macroeconomic instability reinforces the unattractiveness of the investment climate and the outflow of foreign investment, which in turn affects the level of production, and labor market conditions and wages and forms negative trends in the development of the regional economy [1, p. 395]. Considering the foregoing, the direct impact of financial decentralization on the growth (decline) of the gross regional product has not yet been determined.

It should be noted that today, the most comprehensive assessment of regional development is carried out by the Ministry of Regional Development of Ukraine in accordance with the methodology for monitoring and evaluating the effectiveness of the implementation of state regional policy. This methodology includes a set of indices that are divided into the following areas: economic and social cohesion, economic efficiency, investment and innovation development and foreign economic cooperation, financial self-sufficiency, development of

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small and medium-sized enterprises, labor market efficiency, infrastructure development, renewable energy and energy efficiency, accessibility and the quality of services in the field of education, accessibility and quality of health services, social protection but also safety, environmental management and environmental quality. At the same time, the indices of financial self-sufficiency include the rate of growth (decrease) in incomes of local budgets (without transfers), incomes of local budgets (without transfers) per capita, rate of growth (decrease) in the tax debt on monetary obligations of taxpayers without taking into account the tax debt of taxpayers who are in bankruptcy proceedings or in respect of whom the court has taken a decision (decree) on the suspension of proceedings in the cause [13].

It should be noted that so far as the above-mentioned methodology for monitoring regional development began to be applied by the Ministry of Regional Development of Ukraine, starting in 2015, for the purposes of indices comparability, the results of 2014 were not taken into account.

Based on Table 2, the highest indices of regional development in 2016 were in Kiev City, Kharkiv, Kiev, Vinnitsa and Chernivtsi Regions. At the same time, the correlation coefficient between the place of the region in the direction of “financial self-sufficiency” and the region place according to the overall results of the annual monitoring in 2016 was 0.20 (weak dependence), in 2015 - 0.58 (average dependence). Thus, it seems that there is a definite relationship between financial decentralization and the dynamics of regional development. In order to obtain more accurate results, it is necessary to

take into account a greater number of indices of financial decentralization, as well as to exclude those indices that do not provide any information on trends in financial decentralization, such as local budget incomes (without transfers) per capita.

Financial decentralization is a powerful factor for the obliteration of territorial communities in Ukraine. Thus, the united territorial communities (hereinafter referred to as UTC) received 60% of the personal income tax; 100% of property tax, single tax, excise tax on retail trade, income tax of communal property institutions of UTC, payments for provision of administrative services; 25% of the environmental tax. For UTC, direct interbudgetary relations with the state budget are also envisaged, as well as the possibility to receive funds from the state budget for the development of the community infrastructure, namely, financing from the State Regional Development Fund, subventions for the development of the UTC infrastructure, and subventions for social and economic development of the territories. In 2015, 794 rural, township and city councils, which included 2015 settlements, merged voluntarily into 159 territorial communities. In 2016, 946 rural, township and city councils merged voluntarily into 208 territorial communities.

As a result, for 2016, the incomes of the general fund of local budgets of 159 communities (including interbudgetary transfers) amounted to UAH 7.1 billion, which is almost 7 times more than the incomes of 2015 to the budgets of local councils that were part of the UTC. At the same time, due to targeted transfers from the state budget, UTC implemented 5.904 local development projects in 2016 [14].

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Table 2. Indices of regional development in 2015-2016, %

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Region of Ukraine	2016 year		2015 year
	The region's place behind the monitoring results of the Cabinet of Ministers of Ukraine	The region place in the direction of "financial self-sufficiency"	The region's place behind the monitoring results of the Cabinet of Ministers of Ukraine
Kiev City	1	1	1
Kharkov Region	2	12	2
Kiev Region	3	6	6
Vinnytsia Region	4	8	7
Chernivtsi Region	5	5	3
Rovenskaya Region	6	23	11
Cherkasy Region	7	13	10
Khmelnitsky Region	8	21	13
Volyn Region	9	19	12
Dnepropetrovsk Region	10	18	5
Zhytomyr Region	11	20	16
Ivano-Frankivsk Region	12	24	4
Lviv Region	13	2	9
Zaporozhye Region	14	3	17
Odessa Region	15	4	18
Transcarpathian Region	16	14	8
Poltava Region	17	9	14
Kirovohrad Region	18	10	21
Nikolaev Region	19	16	22
Ternopil Region	20	25	15
Kherson Region	21	22	20

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Chernihiv Region	22	15	23
Sumy Region	23	11	19
Donetsk Region	24	7	25
Lugansk Region	25	17	24

Source: Ministry of Regional Development, Construction and Housing and Communal Services of Ukraine, rating of regions <http://www.minregion.gov.ua/napryamki-diyalnosti/regional-dev/derzhavna-rehional-na-polityka/monitorynh/monitorynh-monitorynh/> / [reytingova-otsinka-regioniv /](http://www.minregion.gov.ua/napryamki-diyalnosti/regional-dev/derzhavna-rehional-na-polityka/monitorynh/monitorynh-monitorynh/), access from 28.08.2017.

In addition to encouraging the unification of territorial communities, financial decentralization entailed excessive placement of local budgets in deposits with banks. So, according to the Minister of Regional Development, Housing and Communal Services and Construction, as of July 2017, local authorities hold UAH 55 billion on deposits [12]. For comparison - the total incomes of local budgets in 2016 amounted to UAH 366 billion [2]. This, in turn, indicates inefficient use by local governments of the funds received as a result of financial decentralization.

Conclusions

In 2014-2016 in Ukraine there was an increase in the indices of financial decentralization in connection with the implementation of certain fiscal changes. At the same time, central authorities continue to influence local finances

significantly.

Using the indices of financial self-sufficiency used in the Methodology for monitoring and evaluating the effectiveness of the implementation of state regional policy, we have identified the relationship between financial decentralization and the dynamics of regional development. It is determined that financial decentralization contributes to the unification of territorial communities and leads to a significant accumulation of local budgets in the country's banking system.

In order to find ways to solve the problem of intensifying regional development in conditions of decentralization in Ukraine, in our subsequent researches, a methodology will be developed to assess the impact of financial decentralization on certain components of regional development and regional development in general.

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