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Tools for financing local economic development of local communities

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Abstract. The study examined the specific features of using the instruments of financing the economic development of territorial communities on the example of Ukraine. Economic and statistical analysis methods were used to process the data, including the Wilcoxon signed-rank test for comparing growth trends. The study identified the most common sources and tools for financing the economic development of local communities, in particular tax revenues, grants, loans, public-private partnerships. The financial instruments of local economic development in the UK, Denmark, and Slovenia were analysed, focusing on their flexibility, adaptability, and efficiency. The importance of integrating the best practices of these countries into the strategic financial management of territorial communities of Ukraine is substantiated. Specific recommendations for implementing successful international experience are proposed. It is recommended that Ukraine introduce monitoring and control systems similar to the British ones to ensure strict control over local budget expenditures, which is important for the stability and transparency of financial governance; consolidate or redistribute competencies in favour of larger communities, increase the share of local taxes, and introduce financial equalisation mechanisms to reduce financial inequality and ensure equal opportunities for all communities, as the Danish experience has shown. According to the Slovenian experience, it is necessary to develop clear standards for the provision of services, create independent supervisory authorities to monitor the effectiveness of local budgets, introduce fiscal decentralisation, and increase the share of local taxes to increase the autonomy of local authorities and reduce the disparity in the level of services between regions. The results obtained emphasised the importance of using an integrated and integrative approach to the development and management of financing tools for the local economic development of territorial communities. The practical significance of the study's findings is manifested in the provision of specific recommendations on the use of various financing instruments, such as local guarantees, municipal bonds, and loans from international financial institutions and grants from international donors. These recommendations can help determine investment priorities and improve investment planning and management processes, which is important for the development of territorial communities

Keywords: regional public administration; tax revenues; grants; subventions and subsidies; public-private partnership; state budget; local budget

Introduction

The development of territorial and local communities is one of the priority tasks of both legislative and executive authorities of any country. This task is carried out within the framework of the implementation of the goals of budget and financial decentralisation, which are aimed at improving the efficiency of redistributing budget funds received from taxpayers. As noted by S. Tulumello *et al.* (2019), local communities should become not only passive recipients of state resources, but also active and responsible participants in the development of their territories.

In the context of decentralisation, communities receive more powers and resources to independently solve local problems, which means that they must not only accept state subventions, but also actively attract

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various financial instruments for the implementation of economic development projects. It is financial instruments that can provide the necessary level of financial support for the implementation of ambitious projects aimed at improving infrastructure, improving the standard of living of residents and the overall economic development of territories (Antunes Jr. *et al.*, 2021).

The use of financial instruments requires communities not only to be proactive, but also to have a high level of financial literacy and the ability to manage debt obligations (Putra & Iswanto, 2024). Unlike grants, financial instruments provide for a return on invested funds, which imposes additional responsibility on communities for the efficient use of these resources. Therefore, for the successful implementation of development projects, it is necessary not only to receive funding, but also to ensure effective planning and management of financial resources.

Different countries have their own unique experience in using tools to finance local economic development, which reflects the specifics of their economic, political, and social conditions. In the UK, the application of local taxes and investment strategies has effectively ensured financial stability and support for regional development. In a Scandinavian country such as Denmark, high efficiency in managing the financial resources of local governments has been achieved through decentralisation and cost optimisation, which has contributed to economic growth and social equality (Kjaer, 2021). In Slovenia, the emphasis on fiscal instruments to support sustainable regional development has helped to reduce social and economic inequality by ensuring sustainable growth of local communities (Ministry of Finance of the Republic of Slovenia, 2024). Thus, these examples demonstrate the diversity of approaches to the use of local development financing instruments, emphasising the importance of adapting financial instruments to local conditions and needs. The use of international experience requires consideration of the characteristics and capabilities of each country, which allows creating more effective and sustainable models for managing local finances.

As noted by Y. Guan *et al.* (2024), despite the existing experience of using financial instruments to stimulate the development of local communities, state executive bodies and local governments still face many difficulties in its understanding and effective use. Consequently, financial instruments remain an important element in the implementation of various local community development projects. The analysis of publications in the field of financing the economic development of local communities revealed a number of main areas. Local communities as subjects of local self-government. V. Radich & O. Bryginets (2020) explored the role of territorial communities as primary subjects of local self-government, where they emphasise the importance of communities as the main participants in local self-government processes, which is important for understanding their financial autonomy and ability to implement economic development.

V. Morretta (2021) considered the concept of territorial capital as an important element of endogenous economic development, and also emphasised the role of local resources and institutional opportunities in stimulating economic growth at the level of local communities. O.I. Laiko *et al.* (2023) analysed the organisational and economic principles that ensure the preservation and sustainable development of territorial communities on the example of Kuialnyk Estuary. The study highlighted the importance of sustainable development and conservation of natural resources in the context of local economies.

R. Kostyukevich *et al.* (2020) analysed the impact of European integration processes on the investment potential and institutional maturity of rural communities. An important aspect of the study was the impact of international integration on the development of local economies and improving the investment climate. A. Afonso & A. Venâncio (2019) examined the impact of local government reforms on the effectiveness of regional spending. The researchers found out how changes in the structure of local self-government can increase the efficiency of using budget funds. This study provided insight into how local government reforms can affect financial performance at the local level. K. Akapelwa & A. Mwange (2023) conducted a review of local government funding theories, which is important for understanding different approaches to ensuring the financial sustainability of communities.

Gaps in the research of financial support and management of territorial communities are manifested in the insufficient adaptation of theoretical models of financing to real conditions and dynamic changes in the financial environment, supplemented with specific examples of the application of fiscal instruments and methodologies in various regional contexts. In addition, specific strategies for managing the development of local communities remain insufficiently investigated, which indicates the need to integrate new approaches and consider local realities in their implementation.

The purpose of the study was to highlight the specific features of using financing technologies in the system of socio-economic development of territorial communities in Ukraine. To achieve this goal, the following tasks were set:

1. To identify the most common sources and tools for financing the economic development of local communities.

2. To analyse tools for financing local economic development of local communities in the UK, Denmark, and Slovenia.

3. To develop recommendations for implementing the successful experience of countries in improving the use of tools for financing local economic development of territorial communities for Ukraine.

Materials and Methods

The study systematised information about available financial instruments that are most often used in the practice of territorial or local communities. The United Kingdom, Denmark, and Slovenia were chosen to examine the economic development of local communities for the following reasons. The UK is characterised by a long history of decentralised governance and extensive use of financial instruments to support local communities. Denmark demonstrates a successful model of a social state and a high level of local autonomy, which ensures the effective use of financial instruments for economic development. Slovenia is represented as a central and Eastern European country that has implemented significant local government reforms since joining the European Union.

To investigate the financial instruments of local communities in the UK, statistics on local community income for 2017-2022 were collected (Department of Levelling Up, Housing and Communities, 2023). This data included information on grant income and local communities' own income, expressed in millions of pounds. Data collection was carried out from official sources such as government reports, national statistical services and financial reports of local councils, in particular, Worldwide Tax Summaries (2024); Ministry of Finance of the Republic of Slovenia (2024); Organisation for Economic Co-operation and Development (2021). The sources of the Department of Levelling Up, Housing and Communities (2023) and the data of the Decentralisation Reform (2014) by the Government Portal of Ukraine were also considered. The data was ordered and systematised for further analysis. An economic and statistical analysis was carried out using the Wilcoxon signed-rank test, which was used to compare income levels and analyse their changes over time, which helped to determine trends and patterns in the financing of local communities. Next, graphical models were built that illustrated changes in grant revenues and local communities' own incomes for 2017-2022. In addition, a correlation analysis was carried out to determine the relationships between different sources of income of local communities and their impact on the overall level of economic development.

Further, the tools for financing the economic development of local self-government were studied on the example of Denmark. For this purpose, statistical data on the number of local communities were collected and a map was built that allowed visualising the results of the reforms carried out in Denmark and reflected changes in the administrative and territorial structure of the country caused by reforms aimed at optimising and enlarging communities.

To analyse the sources of funding for local communities in Slovenia for the period 2018-2023, the time series analysis method was used, which allowed studying the dynamics of changes in financial revenues, identifying seasonal fluctuations and trends, and predicting future values based on available data. Data for analysis were collected from official sources, such as national statistical services and local council financial reports (Ministry of Finance of the Republic of Slovenia, 2024). The statistics included information on local taxes, government subsidies, grants from the European Union, and other financial revenues expressed in millions of EUR. At the final stage, the structure of local budget revenues of Ukraine for the period from January 1, 2024 to April 4, 2024 was analysed (Decentralisation, 2024). Based on the results of research on the experience of Great Britain, Denmark, and Slovenia, a number of recommendations were created for implementing their experience in the practice of Ukrainian territorial communities.

Results

Sources and instruments for financing the economic development of local communities

The main instruments and sources of financing are tax revenues, which include local taxes such as property tax, corporate income tax, and land tax. It is worth noting that such tax revenues provide the main financial resource for the implementation of local projects and cover the costs of social services and infrastructure. Non-tax revenues, such as service fees, fines, and rental income from public property, while less significant, are also important for the financial stability of the community.

Capital revenues generated from the sale or lease of capital assets can be used to finance large infrastructure projects or replenish reserve funds. Communities also often receive financial assistance in the form of grants and donations from national and international organisations, which contributes to the implementation of specific development projects. Transfer revenues, including subsidies and subventions from the state budget, help equalise financial opportunities between territories and cover local budget deficits.

It is also worth adding that local communities can attract loans and borrowings from commercial banks or through bond issues to finance large projects, but this requires careful debt management. Public-private partnerships allow the private sector to be involved in the implementation of infrastructure projects, which reduces the financial burden on local budgets. Investment funds can provide capital for long-term development projects, while crowdfunding and local initiatives allow attracting resources from residents and businesses to finance local projects.

In general, the effective use of these sources and instruments of financing is important for ensuring the sustainable economic development of local communities. The development and implementation of new financial instruments, such as public-private partnerships and crowdfunding, can significantly improve and innovate the financial situation and contribute to the implementation of important initiatives.

Features of financing local economic development of local communities: international experience

Successful financing of the economic development of territorial communities is a significant factor for ensuring their sustainable growth and improving the quality of life of the population. International experience demonstrates a variety of approaches and strategies that can provide valuable lessons for improving financial mechanisms at the local level.

The UK has a complex three-tier system of local government that includes counties and districts. Regions have very limited functions and are not considered local governments for funding purposes. The main levels of local government are counties and districts. There are 89 counties that are divided into several types, each of which has its own characteristics. London has a unique governance system – the Greater London Authority (GLA), which includes the elected London Assembly and the Mayor of London. London is divided into 32 parts and a separate unit – the City of London. Other counties in England include metropolitan counties, where administrative units cover major cities and provide services through districts, unified administrative bodies that combine the functions of counties and districts, and two-tier non-conglomerate counties, where counties provide basic services and districts have a limited role (Herczyński, 2019).

Local governments in the UK receive income mainly from two sources: grants and their own income. Grants are divided into several categories. An Income Support Grant is an equalisation grant used for general expenses, and its distribution is determined by a formula that takes into account local income, service costs, and demographic data. This grant is adjusted annually depending on financial calculations. Targeted grants under organised external funding include a number of specialised grants, such as an Education Grant (72% of the AEF) and a Health Grant (9%). There is also a Police Support Grant, which is used to fund local police forces and is partially supplemented by council tax revenue. Aggregate External Finance (AEF) is an aggregate indicator used in the local government financing system in England. It includes all forms of grant revenue from the central government that are not part of regular transfers and that local authorities can use to finance their expenses. It is worth noting that the AEF in England covers several types of grants, in particular: a grant aimed at financing education, a grant to finance public health, a grant to support students from low-income families, a grant provided to encourage the construction of new housing units (Organisation for Economic Co-operation and Development, 2021).

Table 1 demonstrates the dynamics of local community incomes in the UK for 2017-2022, divided into grant and own revenues. Grant revenues were marked by fluctuations, with the highest rates during the COVID-19 pandemic due to additional grants, but generally showed a downward trend. Communities' own revenues also changed, with some growth at the beginning of the period and a subsequent slight decrease.

Table 1. *Income of local communities in the UK for 2017-2022, million GBP*

Income category	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Grants					
Revenue Support Grant	4.383	1.493	700	1.657	1.629
Police Support Grant	7.838	7.713	7.669	7.987	8.228
AEF	43.333	42.81	42.656	51.215	50.333
Grant to support local services	39	24	30	22	28
COVID-19 general and revenue grants	-	-	-	6.622	2.871
Grants outside the AEF	22.562	20.704	18.007	16.879	15.293
Grants to the housing income account	159	207	191	236	198
Capital expenditure grants	8.934	9.867	8.702	9.262	10.195
Total grant revenue	87.249	82.817	77.955	93.879	88.775
Own revenue					
Municipal tax	30.454	32.001	33.183	34.04	34.434
Revenue from the bid retention scheme	16.707	19.454	18.163	17.323	17.695
External interest income	1.288	1.631	1.781	1.522	1.611
Capital receipts	3.051	3.421	2.358	2.105	2.364
Sales, fees, and charges	14.028	14.268	14.056	11.426	13.832
Rent of councils	7.724	7.744	7.543	7.426	7.087
Other income and adjustments	20.911	20.648	20.925	21.321	21.238
Total own income	73.252	78.52	77.084	73.842	77.023
Total revenue	181.411	181.985	175.964	189.042	187.036

Source: *compiled by the author based on Department of Levelling Up, Housing and Communities (2023)*

The UK's own income includes revenues from local taxes, in particular the commercial real estate tax, part of which remains in local budgets. In addition, there are grants outside the AEF that target the management of specific services, such as housing assistance, which is administered by third-party organisations through subsidies from the Ministry of Labour and Pensions (Fig. 1).

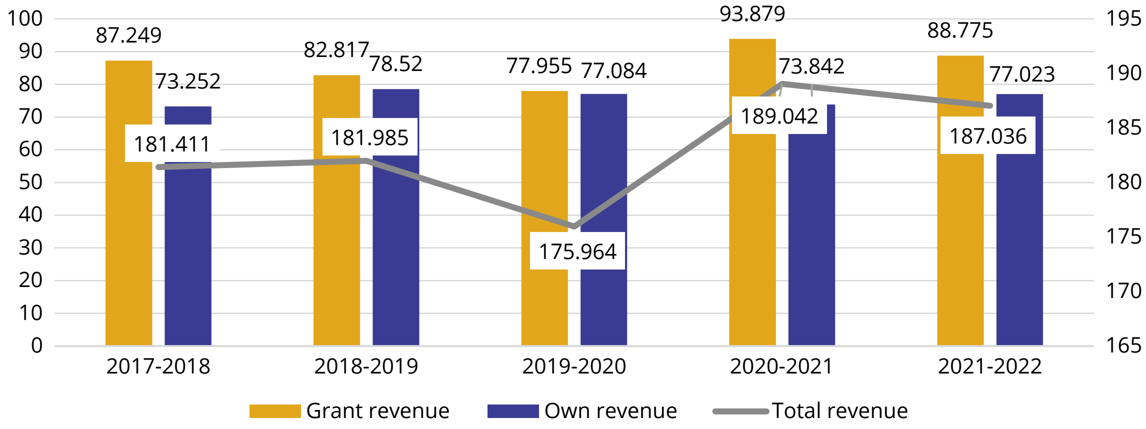

Figure 1. *Grant revenue and own revenue of local communities in the UK, million GBP for 2017-2022*

Source: *compiled by the author based on Department of Levelling Up, Housing and Communities (2023)*

The table of local community incomes for 2017-2022 showed important trends in financing. Total grant income has certain fluctuations, with a decrease in the period in 2019-2020 and an increase in 2020-2021. AEF grants showed steady growth from 49.66% in 2017-2018 to 56.85% in 2021-2022, indicating that local governments are increasingly relying on these grants to finance their needs, which can be both positive (increased resources for important projects) and negative (dependence on unstable sources of funding). Own revenues also showed interesting trends. The municipal tax increased throughout the period, from 16.78% to 18.43%, which indicates a stable level of tax revenues. On the other hand, income from capital revenues and sales declined, which may indicate a decrease in assets or a change in the economic situation in the region. It is worth noting that since the UK is an economically developed country, the government can easily delegate some of its financial obligations to local authorities. This obliges local governments to look for new sources of income to cover their expenses and fulfil their existing responsibilities.

Denmark's local government system has a long history of creating parishes that deal with local affairs and provide services to residents within walking distance of the church. After the Reformation, these parishes partially merged, but remained quite small. Since the beginning of the 19th century, the development of a modern fiscal system of local self-government began, when the state delegated some of the powers to local authorities, including road maintenance, social assistance and primary schools, which were financed through co-financing from the state budget until 1970. Major local government reforms in Denmark took place in 1974, when more than 1300 local administrative divisions were merged into 277 municipalities and 14 counties. These reforms coincided with the national welfare state development programme, which required new, larger municipalities to provide basic social services such as child care, education, and care for the elderly, leading to higher tax rates that rose from 15% in 1975 to 25% in 2013. In 2007, there was a second wave of reforms, which included the subsequent merger of municipalities to 98 units and counties to 5 regions, the redistribution of competencies and funding reform, which included a new block grant and equalisation scheme (Kjaer, 2021). Figure 2 shows a map of Denmark, taking into consideration the implementation of structural reform.

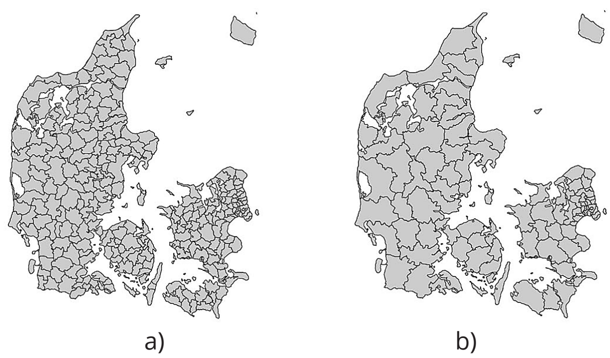

Figure 2. *Map of Denmark taking into consideration the implementation of structural reform (a) before 2007 and (b) after 2007*

Source: *compiled by the author based on U. Kjaer (2021)*

Funding for local communities in Denmark is provided through several main sources, including tax revenues and inter-budget transfers. The main sources of funding include tax revenues and inter-budget transfers. Tax revenues consist of personal income tax, which is the main source of income for municipalities, and property tax, which includes taxes on residential and commercial real estate. Inter-budget transfers include block grants from the state budget, which help equalise financial opportunities between different municipalities and amounted to approximately DKK 40 billion in 2020 (Worldwide Tax Summaries, 2024), and equalisation grants that compensate for financial inequalities between municipalities. In addition, municipalities receive capital revenues from the sale of assets and other sources. Table 2 shows the rates of some local taxes, which are a source of funding for local communities in Denmark, as of 2024.

Table 2. *Rates of some local taxes, which are a source of funding for local communities in Denmark, as of 2024*

Local taxes	Rate, %
Municipal tax	25.067
Church tax	0.65
Labour market tax	8
Land tax	2.8

Source: *compiled by the author based on Worldwide Tax Summaries (2024)*

Since the 2007 reform, local communities in Denmark do not have the right to collect taxes (previously, the second level of local self-government collected taxes, but most of these powers were transferred to municipalities). Revenues of Danish municipalities include block grants from the national budget and contributions from municipalities in the form of co-financing of services. Health funding includes a block grant from the national budget and co-financing of hospitals by municipalities, which accounts for more than 90% of all county revenues. Regional development is financed by block grants from the national budget and co-financing from municipalities. Social services and special education are funded by municipalities on a fixed basis (on a paid basis). The system of financing local communities in Slovenia provides for uniform rules for all municipalities, regardless of their size or specifics. The main goal of this system is to ensure equal opportunities to meet the needs and interests of citizens in all municipalities. Funding for municipalities in Slovenia comes from three main sources (Table 3). Figure 3 shows the sources of funding for local communities in Slovenia for 2018-2023 in millions of EUR.

Table 3. *Tools and sources of funding for local communities in Slovenia*

No.	Tools and sources	Explanation
1	Own resources	Municipalities independently generate more than 90% of their resources. Own resources include: income tax (54% of tax realised in the year before), land and real estate use tax, water transport tax, real estate turnover tax, inheritance and gift tax, tax on winnings from traditional gambling, tourist tax, municipal taxes, administrative fees and charges, environmental taxes, fines, property income (rent, concession fees), municipal contribution, contributions from citizens and surcharges for certain programmes, self-taxation, capital gains and donations.
2	Transfers from the state budget and EU funds	These are additional funds that municipalities receive to support their activities and infrastructure development, which help to ensure the financial stability of local communities and equalise their capabilities.
3	Borrowing	Local territorial communities also have the right to take out loans to finance their projects and initiatives. Local communities in Slovenia can borrow from the state budget, from Slovenian banks or savings banks authorised by the Bank of Slovenia to provide banking services, and from state funds that provide loans. These borrowings are used for the implementation of the municipal budget in the current year, investment and debt management of the municipal budget. Municipalities included in the unified treasury account system of the state or municipality may also take debts from the asset manager of the unified treasury account system. For projects that are co-financed from the EU budget, they can take out debts in the amount of approved funds and for the period until they receive these funds. The amount of borrowing for the implementation of the municipal budget and debt management is determined by the decision on the adoption of the budget, and to ensure liquidity, borrowing can amount to up to 5% of the total amount of expenditures of the last adopted budget. The Municipal Finance Act regulates the maximum amount of borrowing.

Source: *compiled by the author based on Ministry of Finance of the Republic of Slovenia (2024)*

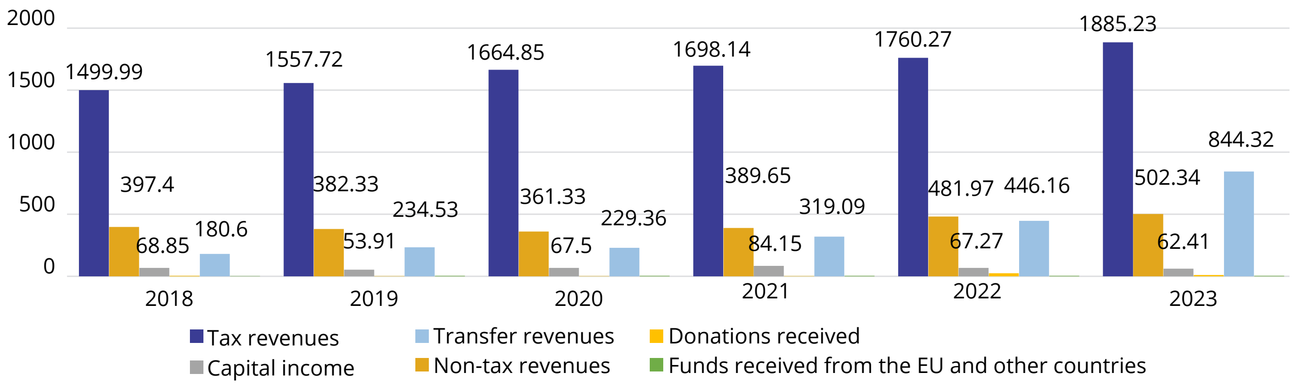

Figure 3. *Sources of funding for local communities in Slovenia for 2018-2023, million EUR*
Source: *compiled by the author based on Ministry of Finance of the Republic of Slovenia (2024)*

It is also worth noting that the law on municipal financing regulates the financing system equally for all municipalities and defines the tax base, tax rates, taxpayers, and grounds for granting benefits. In addition, municipalities independently set compensation rates for the use of land plots for construction through their regulations. Such a system is aimed at ensuring the financial independence and stability of local communities in Slovenia, allowing them to effectively perform their functions and meet the needs of citizens.

Financing of municipalities in Slovenia is carried out based on the *primerna poraba* (appropriate costs) system, which ensures equal financial opportunities for all municipalities to perform mandatory tasks. This procedure begins with the calculation of the average cost per inhabitant (povprečnina). The calculation methodology is determined by the government using data from the last four years. The Ministry of Finance prepares the estimates and sends them to representative associations of municipalities for their opinions. Based on the calculated povprečnina, a credit amount is determined for each municipality to complete mandatory tasks. If the share of income tax revenues does not cover these expenses, the state provides the necessary funds through financial equalisation (Ministry of Finance of the Republic of Slovenia, 2024).

The development of municipalities is assessed based on economic development (gross value added per employee, income tax base per resident, number of jobs). This systematisation of financing helps to ensure the stable development of municipalities and their financial autonomy.

Features of financing local economic development of territorial communities of Ukraine and recommendations for implementing the successful experience of countries in improving it

Financing of territorial communities in Ukraine is based on several main sources. The main ones are local taxes and fees, such as property and land taxes, and a single tax for entrepreneurs. In addition, a significant part of the budget is formed by state transfers in the form of subventions and subsidies that are directed to education, healthcare, and other social needs. Territorial communities also receive grants and funding through international programmes and national initiatives that support infrastructure projects and the development of local initiatives. In addition to traditional sources of financing, communities have the opportunity to attract loans and borrowings for the implementation of large projects. Investment projects and public-private partnerships also play an important role in financing, allowing the private sector to be involved in infrastructure development. Support for local entrepreneurship through consulting services, soft loans, and other tools contributes to economic growth and improves the quality of life in communities.

After the start of the reform in 2014, the united territorial communities received the same powers and resources as cities of regional significance, including the transfer of 60% of personal income tax to their local budget (Decentralisation Reform, 2014; Decentralisation, 2024). In addition, they fully retain local revenues from the single tax, corporate income tax and financial institutions of communal property, and property tax. This allows communities to independently solve issues, such as road repairs or the construction of new schools, without waiting for funding from the region. In addition, they can use additional revenues to attract investment and develop local businesses, which will help to create new jobs and increase the economic potential of the community. Figure 4 shows the structure of local budget revenues for the period 01.01.2024-04.04.2024. Based on the processed information, Table 4 systematises the main problems in financing the economic development of territorial communities of Ukraine as of 2024.

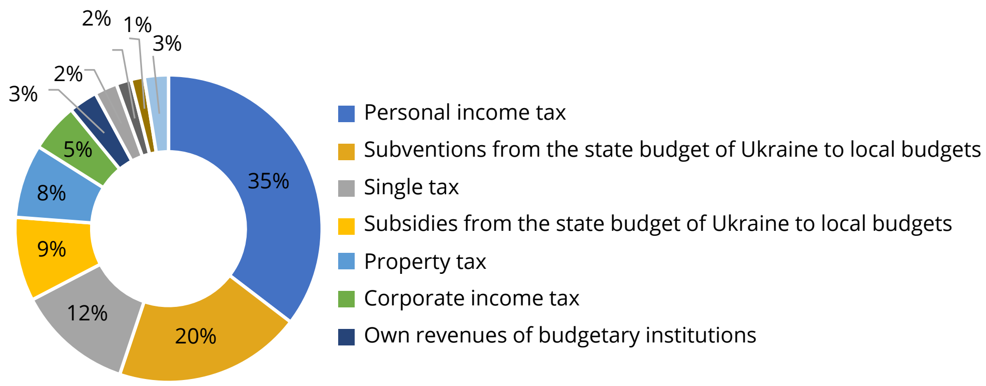

Figure 4. *Structure of local budget revenuesfor 4 months of 2024 (01.01.2024-04.04.2024)*
Source: *compiled by the author based on Decentralisation (2024)*

Table 4. *Main problems in financing the economic development of territorial communities in Ukraine as of 2024*

No.	Problems	Explanation	Author's comment
1	Instability and insufficient budget revenues	Local budgets often face instability and insufficient revenue from taxes and fees due to the economic difficulties associated with the war. For example, declining economic activity and the destruction of businesses in a war zone reduce tax revenues.	The instability of tax revenues, combined with the war, creates serious challenges for financing vital services and infrastructure.
2	Imbalance between income and expenses	The imbalance between income and spending is exacerbated by increased spending on defence and social needs, which leads to local budget deficits. The war also affects the increased cost of restoring infrastructure.	To avoid budget deficits, effective methods should be developed to reduce costs and manage resources, especially in the context of restoring destroyed facilities.
3	Unsatisfactory access to government transfers	The distribution of transfers may be inefficient or delayed due to administrative difficulties. For example, delays in allocating funds for the restoration of infrastructure in a war zone.	It requires improving the transfer distribution system and reducing bureaucratic barriers to speed up the financing of critical projects.
4	Difficulties with access to loans and borrowings	Local communities face problems accessing loans and borrowings due to increased risks, high rates, or limited availability of funding in times of war. Many financial institutions may be more careful when issuing loans.	It is important to establish mechanisms to support local budgets to ensure access to funding, possibly through government guarantees or special programmes.
5	Insufficient effectiveness of public-private partnerships	Public-private partnerships are often difficult due to the uncertainty and risks associated with war. Private investors may be less likely to invest in projects in conflict zones or high-risk environments.	There is a need to develop new and more relevant methods of attracting investors and to ensure greater transparency and credible safeguards to enhance cooperation.
6	Limited opportunities for investment in local entrepreneurship	The war leads to a decrease in investment in local entrepreneurship due to high risks and economic instability. Local entrepreneurs may face problems accessing funding and resources.	It is necessary to provide support for entrepreneurs, including soft loans and grants, to stimulate economic activity and recovery.

Source: *compiled by the author based on T. Vasyltsiv et al. (2021), M. Bondarchuk et al. (2022), M. Patynska-Popeta & T. Zinchuk (2022)*

The analysis of the problems of financing the economic development of territorial communities in Ukraine in the context of a long war highlights a number of existing problems faced by local budgets. The instability of tax revenues, the imbalance between income and expenditure, problems with access to credit and loans, corruption and inefficient management mechanisms pose serious challenges to ensuring sustainable regional development. To overcome these problems, Ukraine should pay attention to the successful experience of other countries that demonstrate effective models for financing local development. The study and adaptation of best practices, such as transparent mechanisms for the distribution of public transfers, support for public-private partnerships and effective use of international funding, can significantly improve the situation. The recommendations include the introduction of new financial instruments, reforms in the field of public administration, and the development of mechanisms to support local entrepreneurship, which can provide more stable and effective financing for the economic development of territorial communities.

Based on the experience of Great Britain, several areas of implementation of the English successful experience in the practice of territorial communities of Ukraine can be distinguished. Ukraine should introduce a system of high level of trust in local authorities. In the UK, local authorities enjoy significant autonomy, including delegating certain functions, such as school management, without the direct involvement of municipalities. This is possible due to the high trust in local institutions. Ukraine should consider mechanisms that promote such trust, ensuring the autonomy of local authorities while adhering to clear standards of control and monitoring. It is also necessary to adapt systems for monitoring and controlling local finances. The UK has a centralised structure, such as the National Audit Service, which provides strict control over local budget expenditures. Ukraine should introduce effective monitoring mechanisms, including regular reports on the financial stability of local budgets, in particular, for small and financially weak territorial communities.

It is worth considering the experience of the UK in using grants to equalise financial opportunities. England uses income support grants to help offset differences in income and spending between different regions. Ukraine should introduce such equalisation tools, which will reduce financial imbalances between territorial communities and ensure equal access to social services. In addition, attention should be paid to the importance of property taxes as an important source of income. In the UK, property taxes (municipal tax) are a significant source of local income. Ukraine needs to consider increasing the role of real estate taxes and introducing new types of taxes to increase the financial resources of local authorities. In general, the implementation of the English experience in Ukraine should consider local conditions and specifics, but the basic principles of trust in local authorities, effective control, financial equalisation and use of taxes can significantly improve the financial stability and effectiveness of local government in Ukraine.

According to Denmark, Ukraine should consider reducing the number of local communities and increasing their size to increase financial and managerial capacity, which will provide better access to experts, increase fiscal capacity, and manage its own affairs more effectively. In cases where consolidation is politically impossible, it is necessary to consider reallocating some competencies in favour of larger and financially stronger neighbouring communities, which will contribute to the financial sustainability of smaller communities. The second important area is to increase the financial autonomy of local communities by increasing the share of local taxes. The use of block grants and financial equalisation mechanisms similar to those in Denmark can help reduce financial inequality between communities and ensure equal opportunities for all citizens.

Another important area of implementation of the Danish experience is the introduction of effective monitoring mechanisms and sanctions by the central government. Denmark has shown a high level of trust in local governments, but it also has strict control mechanisms and the ability of the central government to intervene in cases of financial turmoil. Ukraine should develop and implement similar mechanisms to ensure compliance with the principles of governance, including preparation for decisive action by the central government in cases of failure to comply with the law by local communities, which will help to avoid a financial crisis and ensure stable development.

The implementation of Slovenia's experience in the practice of territorial communities in Ukraine can significantly increase the effectiveness of local self-government in a number of main areas. It is important to develop clear standards for the delivery of services that include education, health, utilities, and other basic goods. Slovenia, for example, defines a minimum set of services that should be available in communities with at least 5000 inhabitants. Ukraine can take a similar approach by setting requirements for the provision of basic social services to avoid inequality in accessibility between large cities and smaller localities. It is necessary to implement the practice of creating a supervisory board, as is done in Slovenia, to monitor the effectiveness and transparency of local budgets. The supervisory board should act as an independent auditor, monitoring the use of budget funds and evaluating the effectiveness of local responsibilities. Such a mechanism can significantly reduce the risks of corruption and inefficiency in financial management. In addition, Ukraine should introduce gradual fiscal decentralisation, in particular, by increasing the share of local taxes in community budgets and developing financial equalisation mechanisms to ensure the uniform development of all territories. This approach, similar to the Slovenian one, will increase the autonomy of local authorities and reduce the disparity in the level of services between different regions.

Discussion

The results of the study highlighted the importance of territorial reforms and fiscal decentralisation, which allows allocating resources more efficiently and stimulating economic growth. In addition, the role of local taxes and subsidies in maintaining financial stability and development of territories is important. Of particular importance is the development of infrastructure and improving the effectiveness of management at the local level, which includes not only financial, but also organisational tools. It is also necessary to consider social aspects and the involvement of citizens in the decision-making process, which will contribute to a more transparent and efficient use of resources, which was also indicated in the study by K. Akapelwa & A. Mwange (2023). In this study, it was found that the success of the system of financing local community development in different countries is due to a number of specific factors. A well-designed three-tier system of local government, such as in the UK, clearly differentiates powers and responsibilities between different levels of government, which contributes to a more efficient and targeted use of financial resources. Localities and districts with well-defined functions can better respond to the specific needs of local communities. Such conclusions coincide with the results of D. Sharma (2021).

The flexibility and adaptability of the funding system, such as in the UK, Denmark, and Slovenia, allows local authorities to respond quickly to changes in the economic and political environment. Regular adjustments to grants and financial resource allocation mechanisms ensure stable funding even in conditions of economic instability. M. La Torre *et al.* (2023) focused on the importance of adaptive financial strategies that enable local communities to effectively manage their resources and minimise risks associated with external factors. This highlights the importance of an integrated approach to financial management, which includes strategic planning and continuous monitoring of the economic situation, to ensure sustainable development and economic stability of communities. It was found that financial instruments such as attracting various financial institutions contribute to the development of territorial communities. This is also consistent with the conclusions of M. Bondarchuk *et al.* (2022), who also stressed the importance of financial and credit institutions' participation in financial cooperation and joint investment. The main argument is that these institutions accumulate monetary capital, and therefore, the strategic areas of financial activities of communities should include actions to introduce new technologies, effective management, marketing, and logistics.

It was found out that the strategic areas of financial activities of territorial communities provide for the active use of external financing, in particular, public debt and public-private partnership, to overcome budget constraints. Such conclusions can also be found in the paper by Y. Liu & Y. Zhou (2021), who also emphasised the importance of these tools for local governments. The researchers found that the financial strategies of Chinese local governments correspond to the hierarchy theory, where priority is given to internal financing over debt obligations, followed by public-private partnerships. These findings are consistent with current research, which also highlights the importance of an integrated approach to financing local economic development. It is also worth agreeing with the opinion of K. Horbova *et al.* (2023) that cross-border cooperation programmes and EU initiatives also open up additional opportunities for the development of local communities, including joint projects with border regions of neighbouring countries, because this not only encourages local development, but also expands international cooperation, which is important for long-term socio-economic growth. In general, an integrated approach to investment activities, including strategic planning, sound resource management, and active involvement of international support, should be used to ensure the sustainable development of communities. Such measures allow communities to realise their investment potential responsibly and purposefully.

In the course of the study, the analysis of problems of financing the economic development of territorial communities in Ukraine in the conditions caused by a long war revealed significant challenges that require adequate and correct solutions. The instability of tax revenues, the imbalance between income and expenditure, and difficulties in accessing loans and borrowings, combined with corruption and inefficient management mechanisms, significantly complicate the sustainable development of territorial communities. Prospects for solving these problems are opened up by applying the successful experience of other countries. In particular, the introduction of transparent mechanisms for the distribution of public transfers, support for public-private partnerships and effective use of international funding can significantly improve the situation. The UK example demonstrated the importance of a high level of trust in local authorities, which ensures better resource management. Monitoring and control systems similar to the British ones can help ensure strict control over local budget expenditures, which is important for the stability and transparency of financial management. This conclusion was also reached by V.A. Bruno & A. Cozzolino (2023), who examined the role of trust in the functioning of local authorities and stressed that the presence of transparent control mechanisms significantly increases the efficiency of budget allocation. They noted that the introduction of a surveillance system minimises the risks of misuse of resources and ensures financial stability at the local level.

Denmark's experience, in particular, has shown that reducing the number of local communities and increasing their size can increase financial and managerial capacity. This can be achieved by consolidating or reallocating competencies in favour of larger communities. Raising the share of local taxes and introducing financial equalisation mechanisms can reduce financial inequality and provide equal opportunities for all communities. Y. Liu & Y. Zhou (2021) also emphasises that the concentration of resources and the strengthening of management structures have a positive impact on the economic development and social stability of local communities. Slovenia's experience has highlighted the importance of developing clear standards for service delivery and establishing independent oversight bodies to monitor the effectiveness of local budgets. The introduction of gradual fiscal decentralisation, an increase in the share of local taxes, and the development of financial equalisation mechanisms can significantly increase the autonomy of local authorities and reduce the disparity in the level of services between different regions. S. Qin & W. Luo (2021) also emphasised in their research that the introduction of fiscal decentralisation is a necessary element in increasing the financial independence of local authorities. They stressed that the development of clear standards for the provision of services, and the creation of independent bodies that monitor the efficiency of using local budgets, can significantly improve the quality of management and ensure uniform development of regions.

B. Louman *et al.* (2022) explored access to finance, a key element of sustainable and inclusive landscapes. They also noted that the most common problems are the types of available financial products, the lack of assets for the existence of recipients. I. Otamendi-Irizar *et al.* (2022) identified the characteristics of Local Energy Communities and what is necessary for them to act as a driving force for local sustainability and social innovation. Q. Ruan *et al.* (2024), using the example of data from Chinese municipal corporate bonds, investigated the impact of high-speed railways on local government financing costs. Among Ukrainian researchers, in the practice of implementing territorial reforms, O.V. Nieizviestna *et al.* (2023) considered the financial aspects of territory branding. I. Popova & N. Demchenko (2020) investigated tools for implementing integrated territorial communities that require adaptation to Ukrainian realities.

This study offered a comprehensive approach to the analysis of financial instruments used for the development of territorial communities, allowing not only to identify the main financing mechanisms, but also to assess their integration into strategic management. It is this approach that provides the basis for practical recommendations and policy decisions, which is important for developing effective financing strategies at the local level. However, it is worth noting that the study has its drawbacks. The lack of contextual and local aspects can reduce the accuracy of applying results in different regions. In addition, underestimating the impact of economic and political changes, social and cultural factors can lead to a lack of adaptability of recommendations to real-world conditions. An expanded study that takes these aspects into consideration can improve the practical value and effectiveness of the proposed strategies.

Conclusions

As a result of the study, the main sources and tools for financing the economic development of local communities were identified, among which local budgets and state transfers play an important role. International grants and funding from donor organisations complement these sources by providing additional resources for specialised projects that contribute to economic and social development. Public-private partnerships are another important tool that allows mobilising additional investment from the private sector for the implementation of infrastructure and social projects, ensuring an effective distribution of risks and resources. The combination of these sources and tools serves as the basis for ensuring an integrated and balanced approach to financing the economic development of local communities. The analysis of local economic development financing tools in the UK, Denmark, and Slovenia identified the main areas that contribute to the effectiveness of local economic development management, in particular a high level of trust in local authorities, optimising the number of local communities to increase their capacity and developing clear standards for the provision of services. Based on this experience, it is recommended for Ukraine to implement monitoring and control systems that will ensure transparency of local budget expenditures; to consolidate communities to increase managerial capacity; to introduce financial equalisation mechanisms to reduce financial imbalances. In addition, it is important to adapt service delivery standards and create independent oversight bodies that ensure the efficiency and transparency of local finances.

The inclusion of comparative analysis with the experience of other countries, such as the UK, Denmark, and Slovenia, adds additional value to the study, allowing for the adaptation of best practices to the Ukrainian environment, providing a deeper understanding of financial strategies and approaches that can be applied to improve local economic development. Although the study makes a significant contribution to understanding financial instruments for the development of local communities, there are certain limitations. One limitation is the lack of detailed analysis of specific cases or local features, which may limit the universality of the proposed recommendations. For example, different regions may have specific needs or limitations that are not taken into account in the overall research approach. In addition, the study may not sufficiently consider the impact of unpredictable economic or political changes, such as economic crises or political instability, which may affect the effectiveness of proposed financial instruments. The inclusion of scenario analysis of these factors can make the conclusions more flexible and adaptive to the conditions.

Further research may focus on a more detailed analysis of the impact of implemented financial instruments on the real economic performance of territorial communities. In addition, it is possible to investigate the effectiveness of adapting international experience in the context of specific features of local government in Ukraine.

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Conflict of Interest

None.

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Інструменти фінансування місцевого економічного розвитку територіальних громад

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Анотація. Дослідження спрямоване на висвітлення особливостей використання інструментів фінансування економічного розвитку територіальних громад на прикладі України. Для обробки даних використовувалися методи економіко-статистичного аналізу, включаючи статистичний метод Вілкоксона для порівняння тенденцій зростання. В процесі дослідження визначено найпоширеніші джерела й інструменти фінансування економічного розвитку територіальних громад, зокрема податкові надходження, гранти, кредити, публічно-приватні партнерства. Проведено аналіз фінансових інструментів місцевого економічного розвитку у Великобританії, Данії та Словенії, акцентуючи увагу на їхній гнучкості, адаптивності, та ефективності. Обґрунтовано важливість інтеграції найкращих практик цих країн у стратегічне управління фінансами територіальних громад України. Запропоновано конкретні рекомендації щодо імплементації успішного міжнародного досвіду. Рекомендовано для України запровадити системи моніторингу та контролю, схожі на британські з метою забезпечення жорсткого контролю за витратами місцевих бюджетів, що є важливим для стабільності й прозорості фінансового управління; здійснити консолідацію або перерозподіл компетенцій на користь більших громад, підвищити частку місцевих податків і запровадити механізми фінансового вирівнювання, щоб зменшити фінансові нерівності й забезпечити рівні можливості для всіх громад, як показав досвід Данії. Згідно зі словенським досвідом, необхідно розробити чіткі стандарти для надання послуг, створити незалежні наглядові органи для моніторингу ефективності місцевих бюджетів, впровадити фіскальну децентралізацію і збільшити частку місцевих податків з метою підвищення автономії місцевих органів влади й зменшення диспропорції в рівні послуг між регіонами. Отримані результати підкреслили важливість використання комплексного та інтеграційного підходу щодо формування та управління інструментами фінансування місцевим економічним розвитком територіальних громад. Практичне значення результатів дослідження проявляється у наданні конкретних рекомендацій щодо використання різних інструментів фінансування, таких як місцеві гарантії, муніципальні облігації, кредити від міжнародних фінансових установ та гранти від міжнародних донорів. Ці рекомендації в змозі допомогти визначити пріоритети інвестиційних напрямів і вдосконалити процеси планування й управління інвестиціями, що є важливим для розвитку територіальних громад

Ключові слова: регіональне публічне управління; податкові надходження; гранти; субвенції та дотації; публічно-приватне партнерство; державний бюджет; місцевий бюджет