

Part 4

TRANSFORMATION OF APPROACHES TO CAPACITY MANAGEMENT AND SUSTAINABLE DEVELOPMENT OF SOCIO-ECONOMIC SYSTEMS

4.1. Methodological approaches to assessing the status of fiscal decentralization

From the second half of the twentieth century, decentralization has in fact become a global trend, an important component of democratization and one of the most effective instruments of economic growth.

The reform of local self-governance in Ukraine on the principles of decentralization, the practical implementation of which began in 2015, was one of the most effective strategic reforms. Thus, the transformation is aimed at the formation of a qualitatively new system of local self-government, the fundamental basis of which is the growth of the importance of united territorial communities, the development of local democracy, European standards and values, the allocation of territorial communities with the resources and powers necessary for the activation of local economic development [9, p. 456]. In terms of the reforming of local self-government, there is a need for adaptation of foreign experience regarding methodological approaches to assessing the state of fiscal decentralization to national conditions.

O. S. Vlasiuk, V. P. Gorbulin, L. G. Shemaeva, N. V. Koren, Iu. V. Kasperovich, L. P. Londar, O. M. Liashenko, Ie. Iu. Kuzkin and other authors studied the problem of the formation of a list of indicators of the state of fiscal decentralization. However, in our opinion, in the context of the positive results achieved in the implementation of a comprehensive decentralization reform and the further improvement of the institutional capacity of local self-government, the problem is still relevant.

The main achievements of the reform of fiscal decentralization, which is the financial basis for the comprehensive transformation of local self-government in Ukraine, are: increasing in the total revenues of local budgets of Ukraine due to the increase in both tax and non-tax revenues; obtaining necessary local government resources for effective solution of social and economic development issues; ensuring the balance of local budgets; expanding of investment sources of regional development.

It should be noted that the results of the reform of fiscal decentralization have made it possible to distinguish a number of problematic issues that require resolution, such as: the lack of social standards and standards in the field of authority delegated to local self-government; violation of the principle of justice in the area of payment of benefits, which are approved by the Verkhovna Rada of Ukraine, and are financed without corresponding compensators at the expense of local budgets; fiscal losses as a result of the abolition of the excise tax on retailing excisable goods; incompleteness of the complex process of association of territorial communities that prevents full implementation of the mechanisms of fiscal decentralization [8].

Ie. Iu. Kuzkin noted [5, p. 55] that in foreign practice the share of local budgets is 20–26% of the consolidated budget (for comparison in Ukraine, this indicator fluctuated at the level of 18–22% in 2015–2016). In addition, the author draws attention to the fact

that in unitary states, the share of transfers in the revenue part of local budgets reaches 70%, while in federal – within 14–29%.

Indicators in the field of fiscal decentralization since 1995 are collected and analyzed by the OECD, their integrated assessment and diagnostics are carried out at the IMF, EU and World Bank level [2]. The authors of the vast majority of studies in the field of fiscal decentralization in the world argue that decentralized governments better adapt the state's policy to local preferences and have increasing regional potential, while other scholars believe this thesis is not empirically verified.

So, due to the studies of Ie. Iu. Kuzkin [5, p. 60], foreign and domestic researchers have made a significant contribution to assessing the level of decentralization and its impact on macroeconomic stability and the formation of economic development models. However, these studies do not fully systematize methodological approaches to assessing the level of fiscal decentralization, which is virtually impossible without proper resource providing and expanding the powers of local authorities and comprehensive reforms in the field of public administration.

As a result of the analysis of the relationship between economic growth and the level of fiscal decentralization in 16 European countries for the period 1990–2004, the existence of a negative link between two financial indicators of three (taxes, expenditures and transfers) has been proved. However, long-term consequences depend on the peculiarities of decentralization introduced in a given country. So, when the cost of transfers from central to local budgets is negatively correlated with economic growth, the latter has a positive correlation with the increase of tax autonomy at the local level, which confirms the belief that local governments contribute to the growth of economic efficiency and respond more effectively to local needs [3].

One of the important indicators of fiscal decentralization is the tax autonomy indicator developed by the OECD, which defines the specific weight of taxes over which the local management has authority. The first sets of indicators of tax autonomy were published in 1995, and then were constantly updated [4]. The indicator is made up of five categories, ranked in order of decreasing tax authority. Thus, the category «a» is treated as full power in the field of tax bases and rates, category «b» – power over tax rates, «c» – power over the tax base, «d» – power over tax distribution processes, «e» – lack of power, «f» – undistributed taxes.

Recent studies of tax autonomy among OECD member countries indicate that their implications vary significantly across countries, and majority of local governments have discretion over their own taxes. Regional and local governments have the same significance of tax revenues, but at the regional level there is a higher level of income in the more autonomous category «a», and local governments are often charged a separate share of central or regional taxes by category «b». Thus, the local level often redistributes the share of taxes on incomes of individuals and legal entities, while the redistribution of value added tax almost never occurs.

The simplest indicator of the level of financial decentralization is the share of local budget revenues in the consolidated budget of the country, as well as the level of subsidization of local budgets, which is determined on the basis of the analysis of the share of transfers in the revenue side of local budgets.

Imagine the structure of the revenue part of the local budgets of Ukraine for the period 2010–2016 in Fig. 1.

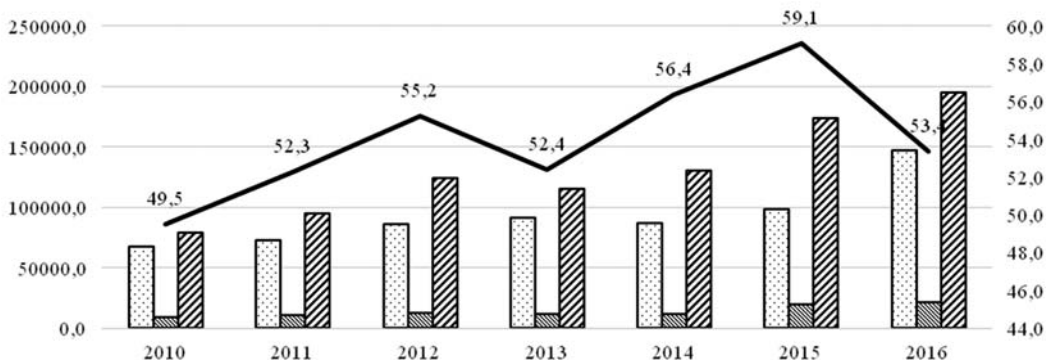


Fig. 1. Dynamics of the structure of revenues of local budgets of Ukraine and the share of transfers in the structure of their income*:

– tax revenues, million UAH;
 – non-tax revenues, million UAH;
 – official transfers, million UAH;
 – the share of transfers in the structure of revenues of local budgets, %

* Source: created by the authors on the basis of consolidated data of the Ministry of Finance of Ukraine.

Thus, during the indicated period, the share of transfers in the revenues of local budgets of Ukraine ranged from 49.5% to 59.1%, however, it should be noted that at the current stage of reforming tax and budgetary systems, the indicator tends to decrease. In addition, in the process of analyzing the state of budget decentralization it is also advisable to study the dynamics of the values of the coefficient of budget centralization and decentralization.

Qualitative information on the institutional mechanisms and structure of the multi-level government of a country is supplemented by quantitative indicators, which are divided into the following groups: analysis of tax revenues; income and expense analysis; analysis of interbudgetary transfers. It should be noted that as a result of the quantitative analysis of incomes and expenditures it is possible to conclude on the different levels of fiscal decentralization in European countries. It is based on the fact that the indicators of incomes and expenditures at the central and local levels are not strictly proportional. The highest level of fiscal decentralization is characterized by the governments of Denmark, Finland, Sweden, Norway (Figure 2) [1].

Such European countries as Poland, Slovakia, Czech Republic, Romania, Hungary, Slovenia have great success in fiscal decentralization among the unitary countries.

World Bank experts also assess comprehensively the level of fiscal decentralization due to the indicators summarized in Table. 1.

The results of the IMF analysis of nearly 80 countries over 20 years in fiscal decentralization indicate that in most countries, revenue collection is still relatively centralized, however, budget expenditures are mostly concentrated on lower levels of government. In addition, it is reasonable to conclude that the level of fiscal decentralization depends on the existing constitutional mechanisms, the degree of economic development of the country and its geographical location.

Thus, in our opinion, a number of problematic issues are identified in the process of reforming local self-government in Ukraine on the basis of decentralization, requiring

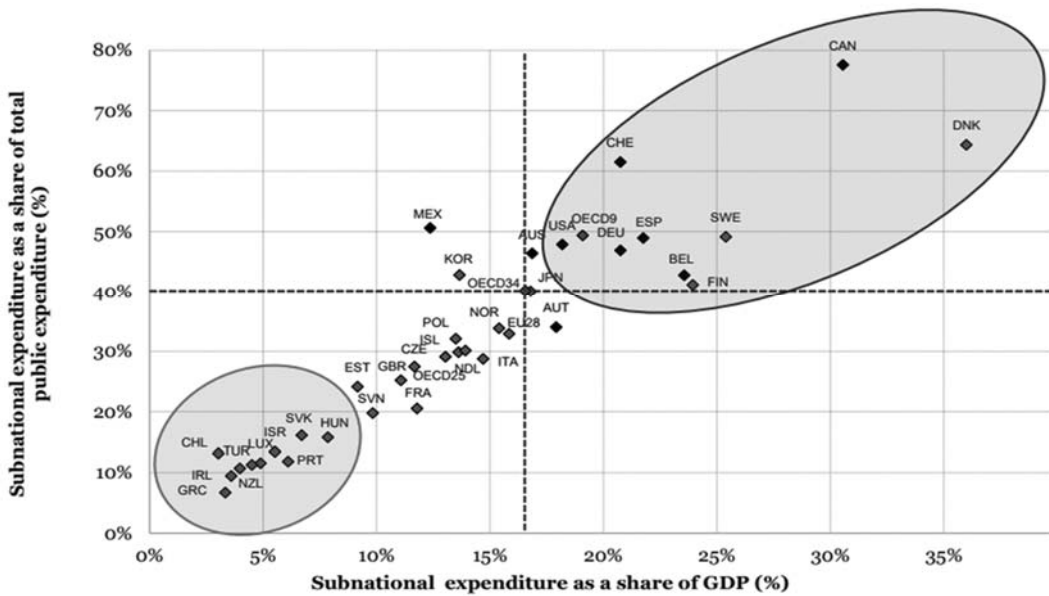


Fig. 2. Analysis of the level of fiscal decentralization in OECD countries, 2016 *

* Source: submitted by authors on the basis of [1].

an urgent solution. Accordingly, the necessary steps towards solving the problems of fiscal decentralization are:

- keeping the local budget resources in line with their financial needs by ensuring the development of budget mid-term planning at the local level;
- increasing of fiscal efficiency of local taxes thanks to improvement of mechanisms of their administration [7, p. 79–91];

Table 1

List and mechanism of calculation of indicators of the state of fiscal decentralization*

No	Name of the indicator	Formula	Characteristics of the components of the formula
1.	Cost coefficient	$C_c = \frac{OR + T}{I}$	C_c – cost coefficient; OR – own revenues of sub-national governments; T – transfers; I – incomes of general government sector
2.	The coefficient of autonomy of incomes	$C_{ai} = \frac{OR}{OR + G}$	C_{ai} – coefficient of autonomy of incomes; G – grants
3.	The coefficient of decentralization of incomes	$C_{di} = \frac{OR}{I_{c3dy}}$	C_{di} – coefficient of decentralization of incomes
4.	The coefficient of transfer dependency	$C_{ti} = \frac{IT}{C_{cg}}$	C_{ti} – coefficient of transfer dependency; IT – interbudgetary transfers; C_{cg} – costs of sub-national governments

* Source: submitted by authors on the basis of.

- adjusting the formula for determining the reverse and basic grant, introducing the possibility of recalculation of transfers taking into account changes in certain indicators, such as income taxes on individuals and legal entities, the existing population, which in general would ensure the achievement of a reasonable amount of subsidies;
- provision of expenditures for the local budget for the implementation of state programs in the field of social protection of the population;
- implementation of sectoral decentralization in the direction of improving the formula for defining the target educational subvention and developing a methodology for financing health care institutions in accordance with the developed Concept of reforming the health care system;
- transparency of local government activities, its accountability in budget planning and use of budget funds through involvement of citizens in the budget process;
- maintaining a decent level of professionalism of local authorities through the implementation of successful foreign practices of regional development;
- improving the effectiveness of local government budget management through incentive mechanisms for the development of infrastructure of local level budget funds focused on deposits;
 - revision of the coefficients in the formula for determining the educational subvention in the direction of ensuring their flexibility, taking into account the specifics of settlements;
 - increasing the efficiency of interbudgetary fiscal relations by adjusting the mechanisms for allocating infrastructure subventions and increasing its overall level [6];
 - legislative approval of social standards of the state in order to optimize the structure and number of budget institutions, increasing the effectiveness of the development of indicative indicators and use of local budget funds, such as: the development of a method for determining the reasonable cost and structure of social services for different industries;
 - harmonization of criteria for the presentation of social benefits based on the analysis of the property status and basic income of the family and the methodology for delegating benefits for local financing.

Thus, after analyzing the methodological approaches to assessing the level of fiscal decentralization, the following conclusions are made:

1. It is analyzed that indicators of fiscal decentralization since 1995 have been collected and analyzed by the OECD, their complex assessment and diagnostics are carried out at the level of the IMF, the EU and the World Bank. It was determined that the results of an analysis of the relationship between economic growth and fiscal decentralization have established the existence of a negative link between the two financial indicators of three (taxes, expenditures and transfers), however, the long-term effects depend on the peculiarities of decentralization introduced in a certain country.

2. The most important indicators of the state of fiscal decentralization are identified: the indicator of tax autonomy, developed by the OECD; the share of local budget revenues in the consolidated budget of the country, the level of subsidization of local budgets; cost coefficient, autonomy of income coefficient, decentralization of income coefficient, coefficient of transfer dependency.