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# ESTIMATION OF STRUCTURAL AND REGIONAL DIFFERENTIATION OF MUNICIPAL BUDGETS UNDER FINANCIAL DECENTRALIZATION (CASE FOR UKRAINE)

## Abstract

Obligatory consideration of peculiarities of the territorial development and regional differences in municipal budgets development is a prerequisite for ensuring the success of reforms aimed at decentralizing state power in the financial sphere and for developing the mechanism of inter-budget relations. The purpose of the study is to substantiate theoretically and develop a methodical approach to the differences between regions in terms of structural and regional differentiation of municipal budgets under state power decentralization. The article proposes a methodical approach to identifying the needs and substantiating measures for financial decentralization. The approach is based on considering the structural and regional differentiation and using statistical and cluster analyses to identify special aspects of the municipal budgets creation at different levels. The following regularities of changes in structural and regional differentiation of municipal budgets in the context of reforming the inter-budgetary relations and financial decentralization are determined: the changes in the state regulation of the local economy and finances usually boost an increase in the manifestations of differentiation; strengthening the negative influence of endogenous and exogenous risks on the increased disproportions in the socio-economic environment of regions while preserving the features of extensive management in the economic system; increasing imbalances and disparities in the structural differentiation of municipal budgets is usually due to the excessive centralization of public finances, while the intensive reforms aimed at decentralizing municipal budgets can increase the growth risks.

## Keywords

municipal budgets, financial decentralization, structural decentralization, regional decentralization

## JEL Classification

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## INTRODUCTION

Creating an effective decentralized mechanism of inter-budget relations, a thorough arrangement of the revenue base and the meaningful establishment of expenditures for municipal budgets are primarily conditioned by the construction of the administrative and territorial system (ATS). This system defines characteristics and parameters of the national tax system, forms and practices of interaction between central and municipal authorities in the public sector, the order of tax revenues redistribution and provision of budget transfers, subsidies, etc. However, until now, the administrative and territorial system of Ukraine (in particular, the division into regions, cities, districts, small towns and other localities) remains to some extent a legacy of the Soviet model for the democracy organization, under which the financial base and the fiscal powers of self-governing authorities were rigidly limited.

The diversity of the composition and the contradictory nature of influence of a number of factors and determinants of the state power redistribution in the financial sphere cause the ambiguity of the manifestation of regu-

larities that determine the financial decentralization dynamics, the choice of ways to implement the relevant changes in the political, administrative and financial-economic direction, efficiency and effectiveness of the measures taken, etc. The desire to explain the nature of these consistent patterns, as well as to identify effective mechanisms for expanding the fiscal space of municipal authorities (increasing municipal budget revenues and expenditures) as a target for financial decentralization, should be considered as the main reason for a significant increase in the researchers' attention to the generalization and systematization of a huge array of empirical observations of decentralization reforms.

## 1. LITERATURE REVIEW

The activation of reforming the state administration system transformation, the content of which is inextricably linked with fiscal decentralization and increase in the financial autonomy of municipal self-government, is one of the leading current trends in social development in many countries with a unitary state system. Rodriguez-Pose and Gill (2003) suggest to consider the increase in dynamism of democratic change in the distribution of power and resources at the national and sub-national levels observed in the world over the past decades as a logical reflection and consequence of large-scale globalization and internationalization of social relations in the transferring the severity of interstate competition to the sub-national (regional) and municipal level (territorial communities and local government). According to Merloni and Pacheco-Amaral (2016), the success of territorial reforms is due not so much to simplifying (reducing the number of levels) the hierarchical construction of the system of public authorities, but due to the implementing institutional and structural changes in the sphere of the powers division within this system, as well as the appropriate harmonization of public finances, on the basis of adherence to the requirements of subsidiarity, solidarity and equalization of the access of authorities and local self-government to the financial resources. Tanzi (1996) insists that the success of the management and administrative delegation of powers from central authorities to the local level directly depends on the creation of a wide range of prerequisites for redistributing powers and competences, and fiscal decentralization occupies the key place among these. In this context, Marshalok (2016) emphasizes that the increase in financial autonomy and the expansion of the local authorities' powers in the public sector is a key issue in decentralizing the system of public authorities.

On the other hand, Wildasin (1996) notes that the effectiveness of decentralized redistribution of budget resources is determined in turn by the ability of local self-government (lower-level government) to effectively provide various public services to the population. Therefore, according to Tkachuk (2016), when taking measures aimed at the decentralization of power in the state, the targeted orientation of such reforms towards increasing the managerial potential and strengthening the financial base of local self-governance, necessary for improving the quality of providing public services taking into account local peculiarities, can determine even the feasibility of the reverse process of consolidation of territorial communities or the formation of various inter-municipal associations. According to Tikhomirov (2013), this is a logical and natural reflection of the dialectical unity of basic principles of the state system formation, such as centralization, decentralization and coordination.

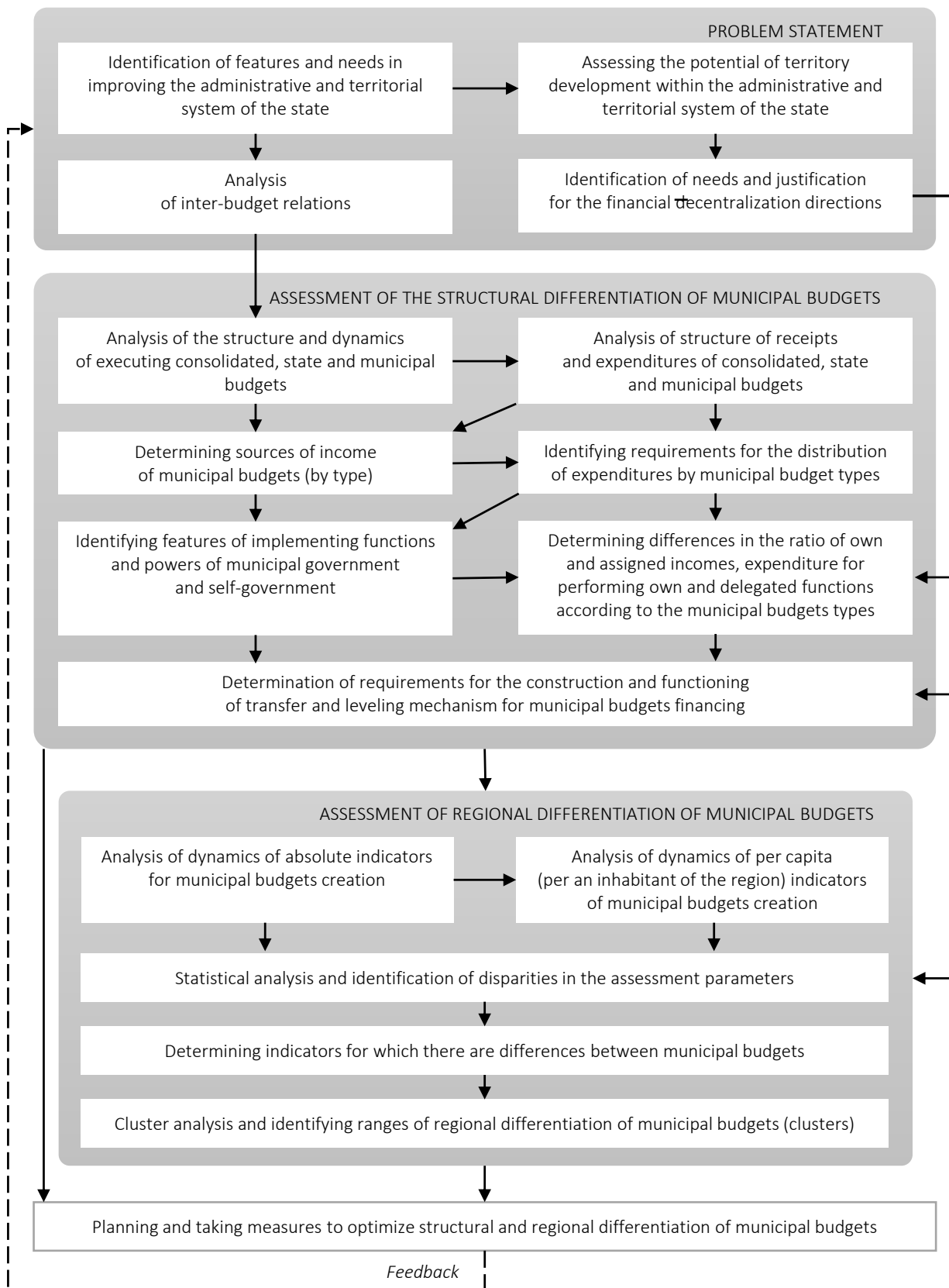
In the context of reforming the administrative and territorial system of Ukraine, Malko (2017) notes that the mechanism of the construction and functioning of the domestic system of regional governance is determined by the excessive rigidity of the hierarchical structure inherited from the Soviet times (especially in the context of regulating the state authorities and local self-government relations), and mainly by purely formal nature of implementing democratic principles of the territorial communities sovereignty. Honcharuk (2010) quite rightly emphasizes that despite numerous and substantial reform efforts aimed at transforming the administrative and territorial system of the state (in particular, initiated by the creation of the system of local state administrations in 1992 and continued within constitutional changes in 1996 and attempts of administrative reform in 1999–2001, 2004–2005, etc.), the organization of public authority at the local level is determined by the lack of efficiency in ensuring the successful implementation of key needs and requests of communities.

The issue of socio-economic differentiation of the Ukrainian regions using a number of analytical methods and tools is widely represented in modern domestic research. In particular, Vitkovska (2015) uses statistical analysis of the distribution of regions according to population income indicators. Hromozdova and Ilchenko (2017) apply matrix comparison tools, the PEST analysis and other expert comparative methods. Koniukhov (2015) classifies regions based on multidimensional comparative analysis, while Korchynskyi and Kolodii (2008) use correlation analysis to study the influence of the parameters of differentiating the municipal budgets on the socio-demographic dynamics of the regions. Moroz (2014) uses cluster analysis of population incomes in a regional section, while Sember, Chubar, and Mashiko (2017) define functions of budget revenues territorial distribution. Tyshchenko and Tymusheva (2013) perform a cluster analysis of the distribution of Ukrainian regions in terms of the level of socio-economic development and an integrated assessment of the efficiency of inter-budgetary relations. Shvets (2017) statistically analyzes the expenditure distribution of municipal budgets and expenditure of households in the regions, while Frolov, Makhnusha, and Oliinyk (2013) undertake budgetary potential assessment by taking into account the boundary distribution of the territory, etc. The issue of establishing the regularities of the influence of structural and regional differentiation of municipal budgets on the choice of forms and methods to implement financial decentralization remains understudied until now, and therefore requires further attention in terms of improving the methodology of conducting and selecting analytical tools for such an assessment.

On the other hand, there is a lack of consensus among researchers on the selection of indicators that actually characterize the financial decentralization parameters and can be used to study the impact of this process on the structural and regional differentiation of municipal budgets. In particular, Stetsenko, Pienska, and Bykanova (2018) insist on using the taxonomic indicator of development level based on the ratio of non-transfer and transfer origin of municipal budgets across Ukrainian regions. Dziobek, Mangas, and Kufa (2011) consider it expedient to use a set of complex indicators (by the following coefficients: expenses,

income autonomy, income decentralization, dependence on transfers). Boryslavska, Zaverukha, and Zakharchenko (2012) emphasize the need to study mainly the parameters of the balance of the budget system (the ratio of expenditures or revenues of municipal budgets to similar indicators of the state budget; the ratio of the total expenditure of municipal budgets to macroeconomic characteristics such as the GDP amount; the share of own income in the total revenues of the municipal budget). Baranovskyi (2017) notes the need to take into account the correlation between economic (municipal budget revenues, per capita indices of industrial production and wages) and topological (area of the territory of the united territorial community) characteristics of the relevant parts of the administrative and territorial system, etc.

This diversity of methodological approaches and instrumental support for considering the issues of municipal budgets differentiation convincingly testifies to the following. First, this reflects the urgency and relevancy of needs to study the regularities of revealing the inequality and differences while forming the financial base of local self-government. Second, it represents the multidimensional nature of the manifestation of territorial differences in the occurrence and resolution of problem issues in this area. In order to resolve them successfully, it is necessary to take into account the causes and consequences of this differentiation. Third, this suggests the need to improve theoretical and methodological approaches to establishing the nature, causes and consequences of strengthening the territorial features of the formation and implementation of municipal budgets under financial decentralization, in particular, taking into account the provisions related to the appropriateness of demarcation and the consistent consideration of structural and regional aspects of the municipal budgets differentiation (as has been shown above). These provisions on the methodological support development are proposed to be implemented within the sequence of analytic operations (see Figure 1). The difference from existing approaches is in considering the structural (on the basis of differences in the own to assigned income ratio, as well as expenditure for the performance of its own and delegated functions by type of municipal budgets) and regional (division of the parts of the administrative and territorial



**Figure 1.** Consistent assessment of structural and regional differentiation of municipal budgets

system according to the homogeneity of absolute and relative parameters of accumulating budget revenues and expenditures financing) aspects of differentiation based on identifying the characteristics that cause the largest differences between the constituents of municipal budgets at various levels.

## 2. RESULTS

The analysis of structural configuration of inter-budget relations in Ukraine for the period 2011–2017, first of all, allows for establishing the presence and power of the extremely contradictory trends that have been identified in the dynamics of executing the consolidated, state and municipal budgets by targeting changes in both income (including, by 122.99%, 122.20% and 116.70%, respectively, in 2014–2017) and expenditure (by 102.05%, 95.12% and 119.87%) components of these budgets (hereinafter, data and calculations received and made by the author on the materials of Ministry of Finance of Ukraine are presented).

At the same time, in the dynamics of changes in budget indicators presented here, it is possible to distinguish several specific trends directly related to the financial decentralization. Thus, according to the author, a significant advance in the rate of revenue growth over the expenditures of the consolidated budget in 2015 (by 13.01%) was determined by the need to compensate for the significant decline in the state's ability to attract credit resources (in 2015, the reduction in consolidated budget lending amounted to 38.50% in comparison with the previous year) under significant aggravation of the financial and economic crisis at that time, as well as by the requirements for the fulfilment of the commitments undertaken to reduce the budget deficit (the corresponding rates of deficit reduction amounted to 57.10% in that period). In this context, the consolidated budget deficit reached 10.31% (2012), 12.57% (2013) and 13.77% (2014), respectively, in the previous three years (see Table 1). In 2016, however, further restriction of access to borrowing on the domestic and foreign markets (the rate of lending reduction continued to increase up to 39.78%) was repeatedly blocked due to a significant (by 77.40%) increase in the consolidated budget deficit. In 2017, the gradual expansion of the state's ability to at-

tract credit, due to the stabilization of the financial and economic situation in the country, allowed to restore the positive direction of measures towards reducing the consolidated budget deficit (by 23.15%), including due to the proactive growth of income over expenditure (growth rates accounted for 29.90% and 26.46%, respectively) and increase in the amount of received credit resources (growth rate of this indicator reached 15.25% in 2017 compared to the previous year).

At the same time, the change trends in the consolidated budget components, which had relatively similar reduction parameters in 2013–2015 (in 2013, the rate of reducing the state budget revenue was 1.97% compared to the similar indicator for municipal budgets – 1.89%), or demonstrated small growth initially (by 5.26% and 4.83% in 2014, respectively,) and then were significant (by 49.74% and 27.09% in 2015, respectively), radically changed in favor of municipal budgets in 2016–2017. Thus, in 2016–2017, the growth rates of municipal budget revenues reached 24.34% and 37.13%, respectively (24.10% in 2012), while this indicator for the state budget was 15.26% and 28.75% (9.99% in 2012). This first should be regarded as an initial result of the modern stage of the reform for strengthening the financial autonomy of municipal authorities and self-government. The consequences of transforming the system of inter-budget relations are not limited to transformations in the revenue creation and distribution: in 2012–2015, the changes in the state and municipal budget expenditure fall in the certain range of proximity to the proportions of such changes (18.66% and 22.98%, 1.96% and –1.23%, 6.63% and 2.63%, respectively). Since 2016 (probably as part of the financial decentralization deployment), the increase in the expenditure burden for local finances begins to outpace significantly a similar indicator for the national level (22.15% versus 18.72%). In 2017, the growth of municipal budget expenditure is at a pace, almost twice as fast as the increase in the state budget expenditure (41.53% vs. 22.57%).

The advantage of the chosen version of the fiscal system reform in Ukraine aimed at financial decentralization is some consistency (proportionality) of the rates of changes in the income and expenditure components of municipal budgets,

**Table 1.** Characteristics of the structure of consolidated, state and municipal budgets of Ukraine in 2011–2017, %

Indicator	Indicator values, by year						
	2011	2012	2013	2014	2015	2016	2017
The proportion of the state budget in the consolidated budget	79.99	80.35	79.76	82.24	84.86	81.94	79.42
The proportion of municipal budgets in the consolidated budget	20.01	19.65	20.24	17.76	15.14	18.06	20.58
The proportion of lending in the consolidated budget	1.14	0.78	0.11	0.95	0.45	0.22	0.20
The proportion of deficit in the consolidated budget	5.53	10.31	12.57	13.77	4.54	6.56	3.99
The proportion of the state budget revenue in the consolidated budget revenues	78.94	77.67	76.61	78.30	82.00	78.72	78.02
The proportion of municipal budget revenues in the consolidated budget revenues (excluding transfers received from the state budget)	21.06	22.33	23.39	21.70	18.00	21.28	21.98
The proportion of municipal budget revenues in the consolidated budget revenues (including transfers received from the state budget)	45.55	50.56	49.92	50.80	45.16	46.77	49.37
The proportion of the state budget expenditure in the consolidated budget expenditure	79.99	80.35	79.76	82.24	84.86	81.94	79.42
The proportion of the municipal budget expenditure in the consolidated budget expenditure (excluding transfers to the state budget)	43.42	45.20	43.46	43.13	41.20	41.94	46.94
The proportion of the municipal budget expenditure in the consolidated budget expenditure (including transfers to the state budget)	43.25	44.92	43.14	42.73	40.73	41.44	46.37
The proportion of the state budget lending in the consolidated budget lending	99.10	99.00	89.22	98.94	96.50	90.24	88.16
The proportion of the municipal budget lending in the consolidated budget lending	0.90	1.00	10.78	1.06	3.50	9.76	11.84
The proportion of the state budget deficit in the consolidated budget deficit	102.17	105.24	101.76	108.36	146.18	128.18	113.66
The proportion of the municipal budget surplus in the consolidated budget deficit	2.17	5.24	1.76	8.36	46.18	28.18	13.66
The proportion of transfers from municipal budgets in the state budget revenues	0.86	0.39	0.47	0.59	0.59	0.68	0.75
The proportion of transfers to municipal budgets in the state budget expenditure	28.45	31.45	28.71	30.36	30.16	28.53	32.47
The proportion of transfers from the state budget in the municipal budget revenues	52.26	55.25	52.42	56.37	59.08	53.37	54.29
The proportion of transfers to the state budget in the municipal budget expenditure	0.40	0.60	0.73	0.94	1.12	1.19	1.20
The proportion of deficit in the state budget	7.06	13.51	16.04	18.14	7.83	10.26	5.70
The proportion of deficit in municipal budgets	0.28	1.19	0.51	2.67	5.09	4.41	1.16

the dynamics of fluctuations of which remains similar throughout the period analyzed (24.10% and 22.98% in 2012; –1.89% and –1.23% in 2013; 4.83% and 2.63% in 2014; 27.09% and 24.14% in 2015; 24.34% and 25.15% in 2016; and 37.13% and 41.53% in 2017). However, a relatively accelerated increase in the expenditure burden associated with a substantially enlarged composition of local and delegated powers of municipal authorities was not fully compensated by the corresponding increase in municipal budget revenues. This is probably the main cause of substantial and ambiguous in terms of intensity (but almost continuously growing, except for a slight 6.92% decrease in 2013) fluctuations of the rates

of change in the amount of transfer payments from the state budget to local level: by 31.98% in 2012; by 12.73% in 2014; by 33.22% in 2015; by 12.31% in 2016; and by 39.51% in 2017. On the other hand, it should be noted that such an increase in state budget revenues to the regions results in part from an increase in the amount of centralized redistribution of the resource base of municipal government and self-government, as it is accompanied by a rather noticeable increase in the amount of transfers, which came from municipal budgets (may be from separate donor regions) to the state budget. The growth rate of this indicator was from the record 86.82% in 2012 to equally high values of 48.44% (2015), 32.68%

(2016), and 43.06% (2017). In addition, other contradictory results of the growth in municipal level expenditures in fiscal decentralization should also include a significant slowdown in the rate of municipal budgets surplus (to 8.26% in 2016), which even resulted in reducing the positive value of this indicator by 62.74% in 2017.

However, significant changes that have taken place in recent years in the system of inter-budget relations have been rather insignificant in the structure of the consolidated budget. Thus, in 2017, the proportion of state and municipal budgets in the consolidated budget (79.42% and 20.58%, respectively) after small fluctuations in 2014–2016 returned almost to pre-reform values (79.99% and 20.01% in 2011). Similarly, the share of municipal revenues in the consolidated budget (excluding transfers received from the government) during 2011–2017 was also at an almost constant level (from 21.06% in 2011 to 21.98% in 2017, except for a significant reduction in indicator to 18.00% in 2015, which, obviously, should be considered as a consequence of crisis phenomena aggravation). Consequently, the insignificant increase in the share of municipal budget expenditures in the consolidated budget expenditures (taking into account transfers to the state budget) from 43.25% in 2011 to 46.37% in 2017 was covered by an increase in the proportion of municipal budget revenues in the consolidated budget revenues (including the received transfers from the state budget) – from 45.55% in 2011 to 49.37% in 2017. Such an increase has not gone unnoticed by the state budget and became one of the key reasons and prerequisites for the growth of the share of the state budget deficit in the consolidated budget deficit (from 102.17% in 2011 to 113.66% in 2017), which, in turn, was partially compensated by the increasing trend towards an increase in the share of the municipal budgets surplus (from 2.17% in 2011 to 13.66% in 2017) in the consolidated budget balance. In addition, it should be noted that despite the intensive measures to increase financial autonomy of municipal authorities and self-government, the share of transfers to municipal budgets in the structure of the state budget increased from 28.45% to 32.47% in 2011–2017 staying at the same level for the whole period.

The proportion of tax revenues in the state budget revenues remained relatively unchanged

during 2012–2017 (excluding the temporary, one-year small increase to 82.32% in 2016) at the level of 79.69%–79.64%. During the same period, the share of non-tax revenues (property and entrepreneurial incomes, administrative fees and payments, non-profit activities, other non-tax revenues and own receipts of budgetary institutions) decline in 2016–2017 after significant growth in 2013–2015. However, they remained at a rather high level (16.93–16.33%). In the structure of municipal budget revenues of all levels, despite the real expansion of fiscal powers of territorial communities' representatives under financial decentralization, the proportion of tax revenues amounted to 83.37%–85.14% in 2012–2017 (for regional budgets); 83.37–85.29% (for budgets of cities of oblast status); 84.35–89.89% (for district budgets); 86.60–82.57% (for city budgets of district status); 82.01–85.35% (for small town budgets); 85.33–91.42% (for rural budgets); 91.24–90.52% (for united territorial communities' budgets, which began to emerge from 2016). So, it should be noted that at the initial stage of the budget reform, the dependence of municipal budgets on tax revenues has only increased. At the same time, in the structure of budget revenues, the largest share at the regional and district levels belongs to the income from taxes and personal income tax (including for district budgets from 83.75% in 2012 to 89.84% in 2017), and at the small town and village levels – to local taxes and fees. However, from 2015–2017 for budgets of the district status cities, the structural distribution of tax revenues is determined by a fairly balanced and proportionate combination of revenues from the payment of local taxes and fees (property tax and fixed tax) and excise taxes on retail and customs clearance of excisable goods.

To study the patterns of such peculiarities, it is necessary to consider the dynamics of the municipal budget creation in 2013–2017 according to the indicators of municipal budget revenues and expenditures at the highest (region and republic) level of the administrative and territorial structure of Ukraine. In addition, given the diversity and heterogeneity of the territorial distribution of the population as end-users of state and municipal budgets-financed public services, it is also expedient to take into account the per capita (per

one inhabitant of the region) values of the main indicators characterizing the regional aspect of the configuration of inter-budget relations in the country. The following should be included in the set of indicators that, under current reforming the state and municipal finance, determine the level of regional differentiation and divergence in the municipal budget formation: general budget revenues as planned (in absolute and relative terms); actual receipts to the general fund of the budget (in absolute terms); municipal budget expenditures as planned (in absolute terms); actual municipal budget expenditures (in absolute terms); amounts of transfers to municipal budgets according to the base donation (in absolute and relative terms); transfers to municipal budgets under medical subvention (in absolute terms); amounts of transfers to municipal budgets under other subventions (in absolute terms).

Using the tools of cluster analysis to generalize regional redistribution parameters as a manifestation of the regional differentiation of municipal budgets in 2013–2017 made it possible to determine the dynamics of changes in the distribution of regions according to regional differentiation of municipal budgets in 2013–2017 (see Table 2).

### 3. DISCUSSION

According to the author, the established nature of the tendency to preserve sufficiently large amount of centralized redistribution of consolidated budget revenues through state transfers to municipal budgets is due to the effect of the current normative and leveling mechanism for financing the development of the state territories, which determines the volume and structure of distribution of revenues to the state and municipal budgets. In this context, taking reform measures to increase the financial autonomy of municipal authorities and self-government, on the one hand, is positively translated into changes in the structure of sources of revenues to budgets of all levels towards increasing the share of municipal budget revenues (by tax and personal income tax, tax on corporate profits, excise tax), but on the other hand, this growth was mainly related to those tax sources of revenue, the share of which is relatively low in the consolidated budget revenues. In the course of financial decentralization, the choice of the indicated tax sources for additional replenishment of municipal budgets to increase their autonomy is a logical and reasonable solution (in particular, due to the possibility of increasing motivational

**Table 2.** Distribution of regions according to the regional differentiation of municipal budgets, 2013–2017

Distribution of regions by clusters having the differences in the manifestations of municipal budget regional differentiation, by year		
Cluster 1	Cluster 2	Cluster 3
<b>2013</b>		
Dnipropetrovsk, Donetsk, Odesa, Kharkiv regions, the city of Kyiv	Zaporizhzhia, Lviv and Kyiv regions	Vinnytsia, Volyn, Zhytomyr, Zakarpattia, Ivano-Frankivsk, Kirovohrad, Luhansk, Mykolaiv, Poltava, Rivne, Sumy, Ternopil, Kherson, Khmelnytskyi, Cherkasy, Chernihiv, and Chernivtsi regions
<b>2014</b>		
Dnipropetrovsk, Lviv, Kharkiv, Odesa regions, the city of Kyiv	Donetsk, Kyiv, Luhansk, Poltava, Rivne regions	Vinnytsia, Volyn, Zhytomyr, Zakarpattia, Zaporizhzhia, Ivano-Frankivsk, Kirovohrad, Mykolaiv, Sumy, Ternopil, Kherson, Khmelnytskyi, Cherkasy, Chernihiv, and Chernivtsi regions
<b>2015</b>		
Dnipropetrovsk, Lviv, Kharkiv regions, the city of Kyiv	Zaporizhzhia, Kyiv, Kirovohrad, Odesa, Poltava, Rivne regions	Vinnytsia, Volyn, Donetsk, Zhytomyr, Zakarpattia, Ivano-Frankivsk, Luhansk, Mykolaiv, Sumy, Ternopil, Kherson, Khmelnytskyi, Cherkasy, Chernivtsi, Chernihiv regions
<b>2016</b>		
Dnipropetrovsk, Zaporizhzhia, Lviv, Odesa, and Kharkiv regions, the city of Kyiv	Kyiv, Kirovohrad, Poltava regions	Vinnytsia, Volyn, Donetsk, Zhytomyr, Zakarpattia, Ivano-Frankivsk, Luhansk, Mykolaiv, Rivne, Sumy, Ternopil, Kherson, Khmelnytskyi, Cherkasy, Chernivtsi, Chernihiv regions
<b>2017</b>		
Dnipropetrovsk, Lviv, Odesa, Kharkiv regions, the city of Kyiv	Donetsk, Zaporizhzhia, Kyiv, Kirovohrad, Poltava regions	Vinnytsia, Volyn, Zhytomyr, Zakarpattia, Ivano-Frankivsk, Luhansk, Mykolaiv, Rivne, Sumy, Ternopil, Kherson, Khmelnytskyi, Cherkasy, Chernihiv, Chernivtsi regions



interest and involvement of the territorial community representatives in the proper and efficient administration of tax collection, tax base increase, etc.). However, at this moment, with this approach, the reformed system of inter-budget relations has limited ability to stimulate local authorities and self-governments to expand the use of sources of municipal finance replenishment.

Other positive results of financial decentralization should include a significant reduction in the proportion of revenues from the aforementioned tax and personal income tax: in regional budget revenues. In addition, it should be noted that the increase in the proportion of municipal taxes and fees in the budgets of the administrative and territorial units of the district, small town and rural levels is quite logical reflection of the greatest potential of the influence of municipal government and self-government on both the tax base formation and the efficient revenue management for these taxes. On the other hand, structural changes in the structure of tax revenues to state and municipal budgets in Ukraine in 2012–2017 are to some extent confirmed by the growth of the structural differentiation of the financial base of municipal government in terms of incomes, the amount of which (first of all, at the district level and at the lower level of the administrative and territorial system) is increasingly determined by the presence of the resource factors (formation) within the territory: in terms of human development (the number of economically active population employed at high-paid workplaces; the population whose social protection and social security, after they reach a certain age or for other reasons, are engaged in the state budget; availability and economic performance indicators of the entities whose function is to maintain the population vital activity – trade, housing and utility, energy, transport, social and domestic, cultural, etc.); availability of high quality natural resources and productive capacity (first of all, land and recreational resources, mineral deposits, etc.).

One of the foundations for the structural differentiation of municipal budgets by incomes under financial decentralization should be the need to systematize and take into account the specific conditions of functioning of the territorial and economic complexes at specific ATS units (terri-

torial communities on the basis of geographical, spatial, national and cultural, socio-economic and other parameters of identity and unity of people). The growth of structural differentiation determines the expediency of considering the budgets' expenditure component not only as a purely cost-effective (although providing targeted guidance and public content to the activities of municipal authorities and self-government) but also as an important component and a powerful source of ensuring regional development in general.

The analysis of the dynamics and structure of executing the consolidated, state and municipal budgets in Ukraine in 2011–2017 indicates a high structural differentiation of the budgetary system components at all levels, which, of course, should be taken into account when planning further financial decentralization measures. In addition, the significance of structural differences features of municipal budgets as a whole greatly complicates the reliable establishment of regional differentiation parameters. That's because as a result of the present situation in the area, it is quite probable to identify their own regional features, which determine the territorial segmentation while forming and distributing budgetary funds at each hierarchical level of the state budget system (from the UTC budget to the budget of the region).

Drawing conclusions about trends in the dynamics of changes in the distributing regions by the municipal budgets regional differentiation suggests a positive impact of financial decentralization on changes in the distribution of regions by clusters. The first cluster includes densely populated regions, which are characterized by the strong economic potential of the economic and territorial complex, with an extremely high level of municipal budget revenues (when compared to other regions and both in absolute and in relative per capita terms) when combined with a significant level and amount of expenditures, the essential part of which is covered by the state budget through the transfer-leveling mechanism. The second cluster consists of regions with a sufficiently high population density with less significant (in particular, compared with the corresponding indicators of the first cluster) level of per capita (per one inhabitant of the territory) manifestation of income and expenditure param-

eters of municipal budgets (with that, the difference can be in the amount of per capita revenues received and in the direction of forming budget expenditures). The regions of the third cluster are characterized by a moderate exposure of both absolute and relative indicators of regional differentiation of municipal budgets, with a very likely significant compensation of part of expenditures from the state budget through the transfer-leveling mechanism.

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## CONCLUSION

Identifying signs of structural and regional differentiation of municipal budgets is an unbiased reflection of existing features in the status of and prerequisites for regulating municipal finances. The reasons for this are fundamentally different factors and circumstances for creating the territorial development potential. The drivers of such differentiation are usually the changes in the state regulation of the municipal economy and finance, resulting in the redistribution of balance of the competitive advantages of different ATS economic complexes, which, in turn, are key determinants of creating the economic base of municipal government.

The growth of the negative impact of endogenous and exogenous risks on the territorial development was aggravated by the fact that in the economic system the extensive model of the economic growth dominated. In the post-crisis period (2014–2015), in Ukraine, there was an increase in disproportions in the socio-economic condition of the regions, including the creation of the financial base for municipal government and budgets. Such a differentiation was due to the deepening of the disparities between regions in the ability to accumulate budget revenues (region-leaders and problem peripheral regions), as well as to strengthen the tendencies towards creating a closed regional economic space and increase the level of regional markets monopolization; weakening of internal co-operative ties and inter-regional economic cooperation; violation of consolidation of the country's economic space as a whole.

The increase in imbalances and disproportions in structural differentiation of municipal budgets is due to the excessive centralization of public finances and the prevalent use of the regulatory and leveling transfer mechanism for fund redistribution in the system of inter-budget relations.

Overcoming the negative manifestations of structural and regional differentiation of municipal budgets should be done not only by the centralized use of administrative levers of influence on the state and municipal finances distribution, but also via promoting the improvement and development of incentive provision and the creation of incentives for municipal authorities and governments, territorial communities, etc., concerning the increase of own production potential and determination of the priority of the policy on improving the quality of citizens life in all regions.

According to this approach, the strategy and measures to form and expand the fiscal space of municipal self-government should be aimed at preventing the threats to the sustainability of the financial status of municipal budgets as well as at ensuring the full use of the territorial community growth potential.

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