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## FINANCIAL SUPPORT OF TERRITORIAL COMMUNITIES OF UKRAINE IN THE CONTEXT OF DECENTRALIZATION

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### ABSTRACT

*The experience of the countries of the European Union shows that the driving force behind their social and economic development is local self-government, in Ukraine it is territorial communities. Decentralization reform should ensure that local governments are able to independently resolve all local issues with their own resources. The problem of financial provision of territorial communities is of particular relevance in the context of financial instability in the country. The methodological basis of the study was: a systematic approach - for the theoretical definition of the essence of the financial support of territorial communities and their assessment; methods of comparative analysis and synthesis - to identify patterns of financial support and the structure of budgetary resources of territorial communities; statistical methods for assessing the effectiveness of financial support for territorial communities; graphic - to display the main trends in the formation of monetary resources of territorial communities. To analyze the dynamics of financial provision of TC in Ukraine, statistical data for the last 5 years were used. The article considers the impact of*

*decentralization on the financial support of territorial communities. Its advantages and disadvantages are determined. The filling of local budgets in Ukraine in the conditions of decentralization is analyzed. It was studied that own revenues of local budgets have been constantly growing during 2016-2020, which positively characterizes the introduction of decentralization. Although, compared to 2019, the total revenues of local budgets reduced due to a decrease in transfers from the state budget. The dynamics and structure of interbudgetary transfers in 2016-2020 are analyzed. The mechanism of equalization and receipt of basic subsidies is considered. The main sources of formation of incomes of local budgets are determined. The importance in the structure of incomes of territorial communities of the tax on the income of individuals is noted. An evaluation model of the sufficiency of financial support for territorial communities is considered and a ranked series of territorial units is constructed. The problems of the financial support system for territorial communities due to the existence of post-conflict and temporarily occupied territories are identified. Directions for improving the financial provision of territorial communities are proposed and alternative sources of funds for the budgets of territorial communities are considered.*

**Keywords:** *decentralization, territorial communities, financial provision of territorial communities, local self-government, local budget revenues, inter-budgetary transfers*

## 1. INTRODUCTION

The experience of economically developed countries shows that fiscal decentralization is the most effective way to ensure the financial sustainability of local governments. Therefore, in the proclaimed reform of fiscal relations, the promotion of greater financial autonomy of local budgets is defined as one of the main tasks (Bardhan & Mookherjee, 2005).

The state in the process of social and economic development should only perform a protective and regulatory function (Kutsenko & Sirenko, 2019).

According to the generally accepted definition, decentralization is a process of expanding the rights and powers of local governments while constricting them for the relevant public authorities in order to improve the efficiency of managing public affairs, implementing programs of regional and local importance, and providing local public services. That is, the central government bodies are trying to unload themselves from local functions as much as possible, concentrating on the implementation of nationwide functions.

Melnychuk (2015) defined the decentralization as a complex phenomenon, including political, administrative, economic components and associated with the creation of the possibility of building a more efficient management model at the state, regional and local levels.

The basic element of an effective system of power in Ukraine in the process of decentralization is capable of re-territorial communities (hereinafter referred to as TC), in which local sources of budget replenishment, infrastructure and human resources are sufficient for local governments to resolve issues of local importance, provided for by law, in the interests of community residents. The state provides financial support by providing the united territorial community with funds in the form of subventions for the formation of the appropriate infrastructure considering with the social plan (Sytnik, 2019).

The study of the problems of financial support of local governments is of great importance both for the development of domestic financial science and for solving practical issues related to the management of local financial resources, the financial independence of local authorities.

## **2. LITERATURE REVIEW**

The issues of economic support for territorial communities, including united ones, are covered in the works of many scientists. At the same time, the issues of economic support for the UTCs need constant monitoring in the context of an unstable macroeconomic situation and growing political instability.

The main source of strengthening the economic potential and growth in the united territorial communities, as Palchuk (2018) notes, is filling local budgets with tax revenues from business structures of the territory, attracting investors, developing entrepreneurship, rural cooperation, agrarian business, farming, promoting the processing of agricultural raw materials in cities (Palchuk, 2018). In other words, the financial support of the territory directly depends on the economic activity of its subjects.

Authors Korbutyak and Sokrovol'skaya (2018) note that the economic development of UTCs should be provided with a resource and financial component. According to OECD experts, the viability of communities is based on both tangible and intangible assets. The former ones include services, infrastructure, natural resources and cultural heritage. The second is local skills, cohesion, ability to act, adaptability and openness to others, and finally, the ability to

work together, make common decisions and embody a common vision for the future development of society OECD (2016).

The administrative-territorial reform has served to amend the Tax and Budget Codes, which increase the economic viability of the united communities and provide opportunities for increasing the financial revenues of local budgets (Korbutyak, 2018).

Foreign experience in the formation of the economic and financial potential of territorial communities proves that ensuring the economic development of communities requires: accompanying powers from state authorities to local appropriate financial resources; compliance of territorial units with certain requirements and conditions for the development of the state; attracting investment potential; ensuring the stability of internal development (Patitskaya, 2018).

Gorin (2018) sees that the financial independence, and, accordingly, the economic growth of the life of the TC depends on the reserves for increasing their own budget revenues due to: tax on personal income, by stimulating the local economy; attraction of investments; increase in wages; real estate taxation; income from the use of communal property.

Local governments should finance their activities to the maximum extent possible through taxes and fees, the rates of which they themselves determine (Musgrave, 1959).

Khrupovich and Podvornaya (2017) note that it is financial decentralization that encourages communities to unite, which as a result will provide them with the opportunity to receive significantly more financial resources through the mechanism of transition of budgets to direct interbudgetary relations with the state budget.

The purpose of the article is to develop theoretical foundations and substantiate practical recommendations for developing ways to improve the efficiency of financial support for territorial communities.

The object of research is the process of financial provision of territorial communities.

### 3. DATA AND METHODOLOGY

The following general scientific methods became the methodological basis for the validity and reliability of the study of the process of financial support of territorial communities: a systematic approach for theoretically determining the essence of financial support for territorial communities and its assessment; methods of comparative analysis and

synthesis - to identify patterns of financial support and the structure of budgetary resources of territorial communities; statistical methods for assessing the effectiveness of financial support for territorial communities; graphic - to display the main trends in the formation of monetary resources of territorial communities.

The research methodology is based on the analysis of foreign scientific literature, legislative acts. To analyze the dynamics of the financial provision of UTCs in Ukraine, statistical data for recent years were used.

#### **4. RESULTS AND DISCUSSION**

The process of decentralization includes four directions, namely: 1) the institutional one - should provide a legal framework and form an organizational structure with the definition of the powers of state and local authorities; 2) functional one - to determine the functions and powers of public administration entities on the principle of subsidiarity; 3) infrastructural one - to optimize the network of institutions and organizations providing public services; 4) financial one - the formation of a system of financial support for local governments to meet the needs of the population of a certain territory (Prots, 2018).

Financial decentralization is recognized by many experts as the most difficult aspect of public power decentralization. The essence of this concept is appropriate to consider through the prism of three determinants:

- decentralization in the expenditure sector - the fact of empowering local governments with the right to dispose of the financial resources necessary for their activities, the fulfillment of the tasks assigned to them;
- decentralization in the revenue sector - granting local governments the right to receive their own income according to a fixed list in an amount (set independently) sufficient for their proper and high-quality work;
- the right to procedural and organizational independence - the formation, approval, implementation of financial plans, estimates, budgets, reporting and control under the responsibility of a certain body of one or another local official.

Generalized decentralization can be defined as the process of transferring powers and financial resources for their implementation from state authorities to local governments in order



to satisfy the interests of residents of territorial communities, improve the quality of public services and enhance the development of regions (Gladkaya, 2015).

The system of financial provision of local self-government is defined as a set of legal norms, financial institutions, instruments and financial relations between public authorities, local self-government and business entities and citizens in the process of providing public goods and their resource provision (Zaichikova, 2003).

A territorial community (TC) is a public legal entity formed as a result of the reorganization of rural, settlement, city councils elected by territorial communities that have united by joining a legal entity: a village, settlement, city council located in the administrative center of a territorial society (Law on Voluntary, 2015). The TC has the authority to form, distribute and use the appropriate funds.

On June 12, 2020, the Cabinet of Ministers of Ukraine adopted 24 orders to determine administrative centers and approve community territories. As a result, 1,469 territorial communities have been created in the country, of which 409 are urban, 433 are settlements and 627 are rural (including 31 communities in the uncontrolled territory within the Donetsk and Luhansk regions).

The successes or miscalculations of such a somewhat «powerful», although necessary, association can only be confirmed in the long term (Demchishak & Tihonko, 2021).

The ability of local authorities to fulfill the tasks assigned to them by law characterizes the financial security of the territorial society, which depends on the availability of appropriate financial resources. That is, financial security is a balance between the needs of the territorial community (including local governments) and its capabilities.

Given the above, it is advisable to consider the impact that decentralization has on the financial provision of territorial communities.

The basis of financial support is the budgetary support of local governments. With the adoption of legislative changes to the structure of tax distribution at the national level, local governments in the regions received an expanded list of tax revenues. Today, in accordance with Articles 64 and 67 of the Budget Code of Ukraine, the following taxes are paid to the local budgets of the united territorial communities:

Table 1: Resources of the United Territorial Communities (UTC) subject to a new redistribution of public finances between levels of government

<b>Taxes:</b>	<b>Fees and charges:</b>	<b>Other income:</b>
60% of personal income tax (the main tax due to which OTC's own income increased 2-2.5 times); 25% environmental tax; 5% excise tax on the sale of excisable goods; 100% of the single tax; 100% income tax on communal property enterprises (new tax for OTC, which is practically not received yet); 100% property tax (real estate, land, transport)	State Duty; fee for the provision of administrative services; parking fee; tourist tax; rent for the use of communally owned property; rent for subsoil use; 50% of fines for environmental damage; 75% of funds from compensation for agricultural and forestry losses production; other	various transfers (basic subsidy, educational and medical subventions, capital transfers) - the greatest interest for OTC; targeted and voluntary contributions of institutions to local environmental funds; receipts under international technical assistance programs; funds for equity participation in infrastructure development; funds from the alienation of communal property; funds from the sale of ownerless property; local borrowings; other.

Source: it is created by the authors based on Budget Code, (2010)

To finance the development of their community, the authorities can also obtain credit resources.

It is necessary to protect that fiscal decentralization may have gains and shortcomings, on which it is necessary to call in the course of the formation of communities in Ukraine (Table 2).

Table 2: Advantages and disadvantages of fiscal decentralization

1) financial independence of territorial communities in providing their residents with public goods; 2) creating conditions to better meet the needs of the local population; 3) increasing the responsibility of local authorities to the population of the relevant administrative-territorial units; 4) stimulating the public sector to respond to the demands of citizens; 5) the formation of a competitive environment at different levels of local government for labor, other factors of production and consumers of public goods; 6) formation of an effective leveling system in order to stimulate the development of territories; 7) increase of competence and qualification of local self-government bodies in the process of resolving issues related to the development of the respective territories; 8) dynamism of the system, ability to experiment and innovate in the provision of public services; 9) equalization of power at different levels of government	1) complicating the process of redistribution of financial resources through the budget and management of the budget process in general; 2) the difficulty of coordinating the local needs of territorial communities with the macroeconomic needs of the country; 3) the emergence of regional fiscal differences; 4) reduction of centralized budgetary control over the formation and efficient allocation of budgetary resources; 5) restriction of centralized equalization of revenue and expenditure parts of budgets of territorial communities
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Source: it is improved by authors based on (Klimenko, 2018)

In 2020, the local budgets of Ukraine received UAH 471.5 billion, including: the income of the general fund amounted to UAH 426.0 billion; special fund - UAH 45.5 billion. At the end of 2020, the share of local budget revenues in the revenues of the consolidated budget of Ukraine amounted to 34.2%. At the end of 2019, the same indicator was 43.5%.

Excluding transfers from the state budget, the volume of revenues to local budgets amounted to UAH 311.1 billion, which is 22.6% of the consolidated budget revenues. At the end of 2019, the same indicator was 23.3%.

Compared to 2019, the share of local budgets in the revenues of the consolidated budget of Ukraine has significantly decreased (by 9.3%), which indicates an increase in the concentration of financial resources at the central level.

Compared to the approved plan for 2020, local budgets were implemented by 98.2%, including: the implementation of the income of the general fund amounted to 98.6%, the implementation of the special fund - 97.3%.

Compared to 2019, the total revenues of local budgets decreased by UAH 89.0 billion. (from 560.5 to 471.5) or by 15.9% (Fig. 1).

The decrease was due to transfers from the state budget. But at the same time, the own revenues of local budgets are constantly growing, which positively characterizes the introduction of decentralization.

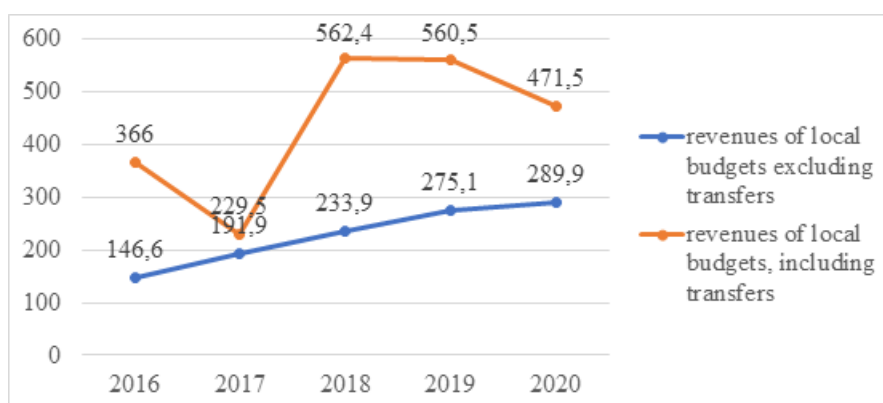


Figure 1: Dynamics of local budget revenues excluding transfers and considering transfers in 2016-2020, UAH billion

Source: compiled by the authors according to the information of the State Treasury Service of Ukraine

Revenues to local budgets in 2020 were significantly affected by quarantine measures introduced in connection with the coronavirus pandemic. In April-May 2020, there was a significant decrease in revenues, after which in June-July the positive dynamics gradually resumed and during October-December the average revenue growth rate was 10.7%.

In general, the implementation of local budgets for 2020 correlates with general trends in the Ukrainian economy: a slight nominal increase in income, socially oriented expenditure

items, ensuring the fulfillment of the main social obligations of the state; continuation of sectoral reforms in the field of administrative-territorial structure and local self-government.

The united territorial societies switched to direct interbudgetary relations with the state budget and became full-fledged subjects of the budget process. Such a system of direct financing allowed local governments to receive the following interbudgetary transfers:

- 1) Basic subsidy.
- 2) Reverse subsidy.
- 3) Educational subvention.
- 4) Medical subvention.
- 5) Other subventions, without crediting these funds to the district or regional budgets.

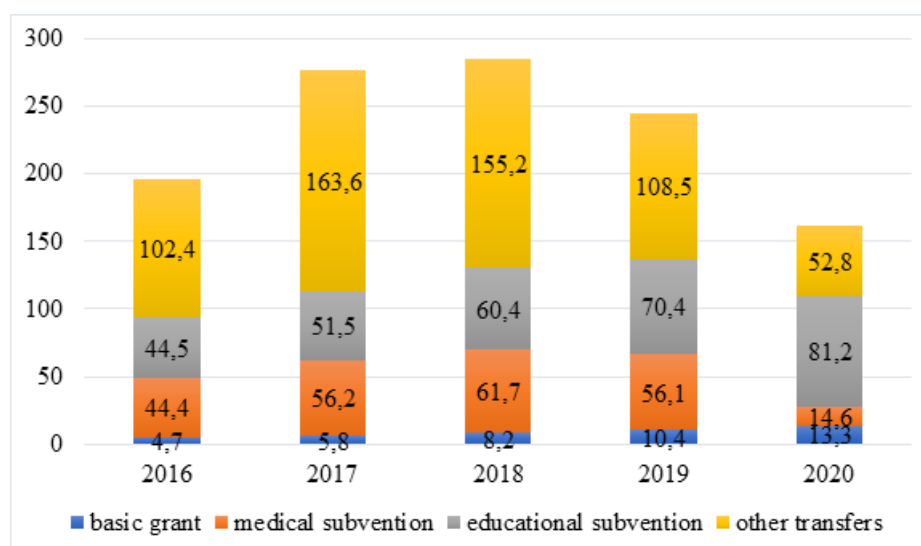


Figure 2: Dynamics and structure of intergovernmental transfers in Ukraine, 2016-2020  
 Source: compiled by the authors according to the information of the State Treasury Service of Ukraine

In 2020, the general fund of local budgets of Ukraine received UAH 135.9 billion of transfers, which is UAH 108.4 billion (44.4%) less than in 2019. In particular, this is due to the fact that in 2020 there were no separate expenses from local budgets related to the implementation of state social protection programs, the volume of which in 2019 amounted to UAH 78.3 billion, including:

- subvention for the payment of benefits to families with children and low-income families - UAH 54.9 billion;

- for the provision of benefits and subsidies to the population to pay for housing and communal utilities and energy - UAH 21.6 billion;
- for the provision of benefits and housing subsidies to the population for the purchase of solid and liquid furnace household fuel and liquefied gas - UAH 1.8 billion.

In 2020, local budgets of Ukraine received 53 types of subventions from the state budget, in 2019 - 42 types of subventions.

It should be noted that in 2018, local budgets received 34 types of subventions, and in 2017 - 27. Thus, there is a tendency for a constant increase in the number of subventions coming from the state budget to local ones. This trend indicates a significant volatility of the state transfer policy in relation to local budgets and hinders the formation of a high-quality and predictable budget policy, the inability to carry out medium-term planning of the socio-economic development of territories, and a decrease in the efficiency of the use of funds.

The budgets of the united territorial communities participate in horizontal equalization of taxability, which provides for horizontal equalization of the taxability of territories depending on the level of income per inhabitant. Equalization is carried out on the receipt of personal income tax, on the basis of which the budget taxability index is determined. This tax is nationwide, other sources of income are not involved in the equalization process.

The equalization mechanism assumes that local budgets receive a base subsidy if the level of the taxability index is below the value of 0.9 of the Ukrainian average (in the amount of 80 percent of the amount needed to achieve the index value of 0.9).

For local budgets with a taxability index from 0.9 to 1.1, equalization is not performed (the base subsidy is not provided and the reverse subsidy is not transferred). From the budgets of communities in which the taxability index exceeds 1.1, funds are withdrawn to the state budget (reverse subsidies) in the amount of 50 percent of the amount that exceeds the value of the taxability index of 1.1.

Of all the communities, 75% receive basic subsidies from the state budget and about 14% of the communities pay reverse subsidies. Almost 11% are non-subsidized.

In fact, educational, medical subvention, subvention for social protection of the population and others are interbudgetary transfers that play the role of equalization, but are of a targeted nature of application.

Consequently, the current system of interbudgetary equalization in Ukraine, on the one hand, has a positive effect, since it helps to partially level out regional socio-economic asymmetries. On the other hand, the purpose of interbudgetary transfers today is not to equalize the budgetary possibilities of the regions, but is reduced to equalizing the possibility of ensuring budgetary obligations to the population of the regions, which, in turn, reduces the potential for regional development. However, taking into account all the negative aspects of grants, subventions and subsidies, it is impossible to completely exclude them as methods of providing local budgets with the necessary financial resources. They are very necessary in those territorial units where, due to the current events, the economic potential cannot be expanded to the extent necessary to ensure the formation of local incomes.

The main source of formation of own and fixed incomes of local budgets are tax revenues. As before, the largest share in the revenues of local budgets is occupied by receipts from the payment of personal income tax (60.5% of the total revenues of the general fund of local budgets), land payments (12.6%), single tax (14.4 %)).

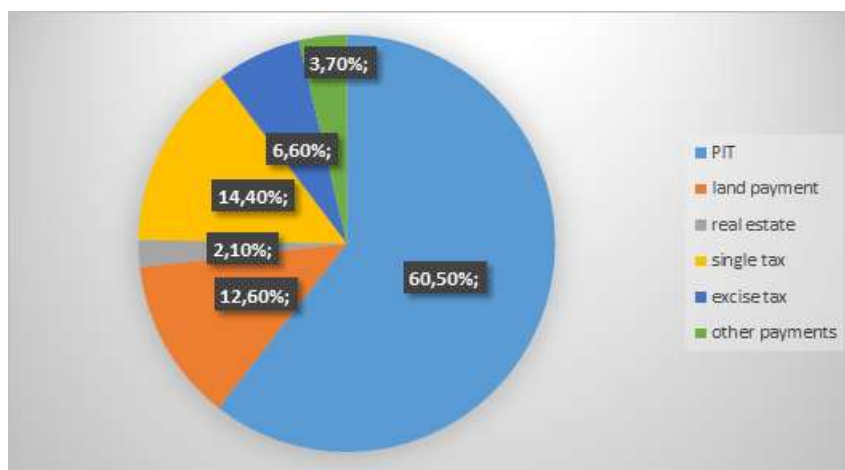


Figure 3: Structure of revenues of TC budgets of Ukraine for 2020

Source: compiled by the authors according to the information of the Ministry of Finance of Ukraine

Despite the fundamental changes in the budgetary and tax legislation, the nationwide tax - the personal income tax - remains the main budget-forming tax at the local level.

Table 3: Distribution of personal income tax between budgets of different levels

Budgets where the tax is protected	Distribution percentage
Revenues of the general fund of regional budgets	15
Incomes of the general fund of budgets territorial communities	60
Income of the general budget fund Kyiv city	40

Source: it is created by the authors based on Budget Code, 2010

However, the local budgets of Ukraine constantly suffer personal income tax losses due to the existence of shadow wage payment schemes, a high rate of external labor migration of the able-bodied population to work abroad. The growth of revenues from this source is due only to a significant increase in the level of the minimum wage.

From the perspective of studying the sufficiency of financial provision of territorial communities, the comparative evaluation model from experts in financial monitoring of the Central Office of Reforms under the Ministry of Regional Development, Construction, Housing and Communal Services of Ukraine (with the support of the U-LEAD with Europe Program and SKL International) deserves attention, which present on an ongoing basis an analysis of the budgets of the ATCs of all 24 oblasts.

The analysis was carried out in the context of 872 UTCs (i.e., those that had direct interbudgetary relations with the state budget in 2020), grouped by the criterion of population, cities of regional significance were singled out in a separate group, in which the procedure for merging or joining took place in accordance with the Law Ukraine «On the voluntary association of territorial communities»

The first indicator - «own income per 1 inhabitant» (the ratio of the volume of own income to the number of inhabitants of the corresponding UTC) - makes it possible to assess how the community manages the resources of its territory: do all enterprises regularly pay taxes, do all entrepreneurs have officially registered employees, etc.

The second indicator is the level of subsidization of budgets (the ratio of the volume of basic or reverse subsidies to the total amount of income of the ATC, excluding subventions from the state budget) - shows the dependence of the community on the state budget.

The third indicator - «capital expenditures per 1 inhabitant» (the ratio of development expenses to the number of residents of the corresponding ATC) - indicates how much money the community spends specifically on development, development of community infrastructure.

And the fourth indicator - «the share of expenses on the maintenance of the administrative apparatus» (the share of expenses on the maintenance of the administrative apparatus of local governments in the amount of income from the general fund - allows you to understand how much money the community spends on local officials from the budget. Based on the results of 2020, estimates were made and the UTC rating was formed according to the following financial indicators:

- 1) income of the general fund per 1 inhabitant (the ratio of the volume of income from the general fund without transfers to the number of residents of the corresponding ATC);
- 2) expenses of the general fund per 1 inhabitant (the ratio of the volume of expenses of the general fund to the number of residents of the corresponding ATC);
- 3) expenses for the maintenance of the administrative apparatus per 1 inhabitant (the ratio of the volume of expenses for the maintenance of the administrative apparatus, spent at the expense of the general fund, to the number of residents of the corresponding UTC);
- 4) the level of subsidization of budgets (the ratio of the size of the base or reverse subsidy to the total amount of income of the general fund of the budget of the UTC, taking into account the base or reverse subsidies, excluding subventions from the state budget);
- 5) the ratio of the costs of maintaining the administrative apparatus to the amount of income from the general fund (the ratio of the costs of maintaining the administrative apparatus of local self-government bodies to the amount of income of the general fund, excluding transfers from the state budget in percent);
- 6) the share of wages in the expenditures of the general fund of the budget of the ATC (percentage of expenditures on wages made from the general fund of the budget with accruals to the volume of expenditures of the general fund of the budget, excluding transfers transferred from the budget of the ATC to other budgets);
- 7) The share of capital expenditures in the total volume of expenditures (the share of capital expenditures in the total volume of expenditures of the general and special fund of the corresponding budget of the ATC).



Table 4: Expert analysis of budgets 872 UTC for 2020

Groups	Quantity UTC	income of the general fund per 1 inhabitant, UAH	expenses of the general fund per 1 inhabitant, UAH	expenses for the maintenance of the administrative apparatus per 1 inhabitant, UAH	capital expenditures per 1 inhabitant, UAH	the level of subsidization of budgets, %	the ratio of the costs of maintaining the administrative apparatus with financial resources UTC, %	the share of wages in the expenditures of the general fund of the budget UTC, %	share of capital expenditures in total expenditures, %
<b>Group 1</b> more than 15 thousand people	110	4453,7 max 25 163,0 min 1129,3	6627,7 max 2296,0 min 1931,3	868,2 max 2771,8 min 470,8	937,4 max 4650,3 min 112,1	54,4	19,5	76,0 max 88,4 min 52,0	12,2 max 42,2 min 1,6
<b>Group 2</b> 10-15 thousand people	134	4600,1 max 16381,5 954,7	6 826,9 max 5084,4 min 3 784,5	1069,3 max 2456,2 min 435,0	1187,1 max 1142,0 min 40,2	61,5	23,2	75,3 max 90,3 min 46,1	14,6 max 58,7 min 0,7
<b>Group 3</b> more than 5-10 thousand people	277	4669,3 max 34249,4 min 833,9	6894,4 max 21544,3 min 2942,6	1193,9 max 3700,2 min 435,8	1129,5 max 9885,8 min 36,5	64,0	25,6	75,1 max 95,0 min 39,1	13,9 max 54,6 min 0,6
<b>Group 4</b> < 5 thousand people	308	4888,4 max 40482,3 min 1009,7	7101,8 max 29462,5 min 1313,7	1 572,6 max 5525,6 min 418,3	1 098,4 max 10773 min 0,0	60,6	32,2	77,8 max 92,9 min 38,8	13,2 max 61,5 min 0,0
<b>Group 5</b> UTC - cities of regional significance	43	6412,6 max 11707,9 min 3004,7	7332,2 max 11884,4 min 4499,7	814,0 max 1787,5 min 551,1	1 597,7 max 3981,3 min 41,7	22,0	12,7	58,9 max 83,3 min 43,1	17,5 max 32,2 min 0,7

Source: it is created by the authors based on information from the website <https://decentralization.gov.ua/>

According to experts, with greater financial support of the budget, the share of expenditures on the maintenance of the administrative apparatus will be less, since such expenditures have a relatively stable value. As a result, such communities have the opportunity

to direct more funds to the development of their territories. Small in terms of territory and population, UTOs, for the most part, have low financial solvency.

Also, such communities do not have sufficient labor potential for their development and quality management. The exception is individual communities, on whose territories budget-forming and powerful enterprises of the real sector of the economy are located.

Table 5: Rating of administrative-territorial units by budget revenues

Administrative-territorial unit	Revenues for 2020, UAH million	The share of the region in total revenues	Rating place
Vinnitsia region	9 977,4	3,4%	10
Volyn region	5 318,3	1,8%	22
Dnipropetrovsk region	30 242,8	10,4%	2
Donetsk region	13 578,5	4,7%	7
Zhytomyr region	7 457,5	2,6%	14
Zacarpattia region	5 352,0	1,8%	21
Zaporozhia region	13 186,2	4,5%	8
Ivano-Frankivsk region	6 422,5	2,2%	17
Kyiv region	17 143,0	5,9%	5
Kirovohrad region	6 392,0	2,2%	18
Luhansk region	3 816,9	1,3%	24
Lviv region	17 045,0	5,9%	6
Mykolaiv region	7 525,5	2,6%	12
Odesa region	17 812,1	6,1%	4
Poltava	12 165,2	4,2%	9
Rivne region	5 869,7	2,0%	19
Sumy region	7 008,3	2,4%	15
Ternopil region	4 957,8	1,7%	23
Kharkiv region	20 827,5	7,2%	3
Kherson region	5 552,0	1,9%	20
Khmelnyskyi region	7 520,0	2,6%	13
Cherkasy region	7 853,9	2,7%	11
Chernivtsi region	3 632,8	1,3%	25
Chernihiv region	6 704,3	2,3%	16
Kyiv city	46 753,6	16,1%	1
<b>TOTAL</b>	<b>290 114,8</b>	<b>100,0%</b>	

Source: it is created by the authors based on information from the website <https://decentralization.gov.ua/>

Among the regions of Ukraine, the largest share of the general fund's income is concentrated in Kyiv (16.1% of the total) and in Dnepropetrovsk (10.4%) and Kharkiv (7.2%) regions, the smallest - in Luhansk region (table).

The peculiarities of the current socio-political situation in Ukraine do not allow us to talk about equal opportunities for the introduction of widespread decentralization due to the existence of post-conflict and temporarily occupied territories. Meanwhile, the success of the decentralization of power in the liberated territories of the Donetsk and Luhansk regions will

be one of the powerful factors in the reintegration of residents of the temporarily occupied territories after de-occupation.

The territories of the communities of Donetsk and Luhansk regions can be divided into three categories from the point of view of the organization of power:

- 1) Dismissed territories, where the order of local self-government prescribed by law has been fully restored, as well as territories that have not been occupied at all.
- 2) The front-line territories have been liberated, where a special order of administration is in force (the functioning of certain local government bodies has been terminated).
- 3) Territories that remain under the control of the occupying forces.

The specific tasks facing the local authorities of Donetsk and Luhansk regions are the restoration of infrastructure damaged as a result of hostilities and the solution of the problems of internally displaced persons. In this regard, the costs of local budgets are higher compared to their counterparts in other regions of Ukraine. At the same time, in communities close to the area of hostilities, it is almost impossible to cover the costs of restoring and developing communal infrastructure through private investment. In this regard, there is a risk of financial insolvency of these communities. A significant problem is that a significant part of the actual population of territorial communities (belonging to the number of internally displaced persons) does not have legal opportunities to influence the policies of local authorities, since they do not have the right to vote in local elections or referendums at their place of actual residence (Zhalilo, 2018).

Therefore, taking into account the results of the analysis of the current state of financial support for the development of territorial communities, the importance and problematic functioning of the components of the system, the logical directions for its improvement are as follows:

- 1) strengthening the tax base of local governments.
- 2) the formation of a stimulating system of alignment.
- 3) improving the efficiency of the system of interbudgetary transfers.
- 4) support for the development of economic and investment activities.
- 5) activation of the public role in the process of financial support for the development of territorial communities.

- 6) training of subjects of financial support for the development of territorial communities and scientific research on the issues of financial support for the development of territorial communities (Sukharskaya, 2019).

In addition, the activities of local governments in the context of solving the problem of developing territorial communities should be aimed at finding alternative sources of funds.

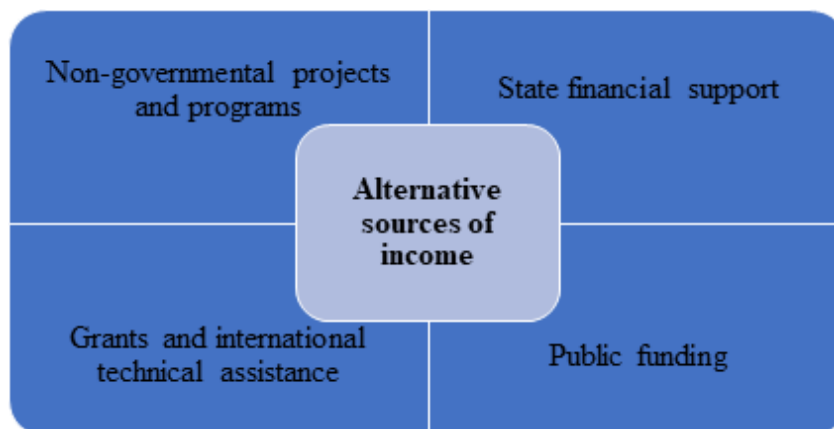


Figure 4: Additional sources of financial support for territorial communities

Source: it is created by the authors based on (Bobrovskaya, 2019)

In particular:

- receiving State financial support (for example, cooperation with the State Regional Development Fund (DFRD));
- participation in non-state projects and programs in the field of local development;
- financial support through grants and international technical assistance;
- public funding. This refers to the use of the methodology of crowdsourcing (i.e. involving residents in solving local problems by using their abilities, knowledge and experience on a voluntary basis) and crowdfunding (i.e. voluntary funding, usually via the Internet, to support certain projects) (Bobrovskaya, 2018).

## 5. CONCLUSIONS

Socio-economic development of territorial communities depends on the level of financial security. In Ukraine, the foundations of local self-government and territorial organization of power have been formed, budget and tax legislation has been reformed in terms of decentralization, as a result of which local governments have received financial resources, additional powers and tools to ensure the sustainable development of territorial communities and regions.

At the same time, it is necessary to work at the level of the state and local governments to increase the share of their own revenues in the budgets of territorial communities. Particular attention should be paid to the optimization of tax revenues, in particular the personal income tax as a budget-forming one. The current political state does not provide equal opportunities for the introduction of widespread decentralization through the existence of post-conflict and temporarily occupied territories. The activities of local governments in the context of solving the problem of developing territorial communities should be aimed at finding investors, providing support to individual enterprises that create development areas, and searching for alternative sources of income.

The prospects for further research are the study of foreign experience in conducting decentralization reforms and its implementation in Ukraine.

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