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THE THEORY AND PRACTICE OF ASSESSMENT OF FISCAL DECENTRALIZATION LEVEL

Abstract

Introduction. Nowadays, modern world wide tendencies of countries fiscal systems' reformation are to solve the problem of achieving the optimal balance of income and expense authorization between central state and local governments, to form financial self-sufficiency of local government and to improve the system of intergovernmental transfers.

A construction of an effective model of fiscal decentralization promotes stable socio-economic development. The quality of social services and the level of citizens' welfare depend on the level of financial assurance and fiscal independence of local budgets, that can be achieved through a rational state finances' management.

Methods. Methodological basis of the article is represented by a complex of general scientific methods of theoretical (study and analysis of the latest researches and published works; usage of synergistic approach for social phenomena and factors) and empirical (synthesis, observation, study and generalization of certain practical experience) levels.

The methods of comparative analysis, generalization, statistical techniques, graphical and tabular methods are used to assess the dynamics of income and expense of Ukraine's united state and local budgets and their structure; to define the level of fiscal decentralization in Ukraine and in the countries of European Union. Processing of statistical data, analysis of the factors that influence their dynamics were done with the help of statistical and analytical methods. The basis of the analysis is statistical indicators of government agencies of Ukraine and international intergovernmental organizations.

Results. The author suggests an indicator system of fiscal decentralization in the article, mainly two indicator groups: the first one is indicators of fiscal decentralization, that are defined on the basis of budgets' income analysis; the second one is indicators, that are calculated with the help of statistical data about budgets' expenses. A number of indicators is of universal international nature and can be used for comparison of decentralization levels of state finances' management systems among different countries. The article reveals a process and summaries of assessment of fiscal decentralization level in Ukraine and the countries of European Union. An advanced statistical and analytical analysis of income and expense authorization among different levels of Ukraine's budget system was done with the help of suggested indicator system of fiscal decentralization.

Discussion. The key extension mechanisms of fiscal decentralization in Ukraine and the strengthening of financial self-sufficiency of local government are suggested and substantiated in the article.

Keywords: fiscal decentralization, tax and budget relations, local budgets, financial autonomy, tax autonomy, models of fiscal decentralization, intergovernmental transfers, local self-government, socio-economic development.

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Introduction.

Socio-economic growth of a country mostly depends on the development of local governments. The international experience shows that in order to increase the financial independence of local budgets the fiscal decentralization reform was performed in many foreign countries. Since 2014, an active work on implementation of a decentralized public finance management system basis has begun in Ukraine. Due to this, the creation of fiscal decentralization level assessment methodology of a country is getting topical. The results of defining the decentralization level of a country's financial system may be used in a further strategic development process of relationships involvement between central and subnational governments and in defining the realization plan of the strategy.

Fiscal decentralization indicators in Ukraine and their comparison to international coefficients, mainly to the indicators of the European Union countries, will help to suggest orienting points for further development of fiscal decentralization level in the country.

Analysis of recent research and publications.

The analysis of the published works shows that different aspects of fiscal decentralization, mainly the conceptual principles of effective public finances management, the structural analysis of local government dynamics of income and expense authorization, the budget-forming peculiarities of state and local levels, foreign tendencies in financial strengthening of local governments are considered in the works of homeland researchers as well as in the works of the foreign ones.

The issue of an effective public finances management and the rationally built system of financial resources division among different levels of budget system were studied in the works of homeland researchers, such as V. Andrushchenko, V. Bazylevych, O. Baranov's'kyi, S. Bukovyn's'kyi, O. Vasylyk, I. Volokhova, S. Hasanov, T. Iefymenko, M. Karlin, T. Kvasha, O. Kyrylenko, I. Lunina, V. Oparin, K. Pavliuk, A. Sokolov's'ka, S. Slukhai, V. Fedosov, O. Shyshko, S. Iurii, A. Iakovliev etc.

Among the foreign researchers the issue was studied by N. Akai, A. Atkinson, R. Barro, R. Byrd, T. Veblen, E. Vendung, J. Galbraith, H. Davudi, D. Jin, D. Ekhdai, S. Ilmaz, O. Kvan, J. M. Keynes, A. Laffer, R. Musgrave, L. de Mello, W. Oates, A. Paige, H. Wright, J. Rodden, P. Samuelson, J. Sisoni, J. Stiglitz, C. Tiebout, F. Friedman, A. Schneider, F. Justi etc.

Though a tribute to the works of scientists and practitioners is paid, the assessment of an actual status of fiscal decentralization in Ukraine and in the European Union countries is getting topical due to an active reform process of public finance management system of Ukraine, its main goals are extension of fiscal decentralization of income and expense authorization, strengthening of financial self-sufficiency of a local level and improvement of the social services' quality. The issue of defining the actual level and dynamics of implementation of fiscal decentralization in Ukraine is rather topical and needs a diversified statistical and analytical analysis.

Purpose.

The purpose of the article is to suggest an indicator system of fiscal decentralization and to analyze the dynamics and the actual status of the fiscal decentralization level in Ukraine and in the European Union countries on the basis of this system.

Methodology.

Methodological basis of the article is represented by a complex of general scientific methods of theoretical (study and analysis of the latest researches and published works; usage of synergistic approach for social phenomena and factors) and empirical (synthesis, observation, study and generalization of certain practical experience) levels.

The methods of comparative analysis, generalization, statistical techniques, graphical and tabular methods are used to assess the dynamics of income and expense of Ukraine's united state and local budgets and their structure; to define the level of fiscal decentralization in Ukraine and in the countries of

European Union. Processing of statistical data, analysis of the factors that influence their dynamics were done with the help of statistical and analytical methods. The basis of the analysis is statistical indicators of government agencies of Ukraine (The Ministry of Finance of Ukraine, The State Treasury Service of Ukraine, The State Statistics Service of Ukraine) and international intergovernmental organizations (European Union, International Monetary Fund).

Results.

The model of forming and using the budget resources in Ukraine was working quite a long time on the basis of centralization. The functioning of such a model had a number of objective disadvantages, in addition, it had some other negative factors (corruption during the budget allocation, instability of tax legislation, an increase in shadow business activity etc).

The fiscal decentralization process began in 2014. The process is aimed at increasing the efficiency of local social services, nevertheless, it needs a strong financial foundation. That's why, one of the key directions of fiscal decentralization realization is redistribution of income authorization in order to increase the financial resources of local governments.

The assessment of the fiscal decentralization level and the comparison of the main international indicators of the process are needed in order to analyse the financial effects of activation process for local budgets and to define the latter mechanisms of strengthening of financial self-sufficiency of local governments in Ukraine. To solve this issue, we suggest to use the system of indicators, that help to analyse the peculiarities of the implementation process' dynamics of the above-stated reform in Ukraine and in European Union countries.

On the basis of studying the homeland experience [1–3] and the adaptation of foreign practice [4–7] we suggest to define the fiscal decentralization level with the help of the indicators stated in table 1.

Table 1

The indicators of fiscal decentralization level*

No	Name of the indicator	No	Name of the indicator
<i>Group 1. Indicators for assessing the level of fiscal decentralization according to income</i>			
1.1.	A share of income of local budgets (without consideration of intergovernmental transfers) in GDP, %	1.5.	Specific weight of own income of local budgets in local government's income structure, %
1.2.	A share of income of public finances (without consideration of intergovernmental transfers) in GDP, %	1.6.	A share of tax inpayments of local budgets in tax inpayments of united budget, %
1.3.	Correlation of a share of income of local budgets in GDP and a share of income of public finances in GDP, times	1.7.	Specific weight of local taxes in local budgets' income, %
1.4.	A share of income of public finances (without consideration of intergovernmental transfers) in united budget income, %	1.8.	A share of income of local budgets (without consideration of intergovernmental transfers) in united budget income, %
<i>Group 2. Indicators for assessing the level of fiscal decentralization according to intergovernmental transfers</i>			
2.1.	A share of intergovernmental transfers from public finances to local budgets in GDP, %	2.3.	A share of transfers taken from local budgets in public finances' income, %
2.2.	The amount of intergovernmental transfers in the structure of local budgets' income, %	2.4.	A share of transfers taken from public finances in local budgets' expenses, %
2.5.	A share of transfers taken from local budgets to public finances in local budgets' expenses, %		
<i>Group 3. Indicators for assessing the level of fiscal decentralization according to expenses</i>			
3.1.	A share of expenses of local budgets (without consideration of intergovernmental transfers) in GDP, %	3.3.	A share of expenses of public finances (without consideration of intergovernmental transfers) in GDP, %
3.2.	A share of expenses of public finances (without consideration of intergovernmental transfers) in united budget expenses, %	3.4.	A share of expenses of local budgets (without consideration of intergovernmental transfers) in united budget expenses, %
A generalizing (composite) coefficient of fiscal decentralization			

*Source: author's development.

The indicators are divided into certain groups – assessment indicators of fiscal decentralization according to income and expenses, besides, special attention is paid to indicators, calculated on the basis of intergovernmental transfers. For example, the correlated indicators of general amount of income and expenses of local budgets to GDP and to general state income and expenses accordingly, prove the financial ability of local government to perform the stated functions and tasks.

On the basis of the above-mentioned indicators of fiscal decentralization level (table 1), firstly, we will analyse the indicators of state and local budgets' income and their correlation, mainly the shares of state and local income in GDP, and the specific weight of local budgets' income in the structure of the country's united budget. Data for calculation (dynamics of GDP, of united, state and local budgets) and the calculated results of fiscal decentralization indicators are showed in the table 2.

Table 2

Dynamics of the fiscal decentralization indicators in Ukraine according to the income within 2012–2016*

Indicators	2012	2013	2014	2015	2016
A share of income of public finances in GDP, %	24,4	23,2	22,7	26,9	25,7
A share of income of local budgets in GDP, %	7,1	7,2	6,5	6,1	7,2
A share of income of public finances in united budget, %	77,4	76,2	77,8	81,5	78,2
A share of income of local budgets in united budget, %	22,6	23,8	22,2	18,5	21,8

*Source: it is created by the author on the basis of the data of the Ministry of Finance of Ukraine [8], the State Treasury Service of Ukraine [9], the State Statistics Service of Ukraine [10].

Data analysis shows that the average amount of accumulated resources in public finance (without consideration of intergovernmental transfers) within 2012–2016 is on the level of 24,6% to GDP (maximum indicator in 2015 was 26,9%, minimal one in 2014 – 22,7%).

A share of income of local budgets (without consideration of intergovernmental transfers) within the analysed period (without consideration of intergovernmental transfers) was on the level of 6,8% to the country's GDP on the average. However, only less than 1/4 of the united budget's income goes to local budgets – an average share of income of local budgets in the united budget is 21,8% within 2012–2016.

A share of GDP, that is distributed through state and local budgets, shows what specific weight of the whole amount of benefits and services created in the country during one-year period is accumulated and distributed through the budgets. Data analysis of the table 2 shows, that local budgets play minor role in GDP distribution than the state one. It should be mentioned, that a share of income of local budgets in GDP is 3-4 times lower than a share of income of public finances to GDP. It points at a considerable centralization of country's financial resources in a state budget and at financial dependence of local governments on decisions of central government.

For instance, in 2012 the European Union countries had the above-mentioned indicators on the given level [11]: the average share of income of subnational governmental budgets in GDP in EU was 16,2%; the average share of income of subnational governmental budgets in state budget's income in EU was 33,9% (table 3).

Table 3

Indicators of fiscal decentralization according to the income of EU countries and Ukraine in 2012*

Indicators	Variation of the indicators in EU			In Ukraine
	Maximum	Average	Minimum	
A share of income of subnational governments in GDP, %	36,8	16,2	0,7	7,1
A share of income of subnational governments in state budget's income, %	66,3	33,9	1,8	22,6

*Source: it is created by the author on the basis of the data of the Ministry of Finance of Ukraine [8], the State Treasury Service of Ukraine [9], the State Statistics Service of Ukraine [10] and Eurostat [11].

As to the variation of the indicator of the share of subnational governmental income in GDP in EU countries, we can observe the variations of the indicator: the biggest share of GDP is distributed through the subnational level of Denmark (36,8%), Sweden (25,3%) and Finland (21,9%).

In the EU countries the variation of the indicator of the share of subnational governmental income in state budget's income is as follows: the highest level of income decentralization was observed in Denmark (66,3%), Spain (49,0%) and Sweden (48,0%). Finland (41,7%), Germany (38,8%), Belgium (38,5%), Poland (36,3%), Netherlands (35,3%) and Great Britain (34,2%) have an above average level of income decentralization.

In 2015 the government of Ukraine declared the beginning of fiscal decentralization, and the dynamics of share of income of local budgets in GDP and same in the united budget's income prove the changes to decentralization, however, the income distribution is still rather centralized.

The analysis of the dynamics of tax inpayments' indicators of the local budgets compared to the general tax inpayments' indicators in Ukraine within 2012–2016 shows a relative stability of the level of tax inpayments' decentralization, moreover, even in 2015 the lowest indicator (19,3%) is observed compared to the previous years, nevertheless, the indicator of that year should have been higher than in 2012–2014, as in 2015 there were some changes in tax legislation that increased the amount of tax sources for local budgets (table 4).

Table 4

Dynamics of the fiscal decentralization indicators according to the tax inpayments of the budgets of different levels in Ukraine within 2012–2016*

Indicators	2012	2013	2014	2015	2016
A share of tax inpayments in united budget in GDP, %	24,7	23,5	22,7	25,6	27,3
A share of tax inpayments in local budgets in GDP, %	5,2	5,4	4,8	5,0	6,2
A share of tax inpayments of local budgets in tax inpayments of united budget, %	21,1	23,0	21,2	19,3	22,6

*Source: it is created by the author on the basis of the data of the Ministry of Finance of Ukraine [8], the State Treasury Service of Ukraine [9], the State Statistics Service of Ukraine [10].

However, within 2015–2016 in Ukraine, we can observe an increase of a tax inpayments' share of local budgets in GDP (5,0% in 2015 and 6,2% in 2016) compared to indicators of 2004–2014 (in average 4,7%). The analysis of this indicator shows positive dynamics of economic growth. That is, the dynamics of a tax inpayments' share of local budgets in GDP prove, that there were some changes to decentralization in 2015 compared to 2014, and in 2016 the tendency continued. The prove is the share of tax inpayments of local budgets in tax inpayments of united budget in 2016.

Let's analyse the following indicators of fiscal decentralization on the basis of analysis of local budgets' income structure – we should define the specific weight of own income of local budgets in local government's income, the share of tax inpayments of local budgets in tax inpayments of united budget. The analysis of the local budgets' structure evidences that taxes and fees were and still are the basis of local budgets' formation, and they are 85% of all the inpayments in average period of 2012–2016 (without consideration of transfers).

However, the consideration of intergovernmental transfers shows, that an average specific weight of income from taxes and fees in general amount of income of local budgets is 40% in 2012–2016 period. The average share of transfers, that came from public finances to local budgets is 56,7% within the analysed period, that proves the fact, that the tax base of local self-government of Ukraine is not enough to finance independently all the functions and tasks of local governments.

The next group of indicators to be analysed is indicators of fiscal decentralization, that are calculated on the basis of intergovernmental transfers. The more intergovernmental transfers are included in the structure of income of local budgets, the lower is the level of financial independence of local government.

Within the analysed period (2012–2016), we can observe the increased amount of conversion of

intergovernmental transfers from public finances to local budgets – from 8,8% GDP in 2012 to 8,2% GDP in 2016. However, the share of transfers of public finances in local budgets' income increased to 60,5% in 2016, and the share of transfers of local budgets in public finances' income increased as well (table 5).

The analysis of the indicators evidences, that the self-government of Ukraine depends on general public finances on 60%, that is, the level of financial independence of local governments in Ukraine is rather low.

Regarding EU countries [11], the indicator of financial independence of subnational governments varies from 89 to 6%, that means, there are countries with local governments that can cover up to 90% of their expenses with local budgets' funds (Denmark, Spain, Sweden, Finland, Germany, Belgium) and countries with an opposite situation (Malta, Cyprus, Greece). Compared to EU countries, Ukraine's indicator of financial independence of subnational governments is below an average European indicator, and the indicator of dependence of local governments on transfers is above an average European indicator accordingly.

Table 5

Dynamics of the fiscal decentralization indicators, calculated on the basis of intergovernmental transfers' analysis in Ukraine within 2012–2016*

Indicators	2012	2013	2014	2015	2016
A share of transfers converted from public finances to local budgets in GDP, %	8,8	8,4	8,3	8,8	8,2
A share of transfers converted from public finances in local budgets' income, %	55,2	52,4	56,4	59,1	60,5
A share of transfers converted from local budgets in public finances' income, %	0,4	0,5	0,6	0,6	0,7

*Source: it is created by the author on the basis of the data of the Ministry of Finance of Ukraine [8], the State Treasury Service of Ukraine [9], the State Statistics Service of Ukraine [10].

As to transfers converted to public finances in Ukraine, the number of these intergovernmental transfers increased quantitatively (on 2,829 milliards of UAH) and relatively (on 0,6 p.p.) within 2012–2016.

The analysis of the indicators of the fiscal decentralization according to expenses (table 6) shows, that the average share of expenses of the united budget (without consideration of intergovernmental transfers) in GDP was 34,5% to GDP within 2012–2016 (maximum in 2016 – 35,1%, minimal in 2014 – 33,4%), and the average share of expenses of the local budgets (without consideration of intergovernmental transfers) in GDP was 14,7% to GDP within 2012–2016 (maximum in 2012 – 15,7%, minimal in 2015 – 14,0%). Nevertheless, the share of expenses of the local budgets (without consideration of intergovernmental transfers) in expenses of the united budget was 45,6% within 2012–2016 (maximum in 2012 – 44,9%, minimal in 2015 – 40,7%).

Table 6

Dynamics of the fiscal decentralization indicators according to the expenses in Ukraine within 2012–2016*

Indicators	2012	2013	2014	2015	2016
A share of expenses of the united budget (without consideration of intergovernmental transfers) in GDP, %	35,0	34,8	33,4	34,3	35,1
A share of expenses of the local budgets (without consideration of intergovernmental transfers) in GDP, %	15,7	15,1	14,3	14,0	14,7
A share of expenses of the local budgets (without consideration of intergovernmental transfers) in expenses of the united budget, %	44,9	43,1	42,7	40,7	41,4

*Source: it is created by the author on the basis of the data of the Ministry of Finance of Ukraine [8], the State Treasury Service of Ukraine [9], the State Statistics Service of Ukraine [10].

Beside this, a share of expenses of local governments in GDP shows the distribution of tasks and expenses between state and local budgets as well. The analysis of indicators evidences, that the GDP distribution level through the local budgets of Ukraine is 14,7% according to the data dated 2016, this indicator is on 0,62 p.p. higher than the same indicator of the previous year.

A share of expenses of subnational governments in GDP in Denmark, Sweden, Finland, Spain, Belgium, Austria, Germany, Netherlands, Italy and Poland is above the average European level. In Great Britain, Hungary, the Czech Republic, Latvia, France, Lithuania, Slovenia, Estonia, Romania, Portugal, Bulgaria, Ireland, Slovakia, Luxembourg, Greece, Cyprus and Malta this indicator is below the average European level (16,4%).

A generalizing (composite) coefficient of fiscal decentralization, that includes two aspects of fiscal decentralization – income and expenses, reveals, that among the EU countries the highest level of fiscal decentralization is in Denmark (87,0%) (table 7). Sweden, Finland, Iceland, Latvia, the Czech Republic, Poland, Estonia and Croatia are characterized with above the average European composite indicator of fiscal decentralization.

Table 7

A rating of countries according to the generalized indicator of fiscal decentralization, %*

Country	Indicator	Country	Indicator	Country	Indicator
Denmark	87,0	Estonia	19,0	Lithuania	12,0
Sweden	76,0	Croatia	18,0	Portugal	11,0
Finland	49,0	Ukraine	16,5	Ireland	7,0
Iceland	39,0	Slovenia	16,0	Romania	6,0
Latvia	25,0	Slovakia	14,0	Cyprus	3,0
The Czech Republic	23,0	Netherlands	14,0	Greece	3,0
Poland	22,0	Great Britain	13,0	Average in EU	18,0

*Source: it is created by the authors on the basis of these sources [8; 11].

It should be noted, that in every country, a unique model of fiscal decentralization is functioning, its peculiarities are defined by a different selection of factors – historic, national, economic etc, that's why, except for the above-mentioned indicators of fiscal decentralization, there is a number of other complex characteristics of the public finance management system, that also defines a level of fiscal decentralization, for example, a fiscal autonomy of local self-governments, the tax capacity of the regions etc.

Conclusions and prospects.

Summing up this research, we can make the following conclusions.

1. For a deep analysis of the level of fiscal decentralization in Ukraine we suggest to use the indicator system, that includes indicators calculated on the basis of income (share of income of local budgets in GDP; correlation of share of income of local budgets in GDP and share of income of public finances in GDP; specific weight of own income of local budgets in local government's income structure; specific weight of local taxes in local budgets' income etc), expenses (share of expenses of local budgets in GDP; share of expenses of public finances in GDP; share of expenses of local budgets in united budget expenses etc) and intergovernmental transfers (share of intergovernmental transfers from public finances to local budgets in GDP; the amount of intergovernmental transfers in the structure of local budgets' income; share of transfers taken from local budgets in public finances' income etc).

Besides this, it should be mentioned, that the assessment of the level of fiscal decentralization is not bound only to the above-mentioned indicator system, there is also a number of other indicators, that characterize the level of decentralization of the financial system of the country, for example, a share of non-tax income in the united budget's income, the index of financial independence, the index of financial dependence, a coefficient of budget coverage etc.

2. The assessment of the level of fiscal decentralization according to the indicators of the income group showed that local budgets in Ukraine share in average 7,0% of Ukraine's GDP, which is 3,5 times lower than the state budget does, besides, the analysis showed that more than 70% of all the income comes to public finances. It shows rather high level of centralization in Ukraine.

For instance, in average subnational budgets in EU countries make about 16% of GDP, and a share of income of regional and local budgets in a general state budget is about 34%.

3. The analysis of the indicators of fiscal decentralization according to the expenses and their comparison with the other groups of indicators show that in average within 2012–2016 the share of local budgets' expenses in GDP in Ukraine was on the level of 15%, compared with a share of local budget's income in GDP, which was in average 7,0% within 2012–2016, that is twice more, what means, that local budgets lack about half of the expenses to be covered by themselves, it also proves the indicator of the share of intergovernmental transfers in local budgets' income for the same period of time. It reveals rather high level of expenses' decentralization in Ukraine.

For instance, subnational governments of the EU countries can cover about 90% of expenses with own income: a share of income of subnational governments in GDP is 16,2%, while a share of expenses of subnational governments in GDP is 14,6%, it also proves the correlation of such indicators, as a share of subnational governments' income in general state income (33,9%) and a share of subnational governments' expenses in general state expenses (28,9%).

4. The EU countries are characterized by heterogeneous levels of fiscal centralization. The generalized indicator of fiscal decentralization proves that the highest level of fiscal decentralization is observed in Denmark, Sweden and Finland (accordingly 87,0%, 76,0% and 49,0%), and the highest level of centralization is in Greece and Cyprus. The average level of fiscal decentralization in EU is 18,0%. However, the highest level of income decentralization according to the share of subnational government's income is observed in Belgium, Spain, Germany, Netherlands, and the lowest one on Malta, Cyprus and Greece.

The subnational governments of Denmark, Spain, Sweden, Finland, Germany and Belgium are characterized by expenses coverage of about 90% with their own budget resources, and an opposite situation of financing the expenses of regional and local governments is on Malta, Cyprus and Greece. The rest of the EU countries has almost average indicator of the fiscal decentralization.

The results of the assessment of the fiscal decentralization level in Ukraine and the EU countries shows that Ukraine reached an imbalance between the levels of income and expenses' decentralization (inconsistency between the indicators is 2 times), and this is a violation of one of the main principles of fiscal decentralization, that states about providing every government level with its own income sources, in a sufficient quantity to realize their authority. Taking this into consideration, we suppose that Ukraine needs to have a decentralization level of expenses and income balanced, and not to achieve the average EU level, as the EU countries' experience showed heterogeneous development of decentralization of the fiscal system in these countries, besides, we should not forget about other factors, that define the fiscal decentralization model in a certain country.

European experience in decentralization shows and proves that subnational governments have a potential to become a strong foundation for building efficient financial system, that's why we think that strengthening of the income base of regional and local governments is one of the main directions for reforming the Ukraine's public finance management system.

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