

ANALYSIS OF THE FINANCIAL CAPACITY OF TERRITORIAL COMMUNITIES IN LVIV REGION IN CONTEXT OF BUDGET DECENTRALIZATION

R. Khirivskyi, Candidate Economic Sciences (PhD), associate professor

ORCID ID: 0000-0002-7299-429X

H. Skhidnytska, Candidate of Economic Sciences (PhD), associate professor

ORCID ID: 0000-0003-0333-1721

I. Havryliuk, Candidate of Economic Sciences (PhD), acting associate professor

ORCID ID: 0000-0002-9517-3021

Lviv National Environmental University

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Khirivskyi R., Skhidnytska H., Havryliuk I. Analysis of the financial capacity of territorial communities in Lviv region in context of budget decentralization

Decentralization processes which take place in Ukraine have fueled discussion about reconsideration and better explanation of the fundamentals of implementing the policy of financial support for the regional and local development that will contribute to establishment of financially capable territorial communities in Ukraine.

In the process of the research, the authors studied theoretical principles of the category formation, and practical aspects of establishment of the financial capacity of the territorial communities in Ukraine. The work describes institutional base of fiscal decentralization, identifies sources of revenues of territorial communities and methods to attract funding. The article considers criteria of financial capacity assessment, which are obtained from the data of financial and budget reports. The authors provide analysis of the dynamics of changes in the amount of local and national budgets which demonstrates growth of the nominal amount of revenues to local budgets under simultaneous reduction of their share in the national budget. Values of the main financial indicators of territorial communities during the war period in 2022 prove reduction of financial capacity of the majority of communities in Lviv region. It is found out that in the structure of the territorial communities' budgets, a large share is taken by tax revenues and official transfers from the budget. The share of non-tax revenues is small and is getting down. The authors provide recommendations for the bodies of state power and local government that will contribute to an increase of the communities' financial capacity.

Results of the research can be used when the strategies for the territorial community development in Ukraine are shaped.

Key words: budget decentralization, financial capacity, financial stability, territorial community, budget revenues, bodies of local government.

Хірівський Р., Східницька Г., Гаврилюк І. Аналіз фінансової спроможності територіальних громад Львівської області в контексті бюджетної децентралізації

Розвиток процесів децентралізації в Україні активізував дискусію щодо перегляду і поглиблення засад реалізації політики фінансового забезпечення регіонального та місцевого розвитку, що сприятиме формуванню фінансово спроможних територіальних громад України.

У процесі дослідження розглянуто теоретичні засади формування категорії та практичні аспекти формування фінансової спроможності територіальних громад України. Описано інституційну базу фінансової децентралізації, наведено джерела доходів територіальних громад і методи залучення фінансування. Розглянуто критерії виміру фінансової спроможності, які одержують із даних фінансової і бюджетної звітності. Проаналізовано динаміку зміни обсягів місцевих і державних бюджетів, яка проде-

монструвала зростання номінального обсягу доходів місцевих бюджетів за одночасного спаду їх частки в державному бюджеті. Розгляд основних фінансових показників територіальних громад Львівської області за воєнний 2022 рік демонструє спад власних доходів громад та збільшення видатків, що відображає зниження фінансової спроможності більшості громад Львівщини. Виявлено, що найбільшу частку у структурі бюджетів територіальних громад посідають податкові надходження і офіційні трансферти з бюджету. Частка неподаткових надходжень є незначною та стабільно знижується.

Подано рекомендації для органів державної влади та місцевого самоврядування, що сприятимуть підвищенню фінансової спроможності громад.

Дослідження можна використовувати у процесі розробки стратегій розвитку територіальних громад України.

Ключові слова: бюджетна децентралізація, фінансова спроможність, фінансова стійкість, територіальна громада, доходи бюджету, органи місцевого самоврядування.

Problem setting. Ukraine's integration to the European community requires implementing a set of reforms which deal with many spheres of the state life. One of them is the reform of decentralization of the state management focused on implementation of the actual tasks of social and economic development of regions, particularly increase of the level and quality of life of all categories of population, reduction of territorial differentiation as to the access to social benefits for the citizens of Ukraine, bridging the gap between development of regions and settlements and, finally, equal living standards on the whole area of Ukraine. The implemented transformations, including fiscal decentralization, provide significant independence for the power authorities to choose directions of their development and employ resource potential of the communities. However, there are great difficulties as to balancing the communities' power authorities and development of their financial capacity.

Analysis of recent researches and publications. Although the researches on the financial capacity of territorial communities are relatively new in the domestic scientific literature, development of financial stability of communities has been rather long discussed among scientists of the Western countries. In particular, John Marshall, David Douglas and other researchers have developed some methods for measuring financial stability of the communities (Marshall and Douglas, 1997). A significant contribution to the studies of the effective management of territorial communities' assets and budget planning has been done by M. Kopani, O. Kahanova, M. Shefer and S.Yilmaz, etc. (2014). The issues of decentraliza-

tion of local communities' powers are studied by A. Lelechenko, O. Vasylieva, V. Kuibida and A. Tkachuk (2017). I.Storonianska and A. Pelekhatyi (2014) are engaged in studying aspects of financial supply of the territorial community development. A complex research of the aspects of financial capacity of a region development is done by I.Kaminska (2009).

However, even the numerous researches conducted by domestic and foreign scientists do not completely disclose the issues of financial capacity of territorial communities of Ukraine that provides the terrain for the further studies.

Task setting. The present research aims to solve the following tasks, namely to analyze the potential of financial capacity of the communities in Ukraine generally and in Lviv region particularly; to study the current financial indicators of territorial communities; to identify key factors of the impact on financial capacity of communities; to provide recommendations on its increase.

Main material. Fiscal decentralization is a component of transferring authorities and budget revenues from the state bodies to the bodies of local government. Scientists distinguish three key forms of decentralization (Democracy Reporting International, 2017):

1. Deconcentration is considered the least radical form of decentralization. It is mainly viewed as the first step in the process of implementing the reform of self-government. It is revealed in introduction of a set of services at a regional level by delegating responsibilities due to formation of some departments and affiliates on the community area.

2. Delegation involves delegating respon-

sibilities to semi-autonomous structures, which are subordinated to the central government but are not necessarily its subdivisions.

3. Devolution is a full form of decentralization and includes delegating authorities in the field of management, decision making and funding to the local level within the frames of a clearly determined territorial community. Local managerial bodies are therefore considered totally independent and are usually elected at general elections.

Experts of the World Bank distinguish four key aspects of the decentralization process:

A. Political (Political Decentralization, 2021);

The process of political decentralization aims to support democratic changes in the society by providing citizens with more opportunities to influence formation and implementation of political processes. It is considered that participation in the local election jurisdictions provides more information for the citizens about their political representatives, and for the elected officials – about needs and wishes of their voters.

B. Administrative, which suggests transition of the authorities of planning, funding and management of some state function from the central power bodies and their departments to the territorial ones (Administrative Decentralization, 2021).

C. Fiscal (Fiscal Decentralization, 2021);

Effective implementation of the decentralized functions of power can be provided by the bodies of local governments (LGB) under available financial resources, as well as the opportunity for independent decisions making about their distribution.

It is worth noting that fiscal decentralization significantly differs in the unitary and federal countries, but in both cases, a particular attention should be paid to formation of internal mobility of the resources, including labor, as well as compliance with the national interests.

The first institutional fundamentals of performance of the local bodies of powers were declared in the Constitution of Ukraine in 1996, in the chapter XI «On Local Government» (Verkhovna Rada of Ukraine, 1996).

However, the full-fledged reform of decentralization of the state management started in 2014, when the CMU approved the «Concept of reforming local government and territorial organization of power in Ukraine» on 1 April 2014. In 2014-2015, a set of normative and legal acts

was approved to regulate the decentralization process:

1. Law of Ukraine «On Cooperation of Territorial Communities»;

2. Law of Ukraine «On Voluntary Amalgamation of Territorial Communities»;

3. Resolution of the Cabinet of Ministers «On approval of the methodology of establishment of capable territorial communities».

Violation of the approved Methodology has caused some problems for the further fiscal decentralization and full-fledged formation of the budgets of separate communities.

In particular, communities were primarily declared to become capable apart from the Government, the next step – to enlist the territorial communities which switched to direct budget relations in the Ministry of Finance.

Because of desynchronization of the mentioned stages, territorial communities sometimes made elections and switched to direct budget relations first, and only afterwards, they were recognized as capable ones.

It is known that in autumn 2020, after the local elections, establishment of territorial communities (TC) was completed. Thus, 1469 territorial communities were established on the area of Ukraine, including 31 communities – on the non-government-controlled area of Ukraine.

Analysis of the dynamics of changes in the amounts of local and state budgets is shown at the Figure 1.1.

According to the Figure 1.1., in the studied period of 2018–2022, the nominal amount of revenues to local budgets significantly increased, but their share in the state budget was getting down. To calculate the indicators, official transfers were considered.

When assessing financial capacity of territorial communities, the authors of the research analyzed budgets of territorial communities in Lviv region. The budget analysis demonstrates financial capabilities of the bodies of local government to exercise the authorized functions. Moreover, it is confirmed that the level of financial autonomy directly depends both on the amount and structure of budgets, as well as on the efficiency of the community's assets management that necessitates studies of the nature and potential of the finance sources. Therefore, implementation of the financial capacity includes development of all resources of its formation.

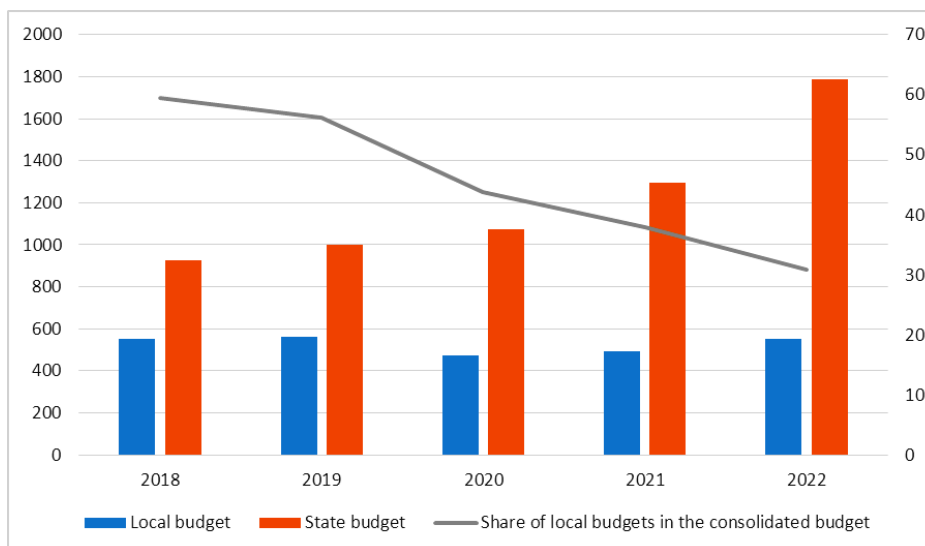


Fig. 1. Dynamics of revenues to the state and local budgets, billion UAH
(Revenues to the state budget of Ukraine by the items, 2022)

Originality of the budget systems of countries in the world prevents formation of a unified system of indicators, which are used to analyze financial capacity of the regions generally and territorial communities particularly.

The authors of the research consider that assessment of the financial capacity of territorial communities of Ukraine should be conducted in two dimensions:

a) diagnostics of the financial conditions and peculiarities of certain groups of territorial communities, specification of the basis for their development;

b) their impact on economic development of the country as a constituent of the reform of decentralization generally and implemented regional policy.

The two dimensions are definitely closely related, including gradual integration of the first dimension in the second one.

In the majority of conducted studies on analysis of the indicators of financial capacity of territorial communities, they assess:

- a) budget of the territorial community;
- b) assets and liabilities of the examined community.

Formation of a balanced budget of development reflects an effective policy of local government in terms of management of the territorial community's property. Moreover, effective im-

plementation of the resource potential will contribute to the efficient use of financial resources that will positively influence the indicators of financial capacity of communities. Thus, there is a vicious circle of the budget and financial conditions of territorial communities. In that context, it is important to apply foreign studies of Canada's communities, in which Marshall and Douglas distinguish the concept of financial capacity with the following specification of the categories of stability and financial capacity as the criteria of communities' viability.

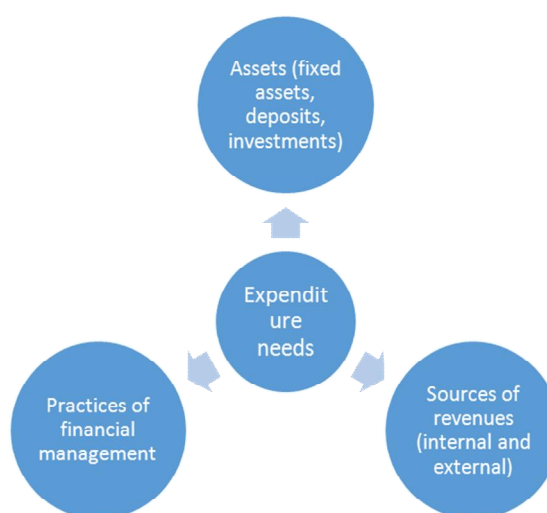


Fig. 2. Factors of impact on financial capacity of a territorial community

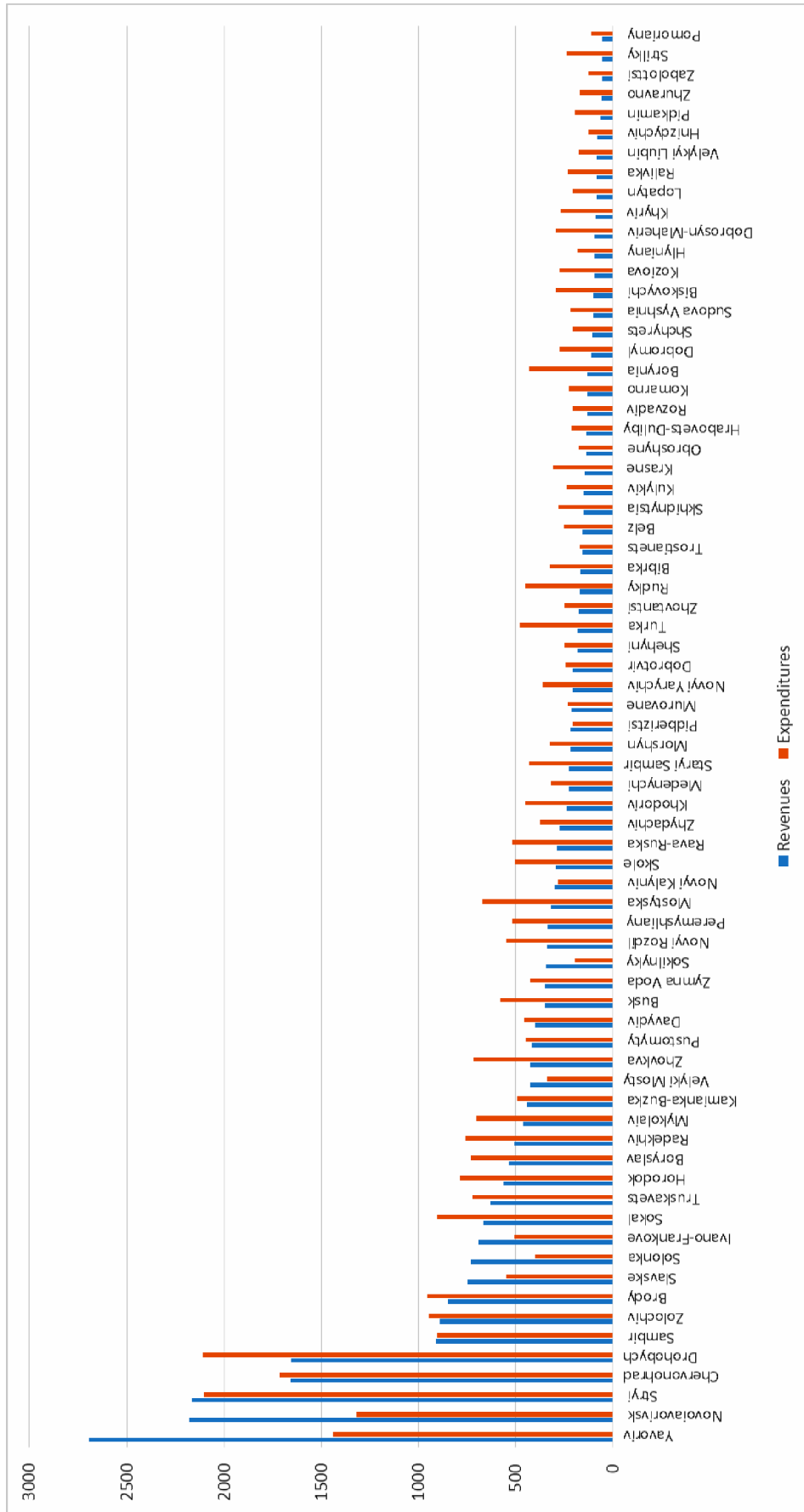


Fig. 3. Analysis of the main financial indicators of the territorial communities in Lviv region in 2022 (Budgets of territorial communities of Ukraine, 2022)

According to their definition, financial stability is revealed in the ability of the bodies of local government to absorb stresses and financial fluctuations. It is a basis for financial capacity, which involves support and the further development of financial conditions of the territorial community, as well as ability to adapt to modern challenges, to oppose threats of environment, etc. The key factors which influence financial capacity of a community are demonstrated at the Figure 1.2. The authors of the present research identify several key categories of the indicators, which are recommended to be used for assessment of the financial conditions of territorial communities:

1. With consideration of revenue indicators.
2. With consideration of expenditure indicators.
3. With consideration of debt indicators.

In compliance with the provided recommendations, the authors of the research have analyzed conditions of financial capacity of the territorial communities in Lviv region.

It is known that the process of establishment of the territorial communities in Lviv region was launched in Ukraine along with the start of the reform of state power decentralization in

2014. Since January 2021, 73 territorial communities have been established in the region, which are located on the area of above 22000 km² with the population of above 2478 thousand people. A favorable geographical position of the region and relatively large share of the working-age population create a substantial resource potential of the region. Unfortunately, negative factors, particularly COVID-19 pandemic and Russian invasion of Ukraine have caused heavy consequences for the economy of the state, including the region.

However, in 2021–2022 indicators of the financial capacity of communities in the region reduced, although some communities demonstrated high indices of budget revenues (Fig. 3).

Structure of revenues to local budgets includes:

1. tax revenues
2. non-tax revenues
3. revenues from capital transactions
4. official transfers.

In the structure of budgets of territorial communities, the largest share is taken by tax revenues and official transfers from the budget (Fig. 4). It is worth mentioning that personal revenues to the community budgets from the two named key categories are provided only by tax revenues.

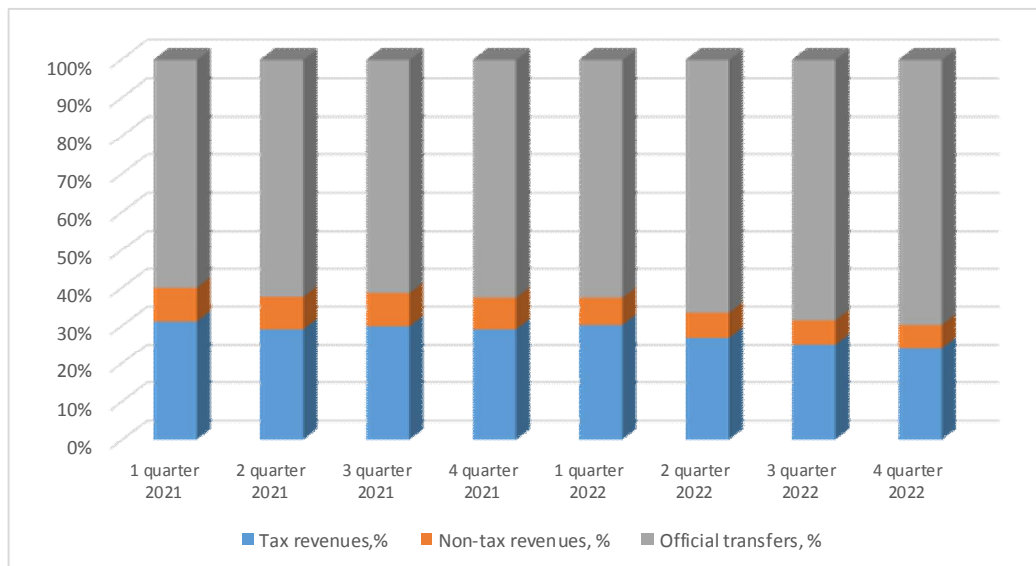


Fig. 4. Analysis of the structure of budgets of territorial communities in Lviv region

Structure of tax revenues should be divided into two main categories: national taxes and charges assigned to the territorial communities, and

local taxes and charges. These taxes and charges are of the highest level of autonomy because they can be directly influenced by local powers.

Conclusions. The reform of decentralization is implemented in several directions, namely administrative, fiscal, market and political, which are closely related with one another concerning the impact on implementation of the community's resource potential.

To achieve the goal of the research devoted to conditions of the financial capacity of territorial communities in Ukraine and in Lviv region particularly, the authors have analyzed the structure and sources of revenues to local budgets. The researchers considered resources of formation of the mentioned sources, and confirmed a significant reduction in the level of financial capacity of territorial communities in Lviv region, which are

getting more and more dependent on the budget subsidies (in some communities, the share of subsidies take above 80% of the total amount of the budget). The number of communities, which make reverse subsidies is getting down and accounts for 10%. These trends reflect general deterioration of the conditions of the national economy that is caused by external factors, namely COVID-19 pandemic and Russian military invasion of Ukraine. It is determined that in the structure of personal revenues of territorial budgets, the largest share is provided by tax revenues, particularly from personal income tax and single tax. The share of official transfers and foreign borrowings is dynamically going upward.

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