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## Article

# Ukraine's State Regulation of the Economic Development of Territories in the Context of Budgetary Decentralisation

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## **Ukraine's State Regulation of the Economic Development of Territories in the Context of Budgetary Decentralisation**

**Oleksandr H. Osaulenko<sup>1</sup>, Taisiia Bondaruk<sup>2</sup>, Liudmyla Momotiuk<sup>3</sup>**

### **ABSTRACT**

The paper presents the theoretical and methodological foundations of Ukraine's state legislation regulating the economic development of territories, in the context of budget decentralization. The study also describes the transformation of the public administration system necessitated by the above-mentioned phenomenon. The authors discuss the basic methods by which the state can regulate the activity of local self-government bodies: the legislative regulation, where the intervention of public authorities is minimized, and the administrative regulation, which provides rules and instructions which determine the relations between central and local authorities. The authors conduct and describe a methodologically consistent, systematic analysis of state regulations which support the local self-governments' activity. The paper also discusses the recent economic changes in Ukraine which demonstrate that the reform of the local self-government system and the decentralization of authority entail both prospects and problems for the country's development. As might be expected, the authors focus particularly on those problems that have not been solved yet. Additionally, statistical estimations of the phenomena relating to the process of producing state legislation regulating the economic development of territories in the context of budgetary decentralization have been provided. The authors conclude that a successful territorial development strategy requires a joint transformation of the way of the society's thinking and the modernisation of both the Ukrainian business and the state.

**Key words:** state regulation, budgetary decentralization, local self-government, local budget, economic development of territories.

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## **1. Introduction**

State regulation plays a significant role in the efficient functioning of the economy and is an effective tool for the economic development of the country and its territories. The problem of transformation of the state role, its goals in regulating the development of local self-government under conditions of budgetary decentralization requires special consideration. The urgency of studying the problems of state regulation of economic development of territories in terms of budget decentralization for Ukraine is conditioned by the need to develop an effective system of macroeconomic regulation of socio-economic processes in the context of decentralization. The process of socio-economic development of Ukraine on a democratic and legal basis is impossible without strengthening the role of local self-government. Budget decentralization is one of the main drivers of the much needed reform of self-government today.

There are many problems concerning the management of territories which are not only solved by financial and budgetary methods. This is the first and foremost problem of economic development of territories. Lack of investment can lead to systematic degradation and “extinction” of particular settlements. However, it is not possible to focus on the ongoing support of apparently unpromising territories.

Having gained independence from the state in terms of economic and financial activity as well as the right to its own regional policy, the local government authorities faced the problems of forming the local budget, distribution of state property at the regional and local levels, implementation of administrative reform, etc.

With the same analysis of the territorial entities within the regions there is even more disharmony in the issues of conformity with their economic development. Practice shows that quite often miscalculations of local management in the financial policy are explained by low skilled risk management, poor management training and so on. At the same time, there are many bureaucratic obstacles in management regulation procedures which hinder the use of local reserves.

The purpose of the study is to deepen the theoretical and methodological foundations of state regulation of economic development of territories in conditions of budgetary decentralization.

## **2. Transformation of public administration in conditions of decentralization**

One of the main problems facing local authorities of any country is the problem of relations with the state government bodies, especially central and regional ones. Taking into account this fact, a key problem is about the autonomy of local self-government. Among many beliefs regarding the solution of the problems of public administration,

the issue of decentralization, as one of the means of improving the efficiency of the functioning of public power, has been in the field of view of scholars and practitioners for a long period of time.

In particular, this is due to the successful implementation of the principles of decentralization in the practice of most European Union countries. Thus, changes in the distribution of competences during 2000-2016 show that there has been a considerable reform in the allocation of competences between levels of government in the field of governance and spatial planning in the EU since 2000 (COMPASS (2016-2018)). In particular, there are dominant trends that show decentralization and centralization tendencies in different parts of Europe. In many countries there were processes of management decentralization and planning of competences from national and sub-national levels to local level and strengthening local authorities' autonomy (COMPASS (2016-2018)), (Lidström, 2007). However, an increase in the processes of planning at the sub-national level (regionalization) has been observed. The third group of countries shows strengthening of national or sub-national government authority.

Local government autonomy is always relative since it is characterized by the presence of two types of restrictions (Grybanova G., 1998). The first type is the economic and social restrictions that are from different sources. Firstly, the conditions of local economy functioning limit the tax base. In the absence of subsidies from the central government, it is much more difficult for the "poor" areas than it is for the "rich" one to finance an adequate level of public services. In order to avoid a financial crisis local authority should take care of the productive use of land, capital and labour, with a well-developed strategy for developing a particular district. They also have to do it transparently so that the residents could see the feasibility of the ratio of costs (in the form of taxes paid to them) and the benefits received (through the use of services provided locally) are not worse than in neighbouring areas. Secondly, local-dominant interests can put pressure on political decision-making. First and foremost it deals with the interests of business and relevant elites (coalitions). The opinions are also expressed that the primary point in organizing state regulation is the issue of distribution of expenditures between the levels of government and consequently the budgetary system (Brosio G., 1985). As a result, the consequences of misallocation of expenditures lead to inefficient allocation of resources (Musgrave R.A., 1985).

The second type of restriction which is crucial for a political system and a society, peculiar to a particular country is imposed on local autonomy by senior levels of government. At the same time the following factors influence the autonomy of local self-government bodies: the sphere of competence, basic functions of local self-government bodies, forms and methods of their implementation; forms and methods of control over the activity of local self-government bodies by public authorities.

Management and spatial planning competencies are generally shared at different levels in most countries (Hooghe and Marks, 2003). The study of the evolution of the concepts of territorial management and spatial planning in terms of research methods and comparative planning trends has been addressed by Nadin V., Stead D. (Nadin V., Stead D., 2013), and Reimer M. (Reimer M., Getimis P., Blotevogel H., (eds.) 2014).

The studies of Central European countries that have successfully undergone economic and institutional transformation in the area of territorial governance and finance (for example, regarding the foreign capital involvement policy and its impact on Poland's economic development) have been successfully conducted by such authors as W. Dziemianowicz, B. Jałowiecki (Wojciech Dziemianowicz, Bohdan Jałowiecki, 2004).

### **3. Methodology of state regulation in the sphere of activity of local self-government authorities**

When characterizing the methodological basis of cardinal decision-making in the system of state regulation it is important to evaluate the effectiveness of implementation of the regulatory policy of the state in the sphere of ensuring the activity of the local self-government authorities. In order to develop the effective forms and methods of such a policy of the state in a market economy it is necessary to determine its effectiveness without fail. Consequently, it is necessary to develop a comprehensive system for monitoring and assessing the impact of state regulation on the activities of local governments.

In terms of complexity and consistency, the state regulation is determined by the mode of influence, and this is a radical or liberal intervention; or non-interference by ignoring the adverse market situation due to the lack of effective tools of influence. The nature of state regulation is also manifested in the need for solidarity or individual balancing of the complex interests of local governments: economic, social and financial in particular.

There are two main methods with the help of which the state can regulate the activity of self-government authorities.

The first is legislative regulation, where the intervention of public authorities is minimized; it is a kind of "remote" control. Following the adoption of the relevant laws local governments may act at their discretion as long as they remain within the law. The main instrument of legislative regulation is the constitution. The respective constitutional position of local self-government bodies in a particular country is determined primarily by the legislative consolidation of the right to local self-government within the constitutional system. The legal basis of local self-government is not only constitutional provisions but also the rules of current legislation. Typically,

local self-government issues are regulated in detail in specific local self-government laws as well as in some sectoral legislative acts. However, in some countries there is a single law on local self-government and in others – laws on certain types of local self-government. As a rule, the federal states do not have a special federal law on local self-government granting the subjects of the federation (lands, cantons) the right to fully regulate the issues of local self-government (Grybanova G., 1998). Most often political discussions between the state and local self-government unfold precisely around issues of current legislation.

Thus, the factors of state regulation policy are characterized by a set of objective and subjective, structured by directions, means of predominantly regulatory content with the help of which this policy is formed, implemented and evaluated. Such factors include macroeconomic, structural and dynamic, administrative and organizational, pricing, financial, credit, technical and technological, infrastructural and transport, foreign economic, social and demographic, ecological and recreational, and historical and cultural ones (Kvasha G. 2013). Conditions for the implementation of state regulation policy are shaped by the influence of external and internal political, economic and social environments.

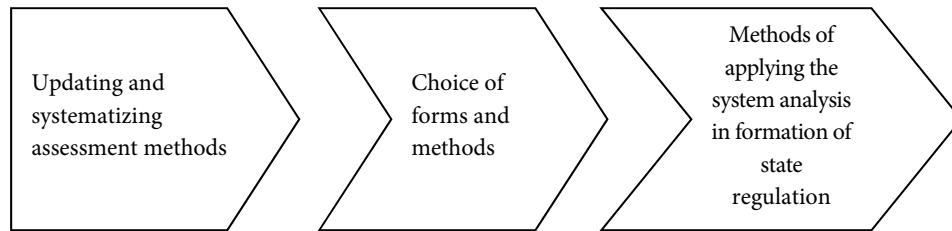
Another method is administrative regulation, which provides such an order of relations between the central and local authorities where by creating rules and instructions the state in the person of the central authorities gives a detailed account to local self-government bodies on one or another course of action. When implementing this kind of regulation the legitimacy of the actions of local self-government bodies is determined by the individual decisions of state officials (Grybanova G., 1998). In addition, administrative regulation often requires the prior approval of certain actions, which is legally stipulated. At the same time, in the legislative regulation only a judicial evaluation of the action is taken into account. Administrative control is by no means “remote”.

It is important to evaluate the consequences of state regulation of socio-economic development of territories in terms of achieving results, although the effectiveness of regulatory policy will undoubtedly depend on the decision-making procedure that is predetermined by the political process and on the tasks that ensure the implementation of such decisions.

When analysing the regulatory framework on the state regulation and relevant practical measures, a special attention is drawn to the fact that at the present stage of implementation of state regulation policy in Ukraine the main emphasis has been shifted from the stage of development of regulatory acts to the stage of gathering data on the effects of the adopted regulatory acts, monitoring their effectiveness as well as the efficiency of making decisions about changing or repealing them.

Preliminary evaluation of the results of state regulation makes it possible to determine more precisely the amount of financing of socio-economic development of territories, because it is at this stage that the idea of priority goals of state regulation, the tasks needed to be fulfilled to achieve the goals and the volume of necessary resources (material, human, time, information, etc.) are formed.

The methodological orientation of the systematic analysis of state regulation in support of the activity of local self-government bodies in the general form will be presented by the chain of operations shown in Figure 1.



**Figure 1.** Methodological consistency in conducting a systematic analysis of state regulation on ensuring the activities of local self-government bodies (Compiled by the authors)

The methodology of systematic analysis of the process of state regulation does not only open the space for qualitative analysis but also allows to make an analytical description of the mechanism of interaction in the model of state regulation, the development of methods, methodological recommendations and provisions on the formation of the objectives and their solutions on the basis of the developed models, etc.

In the study of mechanisms and instruments of state regulation, the synthesis of the action of streamlining the system of public administration and self-organization of the economic system is used (Borysenko O., 2017), which can also be used in the assessment of state regulation for ensuring the activities of local self-government authorities.

With their rational ratio, the synergy effect (that is the excess of the final effect compared to a simple summation of the effects of the action of certain instruments of state regulation) will give a much better result than the applied resources of public administration. This effect depends on the quality of the identified priorities in the public administration system, the establishment of proper internal interdependence and the interplay of tasks that are solved in the process of state regulation. Therefore, the purpose and objectives of state regulation are at the heart of the synergy effect. The use of synergies in a systematic approach ensures a qualitative transition from simple planning technology to public administration programming.

Taking into account the aforementioned information, it is necessary, firstly, to maintain the system of regulators of public administration in the sphere of ensuring the activity of local self-government bodies in a controlled state (i.e. within the parameters that must ensure and maintain the stability of management); and secondly, to apply methodological approaches that will facilitate the choice of the right management decision on state regulation as well as the identification of issues that determine further starting parameters of state regulation on the support of activities of local governments.

Thus, the system-synergistic approach to the analysis of state regulation for support of the activities of local governments is the most constructive of the applied areas of systemic research. It directs researchers not only to establish certain regularities in the functioning and development of mechanisms of public administration, but also to develop a methodology for organizing the decision-making process in the context of interconnection and interaction of factors that are in constant motion. This methodology requires the involvement of experts from different fields of knowledge and the application of different research methods, as well as systematic analysis of the public administration system itself and the assessment of the synergistic effect of applying elements of state regulation to support the activities of local governments.

#### **4. Assessment of regulation of the economic development of territories**

##### **4.1. Economic changes that have taken place in Ukraine**

In 2014, the local self-government reform was launched and the course on decentralization of power was developed in Ukraine. The course on decentralization outlines both prospects and problems of Ukraine's development. Despite receiving positive results of fiscal decentralization reform, the issues of forming and implementing local budgets still remain relevant.

Five years have passed since the introduction of the new model of intergovernmental budgetary relations, but the bulk of local budget revenues is still being generated by deductions from the state budget. In recent years, the volume of transfers in the structure of local budget revenues has increased, so in 2017 intergovernmental transfers from the state budget to local budgets were 1.5 times higher than in 2014. It is appropriate to note that the budget autonomy is largely determined by the level of own revenues. At the same time, the possibilities of local taxation were rather limited.

In addition to the problems caused by management risks and the implementation of the targets, other problems that have a direct or indirect impact on certain budget revenues, such as occurrence of adverse events in the national economy, deterioration of internal macroeconomic conditions of economy functioning (instability of the level



of industrial production and consumption, inflation and other factors causing increase in production costs), significant volumes of shadow economy, the dangers of the budget system and the management of the budget process are related to the inefficient redistribution of revenue sources and liabilities between the state and local budgets, low payment discipline, etc.

The issues of the expenditure part of the budget cause the following risks:

- making decisions that affect the increase in budget expenditures in excess of the approved amounts (increase in social payments, subsidies, benefits);
- increasing the share of budget expenditures on defence and security sector financing due to the military conflict and conducting an anti-terrorist operation in eastern Ukraine;
- increase in budget expenditures due to the influence of foreign economic factor (increase in energy prices, unfavourable change in prices for imported products, changes in exchange rates, etc.);
- debt component of budgetary risks as growth of expenses for servicing and repayment of public debt (as a result of currency, interest, price and credit risks).

In the analysis of the impact of the economic changes that have taken place in Ukraine regarding budgetary decentralization, it is established that they are characterized by such trends. The high level of GDP redistribution through the budgetary system remains. In 2016, the share of consolidated budget revenues in GDP was 32.9% and the share of consolidated budget expenditures in GDP was 35.1% (the highest figure in the last six years). An increase in the total amount of public and government guaranteed debt of Ukraine is observed, as well as a significant increase in budget expenditures to finance its servicing and repayment. The high level of the state budget deficit remains, the growth of which from 1.6% of GDP in 2015 to 2.9% of GDP in 2016 was conditioned particularly by the need to make debt payments, secure defence spending, social protection and security.

Failure to comply with the plan of revenues and expenditures of the consolidated, state and local budgets is caused by management risks and risks of failure to meet the targets. In the structure of state budget expenditures, in particular for 2016, the largest share is spent on financing intergovernmental transfers (28.5%), on social protection and social security (22.1%), on national functions (17.2%), public order, security and the judiciary (10.5%) and defence (8.7). The high level of centralization of budgetary funds remains, which results in the increase in the volume of intergovernmental transfers in the structure of budget revenues. The identified trends make it necessary to assess the unresolved issues for Ukraine.

#### **4.2. Assessment of unresolved issues of regulation of economic development of territories in Ukraine**

According to the economic policy pursued by local governments, we are increasingly observing the belief that the natural condition for the formation of the usual reproductive process in the region is the material and financial balance of the development of the region (Dolishniy M., 2001, Varnaliy Z., 2005).

Presently, no appropriate coordination mechanisms have been developed: on the one hand, on the long-term policies of the central executive bodies among themselves over a specific territory; on the other hand, between central and local governments in accordance with the development of goals and priorities at the state and local levels, which leads to a slow reform of the local government in the process of implementing administrative reform at the local level and insufficient rates of economic and social transformation.

Effective implementation of the regulation of economic development of the territories is also hindered by the insufficient provision of local self-government bodies with financial resources. Local governments should have adequate financial capacity to implement development policies. The lack of such opportunities will lead to territorial dispersion of state and local financial resources, inefficient use of them.

The issues of providing local budget revenues for the fulfilment of their own powers are not fully resolved. In rural areas, the list of incomes for fulfilling one's own powers is not enough: for one resident the level of own incomes of rural budgets is 4–6 times lower than the corresponding level of incomes of city budgets (Varnaliy Z., 2005). The relationship of the regional budget with the budgets of the local self-government body can be determined by the indicator of average budgetary provision per capita, calculated for two types of local government: urban and rural. In modern conditions, the cost per inhabitant in rural areas is much higher than in cities through transportation costs, the use of unstable sources of electricity and energy, etc.

Reforming intergovernmental budgetary relations at the basic level should be done in conjunction with the reform of the administrative-territorial structure and the formation of territorial communities in rural areas, which are capable of providing quality services to the population at the level of socially guaranteed standards. Another reason that hinders the effective implementation of territorial economic development regulation is the lack of a mechanism for forming local budgets based on socially guaranteed standards for providing services to the population, regardless of their place of residence. Local budgets are planned depending on the available capabilities of the state budget, which provides only the fair distribution of state resources but does not take into account the objective needs of territorial communities. Budget expenditures per inhabitant of a village, town or city fluctuate 10–15 times (Varnaliy Z., 2005).

This demonstrates significant territorial differences both in the economic development of rural, urban territorial communities and in the living standards of the population.

Finally, the mechanism for regulating the relationship between regional budgets and local government budgets needs to be improved particularly with regard to the setting of rates for local budgets. The state of financial support in most territorial entities depends as before on deductions from the state budget. At the same time the possibilities of local taxation are very limited. It is appropriate to note that the independence of budgets is largely determined by the size and level of their own incomes. Today the vast majority of local budgets are subsidized.

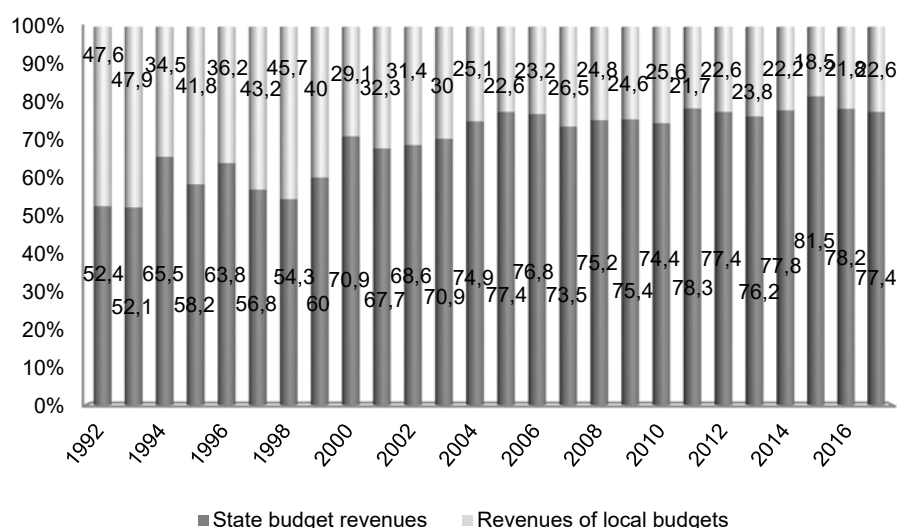
The fulfilment of the tasks facing local self-government requires the solution of a number of problems and the search for priorities. The right choice of priorities is the most important condition for the success of economic transformations, especially the structural ones. In this context, the stabilization of the economy which should be comprehensive in nature, that is be carried out simultaneously in all areas, namely production, finance, budget, taxes, property relations, politics and management and recognized as the paramount task. Macroeconomic stabilization should be based and complemented by specific approaches to local problems.

#### **4.3. Statistical evaluation of the processes of state regulation of economic development of territories in the process of budgetary decentralization**

In the process of regulating the economic development of territories, it is important to analyse the factors that determine the need for such regulation. First of all, the efficiency of regulating the economic development of territories is characterized by the process of generating local budget revenues. Therefore, we will analyse the formation of local budget revenues, which on the one hand allow to study the dynamics and structure of these revenues and on the other hand characterize the process of forming the local budget revenues in the current conditions of decentralization of the budget system in order to implement regulatory processes that would meet the real needs of citizens, society and the state.

The main tasks of the analysis of budget revenues are to determine their volume and dynamics. The level of income redistribution through the consolidated budget in the years of Ukraine's independence is characterized by the data presented in Figure 2.

According to Figure 2 data, a considerable part of the budget resources is concentrated in the local budgets of Ukraine. However, in recent years there has been a steady downward trend in the share of local budget revenues in the consolidated budget revenue structure – from 47.6% in 1992 to 18.5% in 2015, which is more than double. In recent years, about 80% of budget resources have been accumulated in the State Budget of Ukraine, which indicates a high degree of centralization of the budget system.



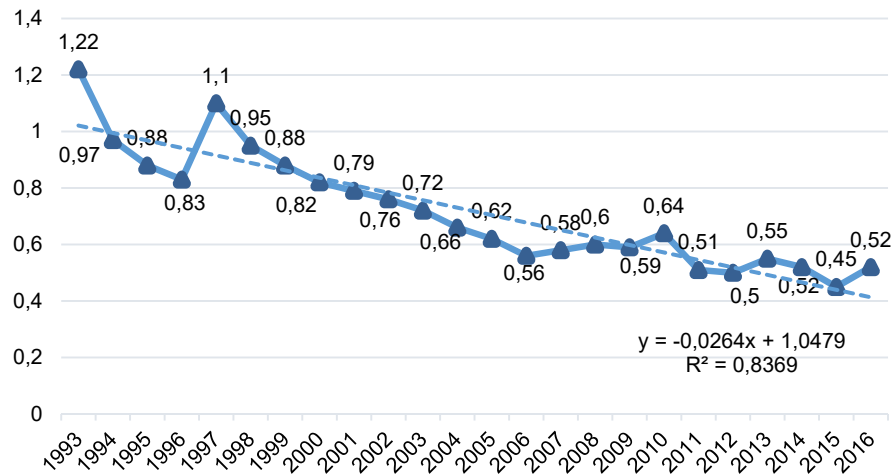
**Figure 2.** Dynamics of revenue distribution in the consolidated budget of Ukraine, %

Source: Calculated by the authors according to the State Treasury Service of Ukraine.

Expenditures play a leading role in regulating the economic development of the territories, i.e. the need for resources shapes the need for their accumulation. Expenditures of local budgets are considered to reflect the degree of decentralization of power, as they characterize the volume of meeting the needs of the population of a certain administrative-territorial formation, the priorities of its socio-economic development.

As can be seen from Figure 3 in 1992, 1993 and 1997, the share of local budget revenues exceeded their share of expenditures; since 1998 the situation has changed dramatically – each year the share of expenditures exceeds the share of local budget revenues. In the period of 1992–2014, the growth of expenditures of local budgets of Ukraine has significantly outstripped the dynamics of their revenues.

Moreover, each year the lag of such excess increases; if in 1998 the share of revenues relative to the share of expenditures of local budgets in the consolidated budget of Ukraine was 0.95, in 2012 it was already 0.5, and in 2014 and 2017 – 0.52, i.e. it has almost halved (Figure 3), which indicates a significant increase at the level of centralization of budgetary funds.



**Figure 3.** Revenue share relative to the share of local budget expenditures in the consolidated budget of Ukraine

Source: Calculated by the authors according to the State Treasury Service of Ukraine.

Analysis of the local budgets of Ukraine allows to draw a conclusion that existing approaches to their formation do not create any economic incentives for local authorities as for development of their regions (administrative-territorial units), expanding their own tax base as well as to efficiently use the budgetary funds (Lunina I. O., 2014).

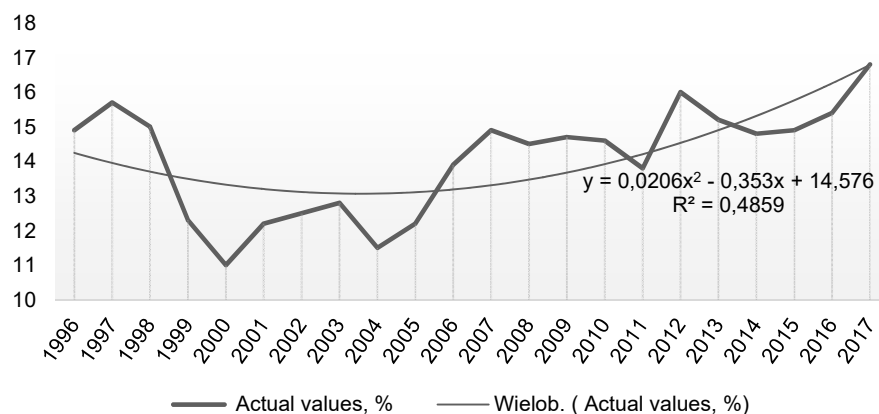
The need for state regulation of the economic development of the territories also predetermines that the formation of the revenue part of local budgets takes place in quite difficult conditions. The lack of financial autonomy of local self-government bodies, namely the lack of financial resources and the instability of their revenue sources have become an urgent and acute problem.

Foreign experience is not sufficiently used in the construction of the budget system in the country, and effective economic and mathematical models are hardly applied when determining the revenue bases of the local budgets (Stavnichna M., 2014).

At present, there is no clear justification for the level of decentralization that should be in Ukraine. The level of decentralization is proposed to be measured by such an index as the share of Gross Domestic Product, which that is redistributed through local budgets (Bondaruk T., 2009). We believe that this concerns particularly the share of local budget revenues in the total GDP.

As can be seen from Figure 4, from 1997 to 2000 the share of local budget revenues in GDP decreased; if in 1997 it was 15.7%, in 2000 – 11%. During 2001–2007 there was a steady positive tendency to increase the share of local budget revenues in the GDP of

Ukraine. In 2001 it was 12.2%, in 2007 already 14.9%. In 2012 and 2017 we note the maximum value of this indicator – 16% and 16.8% respectively.



**Figure 4.** The share of local budget revenues in the GDP of Ukraine

Source: Calculated by the authors according to the State Treasury Service of Ukraine.

Significant fluctuations in the share of local budget revenues in GDP do not allow us to make a conclusion on its clear tendency (decrease or increase). It is possible to identify the trend by building a trend line (Figure 4). The constructed trend line shows that despite the sharp fluctuations in the share of local budget revenues in the GDP of Ukraine during the analysed period its overall trend during this period is upward.

It is advisable to use the indicator of the share of local budget revenues and the share of transfers in the total GDP in order to carry out an in-depth analysis of the trends in regulating the economic development of the territories. The share of local budget revenue in GDP is a fairly significant financial and economic indicator. The place and role of local budgets in the GDP redistribution system are reflected in the data presented in Table 1.

**Table 1.** Dynamics of local budget revenues and transfers from the state budget to GDP in 1996–2017

Years	GDP (in actual prices)	Revenues		Transfers from the state budget		% of the share of transfers in GDP to the share of revenue in GDP
		Mil. UAH	% of GDP	Mil. UAH	% of GDP	
Before the processes of budgetary decentralization						
1996	81519	12138.6	14.9	1186.2	1.5	10.07
1997	93365	14615.0	15.7	2476.8	2.7	17.20
1998	102593	15413.6	15.0	2202.8	2.1	14.00
1999	130442	16094.8	12.3	2942.4	2.3	18.70
2000	170070	18689.8	11.0	4378.0	2.6	23.64
2001	204190	24972.7	12.2	7237.1	3.5	28.69
2002	225810	28247.4	12.5	8818.1	3.9	31.20
2003	267344	34306.5	12.8	11729.1	4.4	34.38
2004	345113	39593.1	11.5	16819.4	4.9	42.61
2005	441452	53677.3	12.2	23361.1	5.3	43.44
2006	544153	75895.2	13.9	34150.3	6.3	45.32
2007	720731	107050.5	14.9	48701.5	6.8	45.64
2008	948056	137455.3	14.5	63583.2	6.7	46.21
2009	914720	134552.4	14.7	63523.7	6.9	46.94
2010	1094607	159397.1	14.6	78881.3	7.2	49.32
2011	1314000	181600.0	13.8	94900.0	7.2	52.17
2012	1411238	225273.4	16.0	124459.6	8.8	55.00
2013	1454931	221019.4	15.2	115848.3	8.0	52.63
2014	1566728	231702.0	14.8	130160.0	8.3	56.08
During the process of budgetary decentralization						
2015	1979500	294500.0	14.9	173980.0	8.8	59.06
2016	2383182	366143	15.4	195935	8.2	53.51
2017	2982920	502098	16.8	272603	9.1	54.29

Source: Calculated by the authors according to the State Treasury Service of Ukraine, Ministry of Finance of Ukraine.

The analysis of local budget revenues in Ukraine shows that their level increased from 14.9% of GDP in 1996 to 15.7% of GDP in 1997 but in the following years there was a decrease to 11.0% in 2000. From 2005 to 2013, not only the stable dynamics of

nominal earnings growth was observed but also the highest annual growth rates since 2001. Only in 2011 the share of local budget revenues did not exceed 14%, in 2013 this indicator reached 15.2%, but in 2014 it decreased to 14.8%, and in 2016 and 2017 it increased to 15.4 and 16.8%. This trend indicates an increase in the role of local budgets in the distribution of GDP during 2016–2017, i.e. during the budget decentralization process.

An indicator of increasing dependence of local budgets on the state budget is the growth in the volume of transfers. Thus, in the structure of local budget revenues the share of transfers from the state budget grew from 1.5% of GDP in 1996 to 8.8% in 2012, i.e. five times, in 2013–2014 it decreased slightly compared to 2012. In 2013 this indicator decreased to 8.0% compared to 2012. However, in 2014 the share of transfers from the state budget of Ukraine increased relatively to 8.3% and in 2017 it amounted to 9.1%, which is the highest indicator for the analysed period. Having considered the ratio of transfers to GDP to the share of revenues in GDP we note a steady upward trend from 10% in 1996 to 59.06% in 2015, which also indicates an increase in the financial dependence of local budgets on transfers.

The steady growth of transfers from the State Budget of Ukraine to the local budgets leads to important risk factors for financial decentralization in Ukraine. Thus, the priority of the budget policy of Ukraine is to ensure favourable conditions for state regulation of the activities of local self-government bodies, particularly in the formation of local budgets.

## **5. Analysis and discussion of the results**

As a rule, most European countries use the approach of combining an active and passive policy of state regulation, which involves increasing the role and responsibility of local governments for the economic development of the territory, the need to find new tools to stimulate economic development.

The purpose of the first approach is a qualitative change in the structure of the economy. Such a policy is first and foremost applied when it is considered that the market conditions are not sufficient to resolve disparities in territorial development. It envisages raising the level of labour productivity in regions with low levels of development through public investment in local infrastructure, stimulating local development by providing the right conditions for creating and functioning of small and medium-sized businesses.

The aim of the second trend of state regulation policy is to improve regional development by implementing measures that promote the effective functioning of market mechanisms by removing obstacles to labour and capital mobility and ensuring better exchange of information and technology between regions.



Local governments play a key role in organizing territorial development. The state delegates the powers them to maximize administrative and social services to the population, enhances the capacity of local communities to solve local problems.

As a rule, the state is entrusted with the task of forming the concept of a state regulation strategy, the key goal of which should be to maximize the criteria for the sustainability of territorial development, the coherence of interests of territories.

In this case, the state's task is to forecast and plan further regional development. Forecasting and planning at the level of local self-government must be complex, systematic, scientifically based and legally binding. Regional planning is a form of state regulation of the economy and social sphere at the local level in order to resolve acute regional imbalances and social contradictions.

The important tasks of the state are also to ensure the regional unity of reproductive macroeconomic processes, to promote active socio-economic activity of the regions, to form and ensure stable links vertically – between the centre and the regions, and horizontally – between the regions in order to achieve the goal of providing sustainable development of the regions.

In the process of analysing numerous approaches and trends regarding the specific participation of the state and local self-government bodies in regulating the development of territories, a general understanding of the three most important ways of their activity has been formed.

Firstly, the creation of legal and organizational conditions necessary for the functioning of market institutions.

Secondly, state restructuring of the principles of democracy in accordance with the requirements of the market economy. This means a profound transformation, including mastering new methods of managing the economy.

Thirdly, the transition to new forms of regulation, economic and social policies, the goal of which is to find the best way of solving the most important three-fold problem: 1) to maintain stability in a society where social stratification is increasing, the subsistence level is not provided for a large part of the population, the unemployment rate is rising (L. Grygoriev, 2008); 2) stabilize the economy; 3) ensure economic growth.

If the first two areas of state involvement in the economy, namely the creation of a legislative framework for a market economy and the reform of the state itself, are explained by researchers as the need for leading state participation in these processes, the same cannot be stated about all the three areas in general. Starting from this block of questions the differences become particularly noticeable and get a specific history.

At the initial stage of market transformations some opinions were expressed about the possibility of combining the processes of stabilization and structural adjustment of the economy. Some scientists found it unrealistic to carry out a structural transformation in the face of high inflation and a deep decline in production.

Supporters of the possibility of combining these processes argued their own position with the scientific substantiation and positive practical experience of Japan and Germany, in which the processes of economic stabilization and its structural adjustment were combined.

## 6. Summary and conclusion

Generalization of theoretical developments and positive experience makes it possible to say that in order to carry out structural adjustment in the economy, at least several goals must be achieved:

- to ensure the readiness of the state to carry out structural adjustment of the economy considering such a goal as a long-term strategic one;
- to develop a scientifically sound program of socio-economic development and financial stabilization of the territories in conditions of limited budget resources at a proper professional level, to carry out a thorough review of goals and priorities of a structural policy.

There are both objective and subjective problems, the solution of which will contribute to the economic stabilization of the country and the economic and social development of the territories. Objective problems of the country (differences in the level of development of its regions, difficulties in the coexistence and interaction of public institutions) should not remove responsibility from the political and intellectual elite for the fate of citizens and the state. The subjective reasons that mostly relate to Ukraine include the following:

1. Inability of politicians to take into account the interests of leading social groups that change dynamically in the course of economic and social development, the absence of a long-term strategy based not on the faith but on the conscious participation of citizens in its implementation.
2. Constant preferences for certain oligarchic clans, who try to keep their own income at the expense of other layers of society.
3. Depriving citizens of liberty for protecting themselves from external or other threats and subsequent restriction of their activities, which means stagnation for society, and for politicians – the loss of support from population, government and finally, a good name in history.
4. Negligent attitude to the scientific and social creativity of the individual, the emphasis on simple diligence instead of activity. Attractive for many, the high American standard of living is based not only on the rich resources and vast expanses of the country but also on democratic values promoting the idea of the personal success and vertical mobility within public institutions. The problem of the country is the lack or weakness of encouraging (from above) of protection of one's

own dignity as well as the responsibility of local authorities to citizens instead of paternalism, etc.

The major disadvantage of most of Ukraine's state programs of the past years was that one or the other path of development was offered either as an ideological dogma, whether it was the foundations of the former state plan or liberal programs, or as a set of projects and expenditures. In the transformation period, there was a traditionally high activity of theories, schemes which have not been confirmed by the world science.

Their biggest drawback is the inadequate understanding of the interests of participants of the modernization process: big and small business, different layers of the population, etc. In some cases the efficiency of the market is exaggerated and the importance of forming market institutions is ignored; in others, the efficiency of state regulation is praised and no attention is paid to the objectives of creating the quality market institutions.

The development of a successful territorial development strategy requires the modernization of civil society, business and the state at the same time.

There is definitely dependence of future modernization of the development of territories on modernization in the country and the sustainability of civil society for modernization based on the implementation of the inevitability of compromises and compensations considering that it is impossible to solve simultaneously all the problems in the regions with a significant differentiation of economic development and in a socially heterogeneous society.

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