

Financial Support of the Decentralization Process in Ukraine. 36th  
IBIMA Conference: 4-5 November 2020, Granada, Spain.

URL: <https://ibima.org/accepted-paper/financial-support-of-the-decentralization-process-in-ukraine/>

Науково-метричні бази: **SCOPUS, Web of Science**

## **FINANCIAL SUPPORT OF THE DECENTRALIZATION PROCESS IN UKRAINE**

Nataliia ORLOVA

Dr. Sc. (Public Administration), Professor, Professional development Center of Kyiv Region,  
Ukraine

[orcid.org/0000-0003-0785-751X](https://orcid.org/0000-0003-0785-751X)

[nsorlova78@gmail.com](mailto:nsorlova78@gmail.com)

Valeriia LOIKO

Dr. Sc. (Economics), Professor of Department of Finance and Economics, Boris Grinchenko Kyiv  
University, Ukraine

[orcid.org/0000-0003-3248-1585](https://orcid.org/0000-0003-3248-1585)

[v.loiko@kubg.edu.ua](mailto:v.loiko@kubg.edu.ua)

Andriy STOYKA

Dr. Sc. (Public Administration), Professor,  
The Head of Tourism Department  
Donetsk State University of Management  
Mariupol, Karpinskogo st, 58

<https://orcid.org/0000-0001-5777-8153>

[andreystoyka@gmail.com](mailto:andreystoyka@gmail.com)

Anna CHECHEL

Dr. Sc. (Economics), Associate Professor,  
Donetsk State University of Management, Department of Public Administration and Management  
(Mariupol, Ukraine)

[orcid.org/0000-0003-4307-5574](https://orcid.org/0000-0003-4307-5574)

[annachechel.ac@gmail.com](mailto:annachechel.ac@gmail.com)

Oleksandr CHERNYSHOV

PhD. (Economic Sciences),

Associate Professor, Donetsk State University of Management, Ukraine

[orcid.org/0000-0003-0422-2252](https://orcid.org/0000-0003-0422-2252)

[s.chernishov@i.ua](mailto:s.chernishov@i.ua)

### **Abstract**

The paper substantiates the financial support of the decentralization process in Ukraine. The necessity of reforming the existing system of financial support of the decentralization process has been proved. The main tasks of public authorities of Ukraine in the conditions of decentralization have been determined. The purpose of the article is to substantiate financial support areas for the decentralization process in Ukraine. The study's methodological basis is the Ministry of Finance of Ukraine's data, the Ministry of Regional Development, Construction, Housing and Communal Services of Ukraine. It has been proved that Ukraine's united territorial communities' (UTC) financial resources are formed by

90.0% due to tax revenues. It has been proposed to expand the list of non-tax revenues for UTC budgets at the expense of other resources to stabilize UTC development's financial support. It has been proved that the growth rates of expenditures in local budgets of Ukraine in 2018 – 2019 were higher than the growth rates of revenues, which led to a deficit. It has been substantiated that a significant differentiation in revenues and expenditures by UTC groups indicates economic inequality in the development of UTC territories and resource provision, which is reflected in the amount and quality of public services received by residents in the respective UTCs. It has been determined that in order to intensify the process of financial incentives for sustainable development of territorial communities, it is necessary to ensure effective communication between executive authorities and local governments, organizational and methodological assistance to local governments, dissemination of information on successful practices of cooperation projects, European experience of UTC financial resources in EU countries for Ukraine. It has been proposed to ensure local authorities' financial autonomy and stability by transferring powerful sources of budget revenues, previously assigned to the central government, and the expansion of the financial base of administrative-territorial formations.

**Keywords:** local governments; resource potential; decentralization; local finances; financial incentives

## **Introduction**

Ukraine's state policy in the field of local self-government is based on the interests of residents of territorial communities and provides for the decentralization of power - the transfer of the powers, resources, and responsibilities from bodies of executive power to local governments. This policy is based on the European Charter of Local Self-Government provisions and the best world public relations standards in this area.

The legislative basis for changing the system of government and its territorial basis at all levels was formed in 2014 after the adoption of the concept of reforming local self-government and territorial organization of power, which consists of three areas: basic (formation of united communities of the basic level of administrative-territorial structure of Ukraine); creation of new districts, which will deal with only related to the competence of the district issues (communal property, secondary medicine, boarding schools, etc., the rest of the powers of the districts belong to the competence of united communities); final - change the form of management of regions (oblasts) [1]. Such a community's essential systemic features are stable economic, social, informational, political, cultural, and environmental ties and relations, distinguishing it as a relatively independent system of human life's spatial organization.

In 2014-2015 Ukraine took significant steps towards reforming local self-government: the process of unification of territorial communities, decentralization of public administration, and finances; several regulations aimed at legal regulation in this area were approved, budget and tax reforms were carried out provided strengthening of the financial basis for the livelihood of territorial communities.

*Analysis of recent research and publications.* The study of theoretical and applied principles of financial support of the decentralization process in Ukraine and the formation of financial capacity of territorial communities were discussed in the works of Weingast (1997), Akai, N., & Sakata, M. (2002), Rodden, JS, & Rose-Ackerman, S (1997) , Bartolini, D., Sacchi, A., Salotti, S., & Santolini, R. (2018), Bisogno, M., Cuadrado-Ballesteros, B., Santis, S., & Citro, F. (2018) and Romans, W., Ulasiuk, I. and Petrenko Tomsen, A. (2018) , Alina Korbutiak, Zhanna Lysenko, Nataliya Sokrovolska, Artur Oleksyn, Eduard Yurii (2019) ), Palchuk V., Babyuk I., Chepel O. and other scientists. These scientists' achievements have theoretical and practical significance in the area and became the basis for further research on the justification of ways to support the process of decentralization of Ukraine financially. Given the rapid changes in the country's socio-economic and political sphere and the development of Ukraine's decentralization process, the outlined topic needs further comprehensive research and coverage.

The works of foreign scholars, in particular Weingast (1997), Akai N., & Sakata M. (2002), Rodden J.S., & Rose-Ackerman S. (1997) emphasize the positive features of the decentralization process. In the authors' opinion, decentralization provides more opportunities for local communities and local authorities to attract investors .

The positive impact of fiscal decentralization on the formation of financial resources of local government and the national budget was noted in the researchers of the following scientists: Bartolini D., Sacchi, A., Salotti S., & Santolini R. (2018), Bisogno M., Cuadrado-Ballesteros B., Santis S., & Citro F. (2018) and Romans W., Ulasiuk I. and Petrenko Tomsen A. (2018).

Foreign scholars suggest the use of tax autonomy, which will improve the budgets of all government levels. Decentralization of tax collection will help strengthen budgetary discipline during the financial crisis. In Ukrainian scientists' works by A. Korbutiak, Zh. Lysenko, N. Sokrovska, A. Oleksyn, Eduard Yurii (2019), N. Orlova and O. Kozyrieva (2019), O. Marukhlenko (2018), it is emphasized that in the process of decentralization reforms in Ukraine, there are still many problems that need to be solved. The works of V. Palchuk, I. Babyuk, and O. Chepel outline the ways of forming capable territorial communities, namely: the creation of UTC, transfer of financial support, and other powers to the local level and attraction of investments, expansion of UTC funding sources, preservation of enterprises located on the UTC territory and creation of a UTC profile of resource potential.

*The purpose of the article* is to substantiate financial support areas for the decentralization process in Ukraine.

*The methodological basis of the study.* The leading research method is a comprehensive analysis of the financial and budgetary components of the decentralization of management at the local level.

## **Main part of research**

State policy regarding the formation of territorial communities includes a significant number of regulations governing their activities and powers. During the period of power decentralization and preconditions creation for the capable territorial communities formation, a number of legislative acts were adopted, including the laws of Ukraine: "On Cooperation of Territorial Communities", "On Amendments to the Tax Code of Ukraine and Some Legislative Acts of Ukraine on Tax Reform", "On Amendments to the Budget Code of Ukraine on the Reform of Intergovernmental Relations", "On the Principles of State Regulatory Policy", "On Voluntary Association of Territorial Communities", "On Local Elections", "On Amendments to Certain Laws of Ukraine on Organization of the first elections of deputies of local councils and village, settlement, city mayors", "On amendments to the Budget Code of Ukraine on the peculiarities of formation and implementation of budgets of united territorial communities", "On amendments to the Budget Code of Ukraine on the inclusion of certain administrative fees in local budgets".

The reform of local self-government bodies envisages the unification (consolidation) of territorial communities. This is due to the fact that excessive resources in such communities are spent on the maintenance of the administrative apparatus, while the implementation of crucial local development projects lacks funds, providing additional resources to the vast majority of existing local communities will not provide their capacity. Therefore, the reform of local self-government, taking into account the positive European and its own historical experience, relies on the obligatory unification (consolidation) of territorial communities.

The purpose of local self-government reform is to ensure its ability to independently, at its own expense, address issues of local importance, i.e., to provide territorial communities with more resources and mobilize their internal reserves. The primary tool for the socio-economic policy is the budget, so budget policy promotes sustainable and significant economic development. At the present stage of local government, the basis is budget decentralization.

Reforming the territorial organization of power and administrative-territorial organization in Ukraine is one of the fundamental reforms that affect many areas of people's lives. Successful implementation of this reform, which has to result in a radical change in social development management's basic principles, is a vital prerequisite and guarantee for solving other systemic problems of Ukrainian society's socio-political and socio-economic development.

Since the approval of the Concept of Reforming Local Self-Government and Territorial Organization of Power, the necessary legal framework for reform has been formed. In particular, amendments to the Tax and Budget Codes of Ukraine (fiscal decentralization) were made, the State Strategy for Regional Development was approved, and a new Law on Regional Policy was adopted, changes in the administrative-territorial system were observed. The peculiarity of decentralization of formation in Ukraine is that reforming local self-government, administrative-territorial organization, and state regional policy is underway simultaneously.

On December 28, 2014, the Verkhovna Rada of Ukraine adopted amendments to the Tax and Budget Codes of Ukraine. Those changes determined the new financial basis of local governments, established a new distribution of national taxes and introduced new local taxes, as well as established a new system of budget equalization.

On January 23, 2019, the Cabinet of Ministers of Ukraine initiated the transition to a new stage of decentralization reform, which envisages consolidation of already achieved successes and formation of capable communities, change of territorial organization at the level of districts and communities, clear delineation of powers and functions of local democracy regulation.

The most problematic parts of this task in Ukraine at the moment are the following: outdated legislation, which no longer provides sufficient autonomy to address issues of local importance of local governments effectively; inconsistency of organizational and financial capabilities of local self-government bodies with the needs of territorial communities development; the insufficient practice of direct participation of territorial communities in solving issues of local importance. The analysis of modern methodological bases of research and elaboration of sustainable development strategies testifies to the absence of domestic generally accepted and used modern methods, which often lead to many unsuccessful decisions in the field of sustainable development management.

In order to solve the already mentioned problems in reforming territorial communities and preventing the emergence of new ones, public authorities' main tasks can be outlined in figure 1 (Fig. 1).

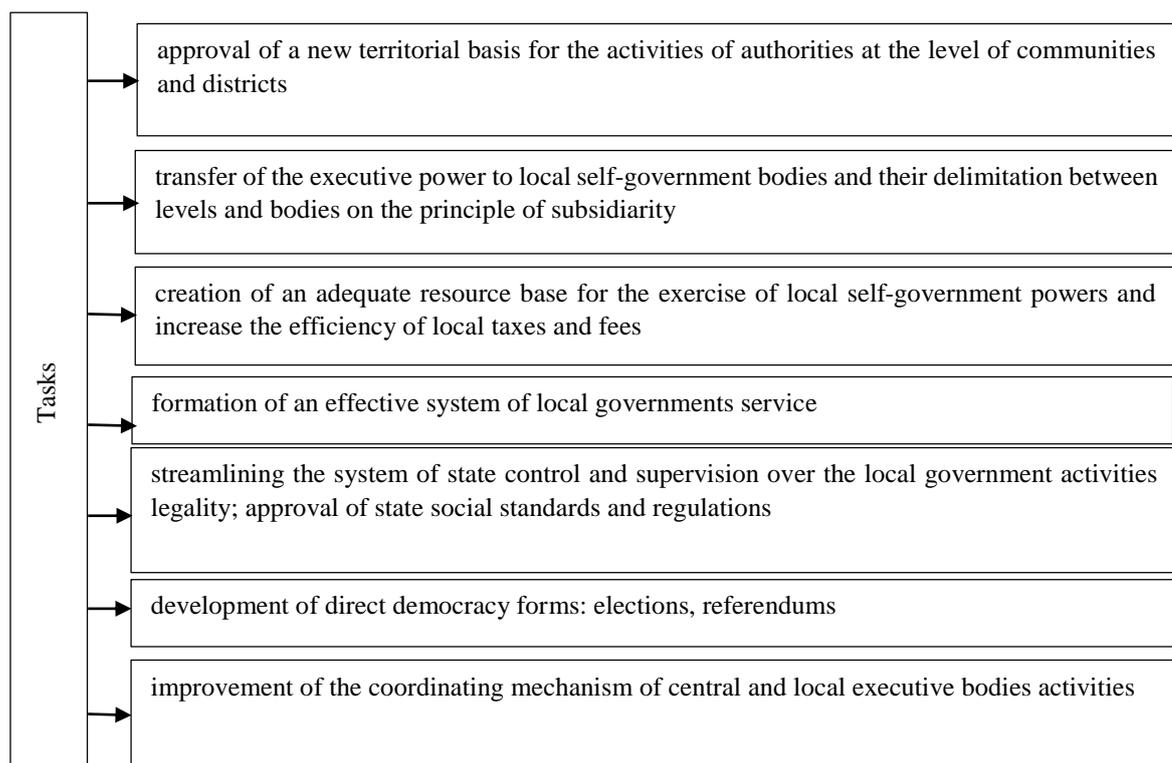


Fig. 1. The main tasks of public authorities of Ukraine in the context of decentralization.  
 Source: compiled by the authors based on [9-13]

Reform of local self-government and decentralization of power involves overcoming many obstacles: the dependence of territories on the center; infrastructural and financial weakness of communities; rural degradation; high level of community subsidies; low level of investment attractiveness of territories, etc.

## Results

During the period of decentralization reform, starting from 2014 to the present, more than 800 united territorial communities have been created in Ukraine. After amendments to the tax and budget legislation, the main taxes that fill local budgets (cities of regional significance, districts, united territorial communities) were: 60% personal income tax, 5% excise tax on the sale of excisable goods, 100% single tax, 100% property tax (real estate, land, transport), 100% land tax, 100% profit tax on communal property enterprises, 100% fee for the provision of administrative services and 25% environmental tax. Local governments have the right to service the revenues of their budgetary institutions and development funds in state-owned banks and not to depend on the State Treasury. Ukraine's decentralization process main direction is budget financing of territorial communities' development at the expense of local budgets.

The dynamics of the composition and structure of Ukraine's local budgets' revenues and expenditures for 2014-2019 are given in the table. 1.

Table 1: the dynamics of the composition and structure of Ukraine's local budgets' revenues and expenditures for 2014-2019 years

Year	Revenues of the general fund of local budgets (including transfers from the state budget), UAH billion	Including official transfers from the state budget, UAH billion	Share of official transfers from the state budget in the revenues of the general fund of local budgets, %	Expenditures of the general fund of local budgets, UAH billion	Including transfers to the state budget, UAH billion	Share of official transfers to the state budget in expenditures of the general fund of local budgets, %	Deficit "-", surplus «+» of general fund of local budgets, billion UAH
2014	231.7	130.6	56.37	225, 6	2.118	0.94	6.022
2015	294.4	173.9	59.07	280.1	3.144	1.12	14.269
2016	366.1	195.4	53.37	350.5	4.171	1.19	15.448
2017	502.1	272.6	54.29	496.1	5.967	1.20	5.756
2018	562.4	298.9	53.14	570.6	7.306	1.28	- 8.540
2019	560.5	260.3	46.44	566.2	8.725	1.54	- 6.270

Compiled by the authors based on data from the Ministry of Finance of Ukraine

Revenues of the general fund of local budgets in 2019 increased by 2.4 times compared to 2014, expenditures for the same period increased by 2.5 times. The growth rate of expenditures was higher than the growth rate of revenues, which led to a deficit in local budgets in 2018 - 2019. The most important was the budget system's change equalization of local budgets by expenditures, the system of equalization of revenues. As a result, only 50% of the additional income is withdrawn from administrative-territorial units' budgets that earn more than they have expenditures (provided that the tax capacity index is more than 1.1). Such withdrawals are directed to provide a basic grant. In contrast, in administrative-territorial units that do not earn the amount required for expenditures, the necessary subsidy is only 80% of the required amount (provided that the tax capacity index is less than 0.9). Such a system stimulates communities to increase local budget revenues – those who earn more, get more. According to the Ministry of Regional Development, Construction, Housing and Communal Services of Ukraine in 2019, the budgets of 806 UTCs established on Ukraine's territory received UAH 39.4 million. For the purpose of analysis, all UTCs are divided into five groups based on the population living in this territorial community's site. The analysis of UTC revenues and expenditures for 2019 provided an opportunity to draw the following conclusions (Table 2).

Table 2: analysis of revenues and expenditures by UTC groups created on the territory of Ukraine in 2019

Groups	Grouping criteria	Number of UTC / Specific weight in the total amount of UTC, %	Total population in the UTC group, thousand people	The average amount of own income received by UTC of the respective group, UAH million	The average amount of expenditures made from the budget of the UTC of the relevant group, UAH million.	The difference between the average amounts of revenues and expenditures of UTC budgets of the respective group, UAH million / %
Group 1	Population over 15 thousand people	95 / 24.1	2001.1	87.2	131.4	- 44.2 / Excess of expenses over incomes in .5 times
Group 2	Population from 10 to 15 thousand people	128 / 18.8	1561.6	53.5	74.6	- 21.1 / Excess of expenses over incomes in 1.39 times
Group 3	Population from 5 to 10 thousand people	268 / 22.5	1874.9	30.8	43.2	- 12.4 / Excess of expenses over incomes in 1.40 times
Group 4	Population up to 5 thousand people	288 / 11.8	979.1	16.2	21.7	-5.5 / Excess of expenses over incomes in 1.34 times
Group 5	UTC - cities of regional significance	27 / 22.8	1891.0	418.5	635.0	- 216.5 / Excess of expenses over incomes in 1.52 times

Together		806 / 100.0	8307.7	606.2	905.9	- 299.7 / Excess of expenses over incomes in 1.49 times
----------	--	----------------	--------	-------	-------	---

*Compiled by the authors based on data from the Ministry of Regional Development, Construction, Housing and Communal Services of Ukraine*

The number of UTCs created in Ukraine is dominated by group 4 - UTCs with a population of up to 5 thousand people. The number of people living on UTC territory is dominated by group 5 - cities of regional importance. A comparison of the average amount of own-source revenues and the average amount of expenditures for all UTC groups showed a negative difference, i.e., on average, for all UTCs expenditures exceeded revenues by 1.49 times. The largest gap between the amount of expenditures and the amount of UTC revenues has 5 groups - cities of regional importance where expenditures exceeded revenues by 1.52 times in 2019. Thus, it can be stated that UTC's revenues do not cover the amount of expenditures required for the operation of UTCs themselves, which indicates the subsidization of UTC budgets. UTC income per capita analysis shows that the least financially viable are UTCs of 4<sup>th</sup> and 3<sup>rd</sup> groups with a population of up to 5 thousand people and from 5 to 10 thousand people. The cities of regional significance have the highest level of income per 1 inhabitant of UTC. Analysis of UTC budget expenditures showed that the management staff's maintenance expenditures in terms of UTC groups are as follows: Group 1 - 18.9%, Group 2 - 21.5%, Group 3 - 24.4%, Group 4 - 29.2%, Group 5 - 12.6%. The volume of capital expenditures from UTC budgets in 2019 amounted to UAH 12.8 billion (*General information. Decentralization*). UTC groups' significant differentiation in revenues and expenditures indicates economic inequality in the development of territories and resource provision of UTCs, which is reflected in the volume and quality of public services received by residents in the respective UTCs.

The dynamics of the structure of UTC financial resources for the period 2014-2019 are as follows (Table 3).

Table 3: dynamics of the structure of UTC financial resources created on the territory of Ukraine, for the period 2014-2019, UAH million

Indicator	2016	2017	2018	2019	Deviation of 2019 data from 2014 data,%
Total income	3577.2	10124.4	22433.5	30727.5	An increase of 8.59 times
including: - tax revenues	3263.7	9164.5	20596.8	28214.5	An increase of 8.64 times
Share of tax revenues in total revenues,%	91.24	90.51	91.81	91.82	0.64
- non-tax revenues	283.7	873.1	1643.0	2226.9	An increase of 7.85 times
Share of non-tax revenues in total revenues,%	7.93	8.62	7.32	7.24	8.70
- income from capital transactions	18.9	68.4	154.0	226.6	An increase of 11.98 times
Share of income from capital transactions in total income,%	0.52	0.68	0.68	0.74	42.31
- official transfers from the EU, from foreign governments	4.7	-	6.9	16.3	An increase of 3.47 times

Share of official transfers from the EU and foreign governments in total revenues, %	0.13	-	0.03	0.05	38.46
- trust funds	6.1	18.4	32.7	43.2	An increase of 7.08 times
The share of trust funds in total revenues, %	0.17	0.18	0.15	0.14	- 17.64

*Compiled by the authors based on data from the Ministry of Finance of Ukraine*

Analysis of UTC financial resources' structure created on Ukraine's territory for the period 2014-2019 showed that more than 90.0% of UTC revenues are from tax revenues. The total share of all other revenues is less than 10.0 %. To stabilize the state of financial resources, it is advisable to increase the share of other revenues to finance UTC activities.

Decentralization reform in the EU has certain features that distinguish these countries from other countries. A local government regulates each territory of the EU. The European Charter of Local Self-Government declares that local authorities have the right to their own financial resources, which they can freely dispose of (paragraphs 1.3); the order of financial resources formation has to be flexible and correspond to the functions performed by local authorities (paragraphs 2,6); part of the financial resources ought to be formed at the expense of local taxes and fees, the amount of which local authorities have the right to set (paragraph 4,5); protection of the financially weak local government is carried out at the expense of financial equalization or at the expense of grants which are not intended for financing of concrete projects (paragraph 7,8). It is expedient to use the experience of forming UTC financial resources in the EU countries for Ukraine.

As in other countries, a strategic approach to sustainable territorial planning is being actively developed and introduced in Ukraine. In modern conditions of development, the functions implemented during the planning process change significantly, the very role of planning in the local government system is being modified.

Sustainable development of the territorial community is a mode of functioning that focuses on the positive dynamics of the population's welfare, provided by a sustainable, balanced reproduction of social, industrial, financial, resource, and environmental potential. Local self-government bodies have to ensure the sustainable development of the territorial community, guided by local self-government principles and creating preconditions for the transmission of the minimum economic, environmental, and social debt to future generations. The purpose of local government is to achieve together with the territorial community sustainable socio-ecological development with an effective economic mechanism to meet human needs and preserve the natural environment.

Thus, in current conditions, sustainable development of the territorial community involves the ability to self-development and progress, i.e., ensuring sustainable production growth, creating reliable conditions and guarantees for entrepreneurship, creating a favorable climate for investment and innovation; rational use of natural resources and preservation of the ecological balance of the territory; stable growth of the quality of life of all residents of the territorial community; increase efficiency.

To provide for the irreversible transition to sustainable development, it is necessary to ensure both the coordination of government actions at the state, regional and local levels, and a clear definition of sustainable development planning for local communities, i.e., local economic development planning with three components - social welfare, equal access for all residents to public services, health, cleanliness, environmental safety and security.

Modern planning of sustainable development of territorial communities mostly means abandoning the industrial economy model, which has long been a national ideal.

Sustainable development planning of territorial communities is a hierarchical process that aims to increase the socio-ecological and economic sustainability of the functioning of territories or its individual territorial communities.

Social sustainability includes proper health care, safe and healthy housing, and high-quality education for all residents of the community; maintenance of public safety and law and order; strengthening the spirit of the community, its cohesion, which creates a sense of belonging to a particular area, i.e., the development of local identity; promoting creative expression, preserving traditions, etc.

Ecological sustainability is the care and preservation of the environment and the satisfaction of basic human needs in clean air, ecologically clean food products, ensure of landscaping, implementation of energy-saving measures, and provision of housing and communal services.

Economic stability is one of the crucial components that determines the economic progress of community development. Achieving economic sustainability is preceded by creating a favorable environment for doing business, attracting local and foreign investment in the local economy, providing maximum assistance to companies operating in the local community, retraining to meet future business needs, creating a financially viable economic base. All these factors affect job creation and thus prevent the outflow of population from the newly created community. This approach contributes to economic growth, meeting human needs while preserving the environment for future generations.

In general, sustainable development's success depends on the success of local economic development, especially on the conditions in which the business is located. High quality of life, developed economy, favorable business climate, friendly environment contribute to the formation of a culture of life, work and leisure, focused on sustainable development.

To achieve these goals, action plans have to be aimed at developing the economy and increasing the local community's competitiveness. They include tools such as activities, programs, and projects aimed at attracting investment, supporting entrepreneurship, starting new businesses, maintaining existing businesses, developing local markets, creating clusters, industrial innovation or industrial research parks, business incubators, business centers, business support funds, establishing inter-municipal cooperation, creating public-private partnerships, marketing the territory, establishing a communication system, etc.

The system of tools for planning sustainable development of territorial communities can be classified into three groups, each reflecting a specific goal (Table 4).

Table 4: tools for planning sustainable development of territorial communities for a specific purpose

Goal	Tools
1	2
Support the development of existing and the creation of new local businesses	Education, training, advice, information, support, targeted preferential loans, simplified conditions permit, available to rent at the beginning of activities, incentives, transparent access to business-oriented information, and clusters.
Attracting business and investment in the territory:	The algorithm of the procedure of opening a new enterprise, the investor's road map, creation of investment products, territory design, preparation of industrial sites, creation of industrial parks, marketing of attraction of investments in the territory, development of investment passports, promotion of the territory, the definition of competitive advantages, criteria for the investor, etc.

Development of local development institutions	Activities of economic development agencies or local and regional development agencies, urban development centers, business incubators, business centers, public organizations, business associations, permit centers, administrative service centers, chambers of commerce and industry, information and advisory centers, recruitment agencies investments, business support funds, etc.
---	--

*Source: compiled by the authors based on data from the Ministry of Regional Development, Construction, Housing and Communal Services of Ukraine*

When developing plans for the strategy of sustainable development of territorial communities, they have to be based on six basic postulates: economic development is created by business; jobs ensure the well-being of the community and affect the growth of both individual incomes of residents and the growth of total social product; local authorities and public organizations create conditions for business development; advanced infrastructure is the main element of community competitiveness; quality services provided by local authorities to the community and business are a key element of competitive advantage; effective management of a city or region is ensured by system management (planning, organization, motivation, control), local resources, the cooperation of stakeholders and tripartite partnership.

After the strategy's approval, a crucial element of its effective implementation is the process of monitoring and evaluating the planned results to minimize the risk, which will become an effective tool for long-term territorial development.

One of the tools to ensure sustainable and holistic development of the territorial community is monitoring - formalized and regular monitoring of the strategic plan's implementation, analysis of information, adjustments, updating tasks, and other functions. Monitoring is the process of regularly collecting and analyzing key data (indicators) to identify progress made in implementing a strategic plan. Tools such as SWOT-analysis, PESTLE-analysis, A-B-C analysis, etc. are used to monitor the implementation of the territorial community's sustainable development strategy. [13, 18].

The critical characteristics of planning in the context of globalization are technological innovations, modernization of jobs and the content of employees, and the emergence of internal local economic forces based on competition from local factors of information, creativity, and knowledge.

An interesting example of sustainable development of territorial communities can be revitalization projects, for which the EU allocates funds and which are implemented by EU member states. For Ukraine, such projects are perceived as projects to restore outdated infrastructure (historic architecture, abandoned castles, houses, parks, etc.). According to EU legal documents, funds for the revitalization project can be allocated provided that, firstly, the object of value to the community is subject to restoration and includes a component of improving the infrastructure component. Secondly, this object must be used to increase economic activity in the community, and third - the project must contain a socio-environmental component: to increase equal access of community members to the standard service or increase the level of environmental safety health of residents. The concept of "revitalization" is not identical to the term "overhaul". This restoration is not only technical but also social and cultural. For example, in Poland (Lesser Poland Voivodeship, Rabka-Zdrój), the following two revitalization projects have been implemented:

- a project to revitalize the railway station building based on ideas proposed and discussed with the community (the renovated station building has a small waiting room, a cafe, a public meeting room, a small library, and free access to a computer room with Internet);
- the project of revitalization of the local park (lighting of the park was carried out, now the park has a 3D cinema, a cafe, a stage for performances).

## **Conclusion**

The main reasons hindering the sustainable development of territorial communities in Ukraine are the instability of socio-economic conditions in the country, the lack of scientifically sound, clearly defined strategy for its sustainable development, effective economic reform and state regulation, imperfect legislative and regulatory framework for adequate financial market conditions, legal, information and communication space, imperfection of legal, organizational, economic bases of activity of executive bodies and local governments, physical and legal persons concerning formation of a high-grade living environment.

Opportunities for cooperation of territorial communities and development of territories are currently used incompletely. To intensify this process, it is necessary to ensure, first of all, effective communication between executive authorities and local self-government bodies on the ground, organizational and methodological assistance to local self-government bodies, dissemination of information on successful practices of cooperation projects, etc. In the future, various forms of cooperation can be widely used to combine the efforts and resources of united territorial communities in the implementation of investment projects.

In the future, it is necessary to ensure effective communication between executive authorities and local governments, organizational and methodological assistance to local governments, dissemination of information on successful practices of cooperation projects.

Thus, decentralization is currently the most effective and efficient way for local governments to ensure financial autonomy and sustainment by transferring powerful sources of budget revenues previously assigned to the central government and expanding administrative-territorial formations' financial base.

## References

Akai, N., & Sakata, M. (2002). 'Fiscal decentralization contributes to economic growth: Evidence from state-level cross-section data for the United States', *Journal of Urban Economics*, 52(1), 93-108.

Alina Korbutiak, Zhanna Lysenko, Nataliya Sokrovolska, Artur Oleksyn, Eduard Yurii (2019). 'United territorial communities in Ukraine in the context of fiscal decentralization', *Problems and Perspectives in Management*, Volume 17, Issue 2, 217-227.

Babyuk I., Chepel O. 'The main aspects of the formation of affluent territorial communities', *Bukovynian Bulletin of Civil Service and Local Self-Government* [Electronic edition], <http://buk-visnyk.cv.ua/misceve-samovryaduvannya/463/>

Bartolini, D., Sacchi, A., Salotti, S., & Santolini, R. (2018), 'Fiscal Decentralization in Times of Financial Crises', *CESifo Economic Studies*, 64(3), 456-488.

Bisogno, M., Cuadrado-Ballesteros, B., Santis, S., & Citro, F. (2018), 'Budgetary solvency of Italian local governments: an assessment', *International Journal of Public Sector Management*, 32(2), 122-141.

Bryl M. 'Strategy as the basis for the formation and development of UTC', *Taxes and accounting* [Online], <https://i.factor.ua/eng/journals/ms/2018/may/issue-5/article-36538.html>

'General information', *Decentralization*, [Online], <https://decentralization.gov.ua/about>

Loiko V., Velichko V., Maryniv A., Steshenko T. (2020), 'Ensuring the financial capacity of united territorial communities', *Collection of academic papers 'Financial and credit activities: problems of theory and practice'*, vol. 2, № 33, p. 194-204.

'On approval of the concept of reforming local self-government and territorial organization of power in Ukraine': order of the Cabinet of Ministers of Ukraine of April 1, 2014 №333-r. Verkhovna Rada of Ukraine, [Online], <https://zakon.rada.gov.ua/laws/show/333-2014-%D1%80>

Orlova, N. and Kozyrieva, O. (2019), 'Strategic planning of sustainable development of territorial communities in Ukraine', *Innovations in science: the challenges of our time*, Collective monograph, Vol. 2. Accent Graphics communications and Publishing. Chicago, Illinois, USA, p.257-266.

Orlova N., Mokhova I., Diegtiar O., Khomutenko O. (2019), 'Methodology of the Electronic Government Evaluation of the European Union Countries based on Taksonometric Method', *International Business Information Management Conference (33rd IBIMA ) Granada*, Spain 10-11 April, pp. 505 – 512

Orlova, N. and Marukhlenko, O. (2018), 'The European Union effective investment policy formation based on cluster analysis', *International Business Information Management Conference (32nd IBIMA) Seville*, Spain 15-16 November, pp. 302-314.

Official site of the Ministry of Finance of Ukraine, <https://www.minfin.gov.ua/news/bjudzhet/ptsm>  
Ministry of Regional Development, Construction, Housing and Communal Services of Ukraine. 'Estimation of financial indicators of budgets of 806 UTC. Rating for 2019', [Online], <https://decentralization.gov.ua/news/12192>

Palchuk V. (2018), 'Development of economic potential of communities within the framework of decentralization reform', *Ukraine: events, facts, comments*, № 11, P. 38—50.

Rodden, J. S., & Rose-Ackerman, S. (1997). 'Is Federalism a Reserve of Markets?' *Law Review*, Virginia, 83(7), 1521-1572.

Romans, W., Ulasiuk, I. and Petrenko Tomsen, A. (2018), 'Effective participation of national minorities and conflict prevention', Leiden, Boston, 280 p.

'The essence of decentralization reform is the regions' ability to independently solve local issues at the expense of their own resources', *International Center for Policy Studies*, <http://icps.com.ua/sut-reformy-detsentralizatsiyi--spromozhnist-rehioniv-samostiyno-za-rakhunok-vlasnykh-resursiv-vyrishuvaty-pytannya-mistsevoho-znachennya/>

Weingast, B. R. (1997), 'The Political Foundations of Democracy and the Rule of Law', *The American Political Science Review*, 91(2), 245-263.