

FISCAL DECENTRALIZATION AS THE FUNDAMENTAL MECHANISM OF CONTEMPORARY REGIONAL POLICY: CASE OF UKRAINE

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Effective policy of fiscal decentralization has to enforce the local autonomy and stimulate the increase of political responsibility, economic benefit and transparency of governance decisions. Since local budget is the financial plan for activity of local self-governing bodies as well as the factor for central government to influence the economic and social situation in the territories, the structure of local budget revenues has to reflect the balance of self-sustainability of local bodies and their financial dependence upon the state.

Fiscal decentralization has administrative and economic aspects. In terms of administrative one, decentralization in Ukraine now means the rotation of agents which realize public functions but do not obtain the autonomy in fiscal decision-making. Still, the state policy at regional level is very powerful.

As to the economic aspect it should be pointed out that the structure of local budget revenue in terms of “own input – transferred input” indicates the enforcement of centralization for budget resources. Thus, the portion of transfers had increased from 31.2 per cent in 2002 (against 34.2 in 2003, 42.5 in 2004, 43.5 in 2005, 46.1 in 2006) to actual 44.2 per cent. Also the portion of local budgets has decreased from 31.4 per cent in 2002 (against 30.0 per cent in 2003, 24.9 in 2004, 22.6 in 2005, 23.2 in 2006) to current 23.1 in the sum of consolidated budget.

During 2000-2007 the portion of GDP allocated through local budgets was stabilized at the level of 7.8 per cent.

The most significant among transfers traditionally remains the general grants for equalization (its rate is 44.3 p.c.) and additional grants (7.6 p.c.). Excess of this kind of transfer testifies the weak initiative of local authority and small possibility to use the sources of budget revenues. Other transfers (so called special grants) are: the social payments (32.9), transfers to special fund (3.3) and other transfers (11.9).

It should be mentioned that annual increase of transfer sum allocated for local budgets, due to their guaranteed status and stability do not stimulate the local authority and local communities to find out the new sources for budget revenues aimed to secure their own needs.

In 1997 Ukrainian Parliament has ratified the European charter for local self-governance and its regulations are followed now – public authorities are delegated to that level of power which is the most close to citizens. But modern trends to centralize budget resources contrast with the power decentralization of self-government bodies in Ukraine.

However, some positive changes in recent years enforced the fiscal decentralization (some of them were highlighted in the Conception of local budget reform, 2007). Thus, various special expenditures, for example, provision by fuel and securing the social payments for poor families, were delegated to the local level (and

so to local budgets). Thereby, the principle of subsidiary which means the transfer of public goods and services to the direct consumer is kept.

We should point out that the simple increase of revenues and expenditures portions of local budgets in consolidated budget does not necessary mean the increase of local bodies' autonomy in decision-making. The enforcement of fiscal decentralization is complex task for both central government bodies and local authorities. In contemporary situation, the following measures should be realized:

- to change the method of evaluation for fiscal decentralization and to use the next parameters for estimation – the autonomy of local bodies in tax and expenditure policies, the type of transfers, the system of transfer allocation, the possibility of local bodies to borrow);

- to legalize the portion of revenues and expenditures of local budgets in consolidate budget at the level which is not only reflects the positive experience of European countries with fiscal decentralization but also corresponds to the contemporary status of intergovernmental budget relations in Ukraine;

- to change the mechanism used by the state for provision of the financial support to regions and communities. Above will activate all endogenous factors for development and stimulate the development of the territories with considerable possibility to spread the trends of economic growth;

- to raise the role of local bodies in the administration of regional development, to enforce their activity in realization of potential for economy development, to invest;

- to introduce the mechanism of horizontal equalization between budgets of the same level. However, now in Ukraine such a mechanism is difficult to apply due to the focusing of budget costs at the central level. As a result, regions do not have enough economic reasons and stimulus to spread the costs between budgets of the same level and to share the self-earned revenues to other region.

Further fiscal decentralization will secure the increase of effectiveness of public services, the acceleration of economic growth rates', and decrease the interregional asymmetry as to the human life in certain regions and territories.