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**FISCAL DECENTRALISATION AS A FACTOR IN IMPROVING
THE EFFICIENCY OF THE PUBLIC FINANCE SYSTEM
IN TIMES OF TRANSFORMATION**

In times of profound socio-economic transformation and reform of the public finance system, the issue of improving the efficiency of fiscal decentralization as a tool for ensuring the financial capacity of local communities and balanced regional development is becoming particularly relevant. Fiscal decentralization involves the redistribution of budgetary powers between central and local authorities, strengthening the revenue base of local budgets, increasing the responsibility of local self-government bodies for managing budgetary resources, and improving the quality of public services. Despite the positive changes achieved as a result of the implementation of decentralization reforms, a number of unresolved issues remain, related to the uneven financial security of territories, the dependence of local budgets on inter-budgetary transfers, the limited sources of own revenue of communities, and the inconsistency of budget equalization mechanisms with the real needs of regional development. An additional challenge is the need to adapt the budgetary system to crisis phenomena, in particular military, demographic and structural changes in the economy, which affect the stability of budget revenues and the quality of financial planning at the local level. In this regard, there is a need for a comprehensive study of the effectiveness of fiscal decentralization as a component of the public finance system in the context of transformation, identification of key factors affecting the effectiveness of financial resource redistribution, and justification of directions for improving budgetary and tax instruments to ensure the financial sustainability of local budgets and improve the quality of public administration.

Based on the above, we offer the following recommendations for improving the fiscal decentralization system in Ukraine:

1. Restoring fiscal balance after the war. A roadmap for returning to fiscal decentralization in the post-war period needs to be developed. As defence spending decreases, the share of revenues allocated to local budgets should be gradually increased in line with the powers transferred. In particular, it would be advisable to return at least part of the military personal income tax to communities (as soon as budgetary constraints allow) or replace it with an equivalent new subsidy for communities that have lost significant resources. This step is important for restoring their financial potential. It is also necessary to adjust inter-budgetary transfers: increase investment subsidies for infrastructure reconstruction, but at the same time encourage communities to increase their own revenues.

2. Strengthening the communities' own revenue base. Based on European experience [1; 2], it is worth expanding the tax powers of local self-government. One option is to introduce a local excise duty or tax (e.g., a tourist tax in resort towns, a municipal sales tax in large cities, etc.) and allow communities to set the rate themselves. The possibility of introducing local surcharges to national taxes (e.g., personal income tax) within a small corridor could be considered. This would increase the motivation of local authorities to develop business and attract residents, as part of the additional revenue would directly depend on their decisions. At the same time, existing local taxes should be streamlined: the property tax base should be expanded (after inventorying damaged and destroyed property), and the maximum rates for land and property taxes, which have not been revised for several years, should be reviewed. The digitization of cadastres and registers will increase the collection of these taxes. Such steps will reduce the dependence of communities on transfers and reverse the trend towards financial self-sufficiency.

3. Ensuring that resources are commensurate with the powers transferred. A principle similar to the Swedish one should be implemented in practice: if the state assigns a new task to a community, it must be financed. This will require amendments to the Budget Code – the introduction of a mechanism for automatic indexation of education and health subsidies in line with actual costs, as well as a ban on transferring functions to local authorities without specifying the sources of their funding. It is worth auditing the current distribution of expenditures between budget levels: it may be advisable to decentralize some of the functions currently financed by the central budget, together with the corresponding revenues (for example, it is better to leave the

maintenance of local roads or certain social programmes at the regional or community level, but provide them with the resources to do so). At the same time, functions that are too small for communities can be transferred to the district or regional level, with the creation of a co-financing mechanism by communities. The main thing is to achieve fiscal symmetry: neither the state nor local budgets should be overburdened with inappropriate expenditures or revenues.

4. Improving the equalization and transfer system. It is recommended to review the basic subsidy formula, taking into account war damage and demographic changes. For example, communities that have accepted many IDPs need temporary additional support. After the war, there will likely be a need for a separate subsidy for reconstruction, which should be distributed transparently, based on criteria such as damage and the project capacity of communities, in cooperation with international donors. Polish experience shows that centralised funding of education and healthcare through subsidies is effective if the amount of the subsidy is adequate – therefore, these transfers should fully cover basic needs (taking into account salary increases, etc.). In the long term, transfers should be simplified: it may be possible to combine some subsidies, giving communities greater flexibility in spending (for example, by making a single block grant for education and culture, as in some countries). Equalisation between communities should remain, but its form could be improved, for example by introducing service quality assessment indicators to encourage not only revenue growth but also effective use of revenues.

5. Institutional development and transparency. It is equally important to strengthen the institutional capacity of local financial authorities. Training programmes for accountants and community financiers should be continued, and modern IT solutions for budget management should be introduced (many communities already use the Open Budget system [3], which should be expanded). State supervision of compliance with budget legislation at the local level should be strengthened – returning to the idea of creating a corps of prefects after the war. Prefects (or similar state representatives) could monitor the legality of local council decisions without interfering with their autonomy. This would add confidence in the integrity of the country, even with broad regional autonomy. Public oversight should also be encouraged: detailed budget reports should be published, and residents should be involved in discussions of local financial priorities (participatory budgeting, public hearings). Transparency of spending will increase trust in local authorities and reforms in general.

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