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Stages of Formation of the Budget Equalization System in Ukraine and Ways of its Improvement

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The improvement of the budget equalization system of Ukraine should take place in the direction of creating equal financial opportunities for access to public services. In the medium and long term, it is advisable to strengthen the role of expenditure equalization tools, supplement the representative tax system with a number of taxes (property tax, single tax, excise duty), create an independent agency to periodically analyze the state of the budget equalization system and develop a proposal for its reform, resume the practice of using agreements on interregional development, agreements on regional development and programs to overcome the depressed state of the territory. The basis of the new equalization system should be state service standards. With the transition to medium-term planning of local budgets, it is necessary to ensure the stability and predictability of the volumes of transfers to local authorities and the transparency of the order of their distribution.

Keywords: budget equalization, local self-government, standards of public services, transfers, distribution of powers, differentiation of own incomes.

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INTRODUCTION

Budgetary equalization is aimed at reducing differentiation in the level of access to public services in different administrative and territorial units (ATU). Under the conditions of the decentralization reform, the system of budget equalization in Ukraine underwent significant changes, which took place in the direction of transition from vertical equalization of expenditures to horizontal equalization of incomes. The implementation of the new equalization system promotes the interest of local authorities in increasing the revenue base of budgets, but it is accompanied by problems related to insufficient volume of own revenues, a high level of dependence of local budgets on transfers from the State budget, insufficient validity of the procedure for calculating the tax capacity index, significant differentiation of regions by the level of socio-economic development. In view of this, an important task is to find ways to improve the budget equalization system of Ukraine, taking into account the experience of the countries of the Organization for Economic Development and Cooperation (OECD).

I. STAGES OF FORMATION OF THE BUDGET EQUALIZATION SYSTEM IN UKRAINE

a) *The stage of formation of the vertical system of budgetary equalization*

From the very beginning of independence, a national system of budget equalization began to take shape in Ukraine, which went through several stages. In 1991-2014, it was formed as a system of vertical alignment. The Constitution of Ukraine, legislation on the budget system, local bodies of executive power, local self-government were adopted. The principles of dividing revenues between levels of the budget system, expenditures between state and local budgets, as well as the independence of local budgets on the basis of own and fixed revenues have been declared. The sources of state and local budget revenues have been identified. The institution of local taxes and fees, transfers and contributions from lower-level budgets to higher-level budgets have been introduced. During this period, the powers that were transferred from the State to the executive committees of a city, a village and a settlement councils were determined. For their implementation, appropriate financial resources should have been transferred to local self-government bodies,

but in practice this was not implemented and remained a declaration (Kozenko, 2013).

The main organizational and legal approaches of vertical budget equalization were defined, which should be based on social standards, norms of minimum budget security and other objective criteria. The need for a clear demarcation of revenue sources and spending powers between budgets of different levels has been substantiated. The tax capacity coefficients were chosen as the methodological basis for calculating the volumes of income and expenses.

The distribution of revenues between the state and local budgets of Ukraine in 1997-2010 indicates the strengthening of centralization. During this period, the share of the State Budget of Ukraine increased from 58% to 74%, and the share of local self-government decreased from 42% to 26%. An important moment of the first stage was the adoption in 2001 of the Budget Code of Ukraine, which introduced significant changes in the organization of inter-budget relations and the budget system of Ukraine as a whole.

In order to introduce a unified methodology for the functioning of the budget equalization system, the formula for the distribution of interbudgetary transfers was introduced during the 2001 budget reform:

$$T = K_v * (V - D),$$

Where K_v is the equalization coefficient; T – volume of equalization transfers from the state budget to the local budget or funds transferred from this budget to the state budget; V – volume of local budget expenditures; D – volume of local budget revenues (Kozenko, 2013).

Vertical alignment began to take shape on the basis of a formulaic approach, that is, on the basis of calculating the volume of transfers that should be transferred to one or another local budget or withdrawn from it to the budget of a higher level, taking into account the established standards of expenditures. This was the first step towards a fair distribution of state revenues in order to provide each territorial community with the amount of funds needed to provide public services (Kozenko, 2013).

In 2007, the Concept of reforming local budgets was approved, in which the key directions of reforming the budget equalization system were defined:

- Annual increase in the specific weight of the general fund of local budgets in the consolidated budget of Ukraine by several percentage points;
- Increasing the level of self-sufficiency of local budgets;
- Clear demarcation at the legislative level of expenditures for the implementation of the delegated powers of local self-government bodies and their own powers;
- Improvement of the method of calculating local budget expenditures;

- Reduction of differentiation in providing local budgets with funds for the implementation of delegated powers;
- Development of a methodology for determining the standards of providing basic public services to the population and their cost;
- Development of methods for determining depressed areas and programs for overcoming depression (KMU, 2007).

Most of these tasks were unfulfilled or incompletely fulfilled. Implementation of local budgets in 2010 took place under the conditions of increasing their dependence on the state budget, which is evidenced by a significant increase in the absolute volumes and specific weight of inter-budgetary transfers in the total amount of local budget revenues. The specific weight of transfers in the revenues of local budgets in 2011 reached 52.1%, which contradicts the requirements of the Concept of reforming local budgets, the main task of which is to increase the level of self-sufficiency of local budgets (KMU, 2007).

Numerous changes made to the amounts and types of inter-budgetary transfers during the budget year, including in a manner inconsistent with the requirements of the Budget Code of Ukraine, led to a decrease in the effectiveness of the budget process, as they worsened the predictability of local budget revenues, which are necessary to fulfill the powers assigned to local authorities.

All regions of Ukraine received subsidies, the share of which in local budget revenues was 46.3% in 2008 and increased to 48.8% in 2010 and 52.3% in 2011. In 2010, the share of subsidies increased in the income structure of 19 regions. In Zakarpattia, Ternopil, and Volyn regions, it was 72.3%, 71.9%, and 71.1%, respectively (Kozenko, 2013). Such a high level of subsidies to local budgets of Ukraine indicates the ineffectiveness of the budget equalization system. The state withdraws a significant share of revenues collected in the regions, and then distributes part of them among local budgets. Such a system creates significant disincentives for the development of the regional economy and does not ensure the fulfillment of budget equalization tasks.

The system of vertical budget equalization, which operated in Ukraine on the eve of 2014, was imperfect and had a contradictory methodological basis in comparison with the experience of developed countries and did not provide the goals of budget equalization.

b) The stage of formation of a mixed budget equalization system

In 2015, the decentralization reform began, which was accompanied by radical changes to the budget equalization system. They took place in the direction of the transition from the expenditure

equalization model to the income equalization model. The implementation of the new equalization system contributes to the interest of local authorities in increasing the revenue base of budgets, but it faces the problems of compliance with the redistribution of resources and powers between state, regional and local authorities, the stability of legislative innovations, the validity of the procedure for calculating the tax capacity index used for horizontal budget equalization, etc.

Horizontal budget alignment: With the introduction of the new budget equalization system, horizontal income equalization was introduced, separately for regional budgets and for community budgets (except for the budgets of the cities of Kyiv and Sevastopol and districts in cities). For the regions, it is carried out separately according to income tax of enterprises and separately according to income tax of individuals. For communities, budget equalization is carried out based on the receipts of tax on the income of individuals. For each tax, the tax capacity index is calculated for each ATU, per person. ATUs with a tax capacity index below 0.9, the average indicator for Ukraine, receive a basic subsidy (80% of the amount needed to achieve an indicator of 0.9). For ATU with a tax capacity index ranging from 0.9 to 1.1, equalization is not carried out. A reverse subsidy to the state budget in the amount of 50% of the tax capacity index exceeding 1.1 is provided for ATU with a tax capacity index above 1.1 (BC, 2010).

Equalization for other incomes is not carried out. They remain fully at the disposal of local authorities. The question of calculating the index of tax ability in relation to:

- Composition of taxes taken into account during budget equalization;
- Expediency of calculating the tax capacity index at all levels of budgets.

The new budget equalization system in Ukraine is of a mixed type, because the tools for equalizing expenditures remain (subsidies, stabilization and additional subsidies).

Own revenues of local self-government: A positive factor in the change in the budget equalization system is a significant increase in the incomes of basic-level territorial communities and the stimulation of local self-government bodies to increase their own incomes. Over the years of the decentralization reform, the share of basic-level territorial communities' own income in the consolidated budget of Ukraine increased from 2.2% to 18%. This is probably the biggest achievement of the reform (Klochko, 2021). But in this regard, it should be noted that this happened not as a result of the transfer of financial resources from the state budget, but as a result of the redistribution of income between local budgets, namely the transfer of income from the level of districts to the level of territorial communities. In general,

the share of own revenues of local budgets in the consolidated budget of Ukraine during the implementation of the decentralization reform not only did not increase, but even decreased from 23.8% in 2013 to 21.8% in 2021 (SYU, 2021, 2015).

Dependence of local budgets on transfers from the state budget: The attempt to compensate for the lack of funds for the implementation of own and delegated powers at the expense of interbudgetary transfers creates a high level of dependence of local self-government on transfers due to their high volatility. The share of transfers from the state budget to local governments decreased from 59.1% in 2014 to 34.0% in 2020, but this was not due to an increase in local budgets' own revenues, but due to a significant reduction in transfers - from almost UAH 300 billion in 2018 up to UAH 160 billion in 2020, that is, almost twice. To a large extent, this happened as a result of a significant reduction in the medical subvention (SD, 2022).

Lowering the level of autonomy of local self-government: The share of subsidies in transfers to local budgets (in which there are no signs of targeting and local self-government bodies have the right to make decisions about the directions of use of these resources) was 49.3% in 2014, and about 8% in 2018. The main share of transfers now comes in the form of subventions - 91.6% (half of which are social protection subventions, local authorities perform agency functions). As a result of ineffective planning and management of financial resources, political lobbying and corruption in the authorities, subsidies have exhausted themselves as an important tool for budget equalization. At the same time, targeted subventions limit the autonomy of local authorities in the provision of financial resources (Pismeny, 2018).

Funding of delegated powers: The transfer of powers to local self-government without appropriate financial support has become a common occurrence in the process of reform in Ukraine. In particular, in 2016, the budgets of cities of regional importance were entrusted with the authority to finance vocational education without appropriate financial support, which endangered the functioning of institutions in this area. Cities of regional importance, which are not regional centers, were financially unable to fulfill these powers. The problem was solved only later with the use of a stabilization subsidy from the state budget (Benovska, 2019).

Standards of public services: The amount of educational and medical subvention, according to Art. 94 of the Budget Code should be calculated on the basis of state standards of public services, most of which are currently not approved and do not have a cost estimate. In 2020, this norm was removed from the Budget Code. In reality, the educational subvention is calculated according to the approved salaries, the tariff grid and the standards

for the number of full-time positions, and the fullness of classes.

Budgets of regions: It is important that budget decentralization is not accompanied by a deepening of vertical fiscal imbalances - a discrepancy between the amount of financial resources of one or another level of government and the amount of tasks and responsibilities entrusted to them. The redistribution of revenues of local budgets took place in favor of newly created united territorial communities, and the biggest losses were incurred by the budgets of regions, whose share in the structure of revenues without transfers decreased from 37.9% in 2014 to 32.4% in 2018. Such changes are associated with the decline in the role of regional budgets in the financial provision of territorial development. The main factor in the decrease in income was the reduction in 2015 of the income tax rate for individuals (from 25% to 15%). These losses were greater than the revenues from the 10% corporate income tax (transferred to the regional level since 2015) (Storonyanska & Benovska, 2020).

Exclusion of the budget of the city of Kyiv from budget equalization: Before the decentralization reform, the budget of the city of Kyiv, along with other local budgets, participated in budget equalization. Starting from 2015, the budget of the city of Kyiv does not participate in the horizontal equalization of tax capacity (in accordance with the norms of Articles 98 and 99 of the Budget Code). In the capital, the amount of funds exceeding the average rate of tax revenues per resident in Ukraine is not withdrawn. This approach violates the principles of unity and fairness of the budget system of Ukraine, which is provided for in Article 7 of the Budget Code. That is, for the richest budget of the capital, the Law of Ukraine created conditions that do not provide for sharing with the budgets of "poor" communities. Defenders of such a "special status" of the capital's budget usually use the following argument - Kyiv's performance of functions related to the capital's status. In our opinion, this is a matter for state power, not local self-government.

High level of differentiation of communities according to their own incomes: In Ukraine, there is a high level of differentiation of communities according to their own incomes. For example, in 2022, in the Odesa region, out of 91 communities of the basic level, only 9 communities had a tax capacity index above 1.1 (they pay a reverse subsidy), and 78 communities had a tax capacity index below 0.9 (they receive a basic subsidy). This shows that there is a high level of differentiation of economic development not only of regions but also of communities.

Lack of a clear division of powers between state authorities and local self-government bodies. During the reformation, as in the previous period, there were repeated violations of the principle of a clear separation

of powers between state authorities and local self-government bodies. It should be emphasized that the legislation of Ukraine does not contain a clear separation of powers between state authorities and local self-government bodies. The Law "On Local Self-Government in Ukraine" defines the list of own and delegated powers of the executive bodies of village, settlement, and city councils by branches of the budget sphere, which is not clear and mutually exclusive. This creates grounds for blurring the spheres of financial responsibility between local self-government bodies and executive power bodies. In addition, before the reform in the Budget Code, powers were divided into delegated and own. That is, those that are taken into account and not taken into account when determining interbudgetary transfers, after the 2014 reform, the Budget Code does not distinguish expenditures for the performance of local self-government bodies' own powers and those delegated to them by the state.

Despite the positive results of reforming the budget equalization system in Ukraine, there are a number of problems that need to be solved:

- A high level of differentiation of communities by the level of their own income;
- Substantial dependence of local budgets on transfers from the state budget;
- Low level of financial autonomy of communities;
- Transfer of powers to the level of local self-government without appropriate financial support;
- Lack of a clear division of powers between state authorities and local self-government bodies.

II. WAYS AND PROPOSALS FOR IMPROVING THE BUDGET EQUALIZATION SYSTEM IN UKRAINE

Based on the analysis of the experience of the OECD countries, it is possible to determine the sequence of stages of improving the budget equalization system (Sean Dougherty & Kass Forman, 2021). First, to carry out an analysis of the budget equalization system, which involves assessing tax opportunities, determine the main differences in the tax opportunities of ATUs (spending inequality, income inequality, etc.), whether ATUs have financial autonomy, whether there is enough data to build a cost equalization model, make the leveling system more transparent and politically neutral as soon as possible.

Secondly, choose a budget equalization model. At the same time, it should be determined to what extent equalization should bring the incomes of "poor" ATUs closer to the average level, whether "rich" ATUs should share with "poor" ATUs and to what extent, the degree of reduction of the gap between own incomes and spending needs, how equalizing transfers interact with other transfers and to what extent they should replace them.

Third, determine the compensation measures and the duration of the transition period, including the amount of compensation for the losses of the ATU and how long it will take the ATU to compensate for the loss of its own income and transfers as a result of the reform.

The goal of budget equalization is to reduce differentiation in the level of access to public services in different ATUs. Most authors agree that any budget equalization model is based on the following principles:

- Clear separation of powers between different levels of government;
- Endowment of each level of power with sources of income sufficient to implement own and delegated powers;
- The use of transfers to smooth out vertical and horizontal imbalances of lower budgets in order to ensure a certain standard of public services throughout the country;
- Taking into account historical, national and political traditions and features, as well as the form of the state system, the size of the country and the population.

Target indicators of budget equalization and its assessment: It is proposed to evaluate the effectiveness of the budget equalization system based on the following indicators:

- The ratio of the tax capacity of the most "rich" ATU and the most "poor" ATU before equalization and after equalization. In OECD countries, this indicator is on average about 7 before equalization, and about 2 after equalization;
- Cost coverage ratio (ratio between income and expenditure needs for providing public services);
- Coefficient of autonomy (ratio of own income and total income).

The assessment based on the last two criteria can be carried out both for individual ATU and for individual levels of the budget equalization system.

It is also proposed to evaluate the effectiveness of the budget equalization system based on the dynamics of the above indicators over time.

The number of levels of the budget equalization system: A comparison of budget equalization systems of unitary and federal states indicates the presence of the latest budgets of federation members or regions as an additional level of the budget system. In the presence of such links, a more rational and clear distribution of powers and financial resources between authorities is ensured than in unitary states. At the same time, there is also a higher level of responsibility of additional branches of the budget system for the socio-economic development of regions (Pyontko, 2015).

The number of levels of the budget equalization system is determined by the number of levels of the country's administrative and territorial system. According to the Constitution of Ukraine, there are three of them (regions, districts, communities). Accordingly, the structure of the budget equalization system should be four-level (central, regional, district and basic levels). But since the district level of the administrative-territorial system has been almost leveled as a result of the decentralization reform, today only three levels operate in the budget equalization system. Therefore, one of the tasks of reforming the budget equalization system in Ukraine is to resolve the question: will it include a district level? Judging by the fact that in recent years there have been no actions on the part of the authorities regarding meaningful filling and restoration of the district level of local self-government, it can be assumed that this issue will be "frozen" in the coming years.

Based on the analysis of the experience of the OECD countries regarding the formation of budget equalization systems and the state of affairs on this issue in Ukraine, a number of directions for an improved national budget equalization system and meaningful filling of its key components have been proposed (Fig. 1).

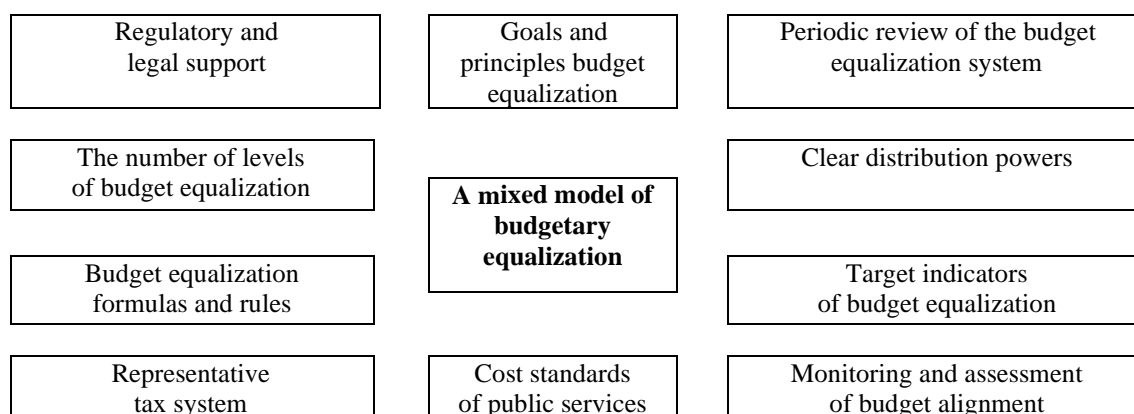


Fig. 1: Directions for improving the budget equalization system in Ukraine

A mixed model of budgetary equalization: Based on the experience of the OECD countries, a mixed model of budget equalization has been proposed, which combines the components of vertical equalization of expenditures and horizontal equalization of incomes. The first should ensure the same level of cost coverage for the central government and local self-government, and the second should reduce the differentiation of ATU of local self-government in revenues.

Budget equalization formulas and rules: They determine the essence of the budget equalization system, its effectiveness, the level of social justice and political neutrality. The most effective way to ensure political neutrality and thus reduce the level of discretion is a simple, transparent and understandable equalization formula with several indicators that reflect the main fiscal disparities and spending needs. These indicators should be protected from manipulation by local authorities in order to prevent unfair distribution of budgetary resources between the ATU, as well as between local self-government and the central government. The size of the ATU should not be included in the equalization formula, a possible exception may be large agglomerations where the cost of living is high.

The Concept of reforming local budgets in order to increase the autonomy of communities provides for an annual increase in the specific weight of the general fund of local budgets in the consolidated budget of Ukraine by several percentage points (KMU, 2007). It has been proposed to specify this measure in the following way - to annually increase the specific weight of the general fund of local budgets in the consolidated budget of Ukraine by 2 (two) percentage points, bringing its share to the level of 30%.

In order to ensure social justice, it has been proposed to implement the experience of Germany in determining the place of crediting of personal income tax and profit tax, namely to make crediting of personal income tax at the place of residence of a person, and income tax at the location of an enterprise.

Distribution of powers: It is this component that largely determines the distribution of budget resources between the central government and local self-government, as well as between levels of local self-government. The existing legislative framework in Ukraine does not ensure a clear division of powers and a clear relationship between the powers transferred to the ATU level and the financial resources necessary for their implementation. This creates uncertainty and, accordingly, the possibility of discretion on the part of the central government in the allocation of budgetary resources. In this regard, it has been proposed to amend the Law of Ukraine "On Local Self-Government in Ukraine" regarding:

a) a clear division of powers between the central government and local self-government, as well as

between levels of local self-government in accordance with the principle of subsidiarity;

b) determining the powers of the district level of local self-government in accordance with Article 140 of the Constitution of Ukraine, namely district councils represent the common interests of territorial communities of villages, towns and cities.

It will also be proposed to make changes to the Budget Code of Ukraine to ensure a clear relationship between the powers transferred to the ATU level and the financial resources necessary for their implementation.

Representative tax system: Budget equalization should be based on a representative tax system, which is a list of basic taxes and standard rates for them. Experts believe that a representative tax system usually allows reflecting the general ability of the ATU to collect taxes and, accordingly, ensure objective equalization (Sean Dougherty & Kass Forman, 2021; Baltina, A.M., Volokhin, V.A. & Popova, N.V., 2014).

In Ukraine, as a result of the decentralization reform of 2014, income equalization for communities is carried out on the basis of one personal income tax, and for regions on the basis of two taxes - personal income tax and profit tax. Income from personal income tax accounts for about 57% of the total tax revenue of communities. That is, almost half of the income from other taxes is not taken into account when equalizing the incomes of communities, which negatively affects the reduction of their income differentiation. To ensure a more objective distribution of income between communities, it has been proposed to supplement the representative tax system with the following taxes: excise tax, property tax, single tax.

Targeted transfers to achieve certain political goals and take into account special differences between ATU. In Australia, the Commonwealth Grants Commission has highlighted that the challenges faced by Indigenous communities cannot be adequately addressed through budgetary equalisation. In Belgium, the Brussels Capital Region receives a number of transfers outside the national budgetary equalization system, reflecting its unique status as the seat of the European Parliament. It has been proposed to use this experience to resolve the issue of the participation of the city of Kyiv in the equalization of community incomes. It has been proposed to make changes to the Budget Code of Ukraine regarding the involvement of the city of Kyiv in equalizing the income capacity of communities. At the same time, it is necessary to provide for transfers in the state budget of Ukraine for the city of Kyiv to perform the functions of the capital. This will lead to a reduction of the strong asymmetry of tax revenues per inhabitant between the capital and other autonomous regions, a significant increase in the average value of the tax capacity index and, accordingly, an increase in

the volume of the basic subsidy and a decrease in the reverse subsidy.

The budget equalization system may also include targeted transfers to take into account special differences between ATUs in terms of the number and density of the population, the specific weight of the elderly, the presence of mountainous areas, etc.

Strengthening income equalization: Income equalization tends to be more effective and efficient than cost equalization. In all countries, the difference in income between ATUs is much greater than in the cost of public services (OECD, 2014). Therefore, first of all, income equalization should be carried out. The prototype of the Ukrainian model of budget equalization was the Polish model. The reverse subsidy in Poland is paid by ATUs, in which the tax income per person exceeds 150% of the average value for the country. The amount of reverse payments is 20% of the excess. It is important to balance the budget in accordance with the principle of territorial justice. Therefore, the distribution of income should, on the one hand, be aimed at ensuring the minimum needs of all members of society, and on the other hand, at the observance of the principle "whoever earns more, gets more". That is, with the horizontal redistribution of financial resources to improve the financial condition of the "poor" ATUs should not negatively affect the condition of the "rich" ATUs. Therefore, in accordance with the Polish experience, it is proposed to gradually reduce the reverse subsidy rate to 20% over the course of 5 years.

Cost standards of public services: Today, most countries are moving to public service spending standards, applying objective criteria to assess real spending needs. Cost standards for services should be based on a small number of indicators covering a wide range of consumers and should be resistant to manipulation. For example, the number of teachers is an indicator that ATU can adjust. The number of schoolchildren, on the contrary, is an indicator that the ATU cannot influence. Cost standards that rely on a small number of indicators are also more transparent (Sean Dougherty & Kass Forman, 2021).

The lack of cost standards limits the possibility of using models of vertical cost equalization in Ukraine and, accordingly, limits the possibility of increasing the efficiency of the budget equalization system. In this regard, it has been proposed to adopt a state program for the development and phased implementation of cost standards for public services in Ukraine.

Periodic review of the budget equalization system: Equalization systems are not static entities, the procedure for their regular analysis should be included in the legislation underlying them. Based on the results of such an analysis, decisions can be made on reforming the alignment systems. Japan reviews its equalization system annually, while Canada, India, and

Australia review their methodology every five years (Commonwealth Grants Commission, 2015; Sean Dougherty & Kass Forman, 2021). In this context, it is important to have an organization that determines the policy, the analysis process and the nature of the possible reform of the budget equalization system. In order to limit the political influence on the distribution of budgetary resources between the ATU in Denmark and Australia, agencies were created. They are less prone to political bargaining and perceive budget balancing as a technical process rather than a political one. Research confirms that independent agencies are less susceptible to political influence than ministries (Khemani, 2007). It has been proposed to create an independent agency in Ukraine that will analyze the state of the budget equalization system every five years and develop proposals for its reform, taking into account consultations with interested parties.

Tools for reducing the differentiation of the economic development of territorial communities and regions: Today, there is no clear evidence that allows us to talk about the impact of budgetary equalization on the growth of regional convergence. The experience of supporting the lands of the former German Democratic Republic indicates that even after 20 years, this policy has no significant results, and some consider it even harmful, as it preserves the inefficient economic structure of the eastern regions of Germany (Sean Dougherty & Kass Forman, 2021). In this regard, it should be noted that budget equalization is primarily aimed at supporting the social sphere of the ATU, and it only affects the level of economic development of the ATU to a certain extent. The dominant factor in this matter is the level of capitalization of the ATU economy. In this context, programs to reduce regional economic development differentiation are widely used in OECD countries. This reduces their differences in tax revenues, and this in turn reduces the differentiation in the level of access to public services in different ATUs. In Ukraine, a legislative framework has been created for such programs. First, there are agreements on regional development, agreements on interregional development and programs to overcome the depressed state of the territory. Unfortunately, they have not been used for more than 10 years, although they are defined as regional convergence mechanisms in the State Regional Development Strategies for the period up to 2020 and for the period 2021-2027 (KMU, 2014, 2020). It has been proposed to resume the practice of using agreements on interregional development, agreements on regional development and programs to overcome the depressed state of the territory.

III. CONCLUSION

The improvement of the budget equalization system of Ukraine should take place in the direction of

creating equal financial opportunities for access to public services, improving their quality and compliance with state standards. Today, the emphasis is on horizontal equalization of incomes with the use of separate tools for vertical equalization of expenditures. The main problems of budget equalization in Ukraine are related to the insufficient volume of own revenues in local budgets, the high level of dependence of local budgets on transfers from the State budget, the insufficient validity of the procedure for calculating the tax capacity index, the significant differentiation of regions according to the level of socio-economic development. In the medium and long term, it is advisable to strengthen the role of expenditure equalization instruments. The basis of the new equalization system should be service cost standards. With the transition to medium-term planning of local budgets, it is necessary to ensure the stability and predictability of the volumes of transfers to local authorities and the transparency of the order of their distribution.

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ATU	Administrative-territorial unit
OECD	Organization of economic development and cooperation