REGIONAL DEVELOPMENT MANAGEMENT

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AMALGAMATED HROMADAS OF RURAL TERRITORIES IN UKRAINE: LEGISLATIVE RULES AND MAIN TRENDS IN THE FORMATION OF FINANCIAL RESOURCES IN MODERN CONDITIONS

Despite the significant opportunities and innovation in the sphere of formation of amalgamated hromada's own financial resources in modern conditions, most amalgamated hromadas experience their catastrophic shortage and mainly focus on revenues from the state budget. The main reason for this situation is both the lack of experience in the formation of financial resources of hromadas, and lack of legal awareness in these matters. In view of this, today the issues of determining the opportunities and prospects for attracting financial resources to ensure financial independence and socio-economic development of the amalgamated hromadas are of fundamental importance.

The aim of this study is to identify the main sources of financial resources of amalgamated hromadas in rural areas and substantiate approaches of using existing opportunities to increase their financial potential through maximum use of delegated functions and powers provided by amalgamated hromadas in the process of decentralization and stable provision of state financial support.

It is substantiated that the effectiveness of the formation of financial resources of amalgamated hromada in rural territories in terms of intensification of financial decentralization processes should be considered in view of the structure of local budget revenues, the mechanism of their formation and the procedures of providing state financial support.

The need to expand the powers of local self-government bodies, local authorities and territorial communities to establish elements of local taxes and fees is proved. The necessity of correcting the procedure for allocating budgetary funds for state support to agricultural producers in the direction of taking into account the specifics of land areas, types of economic activities, priorities and prospects for regional development in the distribution of the amount of funds between regions and entities claiming to receive it is justified. It is proved that this will allow providing a cumulative effect of growth of financial resources and volumes of agricultural production, taking into account the requirements of quality, organicity and ecological compatibility for activation of innovative activity and innovative development of regions.

Keywords: rural territory, amalgamated hromada, financial resources, state financial support, local budget revenues, local taxes.

Introduction. One of the most effective and important strategic reforms was the reform of local self-government and territorial organization of authorities on the basis of decentralization, the basic principles of which were determined by the order of the Cabinet of Ministers of Ukraine "On approval of the Concept of reforming local self-government and territorial organization of government in Ukraine"[1] in 2014. The aim of the reform is to create a modern system of local self-government in Ukraine on the basis of European values of local democracy, empowering local communities/hromadas with powers and resources that will ensure local economic development, providing high quality and affordable public services.

During 2015-2017, the decentralization process continued; the Law of Ukraine "On Voluntary Association of Amalgamated Hromadas"[2] and amendments to the Budget and Tax Codes were adopted, according to which a significant part of the powers and responsibilities in the financial and budgetary sphere were transferred to the newly created amalgamated hromadas.

Therefore, one of the priority tasks aimed at ensuring the proper functioning of amalgamated hromadas and fulfilling their functions in terms of financing the urgent social needs of communities on the basis of the principle of subsidiarity, the implementation of their economic and technological development is the task of forming financial resources sufficient to ensure the interests of citizens. all spheres of life in the relevant territory.

Despite the significant opportunities and innovation in the sphere of formation of amalgamated hromada's own financial resources in modern conditions, most amalgamated hromadas experience their catastrophic shortage and mainly focus on revenues from the state budget. The main reason for this situation is both the lack of experience in the formation of financial resources of hromadas, and lack of legal awareness in these matters.

In view of this, today the issues of determining the opportunities and prospects for attracting financial resources to ensure financial independence and socio-economic development of the amalgamated hromadas are of fundamental importance.

Review of publications. Problems of formation of financial resources of territorial communities attract the attention not only of practitioners and the public, but are always the subject of discussions for politicians and the object of research for scientists, because there are still many gaps and contradictions in regulations, insufficient cooperation of local governments with civil society institutions, the level of subsidies for amalgamated hromadas budgets remains high.

The issues of the formation of financial resources and financial support of amalgamated hromadas have been studied by O. Vrublevskyi[3], V. Demyanenko[4], M. Kovalenko, G. Shvorob and T. Matsievich[5], A. Rusnak and L. Aleshenko[6], S. Sember, O. Chubar and K. Mashiko[7], N. Spasiv[8], Zh. Harbar and T. Bondaletova[9], H. Voznyak, O. Mulska, T. Kloba and L. Kloba[10], D. Xin, T. Koliada and G. Muzychenko[11] . These issues are investigated by foreign scientists. Special attention are paid

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[1] *Концепція реформування місцевого самоврядування та територіальної організації влади в Україні, 2014* (Кабінет Міністрів України). *Офіційний сайт Верховної Ради України* <https://zakon.rada.gov.ua/laws/show/333-2014-%D1%80#Text> (2022, January, 15).

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[9] Гарбар, Ж. В., Бондалетова, Т. О. (2021). Особливості формування бюджетів об'єднаних територіальних громад в умовах децентралізації. *Економіка та держава, 6*, 45-51. DOI: 10.32702/2306-6806.2021.6.45.

[10] Voznyak, H. Mulska, O., Kloba, T., Kloba, L. (2021). Assessing and strengthening budgetary security of regions and their amalgamated hromada in an unstable economy: A case for Ukraine. *Public and Municipal Finance*, *10 (1)*, 138-150. DOI:10.21511/pmf.10(1).2021.11.

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to the financial sustainability of local governments and local territories [1]. The experience of agricultural countries in Asia in management of resources are useful [23]. At the same time, the analysis of the works gives grounds to assert the need for a more thorough study of the available potential of financial resources of amalgamated hromadas in rural areas to ensure the success of their operation activity.

Purpose of the Study. The aim of this study is to identify the main sources of financial resources of amalgamated hromadas in rural areas and substantiate approaches of using existing opportunities to increase their financial potential through maximum use of delegated functions and powers provided by amalgamated hromadas in the process of decentralization and stable provision of state financial support.

Results. *Basic principles of the formation of financial resources of local authorities.* The availability of sufficient financial resources in amalgamated hromadas is a guarantee that such a community/hromada is able to provide better and more diverse services to its residents, implement social and infrastructure projects, create conditions for business development, attract investment capital, develop local development programs and finance other activities for comprehensive improving the living conditions of community residents.

Financial resources of amalgamated hromadas include financial resources of various economic agents, in particular, local and central authorities, private entities, financial institutions and non-governmental organizations, as well as foreign states and international financial organizations[4].

In the sphere of local self-government, the Council of Europe has developed a number of documents: “European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities”[5]; “Convention on the Participation of Foreigners in Public Life at Local Level”[6]; “Revised European Charter on the Participation of Young People in Local and Regional Life”[7]; “European Urban Charter”[8]; “Manifesto for a New Urbanity. European Urban Charter II”[9].

The central place among them is occupied by the European Charter of Local Self-Government[10]. The ratification by Ukraine of the European Charter of Local Self-Government in 1997 led to the state’s commitment to international standards for the organization and functioning of local self-government.

In article 9 European Charter of Local Self-Government the following approaches to the formation of financial resources of local authorities are identified:

1. Local authorities shall be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers.
2. Local authorities’ financial resources shall be commensurate with the responsibilities provided for by the constitution and the law.
3. Part at least of the financial resources of local authorities shall derive from local taxes and charges of which, within the limits of statute, they have the power to determine the rate.
4. The financial systems on which resources available to local authorities are based shall be of a sufficiently diversified and buoyant nature to enable them to keep pace as far as practically possible with the real evolution of the cost of carrying out their tasks.

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[8] COE (1992). *European Urban Charter* <https://rm.coe.int/168071923d> (2022, January, 15).

[9] COE (2008). *Manifesto for a New Urbanity. European Urban Charter II* <https://rm.coe.int/urban-charter-ii-manifesto-for-a-new-urbanity-publication-a5-58-pages-/168095e1d5> (2022, January, 15).

[10] COE (1985). *European Charter of Local Self-Government* <https://rm.coe.int/168007a088> (2022, January, 15).

5. The protection of financially weaker local authorities calls for the institution of financial equalization procedures or equivalent measures which are designed to correct the effects of the unequal distribution of potential sources of finance and of the financial burden they must support. Such procedures or measures shall not diminish the discretion local authorities may exercise within their own sphere of responsibility.

6. Local authorities shall be consulted, in an appropriate manner, on the way in which redistributed resources are to be allocated to them.

7. As far as possible, grants to local authorities shall not be earmarked for the financing of specific projects. The provision of grants shall not remove the basic freedom of local authorities to exercise policy discretion within their own jurisdiction.

8. For the purpose of borrowing for capital investment, local authorities shall have access to the national capital market within the limits of the law.

In general, the European Charter of Local Self-Government does not specifically require the independence of local government budgets, but determines their autonomy in carrying out their functions, as well as the right to own financial resources, the right to set within the law the rate of local taxes and fees as part of local budgets, to form own financial resources.

These provisions actually define the limits of competence of local governments in terms of the formation of local taxes and fees. The Charter emphasizes that part of the financial resources should be formed by local taxes or fees, those taxes and fees that are set by these bodies themselves. However, the amount of this share is not set, taking into account the different conditions of each country. In addition, according to this paragraph, local governments have the right within the law to determine the rates of local taxes and fees.

The main groups of revenues of the amalgamated hromadas in Ukraine in accordance with the budget legislation. Based on this approach to the formation of financial resources of amalgamated hromadas, it is quite reasonable to identify the following sources: budget resources, investment resources, credit resources and grant resources. The practice of most amalgamated hromadas in rural areas testifies to the fact that to this day the main sources of financial resources are budgetary resources of internal and external origin. Budget resources of internal origin include: revenues from taxes and fees, sale of communal property and lease of communal property.

According to Article 64 of the Budget Code of Ukraine[1] the revenues of the general fund of the budgets of the amalgamated hromadas include taxes, fees and other revenues (Table 1).

The sale and lease of communal property can also provide considerable amounts of revenue to the amalgamated hromadas budget. The sale of communal property is a mechanism that provides for the transfer of ownership of communal assets and allows for the rapid attraction of funds, but only once. In developed countries, this mechanism is used to a very limited extent, because they are aware of the completeness of this method of providing budget revenues.

Lease of communal property is a mechanism that provides for a temporary transfer of ownership and use of communal property.

The local budget receives much less revenue from the lease of communal property than from its sale, but it is of a renewable nature and does not lead to the loss of ownership of the relevant assets. In both international and Ukrainian practice, the most common form of using this mechanism is long- and medium-term land lease[2].

Budget resources of external origin include: targeted subventions from the State budge, in the framework of state or regional target programs, investment projects (programs), or financing of amalgamated hromadas projects from the State Fund for Regional Development. State target programs are a mechanism for attracting funds from the central budget to solve problems in a particular sector or territory, which are recognized as priorities at the national level and have a systemic nature (in international practice most consistent with national sectoral programs and development programs). Along with the central government, local governments can initiate and co-implement such programs, attracting additional resources from the central budget to address major local issues.

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[1] *Бюджетний кодекс України, 2010* (Верховна Рада України). *Офіційний сайт Верховної Ради України* <https://zakon.rada.gov.ua/laws/show/2456-17#Text> (2022, January, 15).

[2] Борщ, Г. А., Вакуленко, В.М., Гринчук, Н.М. та інші (2017). *Ресурсне забезпечення об'єднаної територіальної громади та її маркетинг*. Київ.

Table 1

Revenues of the budgets of amalgamated hromadas in Ukraine

Taxes, rents	Charges, fees, rents	Other revenues
– 60 percent of personal income tax; – 37 percent of the rent for the special use of forest resources in the part of wood harvested in the order of felling of the main use; – 3 percent of the rent for subsoil use for the extraction of oil, natural gas and gas condensate; – 5 percent of the rent for subsoil use for the extraction of minerals of national importance; – 30 percent of the rent for subsoil use for amber mining, which is credited to local budgets at the location (place of extraction) of amber; – state duty, which is credited to the budgets of local governments at the place of action and issuance of documents; – excise tax on the sale of excisable goods by retail trade entities; – corporate profit tax on enterprises and financial institutions of communal property; – property tax; – flat tax.	– parking charges; – tourist fee; – rent for subsoil use for the extraction of minerals of local importance; – rent for subsoil use for purposes not related to the extraction of minerals; – rent for special use of water bodies of local significance; – rent for special use of forest resources (except for rent for special use of forest resources in the part of wood harvested in the order of felling of the main use).	– income from rent for the use of property complexes and other property in communal ownership, the founder of which are amalgamated hromadas; – rent for water bodies (their parts), which are provided for use on lease terms; – funds from the sale of ownerless property (including that refused by the owner or recipient), finds, inherited property (in the absence of heirs by will and by law, their removal from the right to inherit, non-acceptance of inheritance, as well as refusal its acceptance), property received by the territorial community by inheritance or gift, as well as currency values and funds, the owners of which are unknown; – concession payments for communal property objects founded by amalgamated hromadas; – fee for the provision of administrative services, which is paid at the place of provision of services; – administrative fee for state registration of real rights to immovable property and their encumbrances, carried out by the executive bodies of the councils of the amalgamated hromadas; – administrative fee for state registration of legal entities, natural persons - entrepreneurs and public formations, carried out by the executive bodies of the councils of the amalgamated hromadas; – fee for reduction of terms of provision of services in the field of state registration of real property rights and their encumbrances and state registration of legal entities, natural persons-entrepreneurs and public formations, as well as fee for provision of other paid services related to such state registration, carried out by the executive bodies of the councils of the amalgamated hromadas; – funds received from the participants of the procurement procedure as security for their tender offer (competitive bidding proposal), which are not subject to return to these participants in terms of procurement at the expense of the budgets of the amalgamated hromadas; – funds received from the participant - the winner of the procurement procedure during the conclusion of the procurement contract as security for the implementation of this contract, which are not refundable to the winning participant, in terms of procurement at the expense of the budgets of the amalgamated hromadas; – 80 percent of the funds received by enterprises, institutions and organizations maintained at the expense of the budgets of the amalgamated hromadas for gold, platinum, platinum group metals, precious stones, and 50 percent of the funds received by these enterprises, institutions and organizations for silver handed over in the form of scrap and waste; – other revenues to be credited to the budgets of the amalgamated hromadas, in accordance with the law

Source: systematized by the authors on the basis of Budget Code of Ukraine[1]

[1] Борщ, Г. А., Вакуленко, В.М., Гринчук, Н.М. та інші (2017). Ресурсне забезпечення об'єднаної територіальної громади та її маркетинг. Київ.

For rural territories state financial support is very important as it allows supporting agricultural producers, and accordingly the territory where they conduct economic activity. The main principles of state financial support for the development of agriculture in Ukraine are defined in the Law of Ukraine "On State Support of Agriculture of Ukraine"[1]. State financial support is carried out in the following forms: indirect government support (provision of tax incentives); direct government support (budget subsidies, financial payments).

The state support for agricultural producers is represented by various types, but as those which are directly related to the direct impact on the financial condition and development of agricultural producers can be defined the following:

1. Financial support for activities in the agro-industrial complex by cheapening loans (2015-2021).
2. Partial reimbursement of the cost of electricity used for irrigation on irrigated land (2012).
3. State support of the livestock industry (2012-2021).
4. State support for the development of hop production, laying of young gardens, vineyards and berry plants and their supervision (2012-2014, 2017-2021).
5. Financial support for agricultural producers (2017-2021) in the form of budget subsidies due to the abolition of the special regime of VAT taxation.
6. Financial support to farms on the return (2012-2021) and non-return basis (2021).

Local target programs – a mechanism for planning and managing local development, which in one form or another is used in most parts of the world (in international practice, better known as territorial and sectoral development strategies). The peculiarity of this mechanism is that the local target programs allow not only to plan the relevant expenditures of local budgets, but also to attract additional funding in the form of targeted transfers from the state budget revenues in the framework of public-private partnership or concession, investment, loans, etc. Therefore this is an effective way of increasing the revenue of the local budget[2].

Establishment of the State Fund for Regional Development is one of the conditions for accelerating the socio-economic development of Ukraine's regions, transferring state instruments for regional development to a new basis, moving away from the old practice of financing only the construction of new facilities, especially the budget subventions for socio-economic development of regions, subventions for socio-economic development of individual territories, state target programs. Financing of projects from the State Fund for Regional Development – a mechanism for implementing investment programs and regional development projects (including projects of cooperation between amalgamated hromadas), aimed at regional development, infrastructure, industrial and innovation parks and meet the priorities in the State strategy of regional development and corresponding strategies of development of regions. Programs and projects implemented at the expense of the state fund for regional development are subject to co-financing from local budgets at the level of 10%. The regional development project should primarily be aimed at infrastructure development, entrepreneurship, and give a multiplier effect. Investment programs and regional development projects, which are approved for funding from the state fund of regional development, are selected on a competitive basis. The selection of investment programs and regional development projects is carried out by regional commissions established by regional and Kyiv city state administrations. The criteria for evaluating projects are as follows: 1) the area covered by the solution of the problem (projects of amalgamated hromadas are evaluated separately); 2) the impact of the project on solving the problem; 3) innovativeness of the project; 4) co-financing from local budgets (separately assessed communities potentially incapable and potentially able to solve the problem); 5) socio-economic features of the project[3].

Tendencies in the formation of the local budgets revenues in Ukraine and tax revenues in particular. The effectiveness of the formation of amalgamated hromada financial resources in terms of intensification of financial decentralization processes should be considered in view of the structure of local budget revenues and the mechanism of their formation.

Despite the constant growth of all major components of local budget revenues (in particular, over the past 10 years, an average of 2.5 times), official transfers occupied and continue to occupy the largest share

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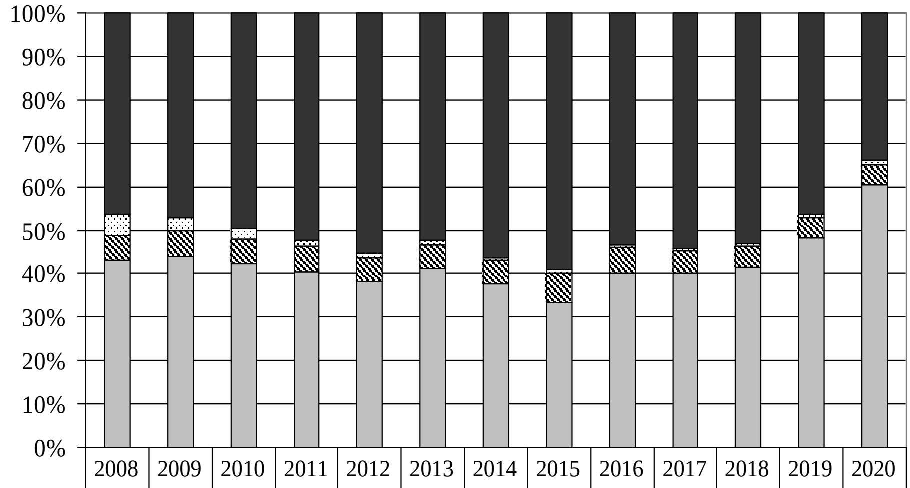
[1] *Закон України Про державну підтримку сільського господарства України, 2004* (Верховна Рада України). *Офіційний сайт Верховної Ради України* <https://zakon.rada.gov.ua/laws/show/1877-15#Text> (2022, January, 15).

[2] Борщ, Г. А., Вакуленко, В.М., Гринчук, Н.М. та інші (2017). *Ресурсне забезпечення об'єднаної територіальної громади та її маркетинг*. Київ.

[3] *Наказ Про питання підготовки, оцінки та відбору інвестиційних програм і проектів регіонального розвитку, що можуть реалізовуватися за рахунок коштів державного фонду регіонального розвитку, 2015* (Міністерство регіонального розвитку, будівництва та житлово-комунального господарства України). *Офіційний сайт Верховної Ради України* <https://zakon.rada.gov.ua/laws/show/z0488-15> (2022, January, 15).

in local budget revenues. The average rate in Ukraine in 2008 was 46%, in 2016-2018 – 53-54%. At the same time, the share of tax revenues over the past twelve years has even decreased: in 2008 it was 43%, in 2016-2017 – 40%, in 2018 – 41%, in 2019 – 48%. At the same time, in 2020 the share of tax revenues increased significantly (61%) and the share of official transfers decreased accordingly (34%). In 2020, transfers (basic subsidies, additional subsidies, subventions) were provided to local budgets from the state budget in the total amount of UAH 161.0 billion, which is UAH 100.4 billion less than in 2019. The decrease in intergovernmental transfers from the state budget to local budgets was due, inter alia, to the reduction of medical subventions. This subvention has been provided to local budgets only in the first quarter of 2020; from April 1, 2020 health care facilities have been switched to funding through the National Service of Health of Ukraine in accordance with the Program of State Guarantees of Medical Care.

Other types of income account occupy a small share of total local budget revenues: the share of non-tax revenues ranges from 5-6%, and the share of other revenues (from capital transactions, foreign governments and international organizations, trust funds) does not exceed in recent years 1% (Fig. 1).



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Official transfers from government bodies	46%	47%	49%	52%	55%	52%	56%	59%	53%	54%	53%	46%	34%
Other revenues (Revenues from capital transactions; Official transfers from the European Union, foreign governments, international organizations, donor agencies; Special funds)	5%	3%	3%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Non-tax revenues	6%	6%	6%	6%	6%	5%	5%	7%	6%	5%	5%	5%	5%
Tax revenues	43%	44%	42%	40%	38%	41%	38%	33%	40%	40%	41%	48%	61%

Figure 1. The structure of revenues of the local budget

Source: compiled by the authors using official statistic information[1].

According to the Tax Code of Ukraine[2], local taxes include two taxes and two fees (charges): tax on property, which consists of a tax on real estate, which is different from the land, transport tax, payment for the land; flat tax, including group IV for agricultural producers; parking charges; tourist fee.

To clarify the degree of dependence of local budgets on the state budget, it is advisable to consider the structure of their tax revenues, which according to the Budget Code are formed not only from local taxes and fees, but also from some national taxes assigned to local budgets, in particular: personal income tax; excise tax, corporate income tax, rent for subsoil use (Table 2).

[1] Статистичний збірник (2011). *Бюджет України 2010 рік.* Київ; Статистичний збірник (2014). *Бюджет України 2013 рік.* Київ; Статистичний збірник (2016). *Бюджет України 2015 рік.* Київ; Статистичний збірник (2017). *Бюджет України 2016 рік.* Київ; Статистичний збірник (2018). *Бюджет України 2017 рік.* Київ; Статистичний збірник (2019). *Бюджет України 2018 рік.* Київ; Статистичний збірник (2020). *Бюджет України 2019 рік.* Київ; Статистичний збірник (2021). *Бюджет України 2020 рік.* Київ.

[2] *Податковий кодекс України, 2010* (Верховна Рада України). *Офіційний сайт Верховної Ради України* <https://zakon.rada.gov.ua/laws/show/2755-17#Text> (2022, січень, 15).

Table 2

Volumes and structure of tax revenues to local budgets

Indicator	mln UAH						Structure, percent					
	2015	*2016*	*2017*	*2018*	*2019*	*2020*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*
National taxes	**71177,0**	**104640,7**	**148418,0**	**171 507,1**	**196 970,3**	**209 885,3**	**72,5%**	**71,2%**	**73,8%**	**73,8%**	**72,8%**	**73,5%**
Personal income tax and charge	54921,2	78971,3	110652,7	138 158,8	165 504,4	177 826,0	55,9%	53,8%	55,0%	59,4%	61,2%	62,3%
Corporate profit tax	4276,8	5879,1	6484,9	9 300,0	10 230,5	9 776,7	4,4%	4,0%	3,2%	4,0%	3,8%	3,4%
Taxes on property	1,8	1,4	1,0	1,1	0,0	0,6	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Rent and fees for use of other natural resources	2154,4	2516,2	2471,2	4 821,2	5 278,0	4 636,9	2,2%	1,7%	1,2%	2,1%	2,0%	1,6%
Domestic taxes on goods and services, including excise tax on goods (products) made in Ukraine, excise tax on imported goods (products) into the territory of Ukraine, excise tax on retailers of excisable goods	7684,6	11628,2	13156,0	13 797,4	13 718,5	15 554,2	7,8%	7,9%	6,5%	5,9%	5,1%	5,4%
Other taxes and charges, including environmental tax	2138,2	5644,5	15652,2	5 428,6	2 238,9	2 090,9	2,2%	3,8%	7,8%	2,3%	0,8%	0,7%
Local taxes and charges, including accrued before January 1, 2011	**27041,3**	**42261,6**	**52587,1**	**61 025,7**	**73 575,5**	**75 686,3**	**27,5%**	**28,8%**	**26,2%**	**26,2%**	**27,2%**	**26,5%**
Property tax, including	16011,1	24989,4	29056,1	31 272,0	37 993,9	37 433,4	16,3%	17,0%	14,5%	13,4%	14,0%	13,1%
land tax and land rental	14831,4	23323,6	26384,5	27 321,1	32 835,7	31 471,6	15,1%	15,9%	13,1%	11,7%	12,1%	11,0%
personal vehicle tax and vehicle tax on legal persons	434,0	246,9	245,9	314,90	276,00	202,80	0,4%	0,2%	0,1%	0,1%	0,1%	0,1%
Parking charges	60,2	66,2	77,6	99,9	114,9	91,2	0,1%	0,0%	0,0%	0,0%	0,0%	0,0%
Tourist fee	37,1	54,1	70,2	90,7	196,2	130,6	0,0%	0,0%	0,0%	0,0%	0,1%	0,0%
Flat tax	10975,1	17167,1	23388,3	29 564,2	35 270,2	38 031,0	11,2%	11,7%	11,6%	12,7%	13,0%	13,3%
Local taxes and charges, accrued before January 1, 2011	0,2	0,1	0,3	-0,7	0,3	0,1	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Fee for conducting certain types of business activities, which was managed until January 1, 2015	-42,9	-15,2	0,0	0,0	0,0	0,0	-0,04%	-0,01%	0,00%	0,00%	0,00%	0,00%
Tax revenues	**98218,4**	**146902,2**	**201005,1**	**232 532,8**	**270 545,8**	**285 571,6**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: compiled by the authors using official statistics information[1]

[1] Статистичний збірник (2016). Бюджет України 2015 рік. Київ; Статистичний збірник (2017). Бюджет України 2016 рік. Київ; Статистичний збірник (2018). Бюджет України 2017 рік. Київ; Статистичний збірник (2019). Бюджет України 2018 рік. Київ; Статистичний збірник (2020). Бюджет України 2019 рік. Київ; Статистичний збірник (2021). Бюджет України 2020 рік. Київ.

The national taxes and fees are dominated in the structure of tax revenues of local budgets, their share in 2015 was 72.5%, in 2016 – 71.2%, in 2017-2018 – 73.8%, in 2019 – 72.8%, in 2020 – 73.5%. These taxes and fees include: personal income tax, corporate income tax, rent and fees for use of other natural resources, excise tax, environmental tax. Accordingly, the share of revenues transferred from the State budget to local ones, which include official transfers and national taxes and fees, in 2015-2019 was 81.6-83.9% (Table 3). In 2020, dependency decreased to 78.5% due to the reasons described above: a decrease in official transfers due to the reformatting of the process of providing medical subsidies.

Table 3

Dependence of local budgets on official transfers and national taxes

Indicator	2015	2016	2017	2018	2019	2020
Tax revenues, *mln UAH*	98218,4	146902,2	201005,1	232 532,80	270 545,80	285571,5
National Taxes, mln UAH	71177,0	104640,7	148418	171 507,10	196 970,30	209885,3
Local taxes, mln UAH	27041,3	42261,6	52587,1	61 025,70	73 575,50	75686,3
Official transfers from government bodies, *mln UAH*	173980,0	195395,3	272602,9	298939,7	260302,0	160177,1
National Taxes and Official Transfers, *mln UAH*	245157,0	300036,0	421020,9	470446,8	457272,3	370062,4
Total revenue, *mln UAH*	294460,2	366143,1	502098,3	562421,9	560531,2	471481,9
The share of national taxes coming to local budgets and official transfers in total local budget revenues, %	**83,3%**	**81,9%**	**83,9%**	**83,6%**	**81,6%**	**78,5%**

Source: compiled by the authors using official statistics information[1]

The analysis of the structure of amalgamated hromadas budgets in rural territories allows distinguishing two main groups of amalgamated hromadas.

In the budgets of the first group, the single tax on agricultural producers, land tax and rent is the main formative indicator because occupy more than half of their income; other components (personal income tax, environmental tax, excise tax, real estate tax and non-tax revenues) provide an average of 3% of budget revenues.

In the budgets of the second group, the main income is the revenue from the excise tax, the single tax from agricultural producers and the land tax occupy a smaller share.

Therefore, developing directions for improving the ways of forming the financial resources of amalgamated hromadas in rural territories, it is necessary to focus on optimizing the powers of local authorities.

Substantiation of directions of increase of efficiency of powers of amalgamated hromadas in the context of establishment of local taxes and fees. The powers of local authorities are determined by two factors: 1) legislative regulation; 2) the ability of amalgamated hromadas to implement them.

The basic principles for the formation of financial resources of local and regional self-government bodies are defined in the European Charter of Local Self-Government[2] and in Recommendation Rec(2005)1

[1] Статистичний збірник (2016). *Бюджет України 2015 рік.* Київ; Статистичний збірник (2017). *Бюджет України 2016 рік.* Київ; Статистичний збірник (2018). *Бюджет України 2017 рік.* Київ; Статистичний збірник (2019). *Бюджет України 2018 рік.* Київ; Статистичний збірник (2020). *Бюджет України 2019 рік.* Київ; Статистичний збірник (2021). *Бюджет України 2020 рік.* Київ.

[2] COE (1985). *European Charter of Local Self-Government* <https://rm.coe.int/168007a088> (2022, January, 15).

of the Committee of Ministers to member states on the financial resources of local and regional authorities[1]. Paragraph 3 of Article 9 of the Charter states that "Part at least of the financial resources of local authorities shall derive from local taxes and charges of which, within the limits of statute, they have the power to determine the rate"[2].

Recommends that the governments of member states:

(1) ensure a fair distribution of public financial resources between the different tiers of government, taking account of the responsibilities assigned to each of these tiers and changes in those responsibilities, as well as economic circumstances;

(2) guarantee local authorities a system of financing their expenditure that is based on the following principles:

– local authorities' resources and their allocation must be consistent with the requirement that they discharge their responsibilities effectively;

– local authorities are entitled, within the framework of national economic policy, to raise adequate resources of their own;

– a substantial proportion of transfers, and, generally, of their own resources, must not be earmarked for specific purposes;

– the amount of state grants must be fair, transparent and foreseeable; fairness demands that allocation rules be universal, non-discriminatory, stable, and neither arbitrary nor negotiable on an ad hoc basis;

– the financial equalization system should allow local authorities to provide their citizens, if they so wish, with broadly comparable levels of services in return for comparable levels of taxation and charges; this system should take account both of disparities in the financial capacity of local authorities and disparities in their spending needs;

– where the demands of national economic policy so require, measures should be taken to ensure that the system of financing local authorities is consistent, overall, with those demands; such measures should:

a.) not be disproportionate to the demands in question;

b.) be negotiated with these authorities or their representatives; and

c.) be introduced by law;

– specific limitations which apply to a limited number of local authorities should be lifted as soon as the situation permits.

(3) review – if necessary – the legal and administrative framework for local taxation and grants to local authorities so as to encourage the improvement of services and their efficient provision, and the legal and administrative framework for financial equalization, so as to ensure fairness and solidarity between authorities, with due regard in particular for the guidelines appended to this Recommendation;

(4) involve local councilors in the debate on reforms needed in this area, particularly those undertaken pursuant to this Recommendation, and on arrangements for implementing such reforms.

K. Garkavenko has analyzes in detail the models of the local taxation system[3] depending on the competence of local governments to introduce and collect local taxes and fees, namely: the model of full autonomy (local authorities have the right to impose taxes and fees at their discretion, and their list is legally not defined), and the model in which local authorities may introduce taxes and fees in accordance with a list determined by the central government. Within the second model, the following varieties are distinguished: 1) all issues concerning the local taxes and fees are fully regulated by law; 2) it is indicated the tax base and marginal rates, everything else is determined by local authorities; 3) only the list of taxes and fees that can be set by local authorities is determined by law, and the tax base, tax rates, payment deadline, etc., is determined by local authorities.

Legislative regulation of local taxation is based on the following principles: 1) Ukraine's tax system has two levels: state and local; 2) the delimitation of the scope of the state and local tax system is carried out on the basis of constitutional regulation and legislative regulation of the basic principles; 3) the principles of distinction between the scope of state and local tax systems, should be strictly followed in the framework

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[1] COE (2005). *Recommendation Rec of the Committee of Ministers to member states on the financial resources of local and regional authorities* <https://wcd.coe.int/ViewDoc.jsp?id=812131> (2022, January, 15).

[2] COE (1985). *European Charter of Local Self-Government* <https://rm.coe.int/168007a088> (2022, January, 15).

[3] Гарькавенко, К. В. (2013). Концептуальні засади та принципи розвитку власної доходної бази місцевого самоврядування. *Зовнішня торгівля: право, економіка, фінанси, 2,* 115-122.

of the implementation of tax discipline; 4) tax policy, which is carried out by state and local authorities, is the basis for ensuring the unity of the tax system.

In fact, the mechanism of local taxation can be characterized by such requirements of the Tax Code of Ukraine:

– a clear list of local taxes and fees is provided, and the establishment of local taxes and fees, not provided for by the Code, is prohibited;

– the powers of the Verkhovna Rada of Ukraine include determining the list of local taxes and fees and their main elements, the establishment of which is the competence of village, town and city councils and councils of the amalgamated hromadas established in accordance with the law and the prospective plan for the formation of the territories of amalgamated hromadas;

– it is stipulated that local councils must establish a single tax and property tax (in terms of transport tax and land charges) and have to decide the question of the establishment of property taxes (in terms of real estate tax, which differs from the land plot), the fee for places for parking of vehicles, tourist fee;

– the powers of village, town and city councils regarding taxes and fees include, in particular, the establishment of local taxes and fees at rates established by the Tax Code;

– village, town, city councils and councils of the amalgamated hromadas, established in accordance with the law and the prospective plan for the formation of the territories of amalgamated hromadas, are not allowed to establish individual preferential rates of local taxes and fees for certain legal entities, individuals – entrepreneurs and individuals or release them from paying such taxes and fees;

– decisions of local authorities are not required for the flat tax on entities (payers of III and IV groups), as tax rates are determined by the Tax Code.

The Law of Ukraine "On Local Self-Government"[1] as part of the powers of village, town and city councils provides such general provisions: 1) the establishment of local taxes and fees in accordance with the Tax Code of Ukraine; 2) making decisions on granting in accordance with the current legislation privileges on local taxes and fees, as well as land tax.

Among the main problems of local taxation in the context of the need to stimulate innovation should be noted the lack of the right of local governments to establish their own tax preferences in their territory. The local self-government bodies of Ukraine are actually deprived of the right to influence on the elements of local taxes. Such situation narrows the potential of local taxation, especially in the area of stimulating innovative activity of economic entities in the region in order to strengthen the innovation and investment potential of the region. Local governments are objectively forced to strengthen the effectiveness of local taxes and fees as regulatory instruments by increasing the number of their taxpayers and increasing the object of taxation, which is achieved mainly by improving the efficiency of administration of these taxes and fees.

Proposals to expand the powers of local governments are presented in the publications of scientists of Ukraine, but they relate only to the flat tax of group IV, which is paid by agricultural producers using the simplified taxation system[2],[3]. Thus, local authorities are prohibited from setting their own taxes and fees, which, among other reasons, leads to a low level of financial autonomy at the local level, lack of competition between different amalgamated hromadas. At the same time, local authorities are deprived of the right to influence on the elements of the flat tax of group IV for agricultural producers, which is part of the group of local taxes and fees. The lack of the powers to determine the rates and other elements of this tax does not ensure the growth of revenues to local budgets and the use of the potential of land resources. It is necessary to establish differentiated criteria that determine the possibility of adjusting the elements of the flat tax for local authorities in order to ensure the effective use of the tax potential of agricultural producers of a certain local budget and cover such elements as: taxpayers, the amount of space, the quality of land.

Therefore, in our opinion, it is necessary to consider the issue of expanding the powers of local governments in relation to other local taxes and fees.

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[1] *Закон України Про місцеве самоврядування, 1997* (Верховна Рада України). *Офіційний сайт Верховної Ради України* <https://zakon.rada.gov.ua/laws/show/280/97-%D0%B2%D1%80#Text> (2022, January, 15).

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State support for agricultural producers as an important investment resource of amalgamated hromadas. Evaluation of the effectiveness and efficiency of budget programs in the sphere of agro-industrial production is presented in the report of the State Audit Service[1],[2]. The main disadvantages indicated in it are as followers: low awareness of producers, low level of support for small and medium-sized businesses through the provision of non-refundable and returnable financial support.

The following should be added to the main disadvantages noted above. Having a high potential for the development of agricultural production, in terms of state support for agricultural producers, which is in fact an additional investment resource, agricultural regions occupy low places, which requires activation of both their own resources and changes in the existing mechanisms for the allocation of budget funds.

This situation arises due to the fact that the existing procedures for the distribution of budgetary funds do not fully take into account factors of regional development and their prospects. Analysis of regulatory documents governing the allocation of various types of state financial support of agricultural producers, allows singling out such shortcomings:

1. In the procedure of the using of funds provided in the state budget for financial support of activities in the agro-industrial complex by cheapening the loans[3]:

– there are no criteria for determining borrowers on a competitive basis;

– in conditions that determine the priority of the borrower, only the amount of revenue and the type of activity (raising and breeding of cattle) is taken into account, which does not allow to take into account the needs of regional development;

– the criteria do not take into account such factors as other types of activity, level of profitability, specific conditions of financial and economic activity and the property status of the agricultural producer;

– there are no procedures for monitoring the feasibility and effectiveness of spending funds;

– the distribution of funds between regions uses an indicator such as the average annual gross output over the last three years, but this distribution principle does not take into account the quality of land, zonal features, intensity of land use, profitability of cultivated products (for crop production), activities product profitability, its strategic importance for the development of the region and the country as a whole (for livestock husbandry).

2. In the procedure of using the funds provided in the state budget to support the livestock industry[4]:

– priorities and the level of profitability of various types of activities in the livestock industry are not taken into account in terms of distribution;

– the principle of distribution of funds between regions and specific producers is not regulated on the competitive basis.

– 3. In the procedure of using the funds provided in the state budget as a financial support for the development of farms (on a non-refundable basis)[5]:

– directions of its provision are detailed only by type of expenses (partial compensation for the cost of purchased seeds, purchased agricultural machinery and equipment of domestic production, cheapening of the loans, costs associated with the agricultural consulting services provided, supporting of the agricultural service cooperatives), but does not take into account regional needs;

– only the maximum area of agricultural land (500 ha) and the maximum revenue for the last year (15 million UAH) is provided, but the quality of land plots, zonal features, land use intensity, profitability

[1] Державна Аудиторська служба України (2017). *Аудиторський звіт за результатами державного фінансового аудиту виконання бюджетних програм Міністерством аграрної політики та продовольства України за період з 01.01.2015 по 30.06.2017* <http://www.dkrs.gov.ua/kru/uk/publish/article/131400> (2022, January, 15).

[2] *Рішення Про результати аудиту ефективності використання коштів державного бюджету, спрямованих на надання державної підтримки агропромисловому комплексу, 2017* (Рахункова палата України). *Офіційний сайт Рахункової палати України* <http://www.ac-rada.gov.ua/control/main/uk/publish/article/16751346> (2022, January, 15).

[3] *Постанова про порядок використання коштів, передбачених у державному бюджеті для фінансової підтримки заходів в агропромисловому комплексі шляхом здешевлення кредитів, 2015* (Кабінет Міністрів України). *Офіційний сайт Верховної Ради України* <http://zakon2.rada.gov.ua/laws/show/267-2016-п> (2022, January, 15).

[4] *Постанова про порядок використання коштів, передбачених у державному бюджеті для підтримки галузі тваринництва та переробки сільськогосподарської продукції, 2018* (Кабінет Міністрів України). *Офіційний сайт Верховної Ради України* <https://zakon.rada.gov.ua/laws/show/107-2018-%D0%BF#Text> (2022, January, 15).

[5] *Постанова про порядок використання коштів, передбачених у державному бюджеті для надання фінансової підтримки розвитку фермерських господарств, 2018* (Кабінет Міністрів України). *Офіційний сайт Верховної Ради України* <http://zakon5.rada.gov.ua/laws/show/106-2018-п> (2022, January, 15).

of cultivated products (for crop production), types of activities, product profitability, its strategic importance for the development of the region and the country as a whole (for livestock) are not taken into account.

4. In the procedure of using the funds provided in the state budget as a support to farms (on a returnable basis)[1]:

– there is no clear procedure for selecting a subject to receive return assistance;

– such criteria as land area, types of activity are not detailed;

– the distribution of financial support by region takes into account the total indicator of agricultural production by farms during the previous three years and this principle of distribution does not take into account the quality of land, zonal features, intensity of land use, profitability of cultivated products (for crop production), activities, profitability its strategic importance for the development of the region and the country as a whole (for livestock).

Conclusions. The lack of opportunities for local authorities to influence the determination of privileges, benefits and rates of local taxes and fees does not contribute to improving the competitiveness and investment attractiveness of regions. It is necessary to resolve the issue of the empowerment of local governments, local authorities and local communities to establish elements of local taxes and fees.

Agricultural commodity producers of rural territories in Ukraine have the opportunity to take advantage of such types of state support as financial support to reduce the cost of loans, to develop livestock farming and financial support to farms on a returnable and non-repayable basis. But having a high potential for the development of agricultural production, in terms of state support for agricultural producers, which is actually an additional investment resource, agricultural regions occupy low places, which requires the activation of both their own resources and changes in existing mechanisms for the distribution of funds.

It is necessary to adjust the order of allocation of budgetary funds in the direction of taking into account the specifics of land areas, types of economic activity, priorities and prospects for regional development in the distribution of funds between regions and entities claiming to receive it. In this process, local governments should play an active role. This will ensure the cumulative effect of the growth of financial resources and agricultural production, taking into account the requirements of quality, organic and environmental friendliness to enhance innovation and innovative development of rural territories.

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