

**COMPARATIVE ANALYSIS OF LOCAL SELF-GOVERNMENT FINANCE IN UKRAINE
AND EUROPEAN COUNTRIES**

**Democratic Governance for the XXI Century:
Challenges and Responses in CEE Countries
V. Working Group on Public Sector Finance and Accounting**

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Abstract

The system of financing the local governments in the unitary European countries is a crucial stabilizing factor that is vital in providing an efficient collaboration of state and private sectors in relation to provision of public services to the citizens. Experience of post-socialist countries, which have already achieved European standards in public administration and local government, raises the necessity of a more deep analysis of the forms and methods of improvement the financing of local self-government. Taking into account the European integration ambitions of Ukraine, the thorough study of the positive experience of European countries is needed, especially concerning the implementation of principles of the European Charter of Local Self-government.

Expanding the functions and authorities for the local government bodies in Ukraine during the last years was not accompanied by the adequate increase of financial resources necessary to support their activities. Share of local budget revenues in a Gross Domestic Product dropped from 18% in 1993 to 13% in 2003. In addition, the reduction of share of the local budget revenues in the Consolidated Budget of Ukraine, and share of local government budgets in the tax revenues of the Consolidated Budget of Ukraine took place. With Approval of the Budgetary Code the situation slightly improved as far as local finances are concerned. As a result, the share of revenues in the local budgets grew 0,4% in 2001 compared to 2000, share of expenditures to the local budgets in a gross domestic product has been up 1,1%. There is urgent need to set up a new, more efficient system of financing the local governments that will enable to balance the functions and authorities of local government bodies with their resources.

Application of the paper achievements: scientific and practical conclusions and suggestions in relation to development in Ukraine fiscal equalization system, improvement of order of forming local budgets, dividing of fiscal powers between state and local budgets, to computation of coefficient of relative expenditures of regions are used by the Financial Research Institute, Ministry of Finance of Ukraine; by Foundation of local self-government of Ukraine in the process of development of draft of the Program of state support of development of local self-government in Ukraine and measures on implementation of tasks foresee by this Program; by Association of the Ukraine financial officers during realization of the project “Development of educational complex of “Local Financial Management”.

Further development and strengthening of the financing system of the local self-government will be done by adopting amendments to the Budgetary Code and Laws of Ukraine “On local self-government in Ukraine” and “On local state administrations”, “On municipal property”.

Chapter 1. System of the financing local self-government

The problems of the financial providing of local self-government was explored in the context of theory of public choice, theories of fiscal federalism, theories of fiscal decentralization; from the point of view the local governments economics in unitary countries, economies of cities; in the context of theory of public finances and local finances; theories of local public goods, theories of clubs and also theories of municipal financial management.

The comparative analysis of separate instruments of the financial providing of local self-government at the beginning of the XX c. was conducted by the such Russian scientists, as L.Khodskij, I.Ozerov, A.Markov, M.Sirinov, M.Leontjev, B.Veselovskij. In soviet period a problem was not practically developed.

In modern scientific researches of domestic Ukrainian scientists attention is spared to the separate aspects of the financial providing of local self-government. Through the prism of theory of public finances these questions are lighted up in the V.Fedosov, O.Vasylyk books. Theoretical bases of organization of the financial providing of local self-government in the context of theory of local finances and intergovernmental fiscal relations are analysed by V.Kravchenko, I.Lunina, M.Chumachenko, S.Slukhaj, on the basis of theory and practice of becoming of the budgetary system of Ukraine – in the V.Oparin works, also by K.Pavljuk, S.Bukovynskij, local budgets of Ukraine – O.Kyrylenko, local taxes and– O.Danilov, U.Lapshin, V.Onishenko. The separate questions of organization of the financial providing of local self-government in foreign countries are lighted up in the M.Ermoshenko, I.Burakovskij, V.Andrushenko working papers and articles.

Main goal of research is foundation of theoretical basis for determination of the system for financing local self-government and collaboration of proposals concerning to the application of foreign experience in Ukraine.

Achieved results include:

- definition of “system for financing local self-government” and components of institutional structure of these systems;
- the classification of the systems for financing local self-government in the unitary European countries specified as centralized and decentralized systems and definition of Ukraine system for financing local self-government,
- the differences of the Ukrainian system of financing the local self-government exposed, on the basis of comparative analysis of institutional bases and indicators of revenues structure and expenditures structure of local budgets are:
 - low level of financial autonomy of budgets of local self-government,
 - insignificant revenues from the local taxes and fees, weak own revenue base, dependence on transfers from the state budget and lack of basic financial institutes in Constitution and laws of Ukraine;
 - inconsistency of financial relations between state administrations, local self-government bodies, private sector and citizens in the process of public goods resource providing .

Proposed definition of “system for financing local self-government” as combination of legal framework, financial institutes, instruments and financial relations. The essence of this system is determined as relations between public authorities, local self-government bodies, private sector and citizens in the process of public goods resources providing.

Classification of the systems of financing local self-government in the unitary European countries on centralizing and decentralizing has been done by comparing of such characterizing indicators: share of revenues and expenditures of local budgets in GDP, share of local taxes in GDP, share of grants in total revenues of local budgets, structure of revenues and expenditures of local budgets.

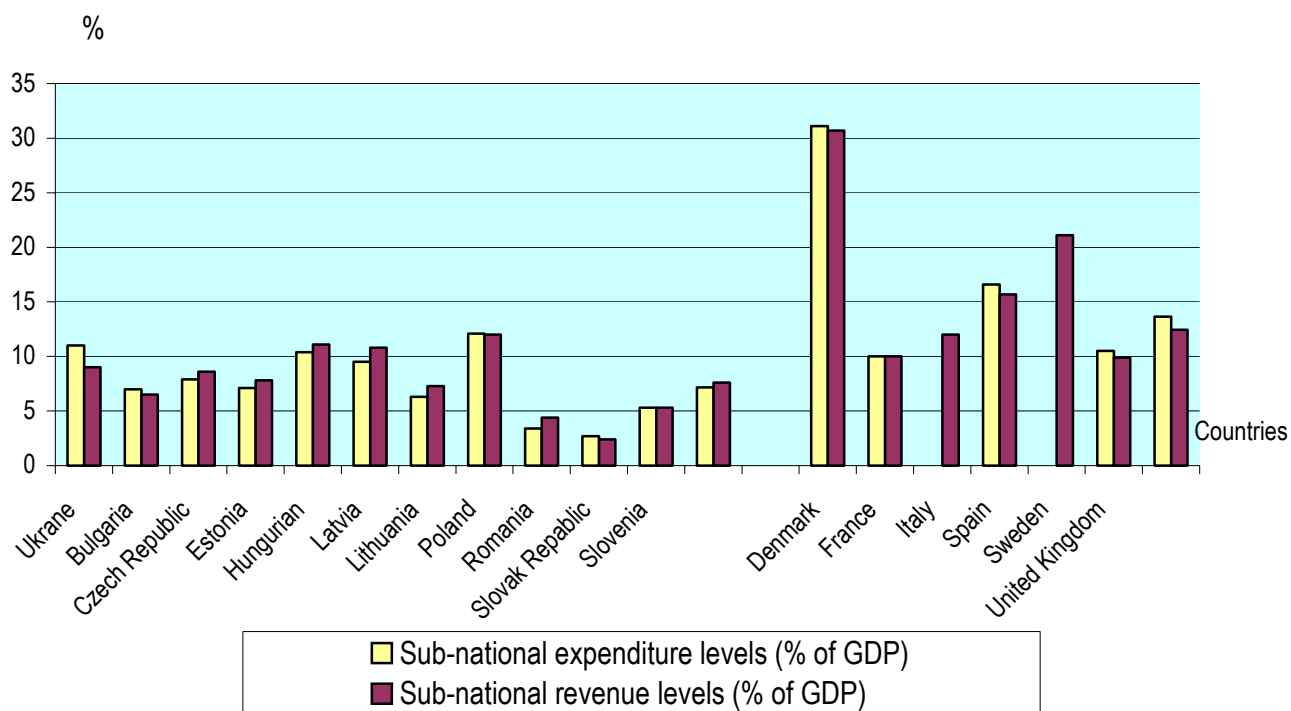
Suggestions on becoming the system of financing of the local self-government in Ukraine develop by way:

- clarification of legal status of budgets of local self-government as budgets of territorial gromada’s, budgets of district and regional local self-government bodies;
- development of institutes: public services; local taxes and fees, in particular, tax on property as a local tax; communal own property and common property of territorial gromada’s;
- proposals on improving the efficiency of instruments of this system by increasing of incomes from capital revenues and municipal borrowing.

The core problem of developing the system of the financing local self-government is lack of the systemic, goal-oriented strategic plan of reforming the system of state governance in Ukraine, lack of the transparency in the budget process and low level of citizen participation.

Creation of financial basis for local self-government of Ukraine as a result of transition from the centralized to the decentralized market economy, determination of economic functions of the local self-government bodies as producers of local public goods in Ukraine in conformity with European standards, and necessity of reformation in the field of local finance of Ukraine give rise to the problems discussed in this research.

Figure 1: Dynamics of the revenue/ expenditure share of local budgets in GDP in 1993-2004, %¹



As visible from fig. 1, middle level of expenditure share of local budgets in a gross domestic product in post-socialist countries on 9% below, than in the countries-members of European Union, accordingly, middle level of revenue share of local budgets in a gross domestic product below on 12 %. In Ukraine the indexes of revenue share of local budgets

¹ Owens J. Fiscal Design across Levels of Government: EU Applicant States and EU Member States / Workshop on “Decentralisation: trends, perspectives and issues at the threshold of EU enlargement”, Copenhagen, October 10-11, 2002, p. 13-14.

Budget of Ukraine 2003. Statistical yearbook. Ministry of Finance of Ukraine. Kiev 2004, 277 p. – p. 18.

in a gross domestic product exceed the middle level of post-socialist countries, but absence of the developed institutes and instruments of the financial providing of local self-government detains convergence processes.

Expanding the functions and authorities for the local government bodies in Ukraine during the last years was not accompanied by the adequate increase of financial resources necessary to support their activities. Share of local budget revenues in a Gross Domestic Product dropped from 18% in 1993 to 13% in 2003. In addition, the reduction of share of the local budget revenues in the Consolidated Budget of Ukraine (tab.1), and share of local government budgets in the tax revenues of the Consolidated Budget of Ukraine took place. Since 2001 positive dynamics of share local budgets revenues in the Consolidated Budget of Ukraine (that is growth of resource base of local authorities) is observed. It is in conformity with the tasks of public administrative reform in delegating the administrative functions from above to below and comprehensive development of local self-government in accordance with Article 5, section V “Institutional transformations” (tab.1).

There is urgent need to set up a new, more efficient system of financing the local governments that will enable to balance the functions and authorities of bodies of local government with their resources.

Table 1: Dynamics of the revenues share of local budgets in the Consolidated budget revenues 1993-2004, %²

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Share of local budget revenues in the Consolidated Budget revenues	47,9	42,0	52,1	47,5	43,0	46,8	41,3	31,6	33,6	31,4	30,0

The increases in the volumes of financing the local budgets in 2004 compared to previous periods represent positive signs of share of local budget revenues in GDP. While in 2000 negative dynamics of the revenues share of local budgets of Ukraine in GDP has been registered (it dropped from 18% in 1993 to 11% in 2000), after Budgetary Code approval the situation improved as far as local finance is concerned. As a result, in 2001 compared to 2000 the share of local budgets revenues grew 1,3% (Tab.2). There was subsequent increase in the revenues share of local budgets of Ukraine to GDP in 2002–2004, which is in conformity with the European developments.

Table 2: Dynamics of the revenue/ expenditure share of local budgets of Ukraine in GDP in 1993-2004, %³

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Sub-national revenue levels (% of GDP)	17.7	17.2	17.9	14.6	15.4	14.9	12.2	10.9	12.2	12.5	13.0
Sub-national expenditure levels (% of GDP)	16.1	17.0	17.9	14.9	15.5	15.2	12.3	10.8	12.2	12.3	12.8

In 2004 the subsequent positive changes in the structure of local budgets revenues are expected: an increase in share of revenues from capital revenues, growth in share of local taxes and fees, growth of revenues from land use taxes, etc. These developments indicate on diversification of financing sources of the local budgets.

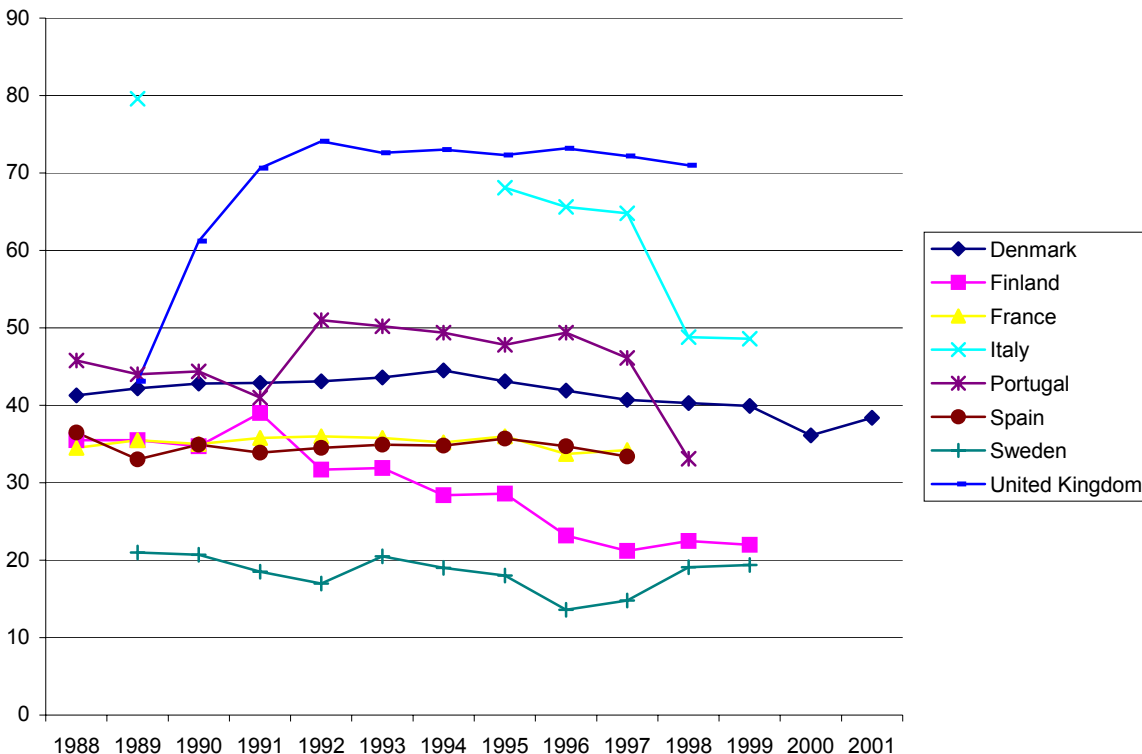
² Budget of Ukraine 2003. Statistical yearbook. Ministry of Finance of Ukraine. Kiev 2004, 277 p. – p. 21.

³ Budget of Ukraine 2003. Statistical yearbook. Ministry of Finance of Ukraine. Kiev 2004, 277 p. – p. 18.

Chapter 2: Comparative analysis of local government budgets revenue structure in Ukraine and European countries

Key factor, which determine the features of systems of the local self-government financing, is dependence on a central government, in particular, on transfers (figure 2).

Figure 2: Dynamics of transfers share in the total revenue of local government budgets in unitary EU countries, 1988-2001⁴



Analysis of transfer from the central government budget to the budgets of local governments revenues dynamics from 1988 until 2001 confirms that in most countries in early 90th a tendency to the increase of transfer share in the total local governments budget revenues was observed. In late 90th an insignificant reduction in revenues from a central government to the local budgets in the general volume of revenues took place.

Such countries, as Great Britain, Italy, Spain, Denmark, Portugal and France, have the level of those revenues above 40%, in Finland and Sweden it amounts to about 20% of the total volume of revenues in the budgets of local governments. Thus, the group of EU countries including Great Britain, Italy and Portugal have the level of transfer revenues exceeding 46 %, that indicates on high dependence on revenues from the central government budget and a high level of centralization of public finance. The systems of financing local self-government of these countries are centralized, while in Sweden, Finland, Denmark and France, where revenues to the budgets of local governments exceed 50%, the systems of financing local self-government can be regarded as decentralized.

Highest level of financial dependency on transfers from the budget of central government is in Albania (96% of the total volume of revenues in the budgets of local governments). Lithuania, Romania, Slovak Republic, Slovenia can be classified as more financially autonomous countries (about 20%).

The dynamics of transfer share in the total local governments budgets revenues in unitary post-socialist European countries in 1988 – 2001 influenced by decrease of dependence on transfers in the budgets of central government in Romania, Slovenia, Hungary, Bulgaria and by increase of transfers share in Estonia, Czech Republic and Ukraine in recent years

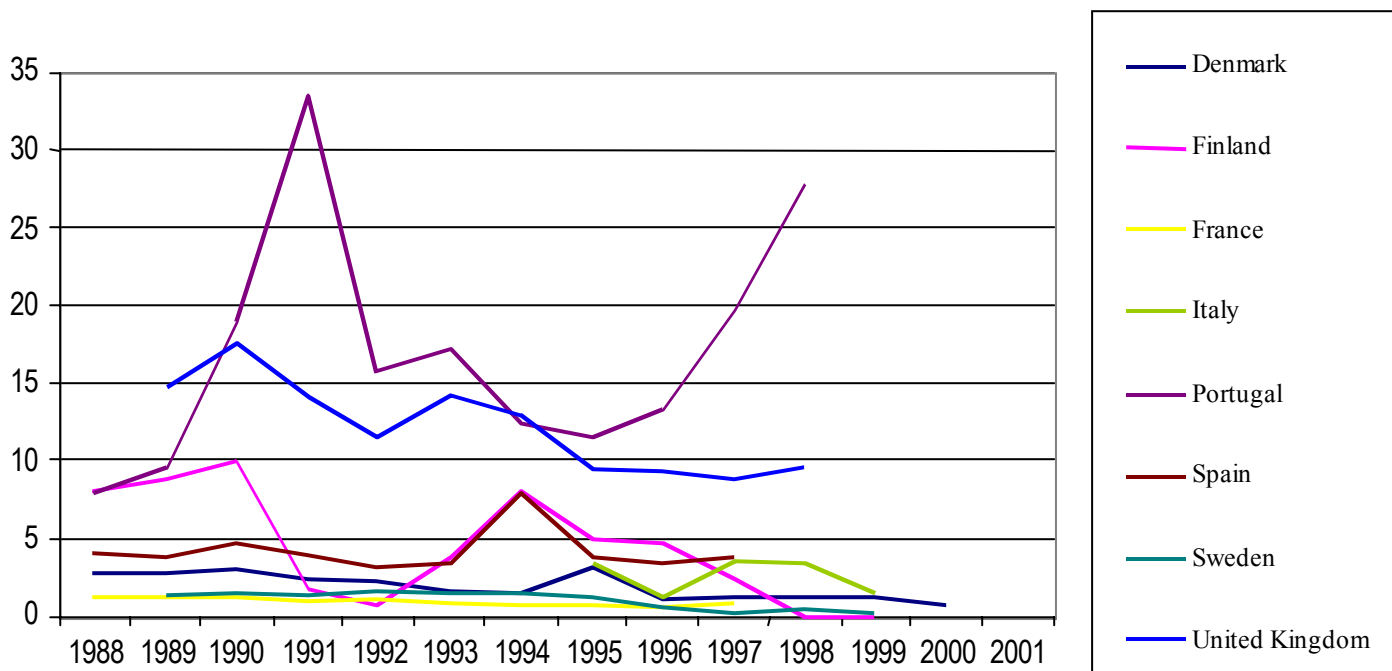
⁴ Government Finance Statistics Yearbook, Vol.XXI / IMF, Washington, 1997. 447 p.
Government Finance Statistics Yearbook, Vol.XXV / IMF, Washington, 2001. 508 p.

An indicator of incomes is rather common in researches, since its comparison with the gross domestic product enables to estimate the financial potential of local self-government, regardless of the central government budget revenues.

Current incomes are the main source of revenues in the budgets of local governments in the unitary EU countries.

According to the international standards of government finance statistics the indicator of current incomes is based on the sum of tax and non-tax revenues. Accordingly, the total revenues in the budgets of local governments excluding grants is based on the sum of current and capital revenues.

Figure 3: Dynamics of capital revenues share in the total revenue (excluding transfers) of local government budgets in unitary EU countries, 1988-2001⁵



As we see from the Fig. 3, the level of centralization in the system of financing the local self-government does not influence on the level of financial autonomy of the local self-government bodies. For example, in Great Britain the share of capital revenues in the total local budget revenues reaches some 10%, while in Sweden, Finland of Denmark (decentralized system) this figure is considerably lower.

The major part – over 70% of current revenues to the budgets of local governments are made of tax revenues. Sweden and Denmark have the largest figure of tax revenues in the total current revenues to the budgets of local governments – over 80%, while Great Britain has the lowest – about 52%.

Major part of tax revenues to the budgets of local governments is made by taxes on income, profits and capital gains in Sweden (100%), Denmark (94 %), in France and Spain this figure amounts to around 20%.

Significant increases in the budgetary revenues are attributed to the property tax. The share of property taxes in the structure of tax revenues in the budgets of local governments amounted to 99,5% in 1998 in Great Britain and about 30–40% in France and Spain (figure 4). It should be noted that relatively stable dynamics of share of this kind of tax revenues in the total volume of tax revenues indicates to stability of tax systems in the countries of European Union, as well as stability of revenues from this kind of taxes in local budgets.

Domestic taxes on goods and services amount to 40% of tax revenues in the budgets of local governments in Spain and about 10% in France. Taxes from the population (personal income taxes etc.) in the structure of tax revenues traditionally take the largest part in the budgets of local governments of the European countries – 98% in Denmark, 100% in France and 82% in Spain.

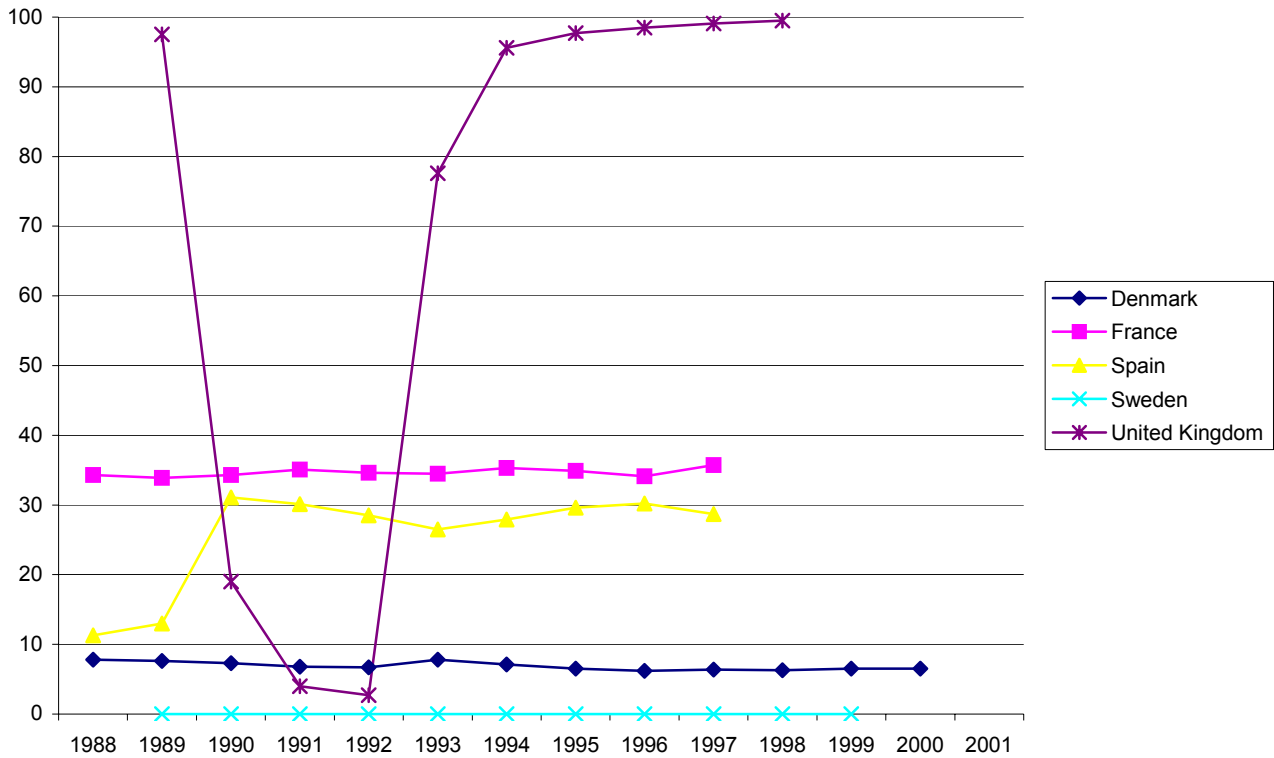
The dynamics of indicators of non-tax revenues in the budgets of local governments is heterogeneous. In Sweden and Great Britain during the 90th the revenues share from entrepreneurial and property income grew from 41% to 52 % in Sweden and from 51% to 54% in Great Britain. In Denmark, France and Spain this figure had a tendency to grow in early 90th, and at the end of 90th it stood at about 10 %.

⁵ Government Finance Statistics Yearbook, Vol.XXI / IMF, Washington, 1997. 447 p.
Government Finance Statistics Yearbook, Vol.XXV / IMF, Washington, 2001. 508 p.

The dynamics of revenues share from entrepreneurial and own activity in the structure of non-tax revenues in the budgets of local governments of the European countries exceeds 50% in Great Britain and Sweden. It indicates on financial independence of local self-government from the centralized or decentralized type of financing in these countries. High level of independence as far as economy and finances are concerned, enables to dispose of community property. In Italy and Finland this index stands at 20%, in Denmark and Spain about 10%.

Figure 4: Dynamics of the property taxes share in the tax revenues of local government budgets in unitary EU countries, 1988-2001⁶

Share of administrative fees and charges, revenues from nonindustrial sales, revenues from fines and forfeits in the

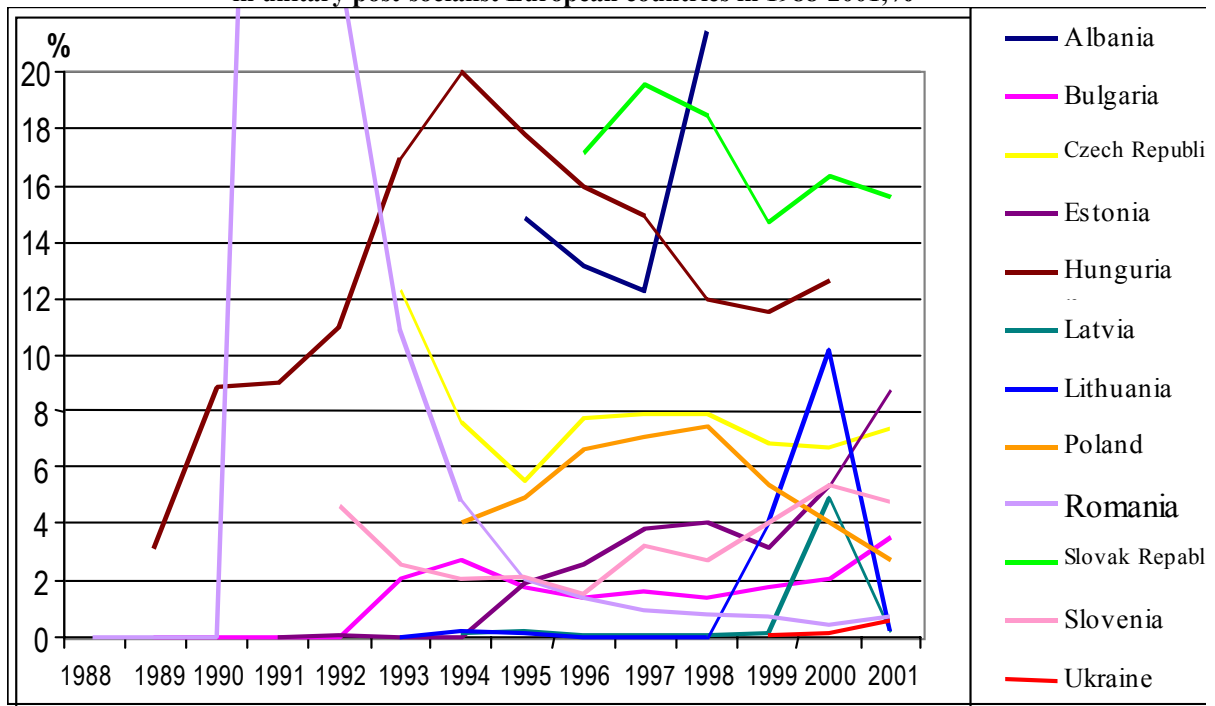


structure of non-tax revenues in the budgets of local governments of Denmark, France and Spain makes over 60%; it amounts to over 40% in Great Britain and over 10% in Sweden.

As we see from Fig.5, capital revenues take a rather small share in the total revenues in the budgets of local governments of post-socialist countries.

⁶ Government Finance Statistics Yearbook, Vol.XXI / IMF, Washington, 1997. 447 p.
Government Finance Statistics Yearbook, Vol.XXV / IMF, Washington, 2001. 508 p.

Figure 5. Dynamics of capital revenues share in the total revenue (excluding transfers) of local government budgets in unitary post-socialist European countries in 1988-2001,⁷

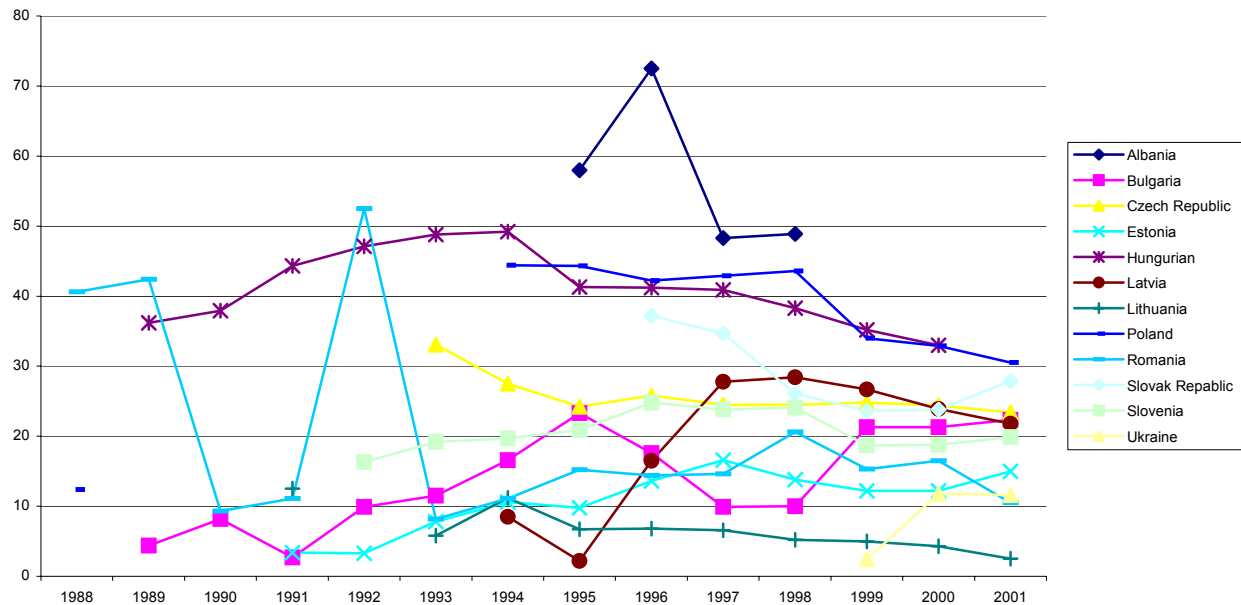


In Slovakia and Hungary share of capital revenues in the total volume of revenues to the budgets of local governments excluding grants amounts to over 10%, in Estonia, and over 5% in Czech Republic and Slovenia. The lowest figure is in Ukraine, which indicates on the lack of development of community property institutes.

Ratios between tax and non-tax sources of revenues in the current revenues of the local government budgets are rather different in the group of post-socialist countries. First of all, it is explained by transitional features of economies of these countries, instability of legislation in the tax sphere (figure 5).

⁷ Government Finance Statistics Yearbook, Vol.XXI / IMF, Washington, 1997. 447 p.
Government Finance Statistics Yearbook, Vol.XXV / IMF, Washington, 2001. 508 p

Figure 6. Nontax revenues in current revenue share in the total revenue of local government budgets in unitary post-socialist European countries in 1988-2001,⁸

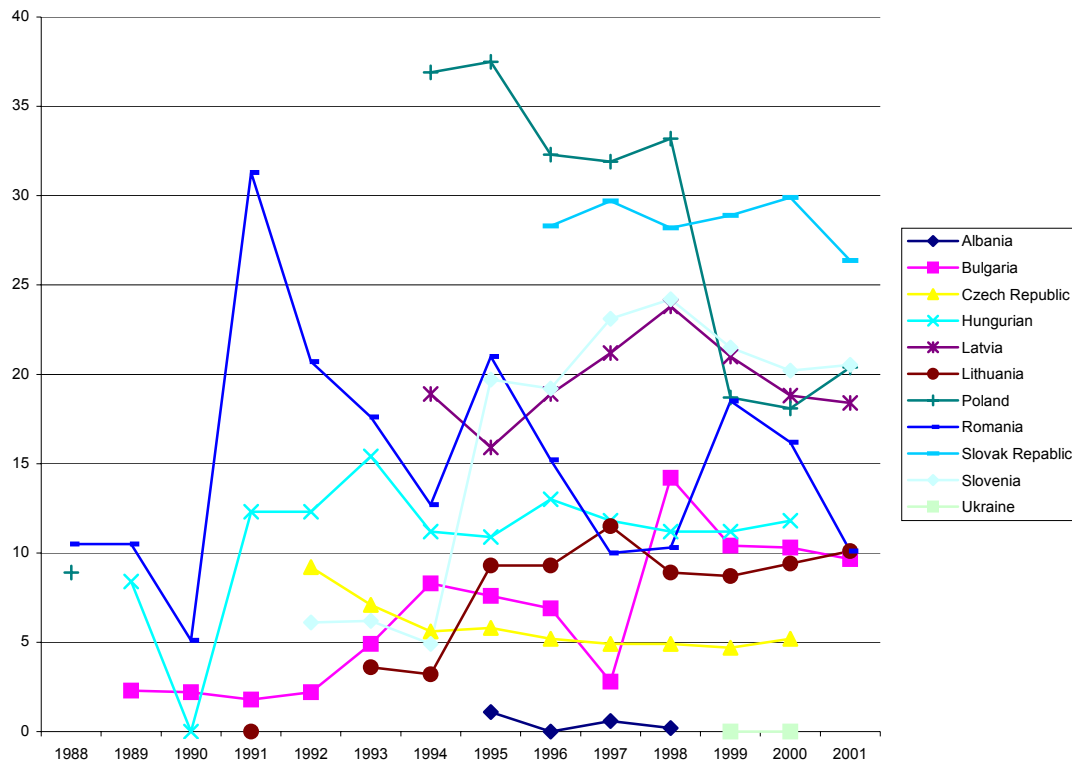


At the same time, it is necessary to note, that similarly to developed EU countries, personal income taxes in the structure of local budgets tax revenues of the post-socialist countries.

In the structure of tax revenues of budgets of local governments have the important value taxes on property in such countries, as Slovak Republic, Slovenia, Poland (over 20% of total tax revenues), Latvia, Romania, Hungary, Bulgaria and Lithuania (over 10%). While in Ukraine revenues from this kind of taxes the lowest among the unitary European countries (figure 7).

⁸ Government Finance Statistics Yearbook, Vol.XXI / IMF, Washington, 1997. 447 p.
Government Finance Statistics Yearbook, Vol.XXV / IMF, Washington, 2001. 508 p

Figure 7. Dynamics of the property taxes share in the total volume revenue of local government budgets in unitary post-socialist European countries in 1988-2001,⁹

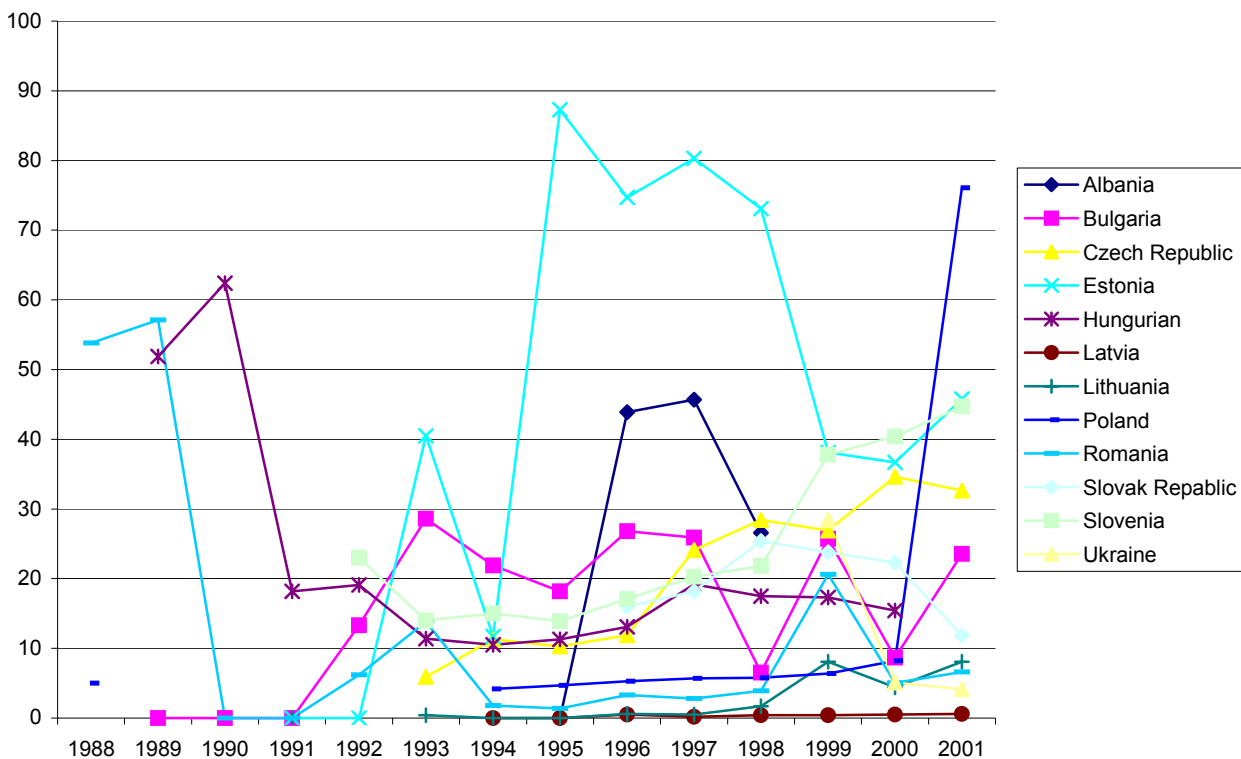


With development of economic infrastructure, growth of economic activity in 90th XX share of revenues from entrepreneurial activity in nontax revenues of local governments budgets in most postsocialist countries increased.

This type of nontax revenues amount to over 40% in Poland, Czech Republic and Slovenia, to 20% – in Bulgaria, Slovak Republic, to Hungary, about 10% – in Latvia and Romania, that is up to Ukraine, it had one of the lowest indexes of this source of nontax revenues among the European countries. (figure 8)/

⁹ Government Finance Statistics Yearbook, Vol.XXI / IMF, Washington, 1997. 447 p.
Government Finance Statistics Yearbook, Vol.XXV / IMF, Washington, 2001. 508 p

Figure 8. Dynamics of revenues share from entrepreneurial & property income in the general volume of nontax revenues of budgets of local government budgets in unitary post-socialist European countries in 1988-2001,¹⁰



¹⁰ Government Finance Statistics Yearbook, Vol.XXI / IMF, Washington, 1997. 447 p.
Government Finance Statistics Yearbook, Vol.XXV / IMF, Washington, 2001. 508 p

Compared to the structure of local governments budget revenues in the unitary European countries (Tab. 3), Ukraine differs by the small amount of revenues from capital revenues.

Table 3 : Indicators of the revenue structure of local self-government budgets in the European countries, %¹¹

Country	Share of capital revenues in the total revenues excluding grants, %	Share of non-tax revenues in the total current revenues, %	Share of revenues from entrepreneurial & property incomes in the total non-tax revenues, %	Share of property taxes in the total tax revenues, %
Albania	21,5	48,9	26,6	0,2
Bulgaria	2,1	21,3	8,7	10,3
Czech Republic	6,7	24,4	34,6	4,7
Denmark	0,7	11,7	11,6	6,5
Estonia	5,4	12,2	36,7	10,0
Finland	2,5	28,6	19,5	
France	0,8	27,7	8,8	35,7
Hungary	11,5	35,2	17,3	11,2
Italy	1,6	24,7	17,6	
Latvia	5,0	23,9	0,5	18,8
Lithuania	10,2	4,3	4,4	9,4
Poland	4,0	32,9	8,2	18,1
Portugal	27,9	32,5		
Romania	0,7	15,3	15,3	18,5
Slovak Republic	16,3	23,8	22,3	29,9
Slovenia	5,4	18,8	40,4	20,2
Spain	3,9	21,3	5,8	28,7
Sweden	0,3	6,8	50,2	
Great Britain	9,6	48,5	53,7	99,5
Ukraine	0,2	11,8	5,1	0,0

Lower share of current revenues due to increase in revenues from capital transactions will be crucial in stabilization of local budget revenues. The increase of share of non-tax revenues due to increase in revenues from entrepreneurial & property incomes of local self-governments brings Ukraine closer to the European countries, where this indicator makes some 40% of non-tax revenues. Property tax creates potential for increase incomes of local budgets and the probability of its introduction stemming from tax reform implementation is rather high.

Differences of the Ukrainian system of financing the local self-government exposed, on the basis of comparative analysis of institutional bases and indicators of revenues structure and expenditures structure of local budgets are:

- low level of financial autonomy of budgets of local self-government,
- insignificant revenues from the local taxes and fees, weak own revenue base, dependence on transfers from the state budget and lack of basic financial institutes in Constitution and laws of Ukraine;
- inconsistency of financial relations between state administrations, local self-government bodies, private sector and citizens in the process of public goods resource providing .

¹¹ Government Finance Statistics Yearbook, Vol.XXI / IMF, Washington, 1997. 447 p.
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Charter 3: Comparative analysis of local government budgets expenditure structure in Ukraine and European countries

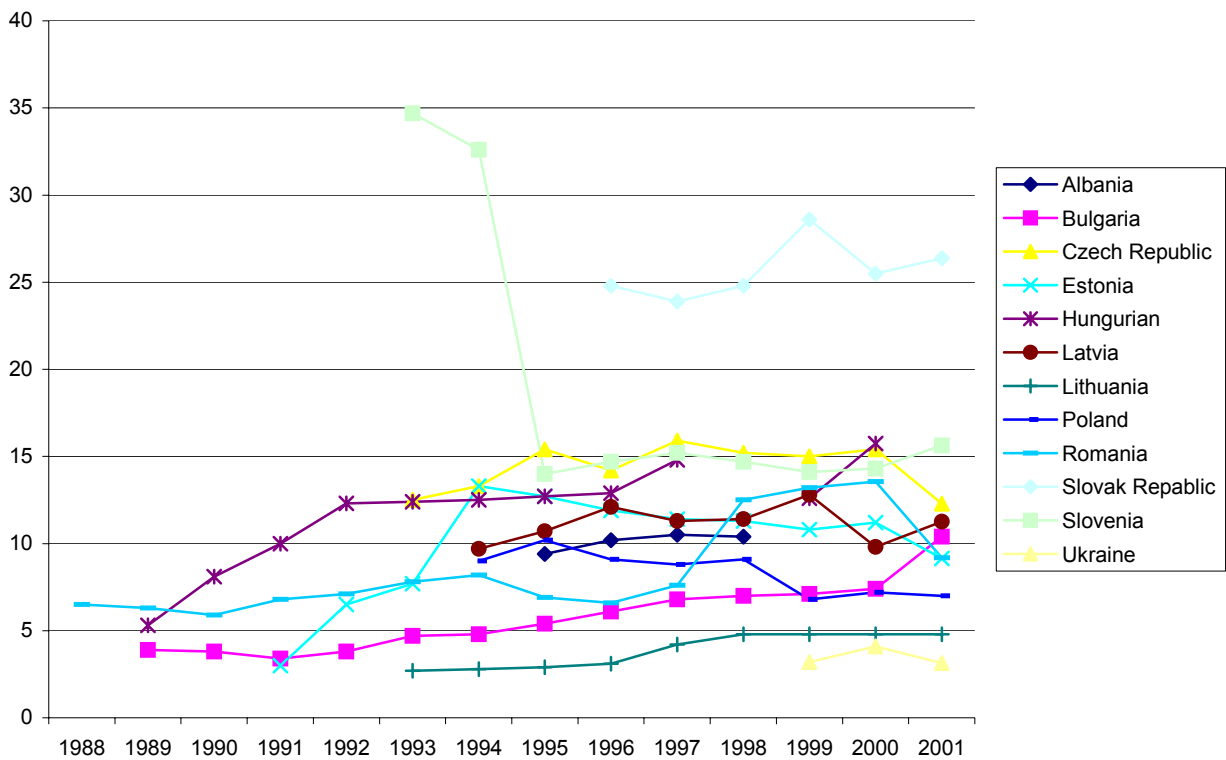
In the 90th the greater part of financial resources, according to the functional classification of expenditures of local government budgets, was used in the field of housing and community amenities and amounted to some 20% in France and Spain.

In Denmark, France and Great Britain the share of social security and welfare amounted to 58, 18, 32% of the total expenditures accordingly.

Expenditures on education amounted to 11% in Denmark, 19% in France , 4% in Spain , 28% in Great Britain in the general volume of charges.

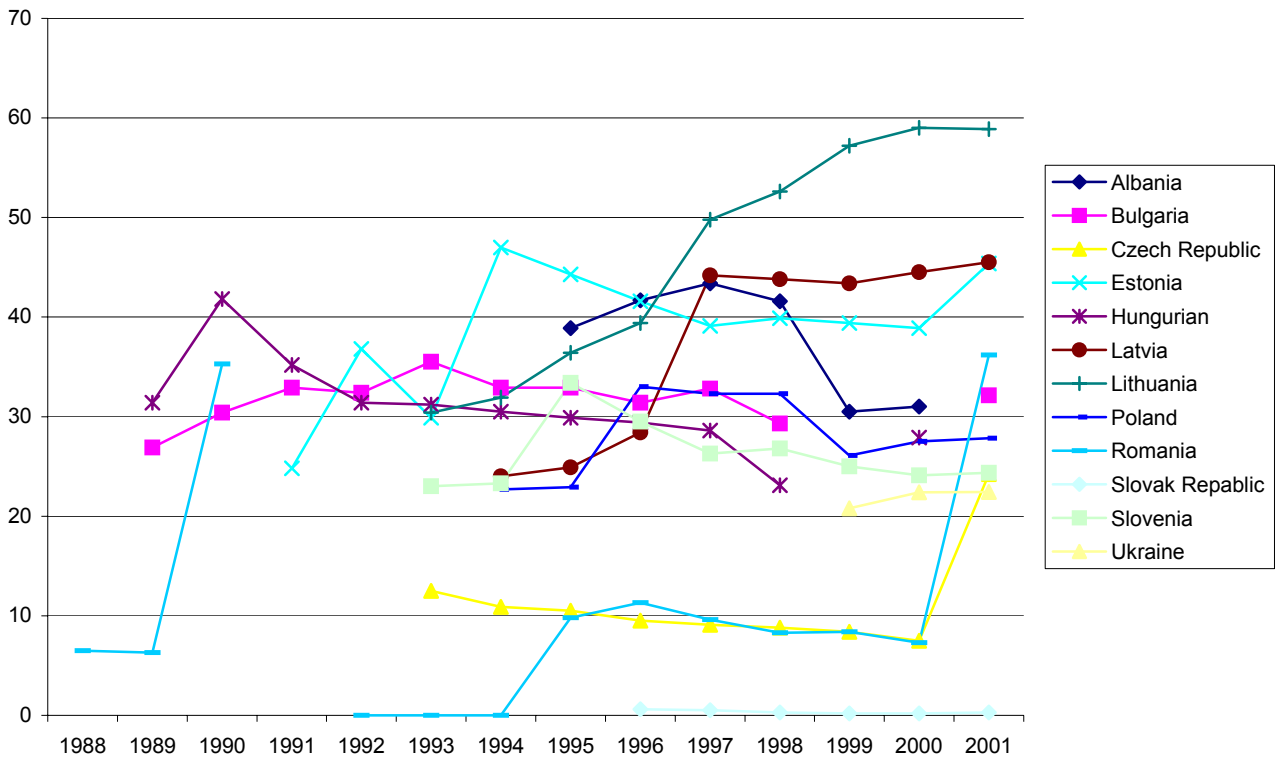
It should be noted that in the process of analysis the dynamics in 1988–2001 it was found out that share of expenditures for basic public services is not influenced by the level of centralization of the system of financing the local self-government.

Figure 9: Dynamics of expenditures on general public services shear in total expenditures of local government budgets in post-socialist European countries in 1988-2001, %¹²



¹² Government Finance Statistics Yearbook, Vol.XXI / IMF, Washington, 1997. 447 p.
Government Finance Statistics Yearbook, Vol.XXV / IMF, Washington, 2001. 508 p

Figure 10: Dynamics of expenditures on education shear in total expenditures of local government budgets in the post-socialist European countries, in 1988-2001,¹³

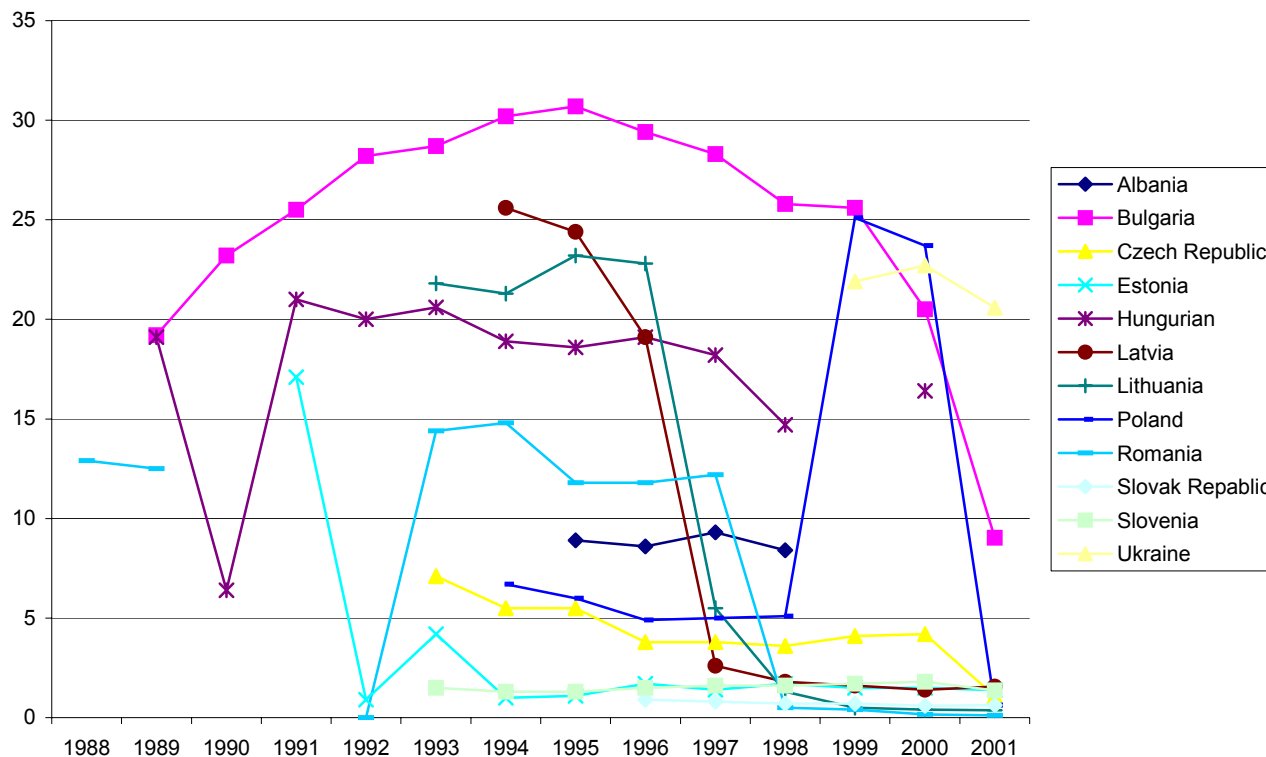


To the developed European countries the functional structure of expenditures of budgets of local governments is similar is greater part of financial resources is outlaid on the housing and community amenities and education.

Share of expenditures on basic public services, education in Ukraine are the lowest, and on building, public welfare and health care – the greatest among the Post-socialist European countries fig 9 –11

¹³ Government Finance Statistics Yearbook, Vol.XXI / IMF, Washington, 1997. 447 p.
Government Finance Statistics Yearbook, Vol.XXV / IMF, Washington, 2001. 508 p

Figure 11: Dynamics of expenditures on health shear in total expenditures of local government budgets in post-socialist European countries in 1988-2001,¹⁴



Differences from the other countries in expenditure structure of local budgets in Ukraine are caused by disparity of local self-government functions and spheres of responsibility to possibilities of their financing and also by other institutional, economic and political factors.

Conclusions

The system of financing the local governments in the unitary European countries is a crucial stabilizing factor that is vital in providing an efficient collaboration of state and private sectors in relation to provision of public services to the citizens. Experience of post-socialist countries, which have already achieved European standards in public administration and local government, raises the necessity of a more deep analysis of the forms and methods of improvement the financing of local self-government. Taking into account the European integration ambitions of Ukraine, the thorough study of the positive experience of European countries is needed, especially concerning the implementation of principles of the European Charter of Local Self-government.

Many East-European countries have successfully solved the problems of raising efficiency of the local self-governments. The main stages of raising the revenue base of local government budgets in the foreign countries were the following.

First of all, the basic sources of revenues in the budgets of different levels of local self-government were clearly defined. The lower basic level of local self-government and representative bodies of the local self-government were formed first; later – the regional level of the local self-government. The functional responsibilities of budgets of local self-government concerning the implementation of predetermined tasks after providing the services were defined in the meanwhile; own revenue sources of budgets of local self-government were defined both on regional and base level. That transition from the system of the centralized public finances to the decentralized public finances took place.

Secondly, revenues of budgets of local self-government were dissociated from the state budget revenues.

Third, while considerable part of revenues to budgets of local self-government is occupied by the revenues from the state budget (transfers), introduction of up-to-date models of the financial equalization and clear budgetary procedures and political mechanisms played positive role in support of stability of the system of the financing of local self-government.

¹⁴ Government Finance Statistics Yearbook, Vol.XXI / IMF, Washington, 1997. 447 p.
Government Finance Statistics Yearbook, Vol.XXV / IMF, Washington, 2001. 508 p

Fourth, after introduction of national measures after strengthening of the revenue base of local self-government budgets, the autonomous mechanisms of mobilization of additional sources of revenues in local budgets are widely used.

Fifth, large attention in the foreign countries is spared to such section of municipal financial management, as revenue maximization, that enables the in finance officers of every local government to more effectively use of internal reserves.

A concept “system of financing the local government” has been defined with account of social significance and the nature of public sector of economy, and also basic theories and insights of the role and place of public sector: theory of public choice, economics of public sector, public and local finances, public goods and local public goods, etc.

The features of the system of financing the local self-government are determined by the state and its administrative structure, level of socio-economic development, delegating the functions and authorities between central and local bodies of executive power and bodies of local self-government, system of public services rendered by these bodies, role of private and public sectors in resource provision of these services.

Since the system of financing the local self-government is an integral part of public sector, it determines the model of local finance organization.

The combination of legal norms, financial institutes, instruments and financial relations between public authorities constitutes the system of financing the local government by entities of local self-government and privat secktor activity as well as citizens in the process of rendering public goods.

Legislative framework determines the principles of resource provision for the public services with functions and authorities of local self-government bodies, central and local bodies of executive power and the features of involvement of private sector and citizens.

It is concluded, that the system of financing the local self-government is a special element of comparative analysis, combined of structural elements of a different nature (financial and nonfinancial institutes), political, administrative-territorial formation of country. Therefore, for comparative analysis of the systems of financing the local self-government a comparative method has been selected. The latter implies the choice of equivalent measures for all these countries, that provides homogeneity and comparison of indicators.

Taking into account these positions in research the selection of the unitary European countries, they were divided in two groups, and the indicators of level of centralization of these systems are influenced by: shares of revenues and expenditures of local budgets at GDP, share of transfers from the budget of central government in the revenues of local governments budgets, and indicators of structure of current tax and non tax revenues, structure of expenditures of budgets which reproduce the features of financial institutes and instruments.

It has been concluded that the unique system of financing the local self-government does not exist in the unitary European countries. The basic systems of financing can be classified as centralized and decentralized in Ukraine system of finansing of local government is centralized/

Further development and strengthening of the financing system of the local self-government will be done by adopting amendments to the Budgetary Code and Laws of Ukraine “On local self-government in Ukraine” and “On local state administrations”, “On municipal property”.

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