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## **FINANCIAL ASPECT OF DECENTRALIZATION REFORM IN UKRAINE AS THE BASIS OF DEVELOPMENT OF RURAL AREAS**

### **Summary**

*The purpose of the article is to highlight the results of the implementation of the decentralization reform in Ukraine and its challenges in the conditions of martial law. The article is devoted to the results of the implementation of the decentralization reform and challenges in the conditions of martial law. **The subject of the study** is a set of theoretical and practical aspects of the regional policy of forming local budgets as the basis for the development of rural areas. The integration of Ukraine into the European economy requires increasing efficiency in the financial sphere both at the state and local levels. The following general scientific research **methods** were used: analysis and synthesis, calculation, comparison and generalization, graphic. Positive **results** of the decentralization reform and problematic issues of its further implementation are highlighted. Conclusions were made that for the reform of local budgets, decentralization is the main tool for the implementation of regional policy, and their formation is an important component of budget policy, which ensures the degree of efficiency in the implementation of the functions and powers assigned to them by local self-government bodies and affects the state of socio-economic development of administrative-territorial units. It was determined that the fullness of local budgets depends on the possibilities of using the economic potential of the territory, as well as on the effective use of budgetary resources at the local level. Indicators of the filling of local budgets were considered and the place of local budgets in the revenues of the consolidated budget of Ukraine was determined. It has been established that the implementation of the decentralization reform is accompanied by certain challenges, a difficult political and legal situation in the country, and deficiencies in regulatory and legal regulation. The key challenges of the decentralization reform are: low level of professional competence of management personnel; a number of qualifications of management personnel forming the community development strategy; marriage of specialists; control over the effectiveness of the implementation of the community development strategy) – all this requires prompt resolution of complex tasks and improvement of the effectiveness of interaction between state authorities and the leadership of territorial communities. The successful implementation and completion of the decentralization reform is of great importance for the recovery of the country's economy. Therefore, the role of*

*activation of the communities themselves in the development of the territory and the search for investments to reveal the economic potential of the regions will continue to grow.*

### **Introduction**

Ukraine's integration into the European economy requires increasing the efficiency of the financial sphere both at the state and local levels, which is possible under the condition of increasing the financial independence of territorial communities. Taking into account the experience of other countries, the delegation of powers to local self-government bodies promotes their financial independence, increases the efficiency of the performance of state functions, and also contributes to the high-quality provision of public goods and services [1, p. 63].

The existing system of local finances for a long time failed to ensure the financial sufficiency of local budgets as a significant source of development of communities, therefore there was a need for decentralization reforms designed to strengthen the revenue base of local budgets, to improve budget regulation in order to influence the social and economic development of regions.

Therefore, the need for decentralization reform was determined by the fact that local self-government bodies generally did not create a favorable environment for the normal functioning of territorial communities in matters of providing public services at a high level due to their financial incapacity.

The main strategic task of modernizing the system of state administration and territorial organization of power, which is being carried out today, is the formation of effective local self-government, the creation of comfortable living conditions for citizens, and the provision of high-quality and affordable public services. Achieving these goals is impossible without the appropriate level of economic development of the respective territories, their financial support and sufficient sources to fill local budgets.

Research on the decentralization reform was reflected in the writings of V.V. Hryshka [2], which considers the peculiarities of the formation of the economic development strategy of the region, taking into account the competitive capabilities of each of them; Lunina I. [3] regarding the creation of an effective system of inter-budget relations; Zh.P. Lysenko [1], which highlights the possibilities of local authorities for the development of their own territory through the balancing of local expenditures with the priority needs of the local community and others. In general, these and other works provide an in-depth analysis of the conditions for the implementation of the decentralization reform in Ukraine, and highlight the problems of budgetary decentralization. Despite numerous studies in this area, the issue of further implementation of the budgetary (financial) decentralization reform in Ukraine requires further study during the post-war recovery period.

### **Chapter 1. Vectors of decentralization reform in Ukraine**

Decentralization of power is an important direction of reform in Ukraine, the successful implementation of which contributes to the effective operation of local self-government bodies, as it expands and strengthens the rights and powers of

administrative-territorial units and organizations in solving strategic issues of local importance. It promotes the activation of community residents to self-organization in order to solve key issues of the development of certain territories on the basis of ensuring their needs and interests, that is, at the time, democratic approaches to the management of citizens interested in the positive results of the reform of society.

The construction of an effective regional policy at the state and local level is the basis of the effective functioning of the region and should ensure its economic development, decrease the unemployment rate, attract investments in the infrastructure of the region, improve the quality of life of the population, realize the existing potential, etc. [2].

The effectiveness of the regional policy was demonstrated during the implementation of the decentralization reform, the positive results of which affected the quality of life, first of all, of the residents of the united territorial communities.

Decentralization (lat. de – denial, centralize – central) is considered as a method of territorial organization of power, in which the state transfers the right to make decisions on certain issues or in a certain area to local or regional level structures that do not belong to the executive power system and are relatively independent from it.

Attempts to reform local self-government in Ukraine have been made since the declaration of its independence, but they were constantly hindered lack of consensus among the political elite regarding the vision foreign and domestic political vector of the development of the state in general and approaches to administrative-territorial division and organization of power in places in particular. In the conditions of permanent economic, political and social crises, the majority of local self-government bodies turned out to be unable to exercise their own and delegated powers at the proper level, which made the need for their reform extremely important. The most favorable conditions for the implementation of the reform were created after the Revolution of Dignity, when the majority of the population of Ukraine rallied around the idea of European integration of Ukraine, an integral part of which was the organization of democratic local self-government bodies oriented towards serving people. Proclaimed in April 2014, the course on the implementation of the reform of power decentralization put on the agenda the task of choosing the optimal model of local self-government and the procedure for the formation of self-government bodies, creating mechanisms for the centralization of power, ensuring the principle of subsidiarity and giving civil society institutions the opportunity to participate in the work of local self-government bodies.

The first stage in the implementation of the reform of power decentralization in Ukraine was budgetary (financial) decentralization, the purpose of which is to increase the level of financial capacity of local budgets and create conditions for increasing their revenue base. It became a mechanism for encouraging communities to unite by receiving subventions from the state budget, which were used by communities at their own discretion.

Financial decentralization is an important component of reforms carried out in this area, the basis of which is budgetary and tax decentralization. The implementation of transformational changes related to the improvement of the efficiency of the redistribution of financial resources at the local level is accompanied by the fact that

issues often arise on the ground, related to the need to increase own funds, optimization of revenues and expenditures of local budgets, ensuring the appropriate level of independence in the management of financial resources, etc. The reform of financial decentralization has shown significant success in the field of redistribution of funds in favor of local authorities. Financial security and the fullness of the budgets of territorial communities are a guarantee of socio-economic stability and a guarantee of the development of the region.

The process of European integration of Ukraine necessitates the reformation of various industries and relies on the existing economic, social and political factors of influence. Currently, considerable attention is paid to overcoming the problems of regional development and introducing the process of decentralization of power, which gave more powers and opportunities for local authorities, in particular, and rural communities to make decisions on the use of budget funds, socio-economic development of territories and optimization of entrepreneurship in the regions. During the period of implementation of this reform, a number of active actions were taken to improve the socio-economic condition and well-being of the population in the regions.

The vector of reforms in the budget sphere in Ukraine is aimed at financial decentralization for the sake of an effective form of organization of state funds management, as it fully corresponds to the new system of economic relations built taking into account market principles. Financial decentralization is one of the essential conditions for the independence and normal functioning of local authorities, as it expands the possibilities of local authorities for the development of their own territory, qualitatively increases the level of provision of public services through the balancing of local expenditures with the priority needs of the local community, security [1, p. 63].

According to Kogut Yu. M. [4], "budgetary decentralization is a complex reform designed to change the entire country's management system, where communities get the opportunity to independently make decisions and be responsible for their implementation, independently determine the priorities of socio-economic and financial policy, and implement them."

The most important component in the decentralization process is the provision of financial (budgetary) powers to the United Territorial Communities (UTCs), that is, budget decentralization, which will create conditions for ensuring their sustainable economic growth and development, high productivity of available resources, and the well-being of the population" [5, p. 65].

The reform of decentralization of powers and distribution of resources of state authorities in Ukraine is aimed at inclusive growth and restoration of social justice by solving such socio-economic problems: elimination of income inequality between rural and urban households; overcoming a significant gap in the quality of educational services and in the formation of the starting labor potential of rural and urban youth; impossibility of further social alienation of certain categories of rural residents; preventing the irreversibility of the demographic crisis and mass migration of the rural population, which leads to the depopulation of rural areas, etc. [6, p. 53].

Thus, before the full-scale invasion, drastic changes in the administrative-territorial system took place in Ukraine, aimed at improving the system of local self-government in terms of ensuring the independence of local budgets, functioning of self-sufficient and financially independent territorial communities. The main subject of the reform was the territorial community, which, thanks to the support of local self-government bodies, will be able to solve the urgent problems of the territory, using its economic potential. which will contribute to ensuring the interests of not only local residents of the community, but also the interests of the administrative-territorial unit of one or another region, and therefore the state as a whole.

During the years of implementation of the reform of decentralization of power in Ukraine, the reform of administrative-territorial division was completed, united territorial communities were formed, which were given land and communal property at their disposal, districts were consolidated, budgetary (financial) decentralization was carried out, and a mechanism of cooperation between communities was formed to solve common issues and existing problems.

Yes, for the decentralization reforms that began in Ukraine in 2014. as of July 16, 2021 1,470 united territorial communities (UTH) were created (of which 410 urban, 433 settlement and 627 rural (in Ukraine – 443 cities, 1,960 settlements and 26,261 villages); 8,065 Starosty districts (of which the largest share is 57% with a population of 500 to 1,800 people, 21% with a population of 1500 to 3000 people, 15% – with a population of up to 500 people and the smallest share of 7% – with a population of more than 3000 people). According to the new system of administrative-territorial organization of the sub-regional level (districts), 136 districts, 119 district councils, and 119 district state administrations were created [7].

The decentralization reform in Ukraine inspired hope for a better future for the regions through the solution of urgent problems of local importance.

Decentralization of the power and financial powers of the state in favor of local self-government is one of the most defining reforms since Ukrainian independence.

It is the financial aspect that is one of the most essential, on which, to a large extent, the success of the functioning of territorial communities depends. The presence of economically active business entities, a sufficient number of qualified labor resources, developed industrial and social infrastructure – all this and much more is the basis for the successful development of communities in Ukraine.

The result of the reform was an increase in the interest of local self-government bodies in increasing revenues to local budgets, finding reserves to fill them, and improving the efficiency of tax and fee administration. Affluent communities show high and dynamic growth rates of their own incomes. In terms of the use of funds, attention is focused on the need to form the most optimal structure of budget expenditures, the creation of an effective, not too numerous management apparatus, the implementation of a constant analysis of the spending of budget funds and the prevention of cases of their irrational spending.

The performance indicators of local budgets reflect the general socio-economic condition of the respective territory and its potential for sustainable development. The availability of sufficient resources in local budgets is a guarantee that the

territorial community has the opportunity to provide higher quality and more diverse services to its residents, implement social and infrastructure projects, create conditions for the development of entrepreneurship, attract investment capital, develop local development programs and finance other measures to comprehensively improve the living conditions of the community's residents.

## **Chapter 2. Results of the decentralization reform in Ukraine: financial aspect**

The achievements of the implementation of the decentralization reform are "an increase in the revenues of local budgets as a result of budget decentralization, the completion of the process of uniting communities, the approval of a new administrative-territorial division of Ukraine due to the consolidation of districts, the revitalization of economic activity in OTG, the development of forms of cooperation between the communities themselves, as well as increasing the level of involvement of residents in the social and political life of their communities" [8, p. 69].

Among the main positive results of decentralization, it should be noted the intensification of business cooperation with local authorities, the development of small businesses and medium-sized businesses, communities constructively solving their own problems, generating a sufficient level of income at local levels for the development of communities and self-financing of projects, effective use of resource potential, diversification of the local economy in order to ensure effective employment of the population and increase their income level [8, p. 71].

The decentralization reform gave an impetus to the formation of an efficient and closest to the citizen institution of power – local self-government. Voluntary unification of territorial communities allowed the newly formed bodies of local self-government to get the appropriate powers and resources that were previously held by cities of regional importance.

When planning the creation of communities, it was mandatory to determine the potential resource capabilities of the community for economic and social development and the ability to ensure the provision of quality services to residents.

Territorial communities, in addition to the growth of their own financial capabilities, as a result of decentralization have other tools for ensuring economic development – external borrowing, independent selection of institutions for servicing local budget funds in relation to development and own revenues of budgetary institutions.

After the adoption of a number of laws on the decentralization of powers and regulation of land relations, the communities got the right to dispose of lands outside the settlements.

Therefore, under the decentralization reforms, local budgets become the main tool for implementing regional policy and solving such important tasks, since budget funds flows are concentrated there and their redistribution is carried out to fulfill budgetary obligations defined by legislation.

At the same time, the decentralization reform in Ukraine, in addition to positive results and achievements, is not without the following problems: "low tax capacity, problems of development of economically weak and sparsely populated territorial communities, lack of strategic vision for economic and social development in

individual communities, inefficient use of available budget funds" [9, p. 176], as well as the low quality of personnel, inefficient use of financial resources of united territorial communities; growing contradictions between the center and regions and the politicization of the activities of local self-government bodies. These and other challenges related to the state of war in the country are a deterrent to its further successful implementation, reduce the financial capacity and self-sufficiency of territorial communities.

The fullness of local budgets depends on the possibilities of using the economic potential of the territory, as well as on the rational and effective use of budgetary resources at the local level.

In accordance with the tasks of the Budget Declaration for 2022-2024 [10] "State budget policy regarding local budgets and inter-budgetary relations in 2022-2024. will be implemented by ensuring the dynamics of revenues credited to local budgets, maintaining the level of their revenues at no lower than 20 percent of the revenues of the consolidated budget of Ukraine, and reducing the share of transfers in the revenues of local budgets."

At the same time, in accordance with the Strategy for Reforming the State Finance Management System for 2022-2025, approved by the order of the Cabinet of Ministers of Ukraine dated December 29, 2021. № 1805-r, the share of local budget revenues (without transfers) in the consolidated budget of Ukraine for 2023 was declared at the level of 25% [11].

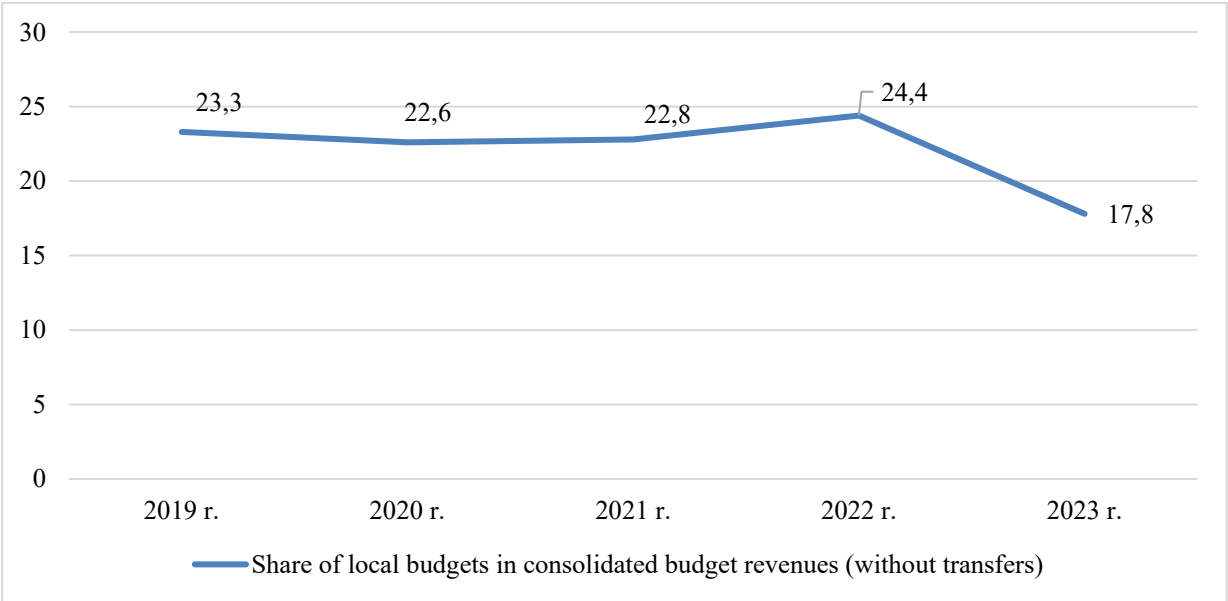
Analyzing the share of local budgets in the revenues of the consolidated budget, we can conclude that in 2023 their share decreased to 17,8% (Figure 1).

The analysis of the implementation of local budgets for 2023 shows a significant difference from 2022 in the direction of growth. At the same time, it is worth noting that revenues to the state budget have also increased significantly compared to 2022. Thus, the increase in revenues of the general fund without transfers (actually own revenues: mainly tax revenues) from local budgets for 2023 is +11,0% (+43,8 billion UAH), compared to 2022. At the same time, the increase in revenues from the state budget is +21,1% (+212,9 billion UAH) and is due to a significant increase in revenues from value added tax on goods imported into the customs territory of Ukraine (+44,7% or +113,1 billion UAH) and excise tax (+63,5% or +65,0 billion UAH). The growth in local budgets is due to the increase in income tax from individuals (+6,3% or +17,2 billion UAH), single tax (+18,2% or +8,6 billion UAH), excise tax (+63,3% or +8,0 billion UAH) and property tax (+19,1% or +7,0 billion UAH). At the same time, if we compare the year 2023 with the pre-war year 2021, the increase of local budgets is +25,5%, in contrast to the state budget with an increase of +13,9% [12].

The largest in terms of revenues to the state and local budgets are the own revenues of budgetary institutions (787,2 billion UAH), which in 2023 exceeded personal income tax, international grants, VAT, excise and income tax, which are key revenues. Personal income tax, a single tax, property taxes, and retail excise remain significant revenues for local budgets.

Formation of local budgets is an important component of budget policy, determines the degree of effectiveness of local self-government bodies in the

implementation of the functions and powers assigned to them and affects the state of socio-economic development of administrative-territorial units.



**Figure 1. Share of local budgets in consolidated budget revenues (without transfers)**

*Source: built by the authors based on [12]*

The largest in the structure of revenues of local budgets for 2023 are tax revenues, which make up 67% of the revenues of general and special funds with transfers. Transfers from the state budget make up less than a third of revenues (27%).

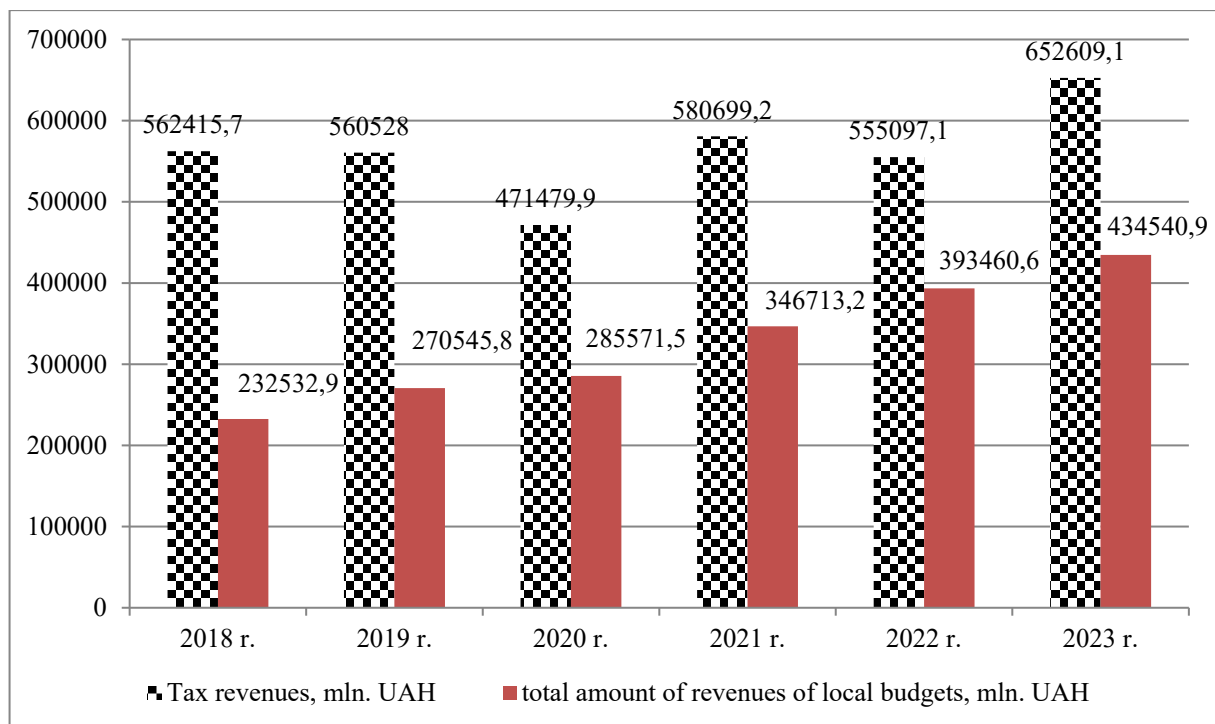
Revenues of local budgets of Ukraine have a tendency to increase in the continuation of 2018-2023 from UAH 562415,7 million in 2018 up to UAH 652609,1 million in 2023 1,2 times. Tax revenues of local budgets increased in 2023 1,9 times compared to 2018 and amounted to UAH 434540,9 million. The share of tax revenues in the structure of local budget revenues increased from 41,3% in 2018. to 66.6% in 2023 It was the highest in 2022. (70.9%) (Figure 2).

Revenues of local budgets of Ukraine had a tendency to grow during 2018-2023 from UAH 562415,7 million. in 2018 up to UAH 652609,1 million in 2023 1,2 times. Tax revenues of local budgets increased in 2023 by 1,9 times compared to 2018 and amounted to UAH 434540,9 million. The share of tax revenues in the structure of local budget revenues increased from 41,3% in 2018 to 66,6% in 2023. It was the highest in 2022 (70.9%) (Figure 2).

Important elements of local budget revenues are local taxes and fees. Therefore, increasing the role of local taxes and fees in the own revenues of local budgets is one of the main tasks of increasing the capacity of local self-government, financial independence and sustainability.

Local taxes and fees are mandatory payments that, in accordance with this Law, are established by the local self-government body on the territory of the relevant administrative-territorial unit and are included in its budget.





**Figure 2. Dynamics of income and tax revenues of local budgets of Ukraine during 2018-2023**

*Source: built by the authors based on data [12]*

Increasing the role of local taxes and fees and increasing their share in the own revenues of local budgets is one of the main tasks for the further development of financial independence and the promotion of local self-government. The formation of a significant part of the own revenues of the community budgets is directly dependent on the fact that the local self-government bodies organize the entire complex of works on the introduction and mobilization of local taxes and fees as efficiently as possible. Expanding the levers of influence of local self-government bodies on the process of administering local taxes and fees is one of the aspects of decentralization, strengthening the independence and forming the capacity of local self-government.

Decisions on the establishment of local taxes and fees, changes in the amount of their rates, the object (base) of taxation, the procedure for administration or the provision of benefits, which entail a change in the tax obligations of payers, are adopted by the village, settlement and city councils before the beginning of the next budget year and enter into force from its beginning. Such decisions are officially made in accordance with the work until August 15 of the year preceding the plan. In other norms, decisions affecting the formation of the revenue and/or expenditure parts of the budget are applied no earlier than the beginning of the budget period following the plan, with the exception of decisions made in connection with changes in the law.

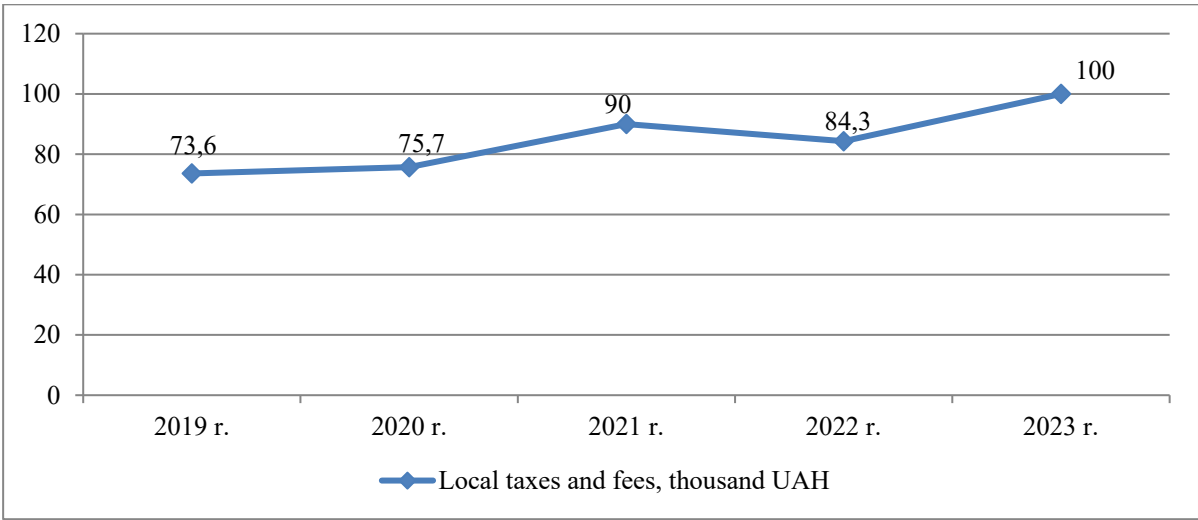
Revenues from local taxes and fees are characterized by a certain volatility, along with this, they play a significant role in the revenues of local budgets. During 2019-2023 the volume of local taxes and fees increased by UAH 26,4 million

or by 36%. During the same period, the revenues of the general fund of local budgets, excluding inter-budgetary transfers, increased by UAH 166,8 million or by 61%. That is, the revenues of the general fund grew faster than local taxes and fees (Figure 3).

Analyzing the share of local taxes and fees in the revenues of the general fund of local budgets, it should be noted that in 2023 it amounted to 22,6%, which is less than in 2019 (26,7%).

As a result of Russia’s full-scale military aggression, the receipts of local taxes and fees in 2022 decreased by UAH 5,7 million or by 6,4% (from UAH 90,0 billion to UAH 84,3 billion). In the next year 2023, taking into account the low comparative base and the relative adaptation of economic agents to work in the wartime period, revenues increased by UAH 15,7 billion or 18,6% compared to 2022, and by UAH 10,0 billion or 11,1% compared to 2021.

In the structure of local taxes and fees for 2023 the lion’s share belongs to: the single tax – 55,8%, land tax – 34,5%, tax on real estate other than land – 9,1%.



**Figure 3. Growth dynamics of local taxes and fees in Ukraine**

*Source: built by the authors based on [12]*

At the same time, provided that the personal income tax of military personnel is excluded from the revenues of local budgets in 2023, the growth rate of the general fund revenues in 2023 compared to 2019 will be 32%, which is 4 percentage points less than the growth of local taxes and meetings. We believe that the exclusion of personal income tax from military personnel from the comparative revenue base is fully justified, also considering the fact that this payment in 2022 and 2023 does not represent economic activity and is not the result of socio-economic development of communities.

During 2019-2023 the share of local taxes and fees in the volume of revenues of the general fund of local budgets (excluding transfers) averaged 24,4%, ranging from 21,2% in 2022 to 26,7% in 2019. Thus, during the period taken for analysis, the share of local taxes and fees in the revenues of the general fund of local budgets

(excluding transfers) decreased by 4.1 percentage points – from 26,7% in 2019 to 22,6% in 2023 [12].

Attention should be paid to individual indicators of local tax revenues and fees during 2021-2023. First of all, the year 2021 is characterized by the fact that the process of unification of territorial communities was completed, the following periods were marked by Russia's military aggression, which had a very significant impact on the functioning of territorial communities in general and in terms of local tax revenues and fees in particular.

The average amount of local taxes and fees per resident in 2023 amounted to UAH 2248,2 per person, which is 24,5% more than in 2022 (1806,2 UAH per person) and 13,7% more than in 2021 (1978,1 UAH per person). Due to the start of hostilities, the receipts of local taxes and fees in 2022 decreased by 8,7%. Further, taking into account the low comparative base and the relative adaptation of economic agents to work in the wartime period, the receipts of 2023 compared to 2022 increased by 24,5% [12].

The reporting and analysis data show that in 2022, compared to 2021, the largest decrease in income was recorded in settlement communities – by 12,3%, the smallest decrease in income was in rural communities – by 6,8%.

For the period 2021-2023 the trend is followed, which indicates that the growth of local taxes and fees is correlated with the type of territorial communities: the smallest growth was recorded in urban communities – 9,2%; the increase in settlements was 14,1%, in rural areas – 15,5%.

That is, the largest amount of local taxes and fees per inhabitant was received by rural communities, their indicator is 14,7% higher than that of village communities (2190,4 / 1909,2) and 28,2% higher than that of urban communities (2190,4 / 1708,3). According to the results of 2023, this trend was preserved: receipts for rural communities were the highest (2530,6) and exceeded the similar indicator for village communities by 16.2% (2530,6 / 2177,9), for urban communities – by 35,7% (2530,6 / 1864,6).

That is, it can be concluded that the efficiency of the accumulation of local taxes and fees is the highest in rural budgets, the lowest in city budgets. Probably, rural communities, taking into account the less powerful tax base compared to urban and settlement territorial communities, are more efficient in their work regarding the receipts of local taxes and fees. Accordingly, it can be assumed that urban communities do not pay significant attention to revenues from local taxes and fees, since the concentration of more powerful economic agents in their territories makes it possible to receive a larger share of revenues from other payments, in particular, personal income tax. Also, the mobilization of local taxes and fees requires certain administrative and organizational actions, which can probably be more effectively carried out in territories with a small number of population and business entities.

In the structure of tax revenues, the largest specific weight is the personal income tax, 66,6% (or UAH 289,4 billion). The next largest tax revenue is the single tax (12,8% or UAH 55,8 billion), property taxes are also significant, accounting for 10,1% of all tax revenues or UAH 43,8 billion. Excise tax on retail sales of tobacco

products and alcohol takes a significant share (3,2% or UAH 14,0 billion), fuel excise began to yield to retail excise (UAH 8,4 billion or 1,9% of all tax revenues) [12].

During the period of martial law, territorial communities showed their stability, financial autonomy and stability in financing public services to the population of communities. Management at the local level and the implementation of all powers (both own and delegated) have been ensured by effective management decisions on the ground thanks to the decentralization reform.

At the same time, the challenges and threats associated with the state of war in the country negatively affect financial stability, the sustainability of local budgets due to the damage caused by the war to regions and communities.

Assessing the damage caused to regions and communities during a full-scale invasion is key to understanding the scale of the war's impact on a country and its reconstruction. It is worth carefully analyzing all aspects of this issue in order to ensure effective recovery and sustainable development in the future. The extent of the destruction in some territories is difficult to assess, because intensive shelling and fighting are still ongoing in the regions of Ukraine. Assessing the damage caused to regions and communities during a full-scale invasion is key to understanding the scale of the war's impact on a country and its reconstruction. It is worth carefully analyzing all aspects of this issue in order to ensure effective recovery and sustainable development in the future. The extent of the destruction in some territories is difficult to assess, because intensive shelling and fighting are still ongoing in the regions of Ukraine. At the same time, the total amount of reconstruction in March of this year was estimated by the World Bank at \$411 billion [13].

Currently, local self-government bodies continue to carry out their work in the new conditions of martial law, cooperating with military administrations, coordinating separate powers, overcoming various challenges of martial law. The new conditions added to the range of activities of local self-government bodies: organization of registration of the status of displaced persons, issuance of certificates, placement of displaced persons, provision of consultations, inspection of war-damaged housing and damage assessment, reconstruction of territories, etc.

Under the conditions of the need to solve the complex problems of martial law, the effectiveness of interaction between state authorities, the leadership of territorial communities, and representatives of public and volunteer organizations has been significantly increased. In particular, a mechanism for economic support of the Armed Forces of Ukraine has been established, part of the business has been successfully relocated from the war zone and neighboring territories to the western regions, and the civilian population is being evacuated. To support Ukrainian cities in the search for partners, a new online platform Cities4Cities has been created with the support of the Congress of Local and Regional Authorities of the Council of Europe. The platform is a free online tool that allows LGUs of Ukraine and other regions of Europe to share their needs and proposals related to urban infrastructure, as well as to establish direct connections for cooperation on obtaining practical assistance [14].

Communities where hostilities did not take place were able to receive internally displaced persons with dignity, provide them with adequate infrastructure and

provide public services at an appropriate level. In addition, receipts to local budgets in communities that were not affected by Russia's military aggression made it possible to fill a single treasury account in wartime conditions. And even taking into account significant tax benefits, communities managed to fill their budgets at a level higher than last year and resume growth [12].

The decentralization reform continues, and on March 26, 2024, the Cabinet of Ministers of Ukraine by its Order approved a plan of measures for reforming local self-government and territorial organization of power for 2024-2027, including [15]: settlement of certain issues of the administrative-territorial system; reformatting of local state administrations into prefecture-type bodies; restoration of the activities of local self-government bodies and executive authorities in the de-occupied territories; separation of powers of local self-government bodies and executive bodies according to the principle of subsidiarity; strengthening the financial capacity of local self-government bodies to ensure the exercise of the powers defined by law; formation of a professional competitive service in local self-government bodies; creation of prerequisites for the involvement of residents in making local management decisions, development of forms of direct people's power; strengthening the institutional capacity of associations of local self-government bodies. Most of the assigned tasks include measures to improve the legislative framework.

With the beginning of a full-scale war in Ukraine, the importance and role of decentralization is being reassessed. Previously, the decentralization reform was considered successful in solving the problems of local economic development. It was planned to complete its main stage to strengthen Ukraine's European integration aspirations. But in 2022-2023 decentralization has successfully passed enormous tests and demonstrated its importance in the conditions of martial law as one of the components of defense and resistance to the enemy. In the conditions of the war, she also highlighted the advantages of a decentralized management system in the form of supporting territorial defense and strengthening the independence of Ukraine. If at the beginning of the reform, its main tasks were the departure from the Soviet, authoritarian system of territory management, the economic development of cities and villages, the provision of local democracy, the development of local self-government and the creation of independent bodies, then in the conditions of the war, the value of the reform significantly increased [16].

The successful implementation and completion of the decentralization reform is of great importance for the post-war reconstruction of the country's economy. Currently, individual communities are actively involved in recovery processes and are making recovery effective. Some communities have already started revising strategic documents, working on recovery and development strategies. Therefore, the role of activation of the communities themselves in the development of territories and the search for investments to reveal the economic potential of the regions will increase.

Strengthening the personnel and institutional component will be an urgent problem to be solved.

Under martial law, the state is trying to simplify decision-making procedures. However, as a result of decision-making at the central level, local self-government

bodies may be excluded from the process of solving local issues. Therefore, it is very important to have an effective tool for interaction with the state, so that it adopts high-quality decisions related to local self-government in close dialogue with communities. At present, such a tool is practically without alternative – it is associations of local self-government bodies [16].

In our opinion, expanding the powers of local self-government bodies will contribute to new opportunities (introduction of educational, social, medical, cultural and infrastructure projects) for the communities most affected by the war.

Ensuring the financial capacity of rural territorial communities contributes to the achievement of socio-economic development of rural areas. This is possible in conditions of stable filling of the revenue part of the local budget, especially from own sources. Territorial communities should take care of ensuring stable budget revenues and maximizing financial capacity. The development of a strategy for attracting investments for the development of the community should be based on real indicators and possibilities of the economic potential of the rural area.

Today there are challenges associated with the continuation of the war: the problem of filling the budget, proper legislative regulation of the work of local self-government bodies, which require a gradual solution for the further implementation of the decentralization reform in Ukraine under martial law, but with the prospect of post-war recovery and European integration.

The data of the analysis prove the existence of dependencies between the types of administrative-territorial units (rural, settlement, city) and the receipts of local taxes and fees, namely, for the period of 2021-2023, a trend is being followed, which indicates that the growth of the receipts of local taxes and fees is correlated with the type of territorial communities: the smallest increase was recorded in urban communities – 9,2%; the increase in settlements was 14,1%, in rural areas – 15,5%. That is, the efficiency of the accumulation of local taxes and fees is the highest in rural budgets, and the lowest in urban budgets.

The study of the interrelationships between the receipts of local taxes and fees and the population of territorial communities indicates the multi-vector nature of the receipts of local taxes and fees. These studies testify to the important role of local taxes and fees in the development of financial independence and capacity of local self-government.

We believe that a stable legislative framework for the organization of inter-budget relations in the direction of observing uniform principles in the process of determining the amount of subsidies and subventions and using a simple and understandable methodology for their calculation will be quite important aspects in strengthening the local budgets' own revenue base. It is advisable to introduce direct calculations of interbudgetary transfers between the state budget and the budgets of territorial communities of all levels. The order of inter-budgetary relations at the level of a village, settlement, city of district subordination and administrative district requires improvement. At the same time, the main attention should be focused not only on the problems of improving the procedures for calculating the amounts of transfer payments, but also on improving the legal regulation of the main aspects of

the relationship between the participants in the process of transferring interbudgetary transfers at the local level.

In the modern conditions of the military economy, land is a stable financial resource for filling local budgets in Ukraine, particularly in rural areas far from the war zone.

During the period of the full-scale invasion, the communities suffered significant losses, in some temporarily occupied territorial communities there are no incomes from land fees at all. It has been established that the basis of the incomes of communities related to agricultural land are stable rental payments from the circulation and use of agricultural land. The main tenants are legal entities, which provide 90% of all land rental income, and land tax is an important source of income.

The development of rural areas depends on the resource potential of rural communities, which is the source of their revival. Rural territorial communities form their own resources through local budgets due to the circulation and use of agricultural land. It is land resources that generate fiscal income for rural communities, which can be used for their own needs and the development of rural areas.

In the conditions of martial law, local budgets suffer significant losses from lack of income, in particular from land fees (land tax and rent), since a certain part of the communities is under occupation or is close to the combat zone, therefore it is not possible to fully manage the use of land resources.

Modern economic changes taking place in Ukraine require rural communities to solve complex tasks related to the management of land and resource potential.

For this purpose, it is necessary to find mechanisms for increasing the influence of local self-government bodies on the processes of expanding the fiscal base and mobilizing financial resources to their budgets. In particular, by expanding the individual powers of local self-government bodies in the field of local taxes and fees administration. However, this issue needs further study and elaboration, as important steps are the formation (working out) of a consensus position regarding new approaches and mechanisms for the administration of local taxes and fees, which would satisfy all stakeholders of this process as much as possible.

### **Conclusions**

Therefore, decentralization is one of the most effective and successful reforms carried out in Ukraine, which became a decisive factor in social and economic development, in particular, during the period of martial law. The results of the decentralization reform are the establishment of a new administrative-territorial division, which made it possible to increase the financial capacity of united territorial communities, increase the share of tax revenues in the structure of own revenues of local budgets, and reduce the share of official transfers from state administration bodies.

Decentralization is the path on which our state has become according to European standards. The decentralization reform in Ukraine, which began in 2014, gave a significant impetus to the development of all regions of Ukraine, freeing them from excessive centralization of power, giving more independence and powers to local

self-government bodies. Necessary resources remained on the ground and communities could decide for themselves how to use them most effectively.

It was established that the implementation of the decentralization reform is accompanied by certain challenges caused by the introduction of the martial law regime, the difficult political and legal situation in the country, and the shortcomings of regulatory and legal regulation. Such key challenges of the decentralization reform are: low level of professional competence of management personnel; low qualification of management personnel forming the community development strategy; lack of specialists; lack of control over the effectiveness of the implementation of the community development strategy) – all this requires the prompt resolution of complex tasks and the improvement of the effectiveness of interaction between bodies state authorities and the leadership of territorial communities.

From the very beginning of the full-scale war until today, local self-government has demonstrated the ability and ability to effectively manage its own community even during martial law. Large-scale works related to quick response to the security situation, ensuring discipline and law and order in free/liberated territories, support of military personnel and the civilian population of the country, etc. are being carried out. Local self-government bodies of all levels cooperate with the military command and military administrations: if necessary, they agree on separate powers, may receive additional tasks related to the implementation of martial law measures, etc. In particular, a mechanism for economic support of the Armed Forces of Ukraine has been established, part of the business has been successfully relocated from the war zone and neighboring territories to the western regions, and the civilian population is being evacuated. The war provided an impetus to strengthen the ties of local self-government bodies with state authorities, citizens, active public and volunteers. Work continues on developing proposals for the restoration of Ukraine and local self-government after the war. The Verkhovna Rada adopted a law that defines the basic principles of recovery and development of regions and communities.

The successful implementation and completion of the decentralization reform is of great importance for the post-war reconstruction of Ukraine's economy. Therefore, in the future, the role of activation and initiative of residents of territorial communities in the development of rural areas and the search for investments to reveal the economic potential of regions will grow, including through the expansion of the fiscal component of filling local budgets.

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