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Perspective Directions of Improvement of Management of Intergovernmental Fiscal Relations in Ukraine on the Example of the Developed Countries of the World

Abstract. Introduction*. In any state, due to the existence of an administrative-territorial division, there are relations between public authorities of different levels in the budgetary sphere. The main task of organizing and managing inter-budgetary relations is to provide state guarantees at a certain minimum acceptable level throughout the territory and all citizens regardless of their place of residence when receiving equal state social services. At present, unfortunately, in Ukraine there is a political inconsistency in the problem of the division of competences and responsibility for the implementation of specific functions of central, regional and local authorities, which negatively affects the processes of redistribution of intergovernmental resources.*

Purpose. *The purpose of this article is to investigate the mechanisms of implementation of the state budget policy and the model of organization of public administration of budget relations, which are used in economically developed countries of the world in order to determine their specificity, which will enable to effectively regulate the current economic situation in Ukraine.*

Results. *The current mechanism of budgetary equalization and the model of organization of public administration of budget relations in Ukraine is analyzed. The models of state participation in budget policy of different countries of the world are outlined. The components of the mechanism of management and regulation of interbudgetary relations at the regional level are determined.*

Conclusions. *Considering the model of the mechanism of management of intergovernmental relations, we can conclude that there is no definite model acceptable to all countries of the world. The construction of a specific mechanism is based on the level of decentralization of the budget and taxation system, the scope of the powers of local authorities, the political choice between efficiency and equality, the depth and degree of disproportion between administrative and territorial units.*

Keywords: *intergovernmental fiscal relations, intergovernmental fiscal transfers, state budget, local budgets, financial equalization.*

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Перспективні напрями вдосконалення управління міжбюджетними відносинами в Україні на прикладі розвинених країн світу

У будь-якій державі через наявність адміністративно-територіального поділу існують відносини між державними органами різних рівнів у бюджетній сфері. Основним завданням організації та управління міжбюджетними відносинами є забезпечення державних гарантій на певному мінімально прийнятному рівні по всій території й всіх громадян незалежно від їх місця проживання при отриманні рівних державних соціальних послуг. У цей час в Україні, на жаль існує політична неузгодженість проблеми поділу компетенцій і відповідальності за виконання конкретних функцій центральних, регіональних органів влади та органів місцевого самоврядування, що негативно впливає на процеси перерозподілу міжбюджетних ресурсів.

Проаналізовано чинний механізм бюджетного вирівнювання та моделі організації державного управління бюджетними відносинами в Україні. Окреслено моделі державної участі у бюджетній політиці різних країн світу. Визначено складові механізму управління та регулювання міжбюджетними відносинами на регіональному рівні.

Розглядаючи моделі механізму управління міжбюджетними відносинами можна зробити висновок, що немає певної моделі прийнятною для всіх країн світу. Побудова конкретного механізму будується на основі рівня децентралізації бюджету й системи оподаткування, обсягу повноважень місцевих органів влади, політичного вибору між ефективністю та рівністю, глибини й ступеня диспропорції між адміністративними й територіальними одиницями.

Ключові слова*: міжбюджетні відносини; міжбюджетні трансферти; державний бюджет; місцеві бюджети; фінансове вирівнювання.*

Formulation of the problem. Relations between government authorities of different levels in the budget sphere exist in any state due to the presence of administrative-territorial division. However, they can be established on the basis of different principles, depending on the state system. There are no countries where the problems wouldn't arise in establishing inter-budgetary relations as well as within the territories themselves. Inter-budgetary relations define various aspects of

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financial decentralization and financial self-sustainability of territorial units [8, p.125].

The goal of organization of inter-budgetary relations is to provide state guarantees at a certain minimum acceptable level throughout the whole territory and to all citizens, regardless of their place of residence, in obtaining equal state social services. To achieve this goal, different methods are used, due to which countries differ from each other by type of organization and inter-budgetary relations management.

Analysis of recent research and publications. Certain issues of choice of an effective model of inter-budgetary relations organization are the subject of scientific research of a number of domestic scientists, in particular, V.Asadchev, N.Baldich, V.Bodrov, S. Bukovinsky, A.Degtyar, O.Drozdovska, V.Kravchenko, O.Lilik, I. Lunin, I. Lyuty, I. Rozputenok, S.Slukhay, V.Tolubiak, I. Chugunov and others. The scientists draw attention to the need of defining new tasks in the field of redistribution of budget resources among the levels of budgets; study the process of development and reformation of budget relationships of all levels; the experience of developing inter-budgetary relations of the leading countries of the world for the purpose of its adaptation to Ukraine.

Formulation of research goals. In the availability of coverage of certain aspects of this problem, it comes into focus to study the models of organizing the state management of budgetary relations and mechanisms of budgetary equalization used in economically developed countries of the world in order to identify their peculiarities, which could allow solving the modern problems of Ukraine most effectively.

The topical issue for Ukraine nowadays is the matter of choosing a model of state management in respect to relations between budgets of different levels, since the low efficiency level of the organization of inter-budgetary relations constrains the utmost functioning of social and economic development of the country, causes the spread of budgetary imbalances of the territories and failure to fulfill the main goal of providing all citizens with social services at the same level, regardless of their place of residence.

Outline of the main research material. Consequently, the study of the tools, methods and mechanisms used by different countries to solve similar problems will allow distinguishing features in common for the modern stage of state development.

In European countries theoretical foundations of the budget and inter-budgetary relations have recently been based on the theory of state building, social and political structure. The state completely takes over the functions of redistribution and solving problems of justice in society.

All modern states of the world have either a unitary system, and such countries are in predominant majority, or federal system. Non-unitary, non-federal states don't have any advantages over one another in matters of delineation of competences between government levels.

Nor can we state that a unitary or federal system provides better or worse state of regulation of its territories development. The state system forms neither the quality nor the success of this regulation, but directly establishes its model, scheme, mechanisms and procedures.

The best possible model for Ukraine can be considered as inter-budgetary relations, which determine the maximum acceptable level of fiscal independence of local governments for maintaining the principle of budgetary unitarianism, which refers to the unity of the legal framework, management of budget relations, budget classification, the procedure of exercise and keep accounting records and reporting, etc.

Countries grouping according to the following features: the similarity of approaches to the regulation of inter-budgetary relations, the peculiarity in the implementation of the philosophy of budgetary federalism, the ratio of the roles of central and sub-national authorities performed by English experts G. Hughes and S. Smith is considered to be significant for analysis [3]. In view of the above, countries can be divided into four groups:

- countries characterized by significant independence of regional and local authorities and based on broad tax powers (these are federal states - Australia, Canada and the United States and unitary states – the United Kingdom and Japan);

- North European countries (unitary states - Denmark, Sweden, Norway, Finland), characterized by high participation of sub-national authorities in funding of social payments;

- countries of Western Europe (these are federal states - Austria, Germany, Switzerland), characterized by high level of budget autonomy of different levels together with a developed system of their cooperation;

- countries that differ by a significant financial dependence of the sub federal authorities on the federal budget. These are the Southern and Western European countries - Belgium, France, Greece, Italy, the Netherlands, Portugal and Spain.

Most authors, when analyzing the foreign experience of inter-budgetary relations, consider them through the prism of budgetary equalization, distinguishing four main models: German, American, Canadian and the model of inter-budgetary relations, which has developed in unitary states.

An effective model of organization of inter-budgetary relations management should be based on a clear separation of both expenditure and revenue powers and each authority level must have sufficient sources of revenue to implement their vested functions. The purpose of tax separation between the levels of the budget system is the creation of initial conditions for balancing of the budget of each level, based on the existing in this territory tax potential. At the same time, the minimum state social standards guaranteed to the citizens of the country must be observed. It is necessary to strive for an optimal

division of taxes on an ongoing basis between levels of the budget system. World practice determines the following main approaches to tax separation between levels of the budget system: a clear distinction between specific types of taxes by management levels and their allocation to appropriate levels of the budget system (observance of the principle of "one tax - one budget"); the division of rates by allocating for each level of management a specific share of the tax within a single rate of taxation (quotation); the establishment of local supplements to federal and regional taxes [11, p. 277].

In addition, there are two conceptual approaches to the problem of budget equalization in foreign practice. In the first approach, the task is defined as the equalization of conditions for production of social benefits in certain territories. It is used in those cases where special importance is given to the goal of implementing unitary standards for social services throughout the country. This approach allows the donor to control recipients' budgets, influence the structured amount of their budget expenditures and is implemented through a system of targeted grants.

In the second approach, the conditions of the budgetary activity of local authorities are equalized, which should be understood, firstly, as the equalization of the budgetary potential, including the development of conditions for the income formation or equalization of the income function, and secondly, the equalization of differences in spending on the provision of social benefits or the equalization of the expense function [4]. It serves as a tool of decentralized management with emphasis on the independence and budgetary responsibility of recipients to residents of their territories. The required (minimum, standard) level of social services throughout the country is achieved through increasing the budget potentials of the territories in need of support. This approach is carried out with the help of general or universal transfers.

The level of equalization is determined by the goals of national policy. The equalization standard may be considered as the actual medium or median level all over the territories or group of territories with the largest budget potential. For standard expenditures not only averaged factual indicators, but established sociological norms and regulations are used [13, p.502].

The theory of budget equalization doesn’t give the priority to any of the parts to this process - the equalization on income or expenses. In practice for the territory with the budget potential lower than the identified level, it does not matter, what its financial weakness is associated with - with worse conditions for income formation, or higher budget expenditures. As it is shown by the experience of many countries, regional differences in budget expenditures may be even more contrasted than differences in the conditions of the formation of regional budgets income.

Although both approaches to budgetary equalization allow combining the two sides of the equalization process, in practice the first approach is usually used only to equalize the needs for financing costs, and the other one – only to equalize conditions of income generation. A comprehensive horizontal equalization is implemented only in some countries.

Consequently, in world practice, there are two different options for transferring resources from one budget authority to another: income distribution and the system of grants. The distribution of income can be conducted in several ways: the distribution of the tax base or the centralization of tax revenues and their subsequent distribution according to selected criteria. The mechanisms for allocating grants (transfers) can also take place in two directions: in the form of non-targeted and targeted transfers, each of them may in turn be fixed or prolonged, be conditional or unconditional, and be allocated on a co-financing basis [1]. The choice of a specific mechanism for allocating inter-budget transfers depends on the tasks of economic and fiscal policy at a given time.

In most countries, a combination of all forms of inter-budgetary transfers is used to solve various macroeconomic and budgetary tasks.

The main reason for allocating transfers of budgets of a lower level is, as a rule, the emergence of a vertical imbalance of the budget system, that is, the deficit of individual sub-national budgets. However, the simple coverage of the deficit of lower budgets should not be the goal of the policy of allocating transfers, as the vertical imbalance may emerge as a result of budget policy at the level of the sub-national authority: for example, due to decisions to increase the cost or refusal to raise tax rates. Thus, centralized funding gap between own income and expenditures may lead to de-stimulation of the fiscal efforts of sub-national authorities, their intentions to implement an effective policy of administering expenditures at the regional level.

In the absence of a system of objective criteria for allocating transfers from the national budget, the allocation of funds to cover the vertical imbalance will most likely create problems for pursuing a single macroeconomic policy, and may also lead to the allocation of grants on the basis of non-formalized trading between centrals and regional authorities [4].

Allocation of transfers from the national budget may also be carried out in order to equalize the interregional differentiation of fiscal potential of territories, that is, horizontal imbalance. In practice, only some countries apply the methodology for assessing the fiscal potential of the territories on a regular basis for the purpose of transfer calculation (the furthest in this direction to advance among the federal states are Australia, Canada and Germany and among the unitary states - Denmark and the United Kingdom).

There are three options of state policy in the field of inter-budgetary transfers to equalize vertical and horizontal imbalances:

1. Implementation of separate mechanisms of equalization of vertical and horizontal imbalances. Alignment of the deficit of sub-national budgets is carried out by dividing the tax revenues and allocating transfers from the national budget, while fiscal equalization is carried out through horizontal payments from the regions with high budget security to insecure regions. Such system is used in Germany.

2. An integrated system of equalization transfers. Both vertical and horizontal imbalances are aligned through a single system of equalization transfers, and special grants. A similar approach is used in the budget systems of Australia and Canada.

3. Equalization of only the vertical imbalance of the budget system. As with the use of the first option of fiscal policy, sub-national budget deficits are equalized with the help of fixing of regulatory taxes and transfers, but separate measures to align the horizontal imbalance are not taken. In this case, migration of capital and labor forces arises as a result of the difference in revenues in sub-national entities, as well as net fiscal benefits in the regions (net benefits from public expenditures and paid taxes). With this option of fiscal policy, it is possible to allocate special grants that, among other purposes, may have a horizontal effect that lead to equalization. A similar approach is widespread in the United States [5].

When developing a transfer system it is important to determine the correlation not only between the goals of equalization, but also between types of transfers. In many countries of the world, transfers coming from the center to lower level budgets are often aimed at equalizing possibilities of local authorities to provide budget services to the population. As a rule, there are large differences between the territories in terms of expenditure needs. For example, the authorities in some regions are faced with a significant concentration of certain demographic groups that require the provision of certain types of budget services in an increased amount (for example, health services). Other regions have to deal with the extremely high cost of budget services, due in particular to infrastructure depreciation, climatic characteristics or population density. "Transfers that equalize" [14, p. 258-263] are designed to align the spending possibilities of the authorities.

If, through the transfer program, the center tries to solve the problem of horizontal imbalances between the territories caused by the above factors, then it would need to assess the expenditure needs of each territory in comparison with other territories. Such expenditures are often also called "standard costs". Obtained by calculations such standard costs can then be used in determining the amount of financial assistance distributed by the center between the authorities of the lower subordination.

In world practice, there are several ways to determine standard costs. One of them is based on the detection of the required standards of services through expert evaluation. Another way is to calculate the specific production cost of a minimum or standard volume of specific budget services in a represented region. In this case, it is usually assumed that the standard cost depends on different territorial features or factors such as the number of identified groups of population or the number of infrastructure objects, after which factors are given importance, which indicates their relative significance.

A large number of countries apply that particular approach, although the definitions used by them have significant differences. The standard cost on the article "i" can be considered to be dependent on many factors of Xij, which is given the importance wij, so that the standard cost Ni calculated per capita will be equal to iwijXij. This standard cost may also be adjusted for cost differences. Here it is necessary to make a hard decision about the choice of factors Xij and their weight wij [7 p. 258-263]. Different countries approach this choice in a different way. The most advanced methods are used in Australia and the UK.

Calculation of cost standards requires considerable effort, a balanced approach and interaction between different branches of government. When choosing a system of methods, it is necessary to be very careful to avoid unwanted distortions. Simplified, but more understandable and based on the use of easily accessible data, approach is often more optimal, even if the resulting equalization effect is incomplete and the possibility of influencing the behavior of lower level authorities is limited.

Developing transfer programs, different countries use the same methodology in general. The differences lie in the following issues: what exactly is aligned, the degree of alignment, the choice of financial instruments with which equalization is assumed to be achieved, and ways to determine fiscal differences [2].

Any rational system of equalization transfers, firstly, is based on a formula approach, and secondly, should correspond the following principles: fairness of distribution, which provides for equal treatment of budgets with similar budget needs; Predictability, that is, local authorities should be able to create a budget for the future periods, but only if the transfers provide stable inflows of resources for a long time; tight budget constraints (indicators should be outside the influence of local authorities); simplicity; absoluteness. That is, the goal of equalization transfers is the leveling ability or the ability of local authorities to provide approximately the same levels of budget services at comparable tax rates [11].

These criteria cannot always be met at the same time, and sometimes for the sake of one principle you have to sacrifice the others. In view of the above, it may be noted that the quality and amount of budget services provided to the population can serve as a criterion for the effectiveness of each particular model of public administration of inter-budgetary fiscal relations. Different countries solve the problem of choosing a model of budget relations in their own way.

The share of taxes allocated to local budgets may be low, but in this case it shouldn't be talked about increasing the autonomy of local authorities, but that they are responsible for a limited range of issues and are the executors of centralized decisions.

In European countries, a system of instruments and measures to eliminate fiscal imbalances through a redistribution of resources vertically between the system of budgets and horizontally between territorial units is determined as financial equalization.

The goal of financial equalization is to achieve a situation in which the volume of taxes reflects only the result of own choice of the community and in no way affects the level of services provided by the local authorities, the efficiency of the use of resources or the economic result of local authorities [9]. The main components of the system of financial equalization are the system of equalization of revenues of local budgets and the system of equalization of budgetary expenditures.

Financial resources are always limited, and the question of their effective redistribution, the use of financial equalization tools for local budget revenues, equalization of budgetary expenditures, and creation of an effective system of inter-budgetary transfers remains open in Ukraine and requires careful research.

Taking into consideration the coverage of certain aspects of this problem it is considered to be important to study the system of inter-budgetary transfers of developed European countries, their features, methods and instruments of financial equalization with the purpose of introducing certain elements in Ukraine that would contribute to the achievement of the goals of economic stability of the country and local self-government in particular, as well as to deprive economically strong areas of interest for promoting their activities in taxation.

According to European standards, when applying such a financial equalization tool as transfers, priority is given to grants. The aggregate grants amount should be determined on the basis of criteria that take into account a number of factors such as economic growth and expenses increase, especially where the amount of local authorities' own resources and their ability to freely manipulate these resources make it impossible to adjust the resources level for compensation of costs increase. The state must guarantee the local government authorities a certain stability of the total amount of grants, give them the opportunity to calculate in advance the grant amounts they receive and adjust their budgets accordingly. The criteria for grants allocation should be clearly formulated; they should comply with the legal framework and shouldn't be of discretionary nature [11].

The formula for financial equalization makes it possible to objectively assess the need for centralized support. It should be noted that the set of elements that are part of the formula is important because the degree of key indicators reality is an essential required condition for the effective use of the formula. For this purpose a scientifically grounded system of corrective coefficients is applied. According to European standards, the coefficients should be objective and not directly controlled by local self-government bodies, they should not affect the free choice of resources being at their disposal, promote the management streamlining of local government services in order to increase their effectiveness. Also, they should not create artificial incentives to take steps that are contrary to the objectives of local responsibility and efficiency in rendering services, take into account demographic, geographical, social and economic peculiarities that determine the difference in the costs level.

It should be noted that the establishment of different criteria and the determination of coefficients within these criteria is one of the most complex and difficult tasks of developing formulas for inter-budgetary fiscal transfers. There exist significant differences in the criteria application and the definition of specific coefficients to be included in the formulas. The problem is further complicated by the fact that various weighting factors are applied to different criteria and indicators in order to distinguish their value in the calculation of transfers. For example, data on the number of population in formulas may be given more weight than some other demographic indicators, such as the demographic distribution by age group of population when determining total transfers. However, in determining the formula for allocating funds in health care, the distribution of population by age and gender is considered more important to determine how a transfer has to be allocated rather than just the distribution of population [4, p.128].

In European countries such a tool as municipal borrowing is also used quite effectively. Governments of the states determine and encourage the access of municipalities to the national and international markets of capital, but the clear attachment to the procedure of such borrowings in national legislation and their focus only on investment is emphasized [8]. There are a number of reasons for creating and maintaining an effective system of inter-budgetary transfers, regardless of the form of government - federal or unitary, of the number of government levels, of the degree of centralization, de-concentration or decentralization.

Among the Western European unitary countries, there are integrated and unintegrated systems. In integrated systems (the Anglo-Saxon and Scandinavian models) local governments have the size that is optimal for the effective provision of public local benefits. In the unintegrated model, the French and of most Mediterranean countries, the principles of autonomy and provision of services rendered are separated, each locality has its own municipality and there are a lot of small local governments [7, p.109].

First of all, it should be noted that only Ukraine and France out of the list of countries under consideration did not have administrative and territorial reform. However, all countries, including Ukraine, have developed a legal framework that defines the system of transfers,

coefficients and formulas for calculating transfers amounts, and also ensures the stability of these laws for the period of several years.

The formula approach used in Ukraine differs from the approaches in other analyzed countries, since Ukraine uses groups of initial standard costs. Most of the considered countries use the per capita rate index for the calculation of the transfer formula. In Germany, discrepancies in number of population based on per capita index are used, in the United Kingdom they are demographic and physical characteristics, and in the Netherlands they use 40 social and economic indicators as the basis for calculating transfers for certain industries, such as health and education.

In addition, Ukraine has an average level of coefficients objectivity based on the application of standard indicators of population and demographics, which are subject to verification and are uneffected by the statistical errors or fluctuations. Other countries have a high level of coefficients objectivity.

The most complex formulas exist in Ukraine, the UK and the Netherlands, and these countries have formulas with a high level of data requirements. Thus, for example, a complex formula for calculating budget transfers is used by the British system of providing funding to local authorities. The formula seeks to achieve absolute equalization and identify differences in needs, expenses and resources in a more complex way. The British system is known as the "Grant for Income stimulation" and is a mechanism for identifying and aligning needs and local tax capacity.

The British approach works in a system in which there are large administrative and territorial units in terms of population size. These units are dependent on several large and productive taxes, the rates of which are set at the local level, based on the tax base defined at the state level, and these taxes are collected at the state level. The grant is distributed directly to local authorities from the state budget without an intermediate stage. In case of defining grants the areas of responsibility of local authorities for providing various services are taken into account. The grant of a local authority is the sum of its standard cost estimate deducting its part of the total amount of commercial rates in the country, minus the revenues that it could have received if it had established the estimated standard national rate of municipal tax. The formula for the standard assessment of expenditures takes into account the causes of changes in local government expenditures, namely: population size, the number of students, the number of elderly citizens, population density, length of roads, indicators of state deterioration of social groups and fluctuations in labor costs. The formulas are based significantly on a statistical (regressive) analysis of previous expenditures. Data used in calculations of the standard expenditures estimate is derived from a variety of sources, the most important of which is the national census. At the same time, the goal is to ensure a high level of their quality and systematicity. The distribution of the grant creates an indirect incentive to ensure efficiency, as the local authority may not change its grants by making its own decisions on spending funds, and therefore, any saved funds are preserved.

The main general grant is determined on the basis of the formula with no subjective adjustments of the certain local authorities. At present, a three-year moratorium on making significant changes to the methodology of establishing expenditures is set. So, the local authorities know the total amount of grants that the government intends to distribute over the next 2 years as well as the fact that changes in the distribution method during this period are hardly probable. Thus, they can make fairly accurate calculations of their grants, but exact amounts will depend on changes in data, such as the population size [4].

The European countries provide an annual refinement of the financial equalization formula of relative distribution of the transfer fund between contingents. The inter-budget relations of different countries are based on the dependence on the structure of their systems of local self-government, therefore we suggest to consider and to compare the data of the countries already proposed above (Table 1).

Table 1. **Comparison of the systems of local government of the countries**

Country / form of territorial organization	The level of local autonomy	Level of delegation of functions	The ability to provide services	Tax-ability	Dependence on transfers *	The level of decentralization
Ukraine / unitary	Low	Low	Low	Low	Average	Low
Great Britain / unitary	High	High	High	High	High	High
Netherlands / Unitary	High	High	High	High	High	High
Germany / federal	High	High	High	Average	Average	Average
France / unitary	Low	Low	Low	Low	High	Low
Denmark / Unitary	High	High	High	High	Low	Average
Norway / unitary	High	High	High	High	Average	Average
Poland/ unitary	Average - High	Low	Average	Low	High	Average

Source: formed by the author

Note: high - more than 50% of the revenues of the local self-government body is provided; the average - 30-50% of the revenues of the local self-government body is provided; low - less than 30% of the revenues of the local self-government body is provided.

According to the structure of the local self-government system, Ukraine is very similar to France. Seven comparable countries, including Ukraine, are countries with a unitary form of government. Germany is the only country from the sampling frame which has the federal government system. Ukraine has the same number of levels of local self-government as the United Kingdom, Germany, France and Poland [5].

Also, in parallel, let's consider the comparison of grant financing systems of the above countries (Table 2).

Table 2. **Comparison of subsidy financing systems**

Country	Donations as a percentage of revenues local authorities	The level of use of general grants	The level of the use of special grants	Level of needing alignment	Level of resource alignment
Ukraine	40-45%	High	Average	High	Low
Great Britain	73%	High	Low	High	Average
Netherlands	71-83%	Average	Average	High	Average
Germany	46%	Average	Average	Average	High
France	35%	High	Low	Average	Average
Denmark	18%	High	Low	High	High
Norway	33-52%	Average	High	High	High
Poland	50-60%	Average	Low	High	Average

Source: generated and supplemented by authors based on materials [4]

The part of grants in revenues of local authorities demonstrates the fiscal dependence of local budgets on the state. According to this indicator Ukraine (40-45%) occupies the same place as Germany (46%) and Norway (33-52%). Ukraine, like Great Britain, France and Denmark, uses significantly the general grants (equalization grants), that is, those amounts used by the local authorities at their own discretion, while at the middle level it uses special grants like the Netherlands and Germany.

In terms of grants volume, such countries as the United Kingdom and the Netherlands have the level of revenues from the transfers of more than 70%, that is, they are heavily dependent on revenues from the central government budget and a high level of state finances centralization. In these countries the local government financial security systems are centralized, whereas in Denmark (18%), France (35%), Norway (33-52%) and Germany (46%), where transfers make less than 50%, the financial security systems can be considered as decentralized.

However, it should be noted that the level of centralization of the financial security systems of local self-government does not affect the level of autonomy of local self-government bodies. Table 2 shows that, for example, Great Britain, which has a high level of centralization of management and dependence on transfers, has also a high level of autonomy of local government and delegation of powers, a high level of service provision and taxability of the territory. And, on the contrary, France, in which there is a rather small dependence of local self-government on the state government, has a low level of autonomy of local self-government and delegation of powers, low level of service provision and taxability of the territory.

The comparative system of subsidized financing provides the possibility to conclude that among the economically developed European countries there is no single policy on the optimal volume of granting grants to local authorities.

Ukraine, like almost all of the countries reviewed, has a high-level indicator of demand equalization and, at the same time, in comparison with other countries, a low-level indicator of resource equalization, which means low-level orientation of inter-budget transfers to equalize the taxability of local authorities and to ensure horizontal equalization of fiscal resources.

Consequently, as we see, there are various international methods for determining the amount of inter-budget transfers that are used to ensure a stable distribution of budget funds and a correct calculation of actual cost growth. Let's consider several countries from the proposed ones in more detail.

For example, France is a unitary republic with a complex administrative-territorial structure. As a result of the laws on decentralization, three levels of local administration were created: regions (22 units), traditional administrative regions (96 units + 4 units outside France) and a large number of small communities - communes (36763 units). Despite the existence of

general consensus that the size of the communes (22,000 of which have up to 500 inhabitants) is too small to ensure their effectiveness, the community unions have become a controversial issue. Instead, the government uses different fiscal mechanisms, and a new national law has been recently adopted to support the simplification and strengthening of communal cooperation. According to the French methodology, the distribution of grants from the state budget is determined annually in the law.

The main general grant of income is established each year in the budget, which is approved by the Parliament on the basis of proposals submitted by the Minister of the Interior Affairs. France applies a process that defines total state budget assignations for each level and provides certain predictability and stability of the funds allocation process [8, p.109]. This methodology is applied to the general grant in connection with current expenditures, which increases each year by a percentage and is equal to the sum of the predicted annual inflation level and half of the actual percentage growth of GDP if these values are positive.

General or block grants are used to equalize tax revenues and requirements in expenditures. Equalization of incomes is achieved by replenishing revenues for municipalities that are receiving tax revenues less than they shall receive. All municipalities, in which tax revenues per capita do not exceed a certain level, receive grants for their compensation at the level of 90% of the difference between their own revenues and the control level. The equalization scheme also involves a reduction in revenues for municipalities with extremely high tax revenues. This principle applies similarly to the approaches of other Scandinavian countries [12, p. 29-30]. The experience of Norway's financial equalization shows that the division of spheres of responsibilities in the field of financial equalization between the legislative and executive authorities is quite effective.

We can generalize the above materials and agree with the experts' opinion [4] that an efficient system of transfers should meet such criteria as: 1) the adequacy of revenues, that is the local authorities should have sufficient resources (including transfers) to fulfill the powers assigned to them; 2) ensuring sufficient measures for mobilizing tax revenues by the local government as well as controlling expenditures at the local level; formulas should not lead to fiscal deficits; 3) uniformity, that is the transfer shall be changed in direct proportion to local fiscal needs and vice versa - in proportion to local taxability; 4) transparency and stability.

The formulas shall be pre-approved and transparent, so that each administrative and territorial unit might have an opportunity to predict revenues (including transfers) and to prepare the relevant budget; they shall be stable for several years (3-5) to ensure the possibility of mid-term planning at the local level [9]. Since the system of grants and equalization operates mostly according to formulas, political decisions are important in determining the general level of equalization and weighing within the schemes with different demographic and social criteria.

Consequently, the development of a functional system of inter-budget relations is a rather complicated process that requires a high level of data collection, analysis and review, and also focuses on developing a vision of what local authorities should do and what resources they can have at their disposal. The main point is that these inter-budget systems are constantly changing under the influence of new trends in economic development and political decisions of the government authorities.

The above analysis has demonstrated the main characteristics and different approaches to the introduction of inter-budget transfers system. In the examples reviewed, there are some common features that need to be taken into account when improving the existing system of inter-budget transfers in Ukraine. However, despite the existence of certain common aspects and criteria for the development of inter-budget transfer systems, each country should be creative in approaching to this process in order to create a system and develop formulas that are consistent with its particular political, social and economic conditions.

To sum up the above, it should be noted that the main element of the classification of financial support systems of local self-government is an effectiveness of the basic unit of local self-government, that is the large units make better use of opportunities for efficient production and provision of local goods, while small ones have more opportunities for direct involvement of citizens in management that contributes to a better determination of their needs.

Budget resources intended for the provision of local budgets are always limited, and establishing an acceptable level of funding inter-budget transfers is a crucial issue. The main thing is that transfers shall have a stable source of their funding in particular at the expense of the part of GDP, government expenditures or partial taxes and that the local authorities have the opportunity to carry out mid-term and long-term planning.

Concerning the problems of effectiveness of the financial equalization instruments in Ukraine, first of all we think that the resource base of local authorities should be strengthened in order to fulfill fully the powers and functions entrusted to them. Such ways may be the consolidation of small village and settlement councils in order to increase the stability of their resource capabilities and the introduction of mechanisms of stimulation of the local authorities to build up and expand their tax base. In turn, the local authorities should take effective measures to mobilize tax revenues and should exercise impartial control at each stage of the process of distribution, redistribution of resources and use of budgetary funds.

In addition, it should be noted that even the high dependence of local budgets on transfers from the state budget does not mean that they are not autonomous and are not taxable. We believe that in this case it is necessary to point out the ineffectiveness of public administration of

allocating budget resources between the territories of the country. Before 2015 the system of redistribution of resources was aimed only at equalization of needs and had a low orientation towards equalization of the taxability of the territory and the provision of horizontal equalization of fiscal resources.

Conclusions. In Ukraine, today, first of all, there is a political inconsistency of the problem of the division of competences and responsibility for execution of the specific functions of central, regional authorities and local self-government bodies, and there is a large subjective influence on the processes of redistribution of inter-budget resources, and, as a consequence, the conditions for financing the corresponding expenses and the different level of provision of budget services as well.

In general, financial equalization is one of the prerequisites for fiscal decentralization and local self-government development, which contributes to the achievement of the objectives of economic stability, the implementation of a policy of sustainable and balanced development of territories, provides an opportunity to offer the same range and level of service to the citizens. However, it should be noted that financial equalization shall not deprive the more economically strong areas of incentives to intensify their activity in taxation and lead to the transfer of collected funds to other administrative and territorial units.

Consequently, there is no definite ideal model of a mechanism for managing inter-budget relations that would be acceptable to all countries of the world. Specific mechanisms are built on the basis of the level of decentralization of the budget and tax system, the scope of the powers of local authorities, the political choice between efficiency and equality, the depth and extent of disproportion between administrative and territorial units.

To summarize the above, it should be noted that the effectiveness of public administration of inter-budget relations is determined neither by the level of centralization or decentralization of the budget system, nor by the existence or absence of regulatory taxes, nor by the share of central government revenues and expenditures, nor by the volume and means of financial assistance transfer, but by the well-established and balanced system of all these factors, exactly corresponding to the specifics of this state.

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