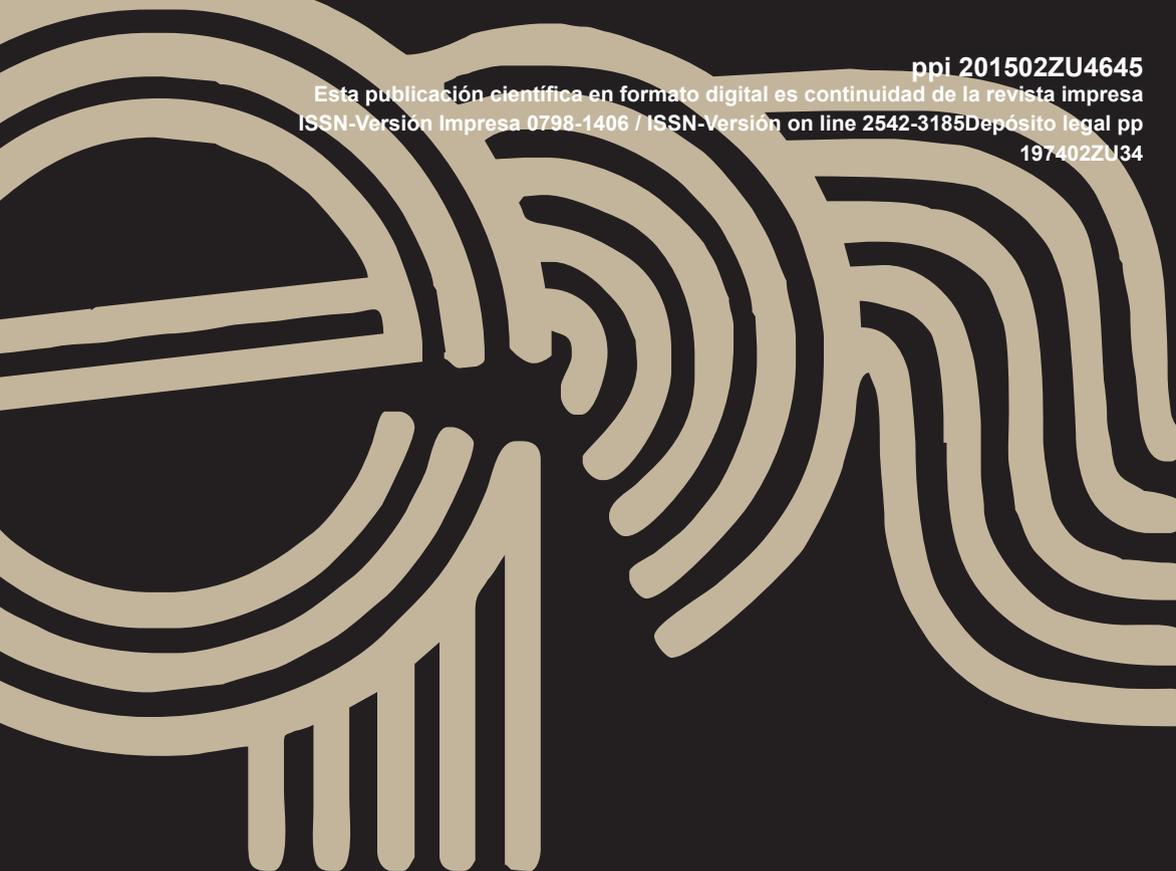


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Fiscal decentralization practices in developing countries

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Abstract

The objective of the article was to identify and describe the current state of fiscal decentralization in Ukraine, Armenia and Georgia and the problems and achievements of territorial communities. Observation and comparative analysis were the main tools used. The study showed that effective fiscal decentralization of territorial communities requires the implementation of the relevant experience of developing countries that have achieved significant results. Fiscal decentralization, the transfer of taxes and spending powers to lower levels of government has become an important strategy for modern governance in developing countries. Fiscal decentralization is facilitated by a combination of citizens' struggle to actively participate in the management process and dissatisfaction with the outcomes of the centrally planned economy. It is concluded that adequate decentralization strengthens the organs of local self-government and forces states to be more accountable to their citizens. In this regard, the adequacy and prospects of Sweden's fiscal decentralization approach were also noted as a model worthy of study.

Keywords: decentralization; fiscal administration; distribution of competencies; fiscal potential; decentralization Index.

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Prácticas de descentralización fiscal en los países en desarrollo

Resumen

El objetivo del artículo fue identificar y describir el estado actual de la descentralización fiscal en Ucrania, Armenia y Georgia y los problemas y logros de las comunidades territoriales. La observación y el análisis comparativo fueron las principales herramientas utilizadas. El estudio mostró que la descentralización fiscal efectiva de las comunidades territoriales requiere la implementación de la experiencia relevante de los países en desarrollo que han logrado resultados significativos. La descentralización fiscal, la transferencia de impuestos y facultades de gasto a los niveles inferiores de gobierno se ha convertido en una estrategia importante para la gobernanza moderna en los países en desarrollo. La descentralización fiscal se ve facilitada por una combinación de la lucha de los ciudadanos por participar activamente en el proceso de gestión y la insatisfacción con los resultados de la economía centralmente planificada. Se concluye que una descentralización adecuada fortalece los órganos de autogobierno local y obliga a los estados a ser más responsables ante sus ciudadanos. En este sentido, como modelo digno de estudio se señaló además la idoneidad y las perspectivas del enfoque de descentralización fiscal de Suecia.

Palabras clave: descentralización; administración fiscal; distribución de competencias; potencial fiscal; índice de Descentralización

Introduction

The long-term economic impact of the COVID-19 pandemic has disrupted traditional financial flows in many countries. Ali *et al.* (2022) state that this trend indicated an urgent need to intensify the mobilization of domestic resources and improve the national tax administration. Strengthening and using the full potential of domestic taxation is one of the most important sources of development financing and should therefore be a policy priority for modern governments. The above transformations are especially relevant in developing countries.

Many developing countries around the world are transferring responsibility to lower levels of government, as decentralization is considered vitally important for achieving sustainable economic growth and development. Teremetskyi *et al.* (2021) indicate that the priority goal in this context is to promote bottom-up regional development by giving

subnational governments more freedom in identifying programmes that match the public interest, as well as local and regional development goals. Digidowiseiso (2022) maintains that different institutional conditions for fiscal decentralization can significantly contribute to growth in developing countries. Different types of fiscal authorities have a significant impact on income distribution and ethnic inequality. As Digidowiseiso (2022) writes, it depends on the level of institutions and defence spending by certain developing countries.

In recent decades, the introduction of decentralization systems in many developing countries, especially in Ukraine, Armenia and Georgia, has been largely motivated by policy features and cooperation or integration into the EU. Kohut and Kovacs-Rump (2021) emphasize that more efficient mobilization of domestic resources and effective fiscal administration systems through fiscal decentralization reforms can offer a way to strengthening public budgets and increasing the role of taxation as a source of financing for effective development.

Fiscal decentralization involves the distribution of taxation and spending powers between the central government and local governments. In other words, fiscal decentralization gives local self-government bodies considerable autonomy in terms of revenues and expenditures, including the power to collect taxes and fees. This can increase the fiscal space of local self-government bodies and improve service delivery as well as the well-being of the population. A broader definition includes the financial perspective, where not just the right to collect taxes, but economic resources allocated to the regional level are decentralized. Countries need to meet several key institutional preconditions for fiscal decentralization to be effective. Obeng (2021) attributes the following preconditions there:

- 1) a stable political environment;
- 2) effective autonomous subnational governments;
- 3) institutional capacity at regional/state and local levels of government;
- 4) government accountability;
- 5) effective democratic electoral infrastructure at all levels of government;
- 6) the ability to increase income at the local level to the appropriate level.

The geographical proximity of local self-government bodies to their electors, direct beneficiaries of public services, makes local self-government bodies to allocate fiscal resources efficiently.

It is important to conduct a qualitative legal analysis of real fiscal decentralization reforms in a situation where economic theory proposes competing hypotheses. At the same time, any empirical analysis faces

significant challenges. First, the transfer of fiscal authority to local governments is often gradual. It is impossible to separate the effect of fiscal decentralization from the influence of other trends without a sharp increase in fiscal autonomy. Second, fiscal reforms are usually a large-scale policy that affects all local self-government bodies at the same time. Therefore, the analysis should be based for the most part on comparisons between countries, with due regard to the proper control over all significant factors of transformation. So, relevant research in developing countries should be the focus.

In view of the foregoing, the aim of the article is a comparative analysis of the realities of implementing the fiscal decentralization concepts in developing countries. The aim involved the following research objectives:

- 1) generalize the main features of effective implementation of fiscal decentralization in the countries under research;
- 2) compare statistics on the implementation of fiscal decentralization in different jurisdictions and identify the country with the highest efficiency rate;
- 3) identify promising directions of further improvement of the fiscal decentralization practices tested in the developed countries.

1. Literature Review

The choice of research topic correlates with modern vectors of academic research conducted by theorists in different countries. The work of Teremetskyi *et al.* (2021) was the background for this study. The grounds for defining the concept of “fiscal decentralization” were summarized in the research, thus forming the author’s perception of this definition.

The work of Digdowiseiso (2022) also had an impact on the author’s position on the research topic. The work of researcher allowed outlining the vector of research on the transformation of strategies and policies of many countries aimed at strengthening the capacity of local communities in the course of fiscal decentralization. In turn, the article by Ali *et al.* (2022) helped the author to realize the need to further introduce mechanisms for achieving fiscal capacity in developing countries. The study took into account the work of Obeng (2021) in the field of addressing the problems and practical difficulties that arise in the course of fiscal decentralization, democracy and the size of government.

The work of Abuselidze (2021) on the analysis of the main components of intergovernmental relations and their regulation in the context of decentralization of fiscal policy and Rotulo *et al.* (2020) on the peculiarities

of the budget deserve special attention. federalism and fiscal decentralization in health care. The research of Ter-Minassian (2020), the results of which was used in the article, emphasizes the importance of intergovernmental fiscal cooperation and subnational revenue autonomy. This work helped to trace the transformation of the main features of the innovative approach to decentralization processes, which consist of fiscal, administrative and political components.

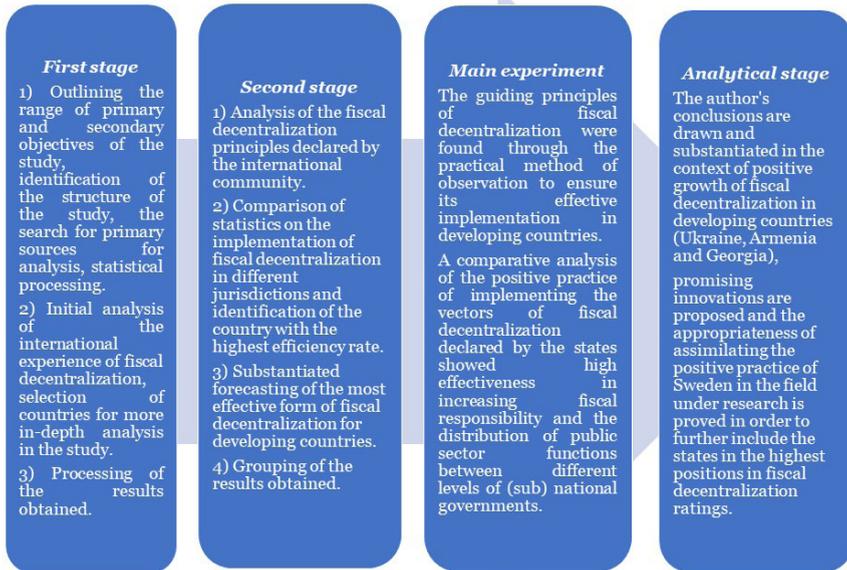
This study also allowed for the relevant vectors, such as innovation (novelty), objectivity, subjectivity, purposefulness, demand, implementation in practice, the effectiveness of local communities, which were outlined by Yang *et al.* (2020) and Zhu *et al.* (2022). The achievements of Erlingsson (2021) on the analysis of the results of decentralization and the development of multilevel trust of territorial communities were also taken into account.

Active research on this issue confirms that the fiscal decentralization contributes to the strengthening of local communities in order to ensure prosperity. Therefore, it is urgent to conduct research on new research criteria.

2. Methods

Given the chosen research topic has many aspects and given the large volume of empirical material, the authors clearly structured and phased the research (Figure 1). The structure of the research was based on comparative studies of the positive practice of the selected developing countries and on the grouping of the data obtained.

Figure 1. The research designs



Source: Authors development

The study involved a combination of parametric and non-parametric approaches underlying the author's view of fiscal decentralization and the effectiveness of the competencies of local self-government bodies. Various methodological tools were used in the article. The practical method of observation was the main method of research. This method was conducive for achieving the aim and fulfilling the objectives of the study, establishing the guiding principles of fiscal decentralization in the cross-border context, and focusing on the appropriateness of transformation in developing countries through the principles and programmes used in Sweden.

The comparative method was also important in writing the article, which allowed not only to compare the main statistical indicators of fiscal decentralization in the studied countries, but also to propose the latest conceptual changes based on best practices. This method also further substantiated the appropriateness of assimilating fiscal decentralization practices of Sweden into the legal field of the studied countries as soon as possible.

General decentralization programmes were considered in the article as a system that involves the competencies of different levels of government and local business related to the relationship of exchange on the allocation of fiscal, financial, material, administrative and other resources in their various combinations. This approach allowed considering the activities of states in the field of decentralization through the prism of declared international principles and systemic internal environment of states.

The empirical content of the processes of transformation of intrasystemic fiscal relations of power interactions in the selected states was based on the historical genetic method. It allowed describing the essential characteristics of fiscal decentralization policy, reveal the causal links in the development of decentralization and subsequent budgetary transformations, as well as in the formation of the discourse of state bodies on economic cooperation between the central government and the regions. Besides, this method also allowed creating an empirical background for further evaluation of the performance of government and fiscal decentralization as such on the example of the dynamics of development of states and their economic indicators.

The comparative historical research was used to determine the essential characteristics of government participation in the implementation of fiscal decentralization policies and programmes at different stages. This method was used to identify the positive features and critical differences in the practice of implementing the principles of fiscal decentralization in the studied countries.

The statistical method was indispensable at various stages of the study. It was used to analyse the dynamics of various aspects of fiscal decentralization programmes at the national and subnational levels, as well as to study a significant body of data characterizing the results of the actions of the selected states.

A significant array of data was thoroughly studied in the research, including forty-eight references in the text of the article.

3. Results

Fiscal decentralization as part of the transfer of powers has been implemented by many developed countries in order to find the appropriate balance between central government control and decentralized governance. The financial potential of local self-government bodies is based on the ability to attract available and potential financial resources from the relevant area to finance economic, social and environmental needs. The rational and effective directions of their distribution and use are established. This

generates a balance between public services and the needs and preferences of local communities and citizens, increasing the responsibility of local authorities for the relevant functions and the efficiency of the public sector as a whole through the introduction of elements of competition.

The positive vector of regional decentralization is increasing the self-sufficiency of communities, creating a background for the development of civil society. Disadvantages of decentralization include complicated process of implementing strategic government programmes and giving priority to regional political elites. The effectiveness of financial decentralization is influenced by a number of economic, socio-political and institutional factors, including constitutional provisions that reflect the history of decentralization in each country; balance of power between different levels of government; structure and practice of intergovernmental relations; and the degree of regional economic, ethnic and social inequalities that can and often cause conflicts of opinion and hinder constructive dialogue. Local authorities must perform decentralized functions effectively, have a sufficient level of revenue, and have the power to decide on expenditures. And any decentralization programme must cover the most important elements of public spending, namely fiscal sustainability, efficient allocation of resources, operational efficiency and transparency.

The state fiscal decentralization programme should include the gradual activation of functions for local and regional authorities in line with capacity building and legal reform. It is also necessary to optimize the full budget cycle and include decentralization in sector ministries, agencies and state-owned enterprises.

Effective decentralization requires further adaptation of institutional mechanisms for intergovernmental coordination, planning, budgeting, financial reporting and implementation. Such arrangements may include both specific rules (for example, in the development of fiscal transfers) and provisions for regular intergovernmental meetings and periodic reviews of intergovernmental arrangements (See Figure 2).



Figure 2. Forms of fiscal decentralization (summarized by the authors based on the results of empirical material studied)

The OECD (2019) has developed ten guidelines on decentralization that apply to all types of countries and which currently remain the leading tools for the effective implementation of decentralization concepts (Figure 3).

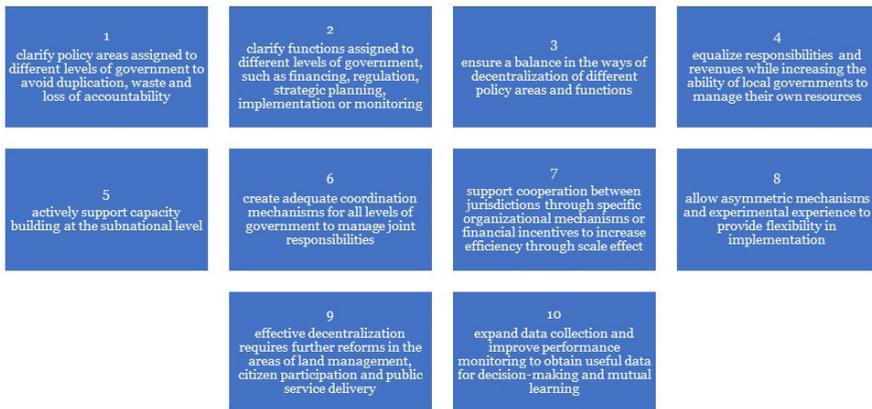


Figure 3. Guiding principles of priority actions of states on the way to the implementation of fiscal decentralization (according to the OECD (2019))

According to the UN Human Development Index (HDI), a country with less than 0.80 points is considered to be developing. Ukraine ranks 74th in the world with a score of 0.779 (Human Development Reports, 2022). The examples of the development of countries in this context are: Armenia – 81st with a score of 0.776, Georgia – 61st with a score of 0.812. For 2022, the World Bank classifies countries and territories with Gross National Income (GNI) per capita of \$ 12,696 or higher as high-income countries. The countries with the values below this number will be considered developing countries. For example, Ukraine's GNI is \$ 3,570, Armenia's – \$ 4,220, and Georgia's – \$ 4,270 (World Bank, 2020). The main goal of developing countries is to restore economic growth while maintaining a full system of social guarantees to ensure public goods.

Ukraine, like most developing countries, is pursuing a process of further decentralization that includes political, administrative and fiscal components. Local budgets of Ukraine act as a financial plan for the creation and use of financial resources necessary to ensure the functions and powers of local self-government bodies (Verkhovna Rada of Ukraine, 2022b). Fiscal decentralization in Ukraine is directly dependent on administrative and political decentralization and is a politically necessary reform for Ukraine. The Budget Code of Ukraine (Verkhovna Rada of Ukraine, 2022a) stipulates that the principle of subsidiarity is the background for the budget system of Ukraine. This principle consists in the distribution of types of expenditures between the state budget and local budgets, as well as between local budgets in such a way as to bring the provision of public services as close as possible to their direct consumer.

Order of the Cabinet of Ministers of Ukraine No. 333-r (Verkhovna Rada of Ukraine, 2014) provides that implementation of the basics of financial decentralization has become a key task in the economic and administrative system of Ukraine. Ukraine has the National Decentralization Project, which includes 25 Programmes. The programme supporting decentralization reform in Ukraine – U-LEAD with Europe: Local Empowerment, Accountability and Development Programme – is the leading one (Decentralisation. International Cooperation, 2016). The amount of assistance to Ukraine under this Programme from 01.01.2016 to 31.12.2023 will be EUR 152.3 million. The amalgamated communities have acquired the powers and resources that cities of regional significance have, in particular – the transfer of 60% of the personal income tax to the local budgets of ATCs (amalgamated territorial communities) under their own powers.

Besides, revenues from taxes remain entirely at the local levels: single tax, profit tax on enterprises and communal financial institutions property tax (real estate, land, transport). The implementation of the concept of financial provision of local self-government was to ensure the strengthening

and balance of local budgets through the redistribution of revenue and spending powers between different levels of government and the application of new methodological approaches to budgeting. Such approaches include, in particular: redistribution of expansive determination of local budget revenues; transition to the organization of medium-term financial planning at the local level; use of results-oriented budgeting methods, and increasing efficiency of local budget expenditures.

The financial decentralization process has entailed a number of changes. The main direction was ensuring the fulfilment of revenue and expenditure obligations of local budgets. Balancing local budgets by providing constant sources of income; development of mechanisms to eliminate and prevent the occurrence of unfunded expenditures; financing of state powers transferred to the local level required the implementation. Particular attention was paid to the formalization of the procedure for providing material assistance to communities from local and central budgets.

According to IMF (2020), the 2020 tax revenues to GDP ratio in Ukraine was as follows: the central government – 25.61%, local governments – 6.32%. For 9 months of 2021, the general fund of local budgets of Ukraine received UAH 247 billion 948 million 700 thousand excluding inter-budgetary transfers (Government Portal, 2021). The increase in revenues to the general fund amounted to 20.1% or + UAH 41 billion 442 million 600 thousand compared to the corresponding period of 2020. The personal income tax revenues for January-September 2021 amounted to UAH 150 billion 489 million. The increase in PIT revenues is 19.5% or + UAH 24 billion 550 million 600 thousand compared to the corresponding period of 2020. There were 16 regions that had higher personal income tax growth rates than the average in Ukraine.

Ternopil region had a growth of over 25%. Dnipropetrovsk, Kirovohrad, Poltava and Vinnytsia regions had the lowest growth rates. Revenues from land fees amounted to UAH 26 billion 620 million 200 thousand, the growth of revenues is 14.9%, or UAH 3 billion 455 million 300 thousand compared to January-September 2020. Actual revenues from real estate tax for 9 months of 2021 amounted to UAH 5 billion 838 million 600 thousand, the growth of revenues is 38.3% or UAH 1 billion 616 million 900 thousand UAH compared to the corresponding period of 2020. Revenues from the single tax amounted to UAH 32 billion 400 thousand, the increase in revenues is 21.1% or UAH 5 billion 574 million 800 thousand compared to January-September 2020. In accordance with the budget legislation, the Government also provided intergovernmental transfers to local budgets in the amount of UAH 120 billion 872 million 800 thousand for 9 months of 2021, which is 95.3% of the planned appropriations for January-September 2021, in particular: the basic subsidy amounted to UAH 11 billion 777 million 300 thousand or 100% to the scheduled appropriations; educational

subvention amounted to UAH 72 billion 837 million 700 thousand or 99.5% to the schedule.

The task of radical restructuring of Ukraine's budget system to meet the new requirements is urgent. Non-subsidized communities have problems with the revenues and are unable to cover the expenditures, which creates problems with the financing of the public sector. The lack of sufficient sources of funding at the state and regional levels still entails inefficient management of local finances. Ukraine has also a problem of imperfect relations between the state and local budgets, there are no administrative supervision bodies over the activities of local self-government bodies at the level of public authorities.

In Armenia, as a unitary, partially decentralized country, self-government operates only at the municipal level (Legislation of the CIS Countries, 2002). Property and land taxes are 100% accumulated in the municipal budget. The local budget annually receives income tax and different fees. However, the tax revenues to GDP ratio in 2020 was as follows: the central government — 26.21%, local governments — 0.50% (International Monetary Fund (IMF), 2020). Municipal budget revenues include taxes, non-tax revenues and subsidies. Tax revenues include land tax (95%), property tax (95%), income tax (15%), deductions and fees from various types of taxes to the state budget. Non-tax revenues include rents, fines, local fees, etc.

Transfers consist of subsidies and transfers from other sources. According to the legislation, municipalities receive subsidies, budget loans and loans from the state budget (Legislation of the CIS Countries, 1997). The municipality is allocated a subsidy to verify the revenues and expenditures of its budgets. The procedure for receiving grants and subsidies is regulated by the Law on Accounting (Legislation of the CIS Countries, 2019). According to this law, the allocation of subsidies is based on the population and the budget allocations rate. Armenia's budget system is a set of two-tier budgets. The state and local budgets are based on a single financial and monetary policy and government taxation policy. The fiscal decentralization policy is reflected in the Law on the State Budget. The government needs the fiscal decentralization strategy.

The economic and financial background of self-governing units of another state — Georgia — is governed by basic laws: the Code of Local Self-Government of Georgia (Legislative Bulletin of Georgia, 2022a), the Budget Code of Georgia (Legislative Bulletin of Georgia, 2021), the Tax Code of Georgia (Legislative Bulletin of Georgia, 2022b), Law on Georgia on Grants No. 331 (Legislative Bulletin of Georgia, 2020), and Law of Georgia on Local Assemblies No. 1401 (Legislative Bulletin of Georgia, 1999). On December 31, 2019, the Government of Georgia adopted the Decentralization Strategy for 2020-2025. The principle of the Decentralization Strategy is the state's

commitment to support financially weakened self-governing associations through a fair distribution of funds.

The aim of this strategy is to increase the powers of self-government bodies, fiscal decentralization and improvement of the local government. Based on the action plan in the field of decentralization strategy, it is planned to revise local taxes, distribute taxes on a utility license by local self-government bodies, determine the types of property to be provided to municipalities, as well as rules and conditions for their provision. The subsidy for equalization of fiscal capacity is allocated from the state budget for the purpose of financial support of local self-government bodies for performance of their duties.

In Georgia, the rights and responsibilities of each level of revenue and expenditure mobilization are not clearly defined. This can also be stated regarding the distribution of taxes between the centre and the budgets of the regions, as well as issues of economic subsidies etc. This is reflected in the volume of mobilization of tax revenues only at the level of budgets and its ratio to GDP in 2020: the central government – 22.45%, local governments – 0.89% (IMF, 2020). The lack of local budget funds in Georgia, which is supplemented by regulatory revenues, is the result of minimizing the quality of local tax authorities.

In this regard, it is also necessary to take into account the problems of economic development: the general decline in production; limited economic resources in rural areas; transfer of social facilities to local administrations; uncertainty in the status of branches of enterprises and organizations located in the districts; restriction of the rights to natural resources of local self-government bodies. Sectoral legislation is still not in line with the government decentralization principles, while the progress on revision and harmonization of legislation is very slow. There is also a need to further develop the legal environment to promote and stimulate inter-municipal cooperation.

The indicator of decentralization of revenues, which is the ratio of local budgets and their revenues to the state budget, shows that Ukraine has the best situation with this indicator. From 2014 to 2018, the ratio of local budgets and their revenues to state budget revenues in Ukraine varied from 22.5% to 28.9%. In Georgia, this level ranges between 8% and 12%, in Armenia – between 3% and 5% (CORLEAP, 2020). In Ukraine, which shows the best results on this indicator, the level of centralized spending varies between 49% and 58%, in Georgia – 19-22%, in Armenia this figure was about 7-8%.

Improvements resulting from a successful budget decentralization programme can only be achieved through high quality governance in decentralized agencies of national and subnational governments. In OECD

countries, regional governments have, on average, complete discretion over 70% of their tax revenues (OECD, 2022). Another 15% of their income comes from general taxes, which require the consent of governments to the distribution rate. On the contrary, local governments have, on average, full or almost complete autonomy over 13% of their revenues only. However, local authorities retain discretion with certain limitations on additional 62% of tax revenues. According to the OECD report (OECD, 2018), subnational governments in OECD countries account for 40% of government spending, corresponding to 16% of GDP, and this share has increased in recent decades for most countries. Expenditure obligations of subnational governments have changed over the past 25 years, in particular as a result of decentralization processes that have transferred responsibilities to the subnational level in sectors such as education, health, social protection, economic development, urban and spatial planning.

Sweden — a unitary country with a high share of local government spending — is an example of such changes. The state structure of Sweden is highly decentralized and includes two subnational levels: 21 counties and 290 municipalities. Welfare is generally high in the regions of Sweden, which are among the 20% of the largest OECD regions in terms of civic participation (OECD, 2020). According to the UN Human Development Index, Sweden ranks 7th in the world with a score of 0.945 (Human Development Reports, 2022). Sweden's GNI is \$ 54,050 (World Bank, 2020).

It can be stated that the provision of services is crucial for subnational governments, as the bulk of their spending is on education, general public services and social protection. The Constitution of Sweden explicitly recognizes the local self-government principle. The Law of Sweden on Local Self-Government No. Ds 2004:31 (Government Offices of Sweden, 2015) defines the scope of local autonomy, establishes specific powers and lists the sources of income for local entities. Local budget revenues come from tax revenues (about two-thirds of the total), total transfers from the central government (about 15% for municipalities and 9% for districts), targeted government transfers (3-4%), and user fees and rents (about 6% for municipalities and 3% for counties).

Local authorities have the right to collect personal income taxes to meet their financial obligations and are free to decide on the level of their taxes. At the aggregate level, the state tax rate is about 20% and the district tax rate is about 10%. In general, 50% of Sweden's public spending is shared by the central government and 50% — by municipalities and counties. The fiscal equalization system is governed by the central government. The redistribution of resources between different subnational governments relies on different tax bases and expenditure rates.

According to the European Committee of the Regions (2022b), the revenue autonomy at the local level is higher in Sweden than the EU average (67% vs. 53% in 2018), resulting in lower dependence on central government transfers than in the EU (32% vs. 47% in 2018). Local own revenues accounted for 33% of total government revenues in 2017, which is higher than the EU average (13%). The aggregate ratio, which reflects aspects of fiscal decentralization of both revenues and expenditures, suggests that Swedish subnational governments have a degree of fiscal decentralization (66% in 2017) that is well above the EU average (17% in 2017). The indicator, which measures the level of tax autonomy, also indicates the high fiscal autonomy of local governments in Sweden, with 98% of total local tax revenues being under the full control of local authorities (European Committee of the Regions, 2022b).

Local budgets are prepared according to a conservative approach aimed at a surplus of 2-3%. Expenditures in districts and municipalities are most concentrated, and higher than the EU average, in healthcare (27% of total local expenditures), social protection (27%) and education (22%). Other relevant areas of expenditure are general public services (11%) and economic issues (6%). The ratio of tax revenues to GDP in 2020 in Sweden was as follows: the general government – 39.90%, local self-government bodies – 13.03% (IMF, 2020).

Today, the Decentralization Index (European Committee of the Regions, 2022a) is widely used in the 27 EU Member States, which is an interactive tool for various aspects of decentralization (political, administrative and fiscal). According to the Index, high fiscal decentralization is 35-100%. Average decentralization: expenditure ratio – 27-34%. Low decentralization: the expenditure ratio is 20-26%. Very low decentralization: cost ratio – 0-19%. Overall decentralization ranges from 1 to 3 points and is 2.4 points in Sweden. Assessment of decentralization by parameters: administrative – 2.3 at the local level and 1.1 at the regional level; fiscal – 3; political – 1.8. Expenditure ratio, that is the relative share of total subnational expenditures against total government expenditures is 46%. Sweden has created stable local revenues with a local income tax and tax equalization system.

Comparing the achievements of fiscal decentralization in terms of tax revenues in GDP from local authorities in Sweden and such countries as Ukraine, Armenia and Georgia, it can be stated that this reform has not yet achieved final results in these countries, although Ukraine has made more progress in implementing this strategy (Figure 4).

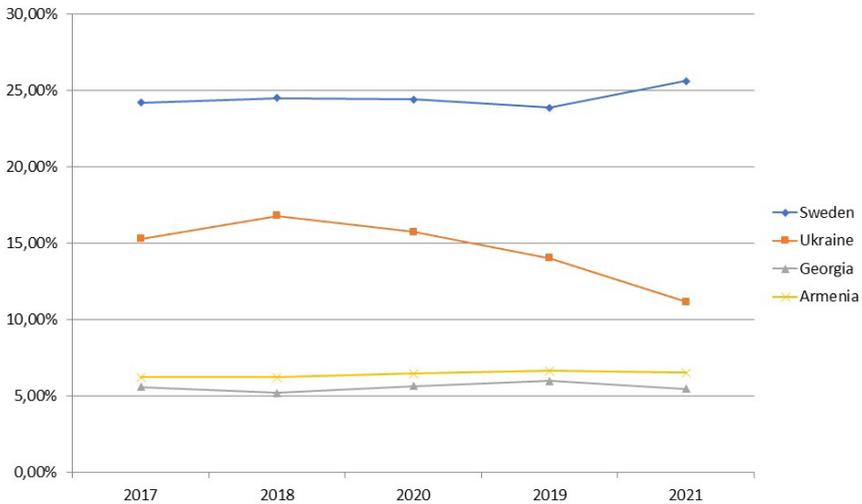


Figure 4. The amount of local government revenues in % of national income in Sweden, Ukraine, Armenia and Georgia for 2017 - 2021 (according to the generalized data of the European Committee of the Regions (2022a)).

SKL International (2021) states that in 2021 the government of Sweden has committed itself to supporting the Ukrainian government in its efforts to implement a decentralization reform. The Support to Decentralization in Ukraine Project will help the local self-government sector to take on more powers and responsibilities. Advisory, analytical and coordinating support will be provided to create a general and more reliable empirical background for the development of fiscal policy in the transformed system of decentralized governance, which is being developed.

4. Discussion

According to Vincent (2022), decentralized decision-making makes it possible to positively correlate with economic growth through more efficient provision of public services and their targeting, reduction of production costs and prices, as well as creating more effective incentives for all participants in economic activity. Abuselidze (2021) emphasized that tax autonomy of local self-government is a relative concept, which is determined by whether the governing bodies have a sufficient amount of their own income and

whether they have the right to dispose of it independently in accordance with their functions. According to the researcher, this does not mean that they are completely isolated from each other. On the contrary, the centre and the municipalities have common interests for the benefit of society and relevant coordinated strategic actions in economic and political priorities.

Hanif *et al.* (2020) indicates that the positive impact of fiscal decentralization on economic growth is weakened if the country is corrupt and has weak institutions and/or suffers from political instability. According to researchers, a relatively corruption-free country with sound institutions and a stable political environment could make more use of the benefits of fiscal decentralization to accelerate economic growth.

Rotulo *et al.* (2020) proved that the creation of local pools reduces the effect of cross-subsidization and protection against financial risks guaranteed by the national pool, turning fiscal decentralization into regressive choices. Researchers conclude that this not only aggravates interregional inequality, but can also pave the way for tough policies, such as healthcare: service quality declines with limited access to public resources, prompting patients in poorer regions to seek help from other regions.

Ter-Minassian (2020) state that effective fiscal decentralization models must be adapted to the context of individual countries. Policymakers and experts in each area of vertical and horizontal cooperation should take part in sectoral discussions. There is also a potentially useful role for cooperation between the relevant units of each subnational level of government.

According to Digdowiseiso (2022), the negative impact of fiscal decentralization on economic growth should not be interpreted as supporting centralized systems of public administration. The effectiveness of fiscal decentralization in relation to growth should be assessed from the perspective of institutions (Digdowiseiso, 2022).

Erlingsson (2022) recommended that a research programme needs to be developed in Sweden that will systematically analyse the ways in which the political system distributes responsibilities between levels of government and how this affects trust and satisfaction at the local, regional and central levels.

The central government should pay attention to the heterogeneity of the impact of fiscal decentralization on cities with different strategic backgrounds and levels of innovation (Yang *et al.*, 2020), and the fact that the fiscal decentralization system plays an important role in improving green development (Zhu *et al.*, 2022). It is necessary to conduct a constant (annual) analysis of standard deviation and other indicators that describe the effectiveness in order to better understand how effective the system of horizontal equalization of budget revenues of territories is.

Teremetskyi *et al.* (2021) emphasized that it is necessary to develop an adequate political and institutional environment, improve the quality of governance, close ties between local governments and the population and the formation of effective channels of communication. According to researchers, special attention should be paid to strengthening the responsibility of local self-government bodies to society and the fight against corruption.

The main directions of strengthening the financial independence of local self-government should be realized primarily through a clear definition of the structure and powers of central and local executive bodies. Kohut and Kovacs-Rump (2021) identified that a feature of tax reform in Ukraine should be the transition from the fiscal principle of tax policy to the development of a new model that would provide the necessary amount of budget revenues to support the functioning of the state, adhering to the principle of social justice of distributing tax burden in the state.

Conclusions

Effective fiscal decentralization mechanisms can help governments at different levels to identify and mitigate the adverse external effects of their policies, avoid or reduce tax competition, and make better use of the scale effect in the provision of certain public services. This policy helps to reduce the risk of spreading infectious diseases, improve the safety of citizens during the pandemic, the quality of the environment, as well as promote consensus on political reforms.

Government operational and fiscal decentralization is a way to improved local decision-making, infrastructure development and service delivery, but many countries are struggling to benefit from decentralization, delegation and transfer of powers. Challenges include accountability, capacity, coordination, freedom of action, technology and variability.

The scope of policy in developing countries should be redistributed between the centre and local self-government bodies. The centre should determine the appropriate legislative framework within which local self-government will be free to make decisions, especially when solving socio-economic problems.

Fiscal decentralization requires:

- strengthening the role of local taxes in the formation of the revenues of local budgets;
- finding and implementing reserves for the formation of own revenues of local governments;

- promptly reporting on the implementation of financial policy and choosing forms of fiscal support for local governments to accumulate their own fiscal capacity and increase self-efficacy;
- presenting new approaches to the budget process to the general public in order to prevent public resistance to fiscal decentralization.

Encouraging local authorities to increase their own budgets, reduce regional tensions, and create proper access for investment development should be the focus.

The representatives of the Tax Service and the Treasury should be involved in the analysis of factors promoting cooperation in improving the management of revenues and expenditures, while ministers or secretaries of finance responsible for national and subnational public finances should be involved in the discussion of fiscal policy reforms.

The clearly determined steps to implement fiscal decentralization in Ukraine, Armenia and Georgia will help build local political and institutional capacity. The range of responsibilities of local authorities in Sweden directly affects the lives of most citizens. So, there is a potential for the implementation of relevant experience in the practice of fiscal decentralization in developing countries. This will be a promising vector of further research for the authors.

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