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FINANCIAL CAPACITY OF LOCAL BUDGETS IN A DECENTRALIZED ENVIRONMENT: PROBLEMS AND WAYS TO SOLVE THEM

Summary

Topicality. Statement of the problem. Effective implementation of own and delegated powers by local self-government bodies depends on the ability to independently solve issues of local importance at the expense of own sources of funding. The modern system of allocation of budget resources does not ensure the necessary level of independence of local self-government bodies in solving socio-economic problems of territorial communities and needs to expand its own revenue base and introduce the decentralized principle of budgeting at the local level.

The Aim of the study. Monitoring of problematic aspects of financial support of local self-government bodies and justification of ways to strengthen the financial capacity of territorial communities under conditions of budget decentralization.

Methodology. In the process of carrying out the research, general and special methods of scientific research were used: scientific analysis and synthesis - for the theoretical generalization of the results of research by scientists on the issues of forming local budgets and strengthening the financial autonomy of local authorities; comparison, analytical and observation - to monitor the financial capacity of territorial communities of the Chernivtsi region; abstract-logical method of research - to substantiate proposals for the introduction of an effective model of financial equalization of the income base of local communities.

The results. The article examines the peculiarities of financial provision of local self-government functions under conditions of budgetary decentralization. On the basis of the assessment of financial potential of territorial communities, problematic aspects of ensuring the financial independence of local authorities are singled out and ways of solving them are proposed.

Practical meaning. As a result of the conducted research, the ways of strengthening the financial self-sufficiency of the budgets of territorial communities were

substantiated and the conceptual foundations of the development of local self-government under the conditions of the reform of the decentralization of powers were outlined.

Prospects for further research. Decentralization of the management of budget funds and the reform of the system of inter-budgetary relations determine the development of strategic priorities of budget policy regarding the formation of local budgets, which are aimed at ensuring financial stability and economic growth of territorial communities.

Keywords: local budgets, decentralization, local self-government bodies, territorial community, financial capacity, inter-budget transfers, inter-budget relations.

Number of sources: 8.

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ФІНАНСОВА СПРОМОЖНІСТЬ МІСЦЕВИХ БЮДЖЕТІВ В УМОВАХ ДЕЦЕНТРАЛІЗАЦІЇ: ПРОБЛЕМИ ТА ШЛЯХИ ЇХ ВИРІШЕННЯ

Анотація

Актуальність. Постановка проблеми. Ефективна реалізація власних та делегованих повноважень органами місцевого самоврядування залежить від спроможності самостійно, за рахунок власних джерел фінансування, вирішувати питання місцевого значення. Сучасна система розподілу бюджетних ресурсів не забезпечує необхідний рівень незалежності органів місцевого самоврядування у розв'язанні соціально-економічних проблем територіальних громад і потребує розширення власної доходної бази та запровадження децентралізованого принципу бюджетування на місцевий рівень.

Мета дослідження - моніторинг проблемних аспектів фінансового забезпечення органів місцевого самоврядування та обґрунтування шляхів посилення фінансової спроможності територіальних громад в умовах бюджетної децентралізації.

Методологія. У процесі виконання дослідження використано загальні і спеціальні методи наукового пізнання: наукового аналізу та синтезу – для теоретичного узагальнення результатів досліджень науковців з проблематики формування місцевих бюджетів та зміцнення фінансової автономії органів місцевої влади; порівняння, аналітичний та спостереження – для моніторингу фінансової спроможності територіальних громад Чернівецької області; абстрактно-логічний метод дослідження – для обґрунтування пропозицій щодо запровадження дієвої моделі фінансового

вирівнювання доходної бази місцевих громад. **Результати.** У статті досліджено особливості фінансового забезпечення функцій місцевого самоврядування в умовах бюджетної децентралізації. На основі проведеної оцінки фінансового потенціалу територіальних громад виокремлено проблемні аспекти забезпечення фінансової незалежності органів місцевої влади та запропоновано шляхи їх вирішення.

Практичне значення. За результатами проведеного дослідження обґрунтовано шляхи посилення фінансової самодостатності бюджетів територіальних громад та окреслено концептуальні засади розвитку місцевого самоврядування за умов реформи децентралізації владних повноважень. **Перспективи подальших досліджень.** Децентралізація управління бюджетними коштами та реформа системи міжбюджетних відносин обумовлює розробку стратегічних пріоритетів бюджетної політики щодо формування місцевих бюджетів, які спрямовані на забезпечення фінансової стабільності та економічного зростання територіальних громад.

Ключові слова: місцеві бюджети, децентралізація, органи місцевого самоврядування, територіальна громада, фінансова спроможність, міжбюджетні трансферти, міжбюджетні відносини.

Кількість джерел: 8.

The Problem Statement. The decentralization reform in Ukraine strengthened the financial autonomy of local self-government bodies by securing additional sources of revenue generation for local budgets and expanded the scope of powers to solve the problems of socio-economic development of territorial communities. The transition to the two-level concept of local self-government "community-region" contributed to the delineation of revenues and expenditures between the budgets of territorial communities and districts, the establishment of revenues and expenditures for newly formed rural, settlement, and urban territorial communities in the amounts that the cities of regional significance and united territorial communities had.

Reforming the public finance management system on the basis of decentralization requires solving a number of problematic aspects related to the formation of local budget revenues including the following:

- definition of powers and system of relations between local territorial communities and newly formed districts;
- excessive expenditure burden on local self-government bodies in terms of financing delegated powers in the field of education, health care and social protection;

- low level of financial capacity of small territorial communities and the share of own income in the structure of sources of income formation of local budgets;

- lack of proper accounting of communally owned lands in communities in terms of owners/users, intended use and types of activity, which reduces the fiscal potential of using land resources as a source of own income;

- inefficient management of communal property of the communities, which is due to improper inventorying and lack of a complete list of communal property objects, as well as demand for objects that are not used or are in such a state that makes their exploitation impossible;

- non-transparency and subjectivity in the distribution of inter-budgetary transfers and the practice of making relevant decisions on the allocation of subventions and subsidies to community budgets at the end of the budget year;

- lack of funds to compensate for the loss of income of local budgets due to the provision of tax benefits established by the state;

- accumulation of tax debt as a result of non-receipt of tax revenues to local budgets of various levels.

The growing differentiation of the level of financial capacity of territorial communities located close to the war zone or under temporary occupation and conditionally safe communities leads to growing differences in their ability to generate tax revenues sufficient to finance budgetary needs. The existing system of horizontal equalization of the tax capacity of territories does not stimulate local authorities to build up their own revenue base, and the delegation of an additional amount of budgetary authority by the state to local budgets, without corresponding proper funding, does not contribute to ensuring their financial self-sufficiency. The economic inability of the vast majority of territorial communities to exercise their own and delegated powers and the insufficiency of resources in their development budgets for investments in infrastructure at the local level determines the need to improve the efficiency of regulation of

inter-budgetary relations in the direction of ensuring the financial stability of local budgets.

Analysis of recent research and publications. The problems of the formation of the local self-government system in Ukraine and the search for effective ways to ensure the financial capacity of territorial communities were considered in the works of the following national scientists: Y. Beskid, S. Bukovynskiy, S. Bulgakova, O. Vasylyk, V. Zaichikova, O. Kyrylenko, V. Kravchenko, I. Lukianenko, I. Lunina, V. Oparin, T. Ohon, D. Polozenko, G. Piatachenko, I. Rudenko, S. Sluhai, V. Fedosov, I. Chuhunov, S. Yurii and others.

The topic of budgetary relations and a complex of problems related to the study of the problems of financial support of the powers of local authorities were considered by the following foreign scientists: E. Atkinson, R. Bird, J. Biukanan, T. Veblen, J. Halbrait, T. Horwart, J. M. Keins, A. Laffer, S. Lead, E. Lind, A. Marshall, R. Musgrave, P. Samuelson, J. Sismondi, A. Smith, J. Stiglitz, S. Fisher, F. Friedman, J. Hicks, J. Schumpeter.

Paying tribute to the developments of Ukrainian and foreign scientists, their significant contribution to the study of the problems of local development and related issues, we note that there are still a number of unresolved issues in this area, including: the insufficiency of local budgets' own stable sources of income; increasing the degree of discrepancy between the spending obligations of local bodies and the amount of funds provided for their financial support; issues of implementing quality budget planning and new budget resource management tools. The specified range of problematic aspects determines further scientific research.

In view of this, the **purpose of the article** is to monitor the problematic aspects of the financial support of local authorities and to substantiate the ways of strengthening the financial capacity of territorial communities in modern conditions.

Main Part. In the conditions of the new rules of the game at the local level, the determining factor for the pace of development of the community is its financial capacity, which is of decisive importance for improving the quality and availability of public services provided to its

residents, as well as for the development of the local economy and infrastructure. The financial capacity of local budgets as a comprehensive indicator is based on: budgetary capacity, that is, the ability to fully finance the own and delegated powers of local self-government bodies at the expense of the budget's own revenues; the minimal component of inter-budgetary transfers in the structure of local budget revenues, which reduces the territorial community's dependence on centralized financial resources; optimal allocation of budget funds according to priority budget programs.

The assessment of the financial capacity of local budgets allows to analyze the provision of local self-government bodies with budgetary resources directed to the implementation of their own and delegated powers and to single out problematic aspects of the financial autonomy of territorial communities.

One of the important indicators of assessing the financial capacity of local budgets is the subsidy level, which reflects the degree of dependence of the territorial community on the subsidy resources of the State Budget of Ukraine. The indicator is calculated as the ratio of the volume of the basic or reverse subsidy to the total amount of revenues of the general budget fund. Accordingly, if the indicator is 30%-50%, the community has a low level of financial capacity, if it is more than 50%, it is critical.

According to the results of 2021, out of a total of 1,438 communities of Ukraine, 75% receive basic subsidies from the state budget, 15% of communities pay reverse subsidies, and almost 11% are non-subsidized. The share of communities receiving basic subsidies among rural and settlement communities is about 80%. The largest number of communities with a high level of subsidy over 30% are in Zakarpattia, Ivano-Frankivsk, Chernivtsi, Rivne, and Volyn regions. In 2021, 37 communities of the Chernivtsi region have a low level of financial capacity, which is 71% of the total number. Such communities are financially unstable, they cannot generate a sufficient amount of their own income and ensure the proper level of development of the administrative-territorial unit without financial assistance from the state. The economic stability of communities was

significantly undermined by the pandemic and the energy crisis. As a result, there are no development budgets in many local budgets of the Chernivtsi region, and about 70% of expenditures of territorial communities are aimed at financing educational institutions [2].

Analyzing the level of subsidization of local budgets of territorial communities of villages, towns, and cities of the Chernivtsi region, it was determined that in 12 communities, which make up 23% of the total number, the subsidy rate is more than 45%, which indicates the high dependence of these communities on transfers from the state budget. The average level of subsidy is at the level of the budgets of 22 communities, which is 42% of their total number. The budgets of 18 territorial communities (35%) are less dependent on transfers from the state budget, the subsidy level of which ranges from 0 to 30%.

While monitoring the financial capacity of local budgets of the Chernivtsi region, it is worth paying attention to the level of self-sufficiency of the needs for financing the expenditure part of the budget of territorial communities in 2021. Five communities of the Chernivtsi region have a high level of self-sufficiency of local budgets amounting from 51.5% to 89%: Novodnistrovska city territorial community, where the share of own revenues in budget revenues is 69.9%, Viknianska rural territorial community - 81.5%, Chernivtsi city territorial community - 89%. A low level of self-sufficiency is observed within 20 territorial communities of the Chernivtsi region - from 19% (Petrovetska rural territorial community) to 29.5% (Stavchanska territorial community).

An important indicator of financial capacity is the volume of revenues of the general fund of the local budget, which reflects the level of financial support of the delegated powers of local authorities. In 2021, the general fund (excluding inter-budgetary transfers) of local budgets of the Chernivtsi region received 4,324,168.7 thousand UAH, which is 103% and 124.4 million UAH more than the plan approved by local councils, taking into account the changes. The actual revenues of the general fund in 2021 increased by UAH 691,352.7 thousand, or 19% from the revenues of the same period previous year, and by UAH 881,119 thousand, or by 25.6% compared to 2019. The total amount

of non-fulfillment of planned indicators for 7 local budgets of Chernivtsi region is UAH 16,885.1 thousand, in particular for: Vyzhnytskyi district budget UAH 9.9 thousand; territorial communities(hereinafter, TC): Sokyrianska city TC – 6205.9 thousand UAH, Novodnistrovska TC– 3 944.8 thousand UAH, Toporivska TC – 3317.1 thousand UAH, Putylska rural TC – 2868.5 thousand UAH, Tereblechenska rural TC - 406.8 thousand UAH and Kostryzhivska settlement TC - 132.1 thousand hryvnias.

In 2021, the revenues of local budgets increased by 19% compared to 2020, this indicator is higher than the regional average one in the local and 24 territorial community budgets. This trend is confirmed by the volume of revenues of the general fund of the local budget per inhabitant. This indicator allows determining the extent to which local self-government bodies can provide for the needs of each resident solely at the expense of funds accumulated in the territorial community budget.

The largest share of revenues of the general fund of the local budget per inhabitant is in Viknianska village TC (7351.7 UAH), Chernivtsi city TC (7294.3 UAH), and the smallest is in Petrovetska rural TC (1283 UAH) and Suchevenska village TC (1319,7 UAH). The monitoring of the local budgets of Ukraine for 2021 showed that Kyiv (UAH 13,766/person) and Dniprovska (UAH 9,004/person) city TC remained the most secure in their own income per capita. The title of the lowest income remains for Kramatorsk (4,645 hryvnias/person) and Severodonetsk (4,742 hryvnias/person) city TC.

In the structure of the general fund of local budgets of the Chernivtsi region in 2021, a significant share of income is occupied by personal income tax - 63%, single tax - 14%, land tax - 9%, excise tax - 6%. In 2021, the local budgets of the Chernivtsi region received tax on the income of individuals in the amount of 2 billion 729.4 million UAH, which is 101.8% (+48.8 million UAH) compared to the planned indicators and by 471 million UAH, or by 20 .9% more than in 2020 (in Ukraine – by 19.4%). The implementation of the plan approved by the local councils for the budgets of Sokyriany, Novodnistrovsk, Khotyn,

Kostrzyzhivka, Putyla rural and Voloka, Toporivtsi, and Livyntsi rural territorial communities has not been ensured.

In terms of budgets, the share of personal income tax in the revenues of the general fund ranges from 81.7% - for Viknianska rural TC, to 30.3% - for Mahala village TC; according to the regional budget, this indicator is 89.1%. In some communities, personal income tax revenues decreased due to a decrease in the business activity of enterprises, associated with problems with the supply of raw materials, a decrease in the volume of orders and sales opportunities, problems with logistics, the mobilization of employees to the ranks of the Armed Forces, the Covid 19 pandemic. The loss of excise duty on fuel is significant for many communities (due to the zero rate of taxation introduced to maintain stability in the fuel market), a ban on the sale of alcohol was widespread, affecting the non-observation of excise duty from the retail trade of excise goods. Plans for non-tax payments were also incompletely implemented - due to the fact that many registers remained closed, administrative services were not fully provided, and therefore no administrative fee was received from local budgets. Also, budget institutions' own revenues and income from property and business activity decreased.

Local taxes and fees are extremely important to communities. This is one of the main indicators of the expansion of financial independence of local authorities. The indicator of the share of local taxes and fees in the revenues of the general fund of the budgets of local territorial communities indicates the extent to which local self-government bodies are financially autonomous from the central government and dependent on local residents - payers of local taxes and fees. This indicator also demonstrates the development of business in the community. Local taxes occupy 25% in the structure of revenues of the general fund of local budgets of the Chernivtsi region and received in the amount of 1076681.3 thousand UAH, which is 104.6% (+47.6 million UAH) to the plan. The actual receipts of local taxes and fees for 2021 increased by UAH 160,341.4 thousand, or 17.5% compared to previous year, and by UAH 184,492.2 thousand, or 20.7% compared to 2019.

When assessing the financial capacity of budgets of the Chernivtsi region, it is also important to calculate the share of local budget expenditures for the maintenance of the administrative apparatus in the territorial communities' own budgetary resources. The smallest amount of such share in the budget of Chernivtsi city territorial community is 10% and Viknianska rural territorial community is 18.1%. The local budgets of Rukshynska and Toporivska rural territorial communities have the largest specific weight of expenditures on the administration apparatus of 66% and 74.2%, respectively.

Capital expenditures are funds from the local budget that actually develop the community and are directed from the development budget to the construction or reconstruction of housing and communal services facilities, gasification of settlements, purchase of new communal electric transport, capital repair of roads in the community. The share of these funds in the local budget shows the ability of local self-government bodies to ensure the real socio-economic development of their community. In 2021, the largest volume of local budget expenditure for capital development was directed to: Maghilsk village council (47.3%), Chernivtsi city territorial community (19%), Velikokuchuriv village territorial community (18.8%). But there were also communities that did not even come close to the average indices of the indicator. These are, for example, Boiany (0.7%), Tarashanska (0.8%) and Horishniosherovetska (0.9%) rural territorial communities.

The average capital expenditure per resident of the community has hardly changed over the previous three years. The residents of Mahala, Seliatyn rural territorial communities and Chernivtsi city territorial communities were the most supplied with capital expenditures. Capital expenditures per inhabitant of Mahala village TC are UAH 9,407.1, Seliatynska village TC – UAH 1,732.3, and Chernivtsi city TC – UAH 2,078.4. This indicator indicates how much local self-government bodies spend on the real development of community infrastructure: major road repairs, gasification of the settlement, purchase of ambulances, etc. The smallest volume of capital expenditures per inhabitant was directed from the budgets of Boiany

(52 UAH), Tarashanska (58.8 UAH), and Horishniosherovetska (63.6 UAH) rural territorial communities.

The analysis of the financial state of the local budgets of the Chernivtsi region for 2021 showed that the Chernivtsi, Novodnistrovsk city and Viknianska, Mahala rural territorial communities have a high level of financial capacity, demonstrate the best financial results and have increased their financial potential. The worst indicators of financial self-sufficiency are in the local budgets of Tarashany, Suchevenska and Klishkovetska rural territorial communities. Among the main reasons for the low level of financial self-sufficiency of local budgets are a weak own revenue base and a high share of inter-budgetary transfers in the revenue structure, which increases the dependence of local self-government bodies on the centralized resources of the state budget. The existing practice of increasing the amount of transfers causes local self-government bodies to be disinterested in finding additional sources of filling budgets, reduces the efficiency of using the received funds and, as a result, does not contribute to local socio-economic development.

The decentralization reform involves the delegation of partial powers to the local level, which leads to higher efficiency of public administration at the lower level, and also takes into account the interests of community residents. However, at the legislative level, the issue of the division of powers into own and delegated powers has not been settled, and there is no clear definition of the sources of their implementation.

A significant amount of budget funds for the implementation of delegated powers is directed by local self-government bodies to the fields of education and health care. In the field of education, there are unresolved issues: the educational subvention is not enough for all expenses in this field, the subvention is actually directed only to the salary of teaching staff, and all other expenses (salary with service personnel charges, transportation of students, payment of communal services, social guarantees for education workers, established by the state during the period of martial law) for the functioning of this field, in particular for pre-school and out-of-school education, communities

are provided with budget funds at the expense of the revenues of the general fund of local budgets [5, p.157]. According to the formulaic calculation of the educational subvention, the amount of budget allocations for organizing the division of the class into groups for the study of individual subjects is limited. Therefore, it is advisable to review and make changes to the educational subsidy formula by increasing the ratio of dividing the class into groups, or to make changes to the regulations regarding the division of the class into groups when studying individual subjects.

The implementation of the medical reform changed the model of management and financing of health care institutions, but did not remove problematic financial issues. The calculated and implemented tariffs for medical care of the population under the Medical Guarantee Program are non-competitive and do not correspond to the real market value of services, they do not cover operational and operating costs of health care institutions of the Chernivtsi region, which require additional allocation of funds from local budgets, in particular for labor costs. Another problem is that the tariffs for medical care do not take into account the norms of the Law of Ukraine "On the status of mountain settlements in Ukraine" and the Resolution of the Cabinet of Ministers of Ukraine No.648 of August 11, 1995, according to which tariff rates and salaries of employees in mountain settlements are increased by 25 percent. Therefore, when planning the expenditures of the National Health Service of Ukraine under the program of medical guarantees, it is advisable to take into account the market and economically justified cost of medical services and to review the tariffs and adjustment coefficients, in particular, the increase in salaries for workers in mountainous areas. There is also a need to work out the issue of regulating wages for employees of communal non-commercial enterprises in the medical industry by making changes to the relevant legislative acts. It should be noted that the absence of legal acts on these issues leads to the decision to excessively "incentivize" certain categories of employees and, accordingly, underestimating the amount of wages for those who are directly involved in the provision of a specific medical service.

According to the Budget Code of Ukraine, one of the principles on which the budget system of Ukraine is based is the principle of justice and impartiality, which provides that the budget system of Ukraine is built on the principles of fair and impartial distribution of public wealth between citizens and territorial communities. At the same time, this principle was violated during the compensation of losses of local budgets in connection with the provision of tax benefits by the state to certain taxpayers. It should be noted that in accordance with Article 103 of the Budget Code of Ukraine, the state's provision of tax benefits that reduce local budget revenues must be accompanied by the provision of an additional subsidy from the state budget to local budgets to compensate for the corresponding loss of local budget revenues. Since the adoption of the specified norm, local budgets of the Chernivtsi region have never received appropriate compensation from the state budget, despite the fact that individual budgets of local self-government of the region lose almost half of their revenue base because of this.

Conclusions of the study and prospects for further research in this aspect. Monitoring of the financial support of local self-government identified the priority directions of reforming the budget mechanism at the local level in the following areas:

- reduction of disparities in the tax capacity of local budgets of territorial communities through revision of the mechanism of their financial equalization, in particular by reducing the reverse subsidy from 50% to 20% in order to further stimulate local economic development and increasing the basic subsidy from 80% to 100% to eliminate the discrepancy in spending obligations and fiscal powers of the relevant levels of management;

- changes in the mechanism for crediting personal income tax revenues to community budgets by reorienting the payment (transfer) of tax by legal entities and other tax agents according to the location of production facilities, to balance the interests of local communities in replenishing budgets at the expense of this tax;

- stimulation of the socio-economic development of territorial communities through the state fund for regional development, namely, the allocation of 30 percent of the State Fund of Regional Development volume to the budgets of territorial communities for the implementation of programs and projects of regional development of village, settlement and city councils and to provide for the distribution among budgets in proportion to the area and population in such a territorial community;

- apply a formulaic approach in the distribution of subventions and subsidies from the state budget among the budgets of territorial communities in order to ensure a fair and transparent distribution of transfers from the state budget (in particular, the educational subvention, the calculation of the volumes of which between the budgets of territorial communities currently does not correspond to the current formula; subventions for financial support construction, reconstruction, repair and maintenance of roads of local importance, which are currently distributed subjectively at the level of the regional military administration);

- compensation for the loss of revenues of local budgets as a result of the state providing benefits for the payment of land tax, uniform tax and real estate tax by providing an additional subsidy from the State Budget of Ukraine;

- establishment of tax benefits for the administration of local taxes and fees exclusively by local self-government bodies and giving them the authority to create and maintain municipal fiscal registers of said tax revenues; restoration of the mechanism of indexation of the normative monetary valuation of land at the level of the real inflation index to eliminate the losses of local budgets related to the administration of land fees.

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