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BUDGET FEDERALISM AS AN INTEGRAL PART OF UKRAINE'S GLOBALIZATION INTEGRATION

Iryna P. Ustynova

National Aviation University
03058, 1 Liubomyr Huzar Ave., Kyiv, Ukraine

Iryna A. Tolkachova

National Aviation University
03058, 1 Liubomyr Huzar Ave., Kyiv, Ukraine

Sofia Ya. Lykhova

National Aviation University
03058, 1 Liubomyr Huzar Ave., Kyiv, Ukraine

Olga A. Husar

National Aviation University
03058, 1 Liubomyr Huzar Ave., Kyiv, Ukraine

Viacheslav V. Stepanenko

Kryvyi Rih National University
50027, 11 Vitaly Matusevich Str., Kryvyi Rih, Ukraine

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Abstract. *The relevance of the researched problem is conditioned by the civilizational need of globalization entry of Ukraine in the European and world community with further reforming of its system of state administration in the financial sphere. The purpose of the article is based on the study of current world experience and the consequences of budget federalization as a phenomenon, analysis of the current reform situation in Ukraine and the development of useful recommendations for further approbation. The basic method is comparative, which allowed to compare different state and legal systems, in order to identify similarities or differences between them, resulting in a qualitative state of the legal system as a whole and individual legal institution. This allowed us to consider the problem in a holistic manner and from every side. The article analyzes the policy and experience*

of budget federalism of Ukraine and other countries, analyzes the development of budget legislation of Ukraine and develops recommendations for the Ukrainian legislator for further structural changes in the administration of the financial sector. It is claimed that Ukraine has done significant work in adapting its legislation to European and world practices through the introduction of budget (fiscal) federalism. Recommendations, analysis and review are aimed at adaptation of Ukrainian legislation to world economic systems during the process of globalization and embedding Ukraine in it.

Keywords: *economic governance, budgetary policy, intergovernmental relations, intergovernmental equalization.*

Introduction

Nowadays, the problem of effective redistribution of resources to increase the quality of public administration, which involves the redistribution of power between the center and the administrative-territorial units accountable to the center within one state, has become extremely relevant. These mechanisms are attributed to the system of decentralized management, which has become widespread in both federal and unitary states. Thus, the effective organization of relations between the budgets of local governments and the government is an important problem of public finances, which is influenced by various factors, which are clearly manifested in the relationship of budget federalism. Factors of influence are related to the fact that the system of fiscal relations between different authorities can theoretically be based on different combinations of levels of decentralization in different areas (Khaustova 2018; Perederii 2019).

Federal states find solutions to problematic issues of compliance with the requirements of federal entities and the division of tax resources using a variety of methods (the most common are formula calculations), depending on the model of government and the level of decentralization. However, the accumulated experience in the application of formula calculations also revealed unresolved problems, namely the lack of a direct link between the size of equalization grants and the main macroeconomic indicators of the development of administrative-territorial units; the mechanism of calculation of equalization subsidies does not fully take into account the regional specifics of the territories.

To characterize the complex structure of public administration, in which each link receives an individual budget and performs its functions within the budgetary powers assigned to it, use the term "federalism". Federalism is a way of public administration in which the interests of the whole state are organically combined with the interests of its individual parts, while maintaining the independence of the territories included in their competence in resolving issues ensures the unity and integrity of the country. As a result, the combination of the principles of fiscal federalism between levels of government in the centralized type is characterized by the separation of powers over expenditures and is not accompanied by endowing them with sufficient own sources of income. Financing of territorial programs in these conditions is carried out with use of various forms of interbudgetary relations at the expense of the centralized means of the federal budget.

Here, the independence of the lower divisions of the budget sector is minimized (Ustynova and Yakivchuk 2019, Lykhova and Ustynova 2016; Smyrnova 2020).

Fiscal federalism is both a form of internal intergovernmental financial relations and a certain philosophy of organizing political relations between different levels of government. There are two main groups of models of budget federalism – decentralized and cooperative. Decentralized model is characterized by significant fiscal autonomy of regional local governments, weak links between different levels of government, and relatively limited cooperation, such as in the United States. Cooperative model is characterized by close cooperation between different levels of government, active policy of the central government with overcoming fiscal imbalances at different levels of government and financial equalization. Under such models of fiscal federalism, the central government is actively concerned about ensuring uniform standards of public services throughout the country. Cooperative models of fiscal federalism are characteristic of most federal European states. These include Germany and Austria. In equal shares, budget federalism affects both unitary and federal states. In federations, the financial system is a component of fiscal federalism. As for the essence of budget federalism, the distribution of economic resources between the various elements of power should be the most appropriate to the existing conditions, and spending money as appropriate and efficient.

Issues of General Decentralization Reform in Ukraine

The primary issues of implementation of the policy of budget federalism in Ukraine are: passivity of local governments; lack of professional training and lack of real initiatives for territorial development; concentration of power in the center, as a consequence, limited human resources in regional bodies; introduction of the principles of socialized integration in the budget strategy of local authorities; substituting the state expediency of actions for lobbying one's interests by higher levels of government. Based on the above, it can be argued that further budget decentralization should take place after changes in the system of public administration, tax system and social protection. For this process it is necessary to solve the main problems of introduction of budgetary federalism in Ukraine, namely: uneven pace of socio-economic development of regions; a wide list of social obligations declared by the state; high level of rotation and subsidiarity of local budgets; insufficient revenue of local budgets. Characteristics of the basic principles that reflect the essence of fiscal federalism determines that their implementation and consolidation is likely in Ukraine because its purpose is to obtain at minimal cost of public services to citizens with observance of the basic principles of independence of each degree of power in the direction of achievement of economic independence, reform of tax and budgetary policy, both in local governments, and in the central government.

In each country where the concept of fiscal federalism is implemented, it provides for a combination of two complementary trends – equalization of competition and ensuring minimum national standards throughout the country and competition in the social services market between regional authorities. Achieving justice through the redistribution of financial resources in ensuring the prospects for the development of specific administrative units

due to the need to develop and apply methodological support and scientific justification. For this purpose, it is necessary to apply long-term experience of the developed countries of the world concerning budgetary federalism. At the same time, it is necessary to start smoothing the difference in the levels of economic and social development of territories to provide their residents at the minimum level of state guarantees, as well as to increase revenue mobilization to the relevant budget to stimulate local government. A detailed study of the concept of “budget federalism” gave us reason to consider it as a statutory relationship between central government and local government on the distribution of revenue sources and expenditure powers to finance, provide public services based on their quality, accessibility, feasibility, demand and cost-effectiveness with mandatory observance of the principle of financial independence of each level of government (Ihnatyshyn and Burdyuk 2019).

Implementation of the basic principles of budget federalism and their observance is quite possible in Ukraine, as its purpose is to provide citizens with public services at the lowest price in accordance with the principle of independence of each level of government in fiscal policy, achieving financial independence of both central government and local government. Thus, the introduction of not only budget decentralization, but also its highest degree – budget federalism – in Ukrainian practice, will provide an opportunity to “cut off the tops” of economic, political, ethnocultural contradictions between regions of Ukraine, encouraging them to self-development and allowing them to pursue their own budget policy aimed at meeting the needs of the population in obtaining quality and affordable public services (Ihnatyshyn and Burdiuk 2018).

On September 16, 2014, Ukraine made its choice by ratifying the Association Agreement with the European Union (hereinafter – the EU). Among the key reforms that will implement the Association Agreement between Ukraine and the EU, of course, is the reform of legislation with further improvement of civil society regulation in general, and the decentralization of public administration through decentralization in the financial and budgetary systems. According to I.P. Ustynova and others (2016), decentralization of power is an integral part of the existence of a democratic society. The decentralization processes that have taken place in Ukraine have only just begun the first step-by-step steps towards the transition of public finance management to the principles of fiscal federalism, although some provisions still need practice and editing. Undoubtedly, for the effective introduction of decentralization processes, which are quite long and complex, it is advisable to amend the Basic Law, which would contribute to the creation of a European model of local self-government, regulate factors affecting various spheres of society: budget, tax, education, land, health policy, housing and communal services, etc. When considering the problems of decentralization, it is important to find a balance between centralization and decentralization as the need to ensure the effective operation of local and central government. It is clear that decentralization as a method of governance is aimed at the development of territories and local democracy. Reasons for the transfer of more powers to local governments include greater efficiency and accountability of local governments, better prospects for local development, as well as the introduction of democracy and increased protection of human rights. Today in Ukraine, unfortunately,

one of the most acute problems is the low standard of living. The most critical aspect can be identified socio-economic, characterized by backwardness of economic management, declining activity of society, the decline of potentially important areas of the economy. Reforms in Ukraine need to be carried out based on the needs and goals of society, a clear understanding of what result is expected of them.

Decentralization is due to Ukraine's desire to increase the level of provision and provision of state standards and services, eliminate economic instability, and accelerate the social and economic development of the state. Democratically developed countries have gone through this process at different times, therefore, the issue of decentralization at the present stage of reforming the system of governance of Ukraine is inextricably linked with the theoretical understanding of the concept and historical experience of these processes. The experience of foreign countries suggests that when defining decentralization measures it is necessary to take into account the principle of subsidiarity, which largely characterizes and reveals the content of this process at the present stage of development of society (Andrushchenko and Kyrylenko 2001, Khaminich and Klymova 2011; Zinchenko 2018). As rightly noted by L. Vasylenko and M. Dobrovinskyi (2017), this principle creates the basis for the decentralization of public authority, as it involves the transfer of decision-making powers from the central to the lower organizational levels. The implementation of this course should become one of the dimensions of harmonization of approaches to the organization of public authorities and local self-government of Ukraine in accordance with the standards and principles of developed democracies. Solving the problem of division of powers between the executive and local governments in accordance with the essence of the rule of law, democracy and civil society will allow achieving a balance of interests in the system of relations "state – region – territorial community". As for the decentralization of power in the understanding of financiers, it is budgetary or fiscal decentralization (or decentralization of financial resources).

The centralized system has an asymmetric distribution of resources between different regions, inertia of economic policy of local authorities, low efficiency of budget funds, lobbying and high levels of corruption. It is clear that decentralization in the financial and budgetary systems in Ukraine is a complex issue, which many scholars have paid attention to. This multiplicity of views allows us to judge the ambiguity of this process and creates a problem of its study at the theoretical level. First of all, decentralization of power is a change in the system of government from monopoly-hierarchical to partnership-horizontal, in which a significant part of the functions of central government is transferred to local authorities and initiative self-organization of citizens, the centralization of power is abolished or weakened. Thus, there is a necessary process of expanding and strengthening the rights and powers of administrative-territorial units while narrowing the rights and powers of the center. This is done in order to optimize and improve management efficiency and the fullest realization of regional and local interests.

Scholars distinguish two models that describe relations within the state – the model of partnership and mediation. The choice of a particular model is determined primarily by the history of the state. States that were formed through the unification of individual parts (communities) for mutual assistance and protection (Switzerland, the Netherlands,

England) build a model of partnership. This model is characterized by an understanding of the importance of local government as a mechanism for achieving the interests of citizens of a particular area or community. So, in Switzerland there are more than 3 thousand municipalities, in the USA more than 80 thousand local authorities.

The second model is inherent where the country has historically been shaped by authoritarian tendencies. In these states, local government was generally seen as a subordinate intermediary, and all-important areas of social relations were controlled by the center, significantly limiting the functions of local government. In such a situation, it is assumed that the state should be the guarantor of socio-economic stability, and can protect the community from inefficient use of local resources and excess power on the ground. This also applies to Ukraine. Thus, by the order of the Cabinet of Ministers of Ukraine No. 77-p (2019) and the draft Law of Ukraine "On Amendments to the Constitution of Ukraine (on decentralization of power)" the Concept of reforming local self-government and territorial organization of power in Ukraine was submitted for discussion. This document highlights aspects of the issues that concern the community and local government leaders the most. They relate to purely management issues, but in particular, regarding financial and legal issues are as follows:

- filling local budgets (they are independent, i.e. not included in the State Budget of Ukraine and in case of lack of funds from the State Budget under intergovernmental regulation sent intergovernmental transfers in the form of equalization grants, which was determined by the formula method);
- the growth of the powers of the community can take into account the possibility for resource filling of the local budget, and they do not have the primary financial resources to launch certain projects and programs;
- there is a situation on the organization and implementation of other methods of financial control by the state for the management of local funds;
- there is no clear definition of the level of subsidiarity, resulting in problems at the level of communities, district and regional councils, which will fight for their own independence and the ability to manage through the allocation of additional funding.

The next step in decentralization in Ukraine was the laws "On Voluntary Association of Territorial Communities" and "On the Principles of State Regional Policy" (2015). These laws are designed to overcome the problem of limited capacity of local authorities and will allow moving to the planning of infrastructure projects at the local level. The new system envisages radical changes in the formation of revenue and expenditure parts of local budgets, the definition of the principles of transfer policy and the organization of inter-budgetary relations.

According to scientists and experts, when 60 to 80% of financial resources are left on the ground, we can talk about real decentralization of power. According to N.O. Bykadorova (2010) it is envisaged that at the first stage of solving communal problems, financing of medicine, education, social issues that will place a heavy burden on communities, districts and regions, through state educational, communal, medical subventions, i.e. targeted transfers for the specific purpose of spending money.

It is appropriate to support the warning of N. Slavinskaite, M. Novotny and D. Gedvilaite (2020) that the decentralization of the budget process may lead to an imbalance of the entire system of budget formation in Ukraine. Although the fiscal decentralization in the European Union has yielded interesting and visible results. For example, in Bulgaria and Lithuania today the lowest rates of fiscal decentralization are 13 in the EU (0.28), and in the Czech Republic – the highest (0.46). The level of economic development of these countries is known to be significantly different and this is a useful experience for Ukraine. Therefore, for the current 2020, in the regions, on average, 60% of taxes are left against 30%, which remained earlier.

Current State of Organization and Implementation of Decentralization in Ukraine

In Ukraine, as in most countries, there is intergovernmental regulation in the form of intergovernmental transfers. Thus, the Budget Code of Ukraine (2010) states that inter-budget transfers are funds that are transferred free of charge and irrevocably from one budget to another.

In accordance with Art. 96 of the Budget Code, intergovernmental transfers are divided into: basic subsidy (transfer provided from the state budget to local budgets for horizontal equalization of tax capacity of territories); subventions; reverse subsidy (funds transferred to the state budget from local budgets for horizontal equalization of tax capacity of territories); additional grants. The Budget Code of Ukraine also provides for such types of intergovernmental transfers as: basic subsidy, subventions for state social protection programs, additional subsidy to compensate for losses of local budget revenues due to state benefits, additional subsidy for maintenance expenditures transferred from the state budget educational and health care institutions, subvention for the implementation of investment projects; educational subvention.

Since there is such a phenomenon as budget transfers, the territorial communities of any territorial units have the opportunity to receive part of the income from the implementation of certain projects and, accordingly, reduce the need to receive funds directly from the state budget. Thus, the united communities have acquired the powers and resources that cities of regional significance have, in particular, the transfer to the local budgets of united territorial community of 60% of the personal income tax on their own powers. In addition, local revenues from taxes remain entirely: the single, the profit of enterprises and financial institutions of communal property and property tax (real estate, land, transport) (Decentralization reform 2014).

The united territorial communities have direct inter-budgetary relations with the state budget. Before the reform, they had only regional and district budgets, budgets of cities of regional importance. In order to fulfill the powers delegated by the state, they are provided with appropriate transfers: grants, educational and medical subventions, subventions for community infrastructure development, etc. Legislative changes have also given local governments the right to approve local budgets regardless of the date of adoption of the law on the State Budget. The Budget Code of Ukraine also provides for

such types of intergovernmental transfers as: basic subsidy, subventions for state social protection programs, additional subsidy to compensate for losses of local budget revenues due to benefits established by the state, additional subsidy for expenditures transferred from the state budget on the maintenance of educational and health care institutions; subvention for the implementation of investment projects; educational subvention.

Since there is such a phenomenon as budget transfers, the territorial communities of any territorial units have the opportunity to receive part of the income from the implementation of certain projects and, accordingly, reduce the need to receive funds directly from the state budget. Hence the new opportunities, namely the future implementation of the plan on the ground to facilitate the lives of local residents and improve the conditions for normal life. Thus, the united territorial communities have acquired the powers and resources that cities of regional significance have, in particular, the transfer to the local budgets of united territorial communities of 60% of the personal income tax on their own powers. In addition, revenues from taxes remain entirely on the ground: a single tax, on the profits of enterprises and financial institutions of communal property and property tax (real estate, land, transport).

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The legislator amended the Budget Code of Ukraine from 2014 to 2019. Such changes have already yielded the first results. Own revenues of local budgets from 2014 to 2017 increased by more than 100 billion hryvnias. The growth rate of local taxes and fees in the united territorial communities is 29.4% (for 11 months of 2017), which is 24.9% higher than the average in Ukraine. In particular, the payment for land increased by 20%, real estate tax revenues – by more than 70%. Development budget expenditures per capita increased 1.5 times compared to last year (Decentralization reform 2014).

The volume of financial resources of local budgets in 2018 compared to 2019 increased by UAH 41.1 billion, or 17.6%. The general fund of local budgets for 2019 received UAH 275 billion, or 101.9 percent of the annual revenue approved by local councils. In 2019, the volume of capital expenditures increased and amounted to UAH 99.8 billion, which is UAH 8.7 billion or 9.5 percent more than in the corresponding period of 2018. The share of capital expenditures in the total expenditures of local budgets (general and special fund together) increased compared to 2018 by 1.6 percent and is 17.6 percent (for comparison: in 2016-2017 the share of capital expenditures was 15.0 percent, in 2015 – 11.5 percent, and in 2013-2014 – only 6.5 and 6.2 percent, respectively). All obligations for intergovernmental transfers have been fulfilled. In 2019, transfers from the State Budget of Ukraine to local budgets were transferred for the total amount UAH 261.4 billion, including transfers from the general fund – UAH 245.4 billion, of which: social protection subventions – UAH 79.3 billion, medical subvention – UAH 56.1 billion education

subvention – UAH 70.4 billion, basic subsidy to strengthen the tax capacity of local budgets – UAH 10.4 billion (Information of the Ministry of Finance... 2020). According to the State Treasury Service, as of June 1, 2020 (Execution of the state budget... 2020), 48 types of subventions and subsidies have been allocated from the state budget of Ukraine. Among them in terms of content and scale are such as “Stabilization grant” and “subvention for the construction of a preschool in Bucha, Kyiv region” and “Subvention to Valkiv district for the purchase of a computer tomograph.” Thus, intergovernmental transfers affect a large number of processes in the state.

The current experience of economically developed countries (Australia, Canada, Germany, Switzerland) shows that fiscal decentralization is a procedure of equalization of regions, i.e. funds are allocated from the central budget to the regional level to overcome the budget deficit and the same level of development. The general trend is that regional changes in the size of payments are allowed until there is an important moment when wealthier regions diverge too far from the average. S. Brenton (2020) rightly argues that further reform processes are often lengthy, and in some cases attempts to identify richer regions, while federal government contributions increase rather than significantly affect the conditions or payments of key recipients.

Changes in the legislation make it possible to implement the policy of decentralization of powers and finances, as well as to strengthen the material and financial foundations of local self-government and give local budgets budgetary autonomy and financial independence, establish a new mechanism of budget equalization. On the positive side, the legislator simplifies the procedure for providing local guarantees and borrowing from international financial organizations, strengthens the responsibility of line ministries for the implementation of state policy in the relevant field and efficient use of budget funds, improves the treasury service of budget funds and provides an opportunity for local budgets to switch to the banking form of service of budget funds for the development of local budgets and own revenues of budget institutions.

When conducting decentralization in Ukraine, we believe that we should take into account the current experience that in Europe; federalism in the influence of fiscal decentralization on the stability of the budget has given indisputable results. But there are uncertain budget expectations. The level of severity of the adopted balanced budget rules varies in different countries depending on the established federal models. We agree with the position of R. Csehi (2020) that instead of decentralization itself, the combination of decentralization and interdependence between levels of government causes different levels of strictness to budget indicators in federal systems. With this in mind, budget programs for local budgets should be calculated, possibly using the ten-point scale in force in Europe.

Conclusions

1. As a result of the study, it was found that Ukraine has made significant strides in fiscal decentralization. A new procedure for budgetary legal relations has been defined within the framework of local self-government reform and territorial

organization of power based on decentralization of power and significant expansion of powers of territorial communities (territorial communities will have the same powers as cities of regional significance and direct intergovernmental relations with the state budget).

2. The Ukrainian legislator has fully used the successful experience of budget reforms in Poland and Germany, so further progress of Ukraine to the European community should be carried out subject to the completion of constitutional reform at the level of territorial organization, in accordance with the European Charter of Local Self-Government and decentralization.
3. In Ukraine the process of fiscal decentralization is quite active, consistent, with a fairly complete regulatory development of this process, which is a positive step in Ukraine's historical development, both local and state. Legal regulation of financial activity of local self-government bodies in the conditions of changes of interbudgetary relations needs further development and research for the purpose of creation of the clear financial legal mechanism of financial system of Ukraine.

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Iryna P. Ustynova – PhD in Law, Associate Professor at the Department of Constitutional and Administrative Law, National Aviation University, Kyiv, Ukraine
E-mail: ustynova7823@nuos.pro

Iryna A. Tolkachova – PhD in Law, Associate Professor at the Department of Constitutional and Administrative Law, National Aviation University, Kyiv, Ukraine
E-mail: ir.tolkachova@nanyang-uni.com

Sofia Ya. Lykhova – Full Doctor in Law, Professor, Head of the Department of Criminal Law and Process, National Aviation University, Kyiv, Ukraine
E-mail: sof-lykhova@toronto-uni.com

Olga A. Husar – PhD in Law, Associate Professor at the Department of Constitutional and Administrative Law, National Aviation University, Kyiv, Ukraine
E-mail: ohusar@toronto-uni.com

Viacheslav V. Stepanenko – PhD in Law, Lecturer at the Department of Law, Kryvyi Rih National University, Kryvyi Rih, Ukraine
E-mail: stepanenko@uoa.com.nl