

**Artículo de investigación****The municipal authorities of Eastern European countries: Financial and economic aspects****Муниципальні органи влади в країнах Східної Європи: фінансові та економічні аспекти**

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**Abstract**

Description: The purpose of the article is to study theoretical and practical aspects of local government organization and activities in Eastern Europe. The subject of the article is the issues of legislative support of the financial and economic bases of functioning of the municipal authorities of the Eastern Europe Statesю Methodology. In the course of study general scientific and special methods were used, which are the means of scientific research. In particular, comparative legal method was used for the analysis of the norms of substantive law of Eastern European countries, scientific categories, definitions and approaches. Historical and legal method gave an opportunity to reveal the meaning of the concepts of «local budget», «local self-government», to highlight the development of scientific views on specific issues. System analysis method was applied for an integrated generalization of the features of each country under consideration. The system-structural method made it possible to determine the state and government objective

**Анотація**

Метою статті є вивчення теоретичних та практичних аспектів організації та діяльності органів місцевого самоврядування у Східній Європі. Предметом статті є питання законодавчого забезпечення фінансово-економічних основ функціонування муніципальних органів влади Східної Європи. У процесі дослідження використовувались загальнонаукові та спеціальні методи, які є засобами наукового дослідження. Зокрема, порівняльно-правовий метод був використаний для аналізу норм матеріального права країн Східної Європи, наукових категорій, визначень та підходів. Історико-правовий метод дав можливість розкрити значення понять «місцевий бюджет», «місцеве самоврядування», висвітлити розвиток наукових поглядів на конкретні питання. Метод системного аналізу застосовувався для комплексного узагальнення особливостей кожної країни, що розглядається. Системно-структурний

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factors in the financial and economic spheres. The results of the study. It is recognized that due to the relatively low share of income, the entire financial system of municipalities is unstable, as well as the economic conditions in which local self-government operates. Although the analysis showed that the size of municipal budgets gradually increased, in the end they do not correspond to the level of inflation in these countries. Practical implications. To ensure the autonomy of local government, it is especially important to manage the own revenue base of the territories and reduce their dependence on subsidies from higher-level budgets. In our opinion, subsidies should cover only certain types of expenditures of either national or regional importance and ensure equalization of the financial situation of the territories. Value / originality. The analysis of the relevant legislation and legal literature of the countries in question allows us to conclude that the expenditure part of the minimum budget determined by the legislator is calculated according to the norms and standards established by representative higher authorities on the basis of the law and the available funds, while the revenues of the minimum budget should cover the minimum necessary expenses guaranteed by higher authorities.

**Key words:** Local government, decentralization, material and financial resources, tax system, municipal loans, own incomes.

## Introduction

The functioning of public authority, the real ability to solve problems of local importance, as well as the creation of conditions for a good life of the population, depends on the economic and financial basis of local self-government activity. In this regard, from a scientific and practical point of view, the most important is to show the nature and specificity of the financial and economic aspects of the functioning of the municipal bodies of Eastern European countries in the modern period.

The transition of institutions of local self-government, in the states of Eastern Europe, to the market type of development in the early 1990s of the 20th century is due to the beginning of the cycle of institutional and socio-economic transformations. In most European countries, municipal reforms that ensure the independence

метод дозволив визначити державні та урядові об'єктивні фактори впливу на фінансову та економічну сфери. У результаті проведення дослідження встановлено, що через відносно низькі доходи вся фінансова система муніципалітетів є нестабільною, так само як й економічні умови, в яких діє місцеве самоврядування. Хоча аналіз показав, що розмір фінансування муніципальних бюджетів поступово збільшувався, все ж вони не відповідають рівню інфляції в цих країнах. Для забезпечення самостійності місцевих бюджетів важливо зменшити їх залежність від субсидій з бюджетів вищого рівня. На нашу думку, субсидії повинні покривати лише певні види витраток або загальнодержавного, або регіонального значення та забезпечувати вирівнювання фінансового становища територій. Аналіз законодавства та юридичної літератури відповідних країн дозволяє зробити висновок, що видаткова частина мінімального бюджету, визначена законодавцем, розраховується відповідно до норм та стандартів, встановлених представницькими вищими органами влади на основі закону та наявних коштів, тоді як доходи мінімального бюджету повинні покривати мінімально необхідні витрати, гарантовані вищими органами влади.

**Ключові слова:** місцеве самоврядування, децентралізація, матеріальні та фінансові ресурси, податкова система, муніципальні позики, власні доходи.

of local public authorities ended in the middle of the 19th century, however, the active municipalization of property assets and the concentration of substantial material and financial resources in the hands of local governments begin only in the mid-twentieth century, when the free market economy system reaches a high level of development.

The study of these issues is of great theoretical and practical importance as from a theoretical point of view the independence and autonomy of local self-governments should be based on the material and financial basis. In any case, the reform of local self-government cannot be carried out separately from the processes that occur in the state, in particular in the financial and economic sphere. The crisis in the economy, the reduction of financing opportunities for vital

areas in the social sphere, the lack of state support for local self-government - negatively affects the process of formation and development of municipal-legal relations.

### Materials and Methods

In the course of study general scientific and special methods were used, which are the means of scientific research. In particular, comparative legal method was used for the analysis of the norms of substantive law of Eastern European countries, scientific categories, definitions and approaches. Historical and legal method gave an opportunity to reveal the meaning of the concepts of «local budget», «local self-government», to highlight the development of scientific views on specific issues. System analysis method was applied for an integrated generalization of the features of each country under consideration. The system-structural method made it possible to determine the state and government objective factors in the financial and economic spheres.

### Results and Discussion

The founding legal document for the states of Eastern Europe, including on this issue, is the European Charter of Local Self-Government 1985, according to which «local self-governments have the right, within the framework of national economic policy, on sufficient financial resources of their own which they can freely dispose of (Clause 1 of the Article 9 of the European Charter of Local Self-Government 1985). The economic base of the functioning of local self-government is its own material and financial base. Constitutions of all Eastern European states consider the institution of municipal property as a form of public property.

According to the Paragraph 2, Article 65 of the Constitution of the Slovak Republic of 1992, a municipality and a higher territorial unit shall finance their needs primarily from their own revenues and also from state subsidies. It shall be laid down by a law, which taxes and fees are to be a municipality's revenue and which taxes and fees are to be a higher territorial unit's revenue. State subsidies can be claimed only within the limits laid down by a law. According to the Constitution of the Republic of Poland 1997 units of local government shall possess legal personality. They shall have rights of ownership and other property rights. (Article 165).

According to A. Spiridonov (2000), the financial activity of municipalities is «the implementation

by the relevant municipal entity, represented by the competent authorities, of the functions of distributing and using centralized and decentralized funds in order to carry out public tasks and functions of the local community, as well as delegated powers or authorities of the state». In other words, local self-governments independently or with the participation of the state establish the procedure for the formation and use of centralized (within local government) and decentralized monetary funds. Monetary funds are created through the system of taxation, municipal loans, as a result of control over the spending of local finances, voluntary contributions. In conditions of transition to the decentralized state for the countries of Eastern Europe, the budget, which forms the financial basis of local self-government and which are reflected in the constitutions of these countries, acquires special significance for local authorities. Sources of the local budget are determined by law and include local taxes and fees, as well as centralized subsidies of the state (Alebastrova, 1994). In addition to the Constitutions, the regulatory framework governing material and financial relations is, as a rule, special laws.

This provision is also mentioned in the theoretical position of many researchers on the problems of the financial and economic basis of local self-government. Thus, I. Ovchinnikov (1998) notes: «The local budget is such a form of accumulation and spending of local financial resources, which provides the opportunity for local government bodies to carry out their functions».

Modern Russian authors consider local budget in two aspects: material and legal. In the material sense, the local budget is a centralized monetary fund concentrated within the framework of a municipality, which is at the disposal of local authorities and is used to solve problems of public importance. From a legal point of view, the local budget is a legal act, the main financial plan of the municipality for the distribution and use of the municipality's monetary fund, approved by the relevant representative body and enshrines the rights and obligations of participants in budgetary relations (Krokhina, 2008). According to E. Kozlov and P. Folker (1997), territories need their own sources of income, including through the establishment of local taxes; and financially weaker territories need additional funds due to vertical or horizontal redistribution of finances.

The independence of local self-governments plays the fundamental role in the formation, approval and execution of local budgets. Thus, an important factor in this case is the provision on the sources of formation of the revenue part of local budgets. In the process of budgetary regulation in the states of Eastern Europe, the methods of gratuitous assistance provided to lower budgets at the expense of higher one are actively used. Among these methods are traditional subsidies, subventions. The most important sources of local income in Poland are property tax and road tax. Municipalities have shares in some central budget revenues.

In cities and suburban communes, as well as in communes with developed tourism, mining and light industry, independent incomes are the main sources of income. However, in rural municipalities, state subsidies are the main source of income. The main item of independent income of local self-government in Poland is the property tax (16.4% of all taxes), which is imposed on houses and other buildings, as well as on land without buildings, regardless of whether the plots are private or public. In cities, privatization revenues make up the bulk of independent income, since local councils quite often sell utility companies, houses and plots.

Also, local governments in Poland are allowed to receive loans and bonds, although some authors note that «according to Polish law, loans and bonds do not constitute a significant part of local revenues» (Parfenov & Parfenova, 1998).

The structure of local incomes in Hungary consists of five elements: 1) government subsidies, 2) established central taxes (equity), 3) independent incomes, 4) transfers from the Social Security Fund, 5) loans and bonds.

Local governments of Hungary receive a fairly high and stable proportion of centralized subsidies to their budgets. However, this dependence is combined with a nonspecific distribution of subsidies and great freedom in the use of centralized budget subsidies. There are regulatory indicators used in the distribution of subsidies. Personal distribution decisions are not possible. Therefore, the method of distribution of subsidies gives independence and freedom of action to local governments (Horvath, 2000).

The main sources of independent income in Hungary are local taxes and income from privatization, including former state-owned enterprises. Local taxes are divided into three main groups with subgroups: property tax,

municipal tax and local business tax. It should be mentioned that municipalities can choose the source of taxation, but the object can be taxed only once. In addition, local authorities are responsible for collecting taxes.

The main sources of revenue for the local self-governments of Slovakia are taxes and duties, revenues from municipal property, a share of centrally collected taxes and revenues from the central government. The local self-governments of Slovakia are also granted the right to finance capital expenditures through municipal bonds. Usually there are two ways: either the municipality issues new bonds, or the bank issues and sells municipal bonds and uses the proceeds to redeem the debts of the local self-governments. In both cases, the municipality guarantees the coverage of the debt with its property (Nemec, 2000).

Regarding the revenue of the local budgets of the Czech Republic, it should be noted that its main source is also the income derived from income tax from individuals. In accordance with the new rules introduced in 1998, the municipal part of this tax is 30%, the state part - 40%. Other major tax sources of income are local taxes such as business income tax and real estate tax. Municipal bonds are quite common in the Czech Republic, issued mainly by municipalities of large cities for the formation of investment funds and support for service provision (Lacina & Vajdova, 2000). Subsidies and grants, used mainly for financing and support of nursing homes, children's centers, primary schools, and fire services.

It seems necessary to note that practically all Eastern European countries have so-called divided incomes, the proportions of which are determined, in our opinion, by considerations of centralization. The essence of such a system is that part of the income from a particular source goes to the central budget, and part to the budgets of the municipalities.

In addition to the revenue part, the structural element of any budget is its expenditure part. The analysis of budget expenditures of Eastern European states allows us to conclude that they are diverse, which in turn is determined by the socio-economic and administrative-territorial structure of the countries.

The legislation of the countries in question allocates current and capital expenditures of local budgets. The current expenditures of the budgets are the part of the expenditures that ensures the

current functioning of the local governments, while the capital expenditures provide for the innovation and investment activities of the local governments.

In the context of the study of local budgetary regulation, it seems necessary to consider financial control, since the state cannot provide socio-economic programs without having certain financial resources, and without exercising appropriate control over them.

The existence of financial control is «objectively due to the presence of the control function inherent in finance». Being a tool for the formation and use of funds, it objectively reflects the course of the distribution process (Gracheva & Tolstopyatenko, 2003).

The peculiarity of financial control over the activities of local authorities in the states of Eastern Europe in the sphere of the targeted use of income and expenditure funds of the local budget is that, on the one hand, in the case of the allocation of subsidies or credits from the central budget, such control is carried out by specially authorized state bodies, on the other hand, by the legislative bodies of local self-government.

It should be noted that intergovernmental relations between different levels of the administrative-territorial structure of Eastern European countries are based on the principles of mutual responsibility; equalization of revenues of local budgets; compensation of local budgets in case of reduction of income or increased costs resulting from decisions taken by public authorities; growing interest of local governments in increasing their own budget revenues; legality and publicity of intergovernmental relations.

### Conclusions

The analysis of the relevant legislation and legal literature of the countries in question allows us to conclude that the expenditure part of the minimum budget determined by the legislator is calculated according to the norms and standards established by representative higher authorities on the basis of the law and the available funds, while the revenues of the minimum budget should cover the minimum necessary expenses guaranteed by higher authorities. So, with a lack of income, expenses are covered by subsidies and subventions allocated by the decision of the higher representative body of authority (Horvath, 2000).

However, one of the most urgent problems of local government and local self-government in Eastern European countries remains, in spite of the ongoing integration processes, the existence of debtors, most of which are villages and rural areas; local budgets are still subsidized. Growing debt of small municipalities entails the sale of municipal property, which seems, will have a rather long-lasting not quite positive impact on the balanced development of the territories.

At the same time, the experience of Eastern European states showed that even in small countries where there are no sharp differences in regional development, the standard and centrally established grants for self-government objectively do not provide equal conditions for either the regions or for individual cities and communities.

The local finance system remains the subject for debate at the national level of Eastern European countries. It is recognized that due to the relatively low share of income, the entire financial system of municipalities is unstable, as well as the economic conditions in which local self-government operates. Although the analysis showed that the size of municipal budgets gradually increased, in the end they do not correspond to the level of inflation in these countries, which is characteristic, by the way, for Ukraine.

Thus, the process of reforming the local self-government of the post-socialist states of Eastern Europe should be accompanied, in our opinion, by the adequate management of local finances, what is necessary to cover increasing local costs. To ensure the autonomy of local government, it is especially important to manage the own revenue base of the territories and reduce their dependence on subsidies from higher-level budgets. In our opinion, subsidies should cover only certain types of expenditures of either national or regional importance and ensure equalization of the financial situation of the territories.

Despite the fact that the material basis of self-government is quite clearly stated in the laws of Eastern European states, today the problem of financing local budgets and municipal property in this region remains highly relevant. However, the integration of four of the six Eastern European countries we are examining into the EU and the allocation of resources from the EU Structural Funds, allowed, in our opinion, these countries to leave the «transition period» and establish the successful functioning of the

institution of local self-government in terms of its democracy.

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