KAPITEL 3 / *CHAPTER 3* [3]
FOREIGN EXPERIENCE OF FINANCIAL ACTIVITIES OF TERRITORIAL COMMUNITIES

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Introduction

The issue of financial provision for local communities lies at the core of the capacity of local self-government bodies to ensure the quality of services, carry out infrastructure investments, and implement regional development. Following the COVID-19 pandemic and in the context of intensified macroeconomic challenges, many countries have revised their approaches to intergovernmental transfers, temporary subsidies, and instruments for financing investments at the local level[4]. Planning of local economic development in Ukraine, as well as in developed countries, should become a primary responsibility of territorial communities.

Drawing on international experience, it becomes evident that successful communities are those that develop their own internal capacity—namely, by improving local conditions and creating competitive advantages that enable them to attract more productive investments, support existing businesses in a given territory, initiate the creation of new jobs, thereby ensuring economic development and, accordingly, enhancing the quality of life.

The aim of this research is to systematize contemporary practices regarding the financial activities of territorial communities in developed countries, such as Poland, Germany, France, and Romania. The study considers instruments of local revenues, mechanisms of fiscal equalization policy, approaches to infrastructure investment, practices of intergovernmental transfers, and the use of new financial instruments. Based on the identified trends, recommendations are formulated to improve the effectiveness of the financial activities of territorial communities in the context of decentralization and post-crisis recovery.

Financial independence of communities is a necessary precondition for the

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development of local self-government; therefore, local authorities rely on local financial resources (taxes and fees) to conduct their activities. The economic foundation of local self-government in France is primarily communal property, while the financial foundation consists of local taxes and fees, state subsidies, loans, grants, and the participation of local authorities in financial and credit relations [2;1]. France, with its long tradition of decentralization and extensive network of local administrative units, is an important case for study—particularly due to the combination of a significant role of state redistribution (transfers) and a developed system of inter-municipal cooperation.

The activities of territorial communities are enshrined in Chapter 12 of the French Constitution, which stipulates that the territorial communities of France include communes, departments, and regions, as well as communities with special status and “d’outre-mer” communities, i.e., those located outside the country. The commune is regarded as the basic administrative-territorial unit of France (with the exception of Paris, Marseille, and Lyon). The local authority of the commune is the municipal council, headed by the mayor. The mayor, elected by the council members, performs a dual role: as the representative of the state and as the head of the executive body of the council—the mairie[2]. The mayor represents the interests of the commune, may appoint staff, issue construction permits, and more. The commune is essentially the only territorial entity in France without a separate state authority; thus, the mayor’s powers simultaneously encompass both municipal and state functions.

The revenues of French communes are formed from three main sources: local taxes, transfers from the state budget, and own-source revenues from service provision and capital investment[1;3]. The proportion of these sources varies depending on the size of the commune and the degree of inter-municipal integration. Small rural communes rely more heavily on transfers, whereas larger cities have greater access to their own fiscal resources and commercial revenues.

Based on French experience, several practical approaches can be highlighted as potentially useful for other countries reforming local finance:

- Strengthening inter-municipal cooperation. Inter-municipal entities with their own tax bases serve as instruments for achieving economies of scale and concentrating investment, thus enhancing the capacity of small communities. However, well-designed mechanisms for revenue sharing among participants are required.

- Clear and transparent equalization mechanisms. The general state grant for communes and some of their associations, along with accompanying redistribution instruments, serves as an important tool of social and territorial solidarity; its formula must be transparent and predictable.
- Balancing autonomy and responsibility. Granting tax powers to local communities should be accompanied by institutional approaches to accountability, budget planning, and risk management.
- Adapting fiscal reforms with long-term effects in mind. Reforms such as the abolition of local taxes must include established mechanisms of compensation and planning to reduce risks for investment and basic functioning.

Ukraine, like France, is a unitary and formally highly centralized state. However, while France has managed to implement deep reforms that decentralized power and improved its efficiency, Ukraine remains at the stage of discussions that have yet to translate into practical implementation.

Polish experience. Reforms initiated by the Polish government in the 1990s, including decentralization, allowed Poland to transform itself and become an integrated member of the European Union [6].

The establishment of decentralized local self-government in Poland represents positive international experience that Ukraine could adopt to conduct real and effective reforms of local self-government. The goal would be to grant greater autonomy in addressing local affairs in the interests not of bureaucrats, but of the local population.

Fiscal decentralization has also been a goal for many countries that were previously centralized. One of the most successful examples of decentralization is Poland. The main transformational processes in Poland after 1989 included:

- Democratization: political changes aimed at forming a democratic system characterized by the protection of individual rights and civil liberties;

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- Creation of a free market: economic reforms fostering the development of a market economy based on private property;
- Decentralization: reforming the system of public finance management. Such reforms led to the transformation of the entire state system.

The outcome of these reforms is a civic order functioning at all levels of government—open to change, cooperation, and competition[6]. Decentralization in Poland is grounded in the principle that local government should contribute to the development of the state.

German experience. The decentralization process in Germany has been extensively studied by numerous scholars, including M.O. Baimuratov, V.D. Bakumenko, V.M. Kamp, V.S. Kuibida, V.V. Kravchenko, M.O. Pukhtynskyi, O.M. Rudyk, S.M. Serohin, V.P. Udovychenko, Yu.P. Sharov, among others[2]. The fundamental unit of political and territorial organization in the German states is the community (Gemeinde).

Associations of communities (Gemeindeverbände) also have the right to self-government. They are created by the communities themselves to better exercise their competences, exercising only those powers delegated by their members and using only the funds provided by them[8]. The guarantee of self-government also encompasses the foundations of financial responsibility.

Communities are the exclusive holders of all powers of local public administration, exercised on the basis of their own responsibility. They may perform any public function, except in cases where, in the public interest, it has been assigned by law to another authority. The same status applies to associations of communities. The right of communities and their associations to manage their affairs independently is guaranteed by the state, whose supervision is limited to ensuring compliance with the law.

Communities and their associations, as well as their governing bodies, may also be entrusted with state tasks to be performed according to the instructions of higher-level authorities. The state is obliged to guarantee that communities and their associations receive sufficient financial resources for carrying out their functions, and to provide them with revenue sources to be managed under their own responsibility. Communities may consist of villages, groups of villages, or cities[3]. Their responsibilities include infrastructure development, public transport, tourism, housing, schools and preschools, road maintenance, hospitals, theatres, libraries, museums, as well as social and sports institutions. They may establish and levy taxes and fees defined by law.

Romanian experience. The development of decentralization and the active formation of territorial communities in Romania were closely linked to the financial crisis of 2008. The crisis generated problems at the governmental level and, more importantly, served as a catalyst for new latent conflicts.

In Romania, the economic crisis significantly affected the revenues and expenditures of local budgets. Although decentralization reform was still in development when the crisis struck, central authorities decided to continue the process, despite reduced capacity to finance new tasks delegated to the local level. In 2010, for example, 374 state hospitals were decentralized. Local authorities co-finance a share of investment, repair, and fundamental expenditures[7]. Also, in 2010, the local police replaced the communal police, with creation and operation funded by local budgets.

From the perspective of revenues, with the onset of the financial crisis they decreased. The share of own-source revenues in total local revenues declined. At the beginning of the crisis, in 2008, own revenues accounted for 90.03% of the total volume of local revenues, while in 2012 their share dropped to 84.11%. It has been established that the largest weight within own revenues during the reporting period belongs to tax revenues, since the economic crisis affected the transfers by the state of VAT amounts and corporate income tax quotas.

The way in which the economic crisis influenced the overall financial capacity of territorial-administrative units is expressed primarily through taxes on the incomes of individuals and legal entities[4]. In this context, we observe that the economic downturn affected a significant portion of Romanian companies, and only a small percentage managed to consolidate and expand their businesses.

Although the impact and consequences of the crisis are significant at both the economic and social levels (closure of a large number of small and medium-sized enterprises, increased pressure on the unemployment fund and social benefits), the decentralization process, supported by the strengthening of financial autonomy, should be continued, but it must be pursued cautiously, taking into account the economic difficulties faced by Romania.

After analyzing the evolution of local revenues over the past years, it cannot be asserted with certainty whether the crisis phenomenon will have a sustained tendency that will affect the overall course of the decentralization reform.

Table 1 provides a detailed analysis of the territorial structure and financial relations of territorial communities in different countries.

Table 1. Financial Relations of Local Communities in Different Countries

Country	Territorial Structure	Financial Relations
France	The fundamental territorial unit is the commune, which represents the lowest (basic) administrative-territorial entity in France (with the exception of Paris, Marseille, and Lyon). Local authorities of communes are represented by municipal councils. The council is headed by the mayor, elected by council members, who performs a dual role: as a representative of the state and as the head of the executive body of the council — the mayor's office.	The principles of financial relations in the sphere of local self-government are based on the notion that communities are free to allocate funds as they deem necessary for the exercise of their powers. The only restriction is that the budget must remain balanced. Communal debts may be incurred exclusively for investment purposes. Current expenditures of local self-government bodies cannot be financed through loans. Community revenues depend substantially on state transfers.
Poland	In 1990, the Law on Local Self-Government (renamed in 1999 as the Law on Self-Government in the Gmina) was adopted, marking the beginning of the transformation of local authorities. The reform introduced elected local governments only at the municipal level (gminas), while higher levels of territorial organization remained under the control of state local administration.	Financial relations are carried out in accordance with the principles of a free market economy (based on private ownership). Poland introduced a system in which each local community may generate revenues for its budget both through its own sources and through state transfer payments.
Germany	The core unit of the political-territorial organization of the German Länder is the municipality. In practice, municipal associations sometimes coincide territorially with counties, in which case the self-government of the municipal association constitutes county self-government. Large cities or	The financing of municipal associations' activities is ensured through contributions from member municipalities or via specific state subsidies. According to the German Constitution, municipalities are entitled to levy their own taxes (including land tax, property tax on individuals and

	county-level cities are also considered municipalities, while simultaneously exercising county functions. They may be further subdivided into city districts. Overall, Germany has 543 counties, including 117 cities outside of counties. Municipalities and counties adopt their own statutes. In several Länder, between the county and the central government there exists an intermediate administrative-territorial unit — the Regierungsbezirk — responsible for local state functions and supervision of local self-government.	enterprises, land use tax, business income tax, beverage consumption tax, and dog ownership tax). A significant portion of the business tax is transferred by municipalities into the Land fund for subsequent redistribution among communities. Municipalities are also allocated a share of the personal income tax and the turnover tax. Furthermore, municipalities are authorized to collect earmarked fees and contributions from citizens and enterprises. Such charges may be administrative — for specific official actions (e.g., issuing a building permit) — or user fees (e.g., tickets for public events, waste collection fees, etc.).

Bright examples of decentralization reforms are provided by the experiences of Poland, Germany, and France. The study examined and analyzed the financial relations of territorial communities in various countries[5]. The experience of reforms in foreign countries demonstrates that decentralization plays an important role in the democratization and transformation of society, in the transition to institutions based on the initiative and responsibility of individuals and communities. The trend towards its broad implementation is observed in administrative, political, budgetary-financial, and social spheres, fostering the development of human potential, government accountability, improvement in the quality of public and community services, social cohesion, and the resolution of economic, legal, political, and ethnic issues.

Conclusions

Based on the studied practices, practical recommendations can be formulated and adapted to the Ukrainian context of decentralization:

Develop a diversified portfolio of local revenues. Combine own taxes/fees with a share of state-assigned taxes and targeted investment transfers.

Optimize equalization mechanisms. Build a transparent system of inter-municipal equalization with clear formulas that take into account demography, tax base, and social needs—considering OECD recommendations on combining equalization with regional policy.

Introduce a standardized system of budget reporting and open data to increase trust and facilitate access to credit and grants.

Create instruments of long-term investment financing. Consider the issuance of municipal bonds where market conditions and adequate governance standards exist, or create regional co-financing funds for infrastructure with state guarantees. The World Bank recommends combining instruments (grants + loans) to mitigate risk.

Develop crisis planning and mechanisms for autonomous use of one-off transfers. Learn to use one-time state/international funds effectively, while maintaining transparency and targeted application.

Strengthen human resource capacity in community finance. Investments in training specialists in budgeting, debt management, and project finance are a fundamental precondition for the success of any reforms.

Foreign experience demonstrates that the resilience and effectiveness of the financial activities of territorial communities are achieved through a combination of diversified revenue sources, clear and transparent equalization mechanisms, high standards of public financial management, and access to diverse financial instruments for investment. During crises, centralized one-off programs can significantly support the local level, but their effect depends on transparency and planning. For Ukraine, the adaptation of these approaches must be based on local institutional realities, accompanied by staff training and the implementation of modern digital budgeting systems.