

FINANCIAL EQUALIZATION OF TERRITORIAL DEVELOPMENT

Iryna ANTOKHOVA

Yuriy Fedkovych Chernivtsi National University, Ukraine

antoch3@ukr.net

Vita BINDYU

PHEI "Bukovinsky University", Ukraine

Lilia POPEL

PHEI "Bukovinsky University", Ukraine

Abstract:

In the process of budgetary regulation and financial equalization of the development of territories an important role is played by intergovernmental relations, that arise between budgets of different levels. The transfer mechanism of the distribution of budgetary resources provides a balance between the revenue and expenditure part of local budgets. Implementation of fiscal decentralization improves intergovernmental fiscal relations, which is ensured by horizontal alignment of the income and expenditure part of local budgets and guarantees their financial autonomy.

Key words: financial equalization, local development, budgetary regulation, financial decentralization, intergovernmental relations, transfer mechanism, intergovernmental transfers, basic grants, reverse grant, subventions, horizontal alignment.

JEL classification: G38, R58

1. INTRODUCTION

The financial equalization of the territories is a topical issue, as the fiscal adjustment mechanism and the balance of local budget revenues and expenditures do not provide financial autonomy for local authorities. This problem has not yet been fully resolved in terms of fiscal decentralization, since much of the local budgets are still characterized by high subsidies, although changes to the Budget and the Tax Code of Ukraine dramatically changed the mechanism of financial compensation, which introduces horizontal harmonization.

Transfer equalization of revenues and expenditures of local budgets occupies a significant place in the system of intergovernmental relations between the central and local levels of government. The implementation of reforms in the field of local finance and changes to the budget legislation significantly improved the organization of intergovernmental relations, strengthened the financial basis of local self-government, but did not fully solve the problem of their financial autonomy in the financially secured local development and the execution of the authority.

2. ANALYSIS OF RECENT RESEARCHES AND PUBLICATIONS

Issues of financial equalization of the development of territories and organizations of inter-budgetary relations were studied by leading economy scientists of both foreign and native schools, among them J. Beskid, S. Bukovinsky, S. Bulgakova, A. Vasilik, Z. Vasilchenko, V. Heyets, M. Derkach, I. Yepifanov, V. Kravchenko, V. Krasnova, I. Lukinov, I. Lunina, U. Ogon`, V. Oparin, M. Pabat, K. Pavlyuk, D. Polozenko, I. Salo, S. Sluhai, T. Tokareva, V. Fedosov, O. Chernyavsky, M. Chumachenko, Yuriy and others. In their scientific researches, they have deeply disclosed issues of budgetary regulation, financial equalization and organization of inter-budgetary relations, defined problem issues in this area, however, the system of financial equalization of the development of territories requires continuous improvement and research.

3. PURPOSES OF THE ARTICLE

Formation of the purposes of the article and argumentation of the relevance of the task - to reveal the content of the concept of financial equalization and budgetary regulation, to show the role and significance of intergovernmental transfers in the system of inter-budgetary relations, to determine the directions of their improvement in conditions of budget decentralization. The urgency of the problem is due to the need for financial equalization and the provision of state support for local development, because, as a result of both objective and subjective factors, territories have different financial capacity to solve local issues and fulfill both their own and delegated powers.

4. MAIN CONTENT

The state's financial interest is manifested in its desire to ensure a uniform economic and socio-cultural development throughout the country, in particular - promoting economic growth, investment attractiveness, infrastructure development and provision of guaranteed social benefits to the population in all administrative and territorial units.

The financial support of local development necessarily depends on the model of building a relationship between different authorities, which inevitably affects the division of powers and redistribution of budgetary resources. The main criteria for the allocation of certain concepts (models, systems) of local self-government are, first of all, the principles underlying the relations of local authorities with state authorities.

The system of financial support for local development consists of elements that generalize the financial relations of the central government and local authorities with regard to the organization of the provision of public services.

Fiscal decentralization is a factor that opposes financial equilibrium. Since, in a centralized financial system, financial equalization best achieves its goal of overcoming interregional fiscal disparities in income and welfare. One of the commonly used methods to overcome such disparities is the introduction of a system of equalization transfers.

In the context of the introduction of fiscal decentralization policy, local authorities have tax powers or expense responsibilities, as well as some borrowing powers, high-income regions or territories are in better conditions than others. They have more favourable tax opportunities and ability to collect taxes, technical security to provide more public services, as well as potential borrowing opportunities through robust financial strength. Hence, in a decentralized fiscal system, the gap between poor and rich regions will grow, so fiscal decentralization should be supplemented by measures for financial equalization.

The relationship between the state and local governments regarding the division of powers and their financial support is characteristic of the whole period of the establishment and development of local self-government. The existence of these relationships is due to significant differences in the levels of development of separate territories and the existence of a gap between the expenditures needs of local government budgets, and the possibilities of their financial coverage.

Today in Ukraine there is a situation where the vast majority of local government budgets can not do without the financial assistance of the state, which enters these budgets in the process of redistribution of budgetary resources and plays an important role in providing them with necessary funds. As a result of the redistributive processes in the budget sphere there are specific relations between the state and local authorities, called the intergovernmental relations. They arise from the consolidation of government expenditures and revenues levels and are implemented through a wide range of instruments, which include direct guidance from the center to other levels of government in terms of spending certain expenditures, incentives for their implementation, budget equalization through tax splits and direct transfers [3].

In financial science there is a variety of views on the vision of the concept of

"intergovernmental relations", which during their evolutionary development changed and improved. However, to date, the definition of the nature of inter-budgetary relations needs to be clarified, since the existing approaches to their interpretation do not take into account all the peculiarities of these relations, especially during the period of budget decentralization.

In the Budget Code of Ukraine, the notion of intergovernmental fiscal relations is interpreted as "the relationship between the state, the Autonomous Republic of Crimea and local self-government in providing adequate budgets with financial resources necessary for the performance of functions envisaged by the Constitution of Ukraine and the laws of Ukraine" [1].

Volokhova I.S., considering intergovernmental relations, notes that in the course of budget execution these relations arise in connection with: splitting of incomes; application of intergovernmental transfers; change of legislation, change of administrative-territorial division in Ukraine; the transfer of taxpayers and tax payments and budget institutions from one subordination to another; receipt and repayment of budget loans [4].

Accordingly, it is possible to distinguish the peculiar features, according to which intergovernmental relations should be considered as:

- relations between budgets, which result in the formation of internal budget flows, which ensure the redistribution of budgetary resources between budgets of different levels;
- relations between different branches of power, regarding the redistribution of legally established functions, delegation of powers and allocation of funds for their financing;
- organized budget flows that balance the vertical and horizontal disparities in budget revenues and expenditures by balancing them;
- a component of fiscal policy designed to regulate budget flows by distributing them through the state budget to the local level, while ensuring financial equalization of the socio-economic development of certain territories;
- an instrument for ensuring the correspondence between the necessary volumes of expenditures for the implementation of delegated powers and the amount of financial support necessary for their implementation.

In turn, the basis for the existence of inter-budgetary relations is: the division of powers between the state executive authority and local self-government bodies is defined in the legislation of the state; state guarantee of financing of the powers granted to local self-government bodies; the current procedure for the differentiation of incomes and expenditures between the levels of the budget system and the types of budgets; financial support of local budgets due to significant fluctuations in the level of tax potential of certain territories and objective differences in expenditures. [5, p. 25].

In further reforming and building the optimal model of intergovernmental relations in Ukraine, it is important to consider the world practice of conceptual approaches to the organization and construction of inter-budgetary relations, which are inevitably influenced by the kind of economic system of the state. In the world financial science there are different concepts of organization of inter-budgetary relations, in particular, budget federalism, budget unitarianism, budget decentralization.

Today, many Ukrainian scientists are investigating the problems of organizing intergovernmental fiscal relations in Ukraine, with regard to the feasibility of introducing into the Ukrainian practice the foundations of fiscal federalism, as the experience of foreign countries confirms, that correctly built budget federalism gives maximum effect on the optimal distribution of functions and powers between levels of government and effective redistribution of limited budget resources necessary for their implementation.

Consequently, the concept of fiscal federalism involves organizing intergovernmental fiscal relations based on the principle of optimal allocation of powers and their financial support with the most effective use of them.

It should be noted, that the concept of budget unitarianism is the next among the concepts of organizing intergovernmental financial relations. Within the fiscal unitary system, the central government implements an active policy of ensuring uniform standards of public services

throughout the country, aligning fiscal imbalances [4, p. 29].

The next concept of the organization of inter-budgetary relations is the concept of fiscal decentralization. In general, according to the principles of building organizational basis of the relationship between public authorities and local governments over the distribution of income and expenditure for the levels of the budget system, we distinguish centralized and decentralized model of intergovernmental relations. However, the excessive centralization of powers leads to inefficiency of the central government, bureaucracy, underdeveloped civil society institutions.

The centralized model of inter-budgetary relations is opposed to decentralized one, in which there is a clear division of functions between bodies of different levels, local authorities are given autonomy in the formation of their own income base, its distribution and using. At the same time, it is important to adhere to the subsidiarity principle proclaimed by the European Charter of Local Self-Government. The main disadvantages of a decentralized model is the complication of the central government's efforts to achieve macroeconomic goals and to maintain balanced development of individual regions [3].

The existing system of organization of intergovernmental fiscal relations in Ukraine for a long period of time was characterized by excessive centralization of budgetary resources, the unclear distribution of spending powers between different levels of government, and, in fact, the maintenance nature of the functioning of local self-government, which deprived the last financial initiative of the socio-economic development of territorial communities.

Implementation of the basic principles of decentralization of power and budgetary resources, allows us to reduce the amount of transfer proceeds. At the same time, a part of budget resources and the right to regulate social and economic processes in the state should remain under the jurisdiction of the state.

Thus, the optimal option for Ukraine is the construction of inter-budgetary relations, which establishes the maximum permissible level of autonomy of local self-government bodies for maintaining the principle of budget unitarianism, which means the unity of the legal framework, regulation of budgetary relations, budget classification, execution procedure of accounting and accountability, unity of social standards.

Budgetary regulation plays an important role in organizing and implementing intergovernmental fiscal relations. It is right to note that regulation of intergovernmental fiscal relations is the basis of fiscal regulation, which is a redistribution of part of the national income between different budgets in order to balance each of them. The main purpose of fiscal regulation is to ensure the balance of budgets of all levels, as it is a determining condition for the socio-economic development of administrative and territorial units.

The fiscal equalization system is more progressive than the balancing system and aims to foster the interest of local authorities in attracting additional revenues and expanding the existing tax base. Since 2015, changes have been made to intergovernmental fiscal relations. The introduced fiscal equalization system is more progressive than the balancing system and aims to foster the interest of local authorities in attracting additional revenues and expanding the existing tax base. Accordingly, intergovernmental transfers are divided into: basic grant (transfer from the state budget to local budgets for horizontal equalization of the capacity of territories); reverse grant (funds transferred to the state budget from local budgets for horizontal equalization of the capacity of territories); subventions and additional grants. The state budget provides for an educational and medical subvention [1]. The rules on horizontal equalization of local budgets' fiscal capacity are introduced, taking into account the parameters foreseen for this. In this case, the alignment is carried out only with two taxes:

- tax on enterprise profits for regional budgets;
- tax on incomes of individuals for budgets of cities and districts.

Since 2018, the distribution of educational subventions between local budgets will be based on a new formula that takes into account the normative content of the classes, which will enable the introduction of a stimulating mechanism while optimizing the network of general education institutions. The distribution of medical subventions between local budgets will be

carried out in accordance with the formula for allocating the volume of medical subsidies from the state budget to local budgets.

The innovation of 2018 should become a part of the budget of the State Road Fund. The sources of the formation of this fund are as follows: excise tax on fuel and vehicles produced in Ukraine and imported into the customs territory (50% in 2018, 75% in 2019, 100% in 2020); import duty on petroleum products and vehicles and tires to them (2018 - 50%, in 2019 - 75%, from 2020 - 100%); payment for travel by motor roads of vehicles and other self-propelled machines and mechanisms, the weight or dimensional parameters of which exceed the normative; funds of the special fund of the state budget, obtained by attracting loans (loans) from the state from banks, foreign states and international financial organizations, for the development of the network and maintenance of public roads; payment for travel by public roads of public use; other receipts [6].

At the same time, 35% of funds would go for financial supplement of building, reconstruction, repairs and holding of local common-use roads, streets and roads in communal property (as a subvention) and fulfillment of official borrowing duties attracted by the state.

5. CONCLUSIONS

Summarizing the above-mentioned materials, it should be noted that ensuring the balance between revenues and expenditures of local budgets requires compliance of planned expenditures with budget revenues, which can be achieved as a result of budgetary regulation and implementation of the transfer mechanism. In modern conditions, equalization is carried out through horizontal equalization of the capacity of the territory. Redistribution of budget resources is carried out through a transfer mechanism, the implementation of which involves the allocation of basic grants, subventions for various programs and expenditures, additional grants and reverse subsidies.

BIBLIOGRAPHY

1. Budget Code of Ukraine: Adopted June 21, 2001 No. 2542-III // Information from the Verkhovna Rada of Ukraine. - 2001. No. 37.
2. Budget monitoring: Analysis of budget execution for 2016 / [Zubenko VV, Samchinsky IV, Rudik A. Yu, etc.]; IBSER, Project "Strengthening Local Financial Initiative (MIFI-II) Implementation", USAID. - K., 201
3. The relationship between state and local budgets needs to be optimized. Accounting Chamber of Ukraine. Kyiv - 2016 [Electronic resource]. - Access mode: <http://portal.rp.int/control/main/uk/publish/article/16739647>
4. Volokhova I.S. Inter-budgetary relations in Ukraine: the current state and prospects of development [Text]: monograph / I.S. Volokhova - Odessa: Atlanta, 2010. - 234 p.
5. Lagutin V.D. Formation of local budgets and justification of intergovernmental relations / V.D. Lagutin // Finance of Ukraine. - 2013. - No. 7 - P.13-15.
6. Official website of the Ministry of Finance of Ukraine [site [http // www.minfin.gov.ua](http://www.minfin.gov.ua)].
7. Official site of Chernivtsi Regional State Administration. - Electronic resource. - Mode of access: bukoda.gov.ua