

CRITERION BASIS OF FINANCIAL POLICY EFFICIENCY OF LOCAL GOVERNMENT

Statement of the problem. The current stage of development of civilization is characterized by the coexistence of the society and government which in accordance defines the objective necessity of economic distribution of the economic system in the field of material production, services and non-productive sphere. It should be noted that the non-productive sphere is related to the social (socially important) needs to be performed mainly by public authorities through the funds withdrawn from the fields of production and services. At this point, there is narrowing of opportunities for the economic development, and the government gets the instrument of socio-economic processes regulation. That is the essence of the financial phenomenon, which manifests itself in the interaction of monetary circulation with the economic system.

This view needs for certain policies to manage the financial system for the purpose of smoothing out fluctuations in the economic growth arising from the use of finance to serve the state.

Given that the provision of public services to citizens based on their needs is done just locally, and also that nowadays there occurs deepening of democratic foundations of public life in Ukraine, we believe that the efficiency of the financial policies of local governments is becoming more and more important.

Analysis of recent research and publications. Problems of local government financial policy, in particular analysis of the problems of formation and use of resources, taxation, public debt, public credit, pension and insurance coverage, monetary and wage-price controls are studied in the works of Ukrainian scientists such as A. Vasylyk [5], V. Kravchenko [8], A. Kyrilenko [4], V. Oparin [6], V. Fedosov [7] S. Iurii [7] et al.

Taking into the consideration the importance of advances in research into the various areas of fiscal policy scientific works of foreign scientists of different periods should be cited. They include works by A. Atkinson, P. Browning, S. Bru, J. Keynes, K. Marx, A. Marshall, J. Mill, W. Petty, David Riccardo, Paul Samuelson, V. Senchahov [2], A. Smith, J. Stiglitz, F. Hayek, R. Harrod, J. Hicks et al.

Despite the studies in different areas of fiscal policy, it is appropriate to ground the essence of the concept of financial policies of local authorities deeper and to develop a conceptual framework of effective financial policies of local governments. The unresolved problems prove the relevance of the chosen topic, and thus dictated the choice of the direction of the research.

Problem statement. The aim of the study is to develop a theoretical, methodological and applied approaches and conceptual foundations of financial policies of local governments and their implementation, which will effectively influence the redistributive processes.

To achieve this aim the following tasks must be fulfilled:

- 1) to clarify the nature of the financial policies of the local authorities;
- 2) to classify local authorities;
- 3) to systematize the factors influencing the implementation of the effective financial policies of local authorities;
- 4) to substantiate the main objectives of the financial policy of the local authority.

Research. According to the Budget Code of Ukraine [1] the basis for regional development is the independence of regions to determine the purpose of the development and financing of measures for their implementation, primarily from own sources of local budgets. Thus, increasing of requirements for the formation of monetary policy of the local government, which is at an early stage of development and needs transformation in the direction of an independent regional development policy, plays an important role in the policy of regional development

Before discussing the issues related to the formation and development of financial policies of local authorities let us consider the essence of the concept of the state financial policy, as there are various interpretations of this phenomenon in the financial and economic literature.

The Russian scientist V. Senchahov defines it as follows "financial policies as a part of economic policy is a set of laws and regulations of fiscal, monetary, price and other financial instruments and activities of public authorities, which in accordance with the law have the authority to the formation and regulation of financial flows in the sectors according to the strategic and tactical goals of economic policy" [2].

A. Zahorodnii, G. Voznyuk, T. Smovzhenko give the following understanding of fiscal policy: fiscal policy is a system of measures (laws, administrative decisions) in finance to targeted government influence on the development of the financial and credit systems and the national economy as a whole. The main

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objective of monetary policy is to find an optimal model of redistribution of financial resources in order to stimulate the production of material and social protection [3, p. 353].

O. Kyrylenko interprets this concept as follows: "Fiscal policy is a set of financial (distributive and redistributive) measures implemented by the government via the financial system. Fiscal policy is a part of economic policy" [4].

P. Leonenko, P. Yukhymenko, A. Iliencko, A. Vasylyk et. al. understand financial policy as a series of state measures in organization and finance use for the economic and social development [5, p. 113].

V. Oparin defines fiscal policy as a policy with a set of actions and measures taken by the state within the limits of its functions and powers in the financial sector of entities and financial institutions, citizens and the state in order to directly address specific problems and achieve goals [6, p. 47].

V. Fedosov defines fiscal policy as purposeful activities of the state and other entities in the formation, distribution and use of financial resources to achieve this goal [7].

The above stated definitions appear to be correct, but the interpretation of fiscal policy as a set of activities of public authorities or a set of laws is not quite complete and not quite right, because it focuses not on the content but on the lever of economic development. In addition, most definitions refer financial policies to the mobilization, allocation and use of financial resources. However, the finance function is not limited to these areas. It also includes circulation, location, payment, identification of resource, etc.

The state financial policy is implemented at different hierarchical levels. The greater part of scholars considers it in relation to the state as whole or separate companies. It is a narrowed approach that does not reflect many other very important levels, including regional, as indicated by V. Kravchenko, who in his research pays attention to the need to develop theoretical foundations of regional financial policy and considers that "the state regional financial policy is a tool for the entire regional policy and requires the development and implementation of an independent instrument of state influence on the socio-economic development of regions" [8].

The main purpose of financial policies of local authorities is the convergence of social and economic development of territorial and administrative units of public services by the same social standards throughout the country, creating the conditions for sustainable use of natural resources and opportunities in the region, improvement of the development level and of mechanisms for financial help to the depressed regions, ensuring of financial stability and balance of local budgets, etc.

The financial policies of local authorities is, in fact, a system of local government measures aimed at decision-making on the formation, distribution and use of financial resources in the regions, taking into account the characteristics of their development and to smooth financial support of local government funds for their own and delegated powers.

Thus, the fiscal policy can be considered as a state policy and the policy of local governments and is a derivative of finances as an economic category. Scientific rationale approaches to the development and implementation of financial policies of local governments should be weighed against the essence and role of financial categories. The essence of financial policies of local governments is to provide a mechanism for the functioning of finance as an economic category (financial system). Therefore we can draw the conclusion, according to which the semantic value of financial policies of local government is that it is a law based on the norms of the management mechanism of formation and use of funds, intended to ensure full implementation of specific functions of a local government.

Based on this definition, the purpose of financial policies of local governments is to create conditions for the functioning of the financial system in certain regions that is a manifestation of the essence of finance as an economic category. During the implementation of this objective, financial policies of local governments must solve the problems of regulating of a local economic system and its control, that is the manifestation of the role of finance in the reproduction process .

Also a very important task to develop a conceptual framework of effective financial policies of local authorities is the classification of local authorities according to the following criteria - the functions performed by local governments in the implementation of monetary policy .

By this criterion, we consider it appropriate to make a classification of local authorities as follows (Fig. 1):

- 1) the municipal government;
- 2) the local executive authorities;
- 3) state financial inspections .

Each group of this classification has its main function.

Therefore, local governments, which are regional councils, city councils, district councils in a city, district councils and village (town) councils function as shaping financial policy.

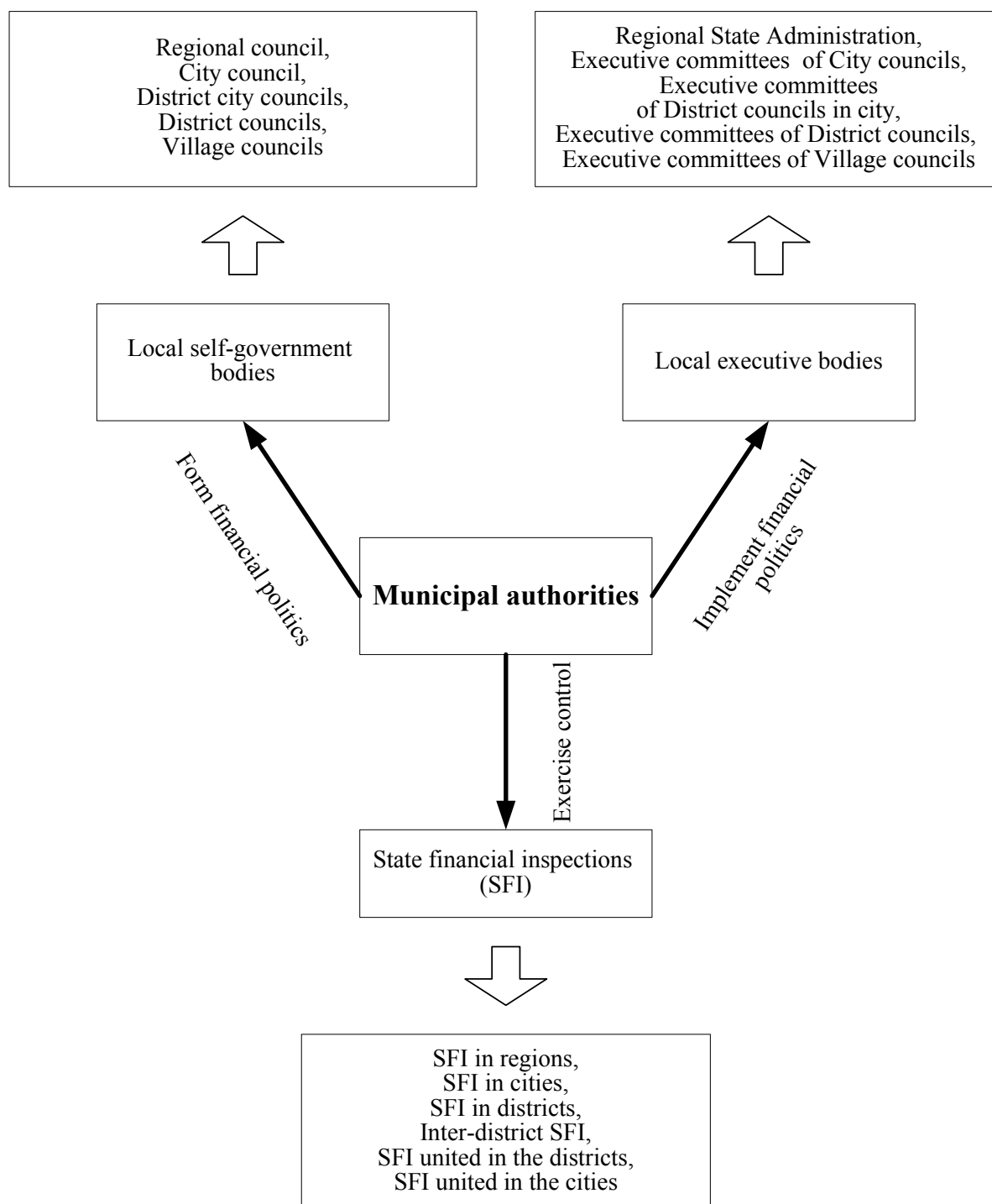


Figure 1. Classification of local government (original design)

Local executive authorities represented by the regional state administrations, the executive committees of local councils, executive committees of district councils in the city, executive committees of district councils and executive committees of village (village) councils implement the function of fiscal policy implementation.

State Financial Inspection, namely in the areas of cities, regions, interregional ones, integrated in neighborhoods and cities act as enforcement objectives of fiscal policy.

Therefore, the proposed classification will optimize the financial management system locally by a reasonable ratio of subjects and their functions.

The framework of the effective financial policies of local governments should be the integration of local governments responsible for the development and implementation of financial policies and monitor the timely implementation of the objectives of fiscal policy.

At the present stage of development of our country there are a lot of factors that hinder the effective implementation of monetary policy at the local level. There are the two main groups of factors among them (Figure 2):

- 1) exogenous;
- 2) endogenous.

There exist the following exogenous factors of implementation of effective financial policies of local authorities:

- 1) deficiencies in the territorial structure of Ukraine;
- 2) local governments are not given autonomy in financial policy;
- 3) the inadequacy of the real financial resources that are relevant to the inter-budget transfers, needs of funding of the state delegated powers;
- 4) legally restricted list of local taxes and fees and absence of objects of taxation on some of them in many areas;
- 5) the need for strict adherence to centrally established national standards in the implementation of taxation;
- 6) the prohibition on borrowing by all local governments, except for municipalities;
- 7) high dependence of local budgets on transfers, especially on equalization donation;
- 8) unclear regulations on public hearings, and use of other forms of citizen participation in local development and implementation of financial policies.

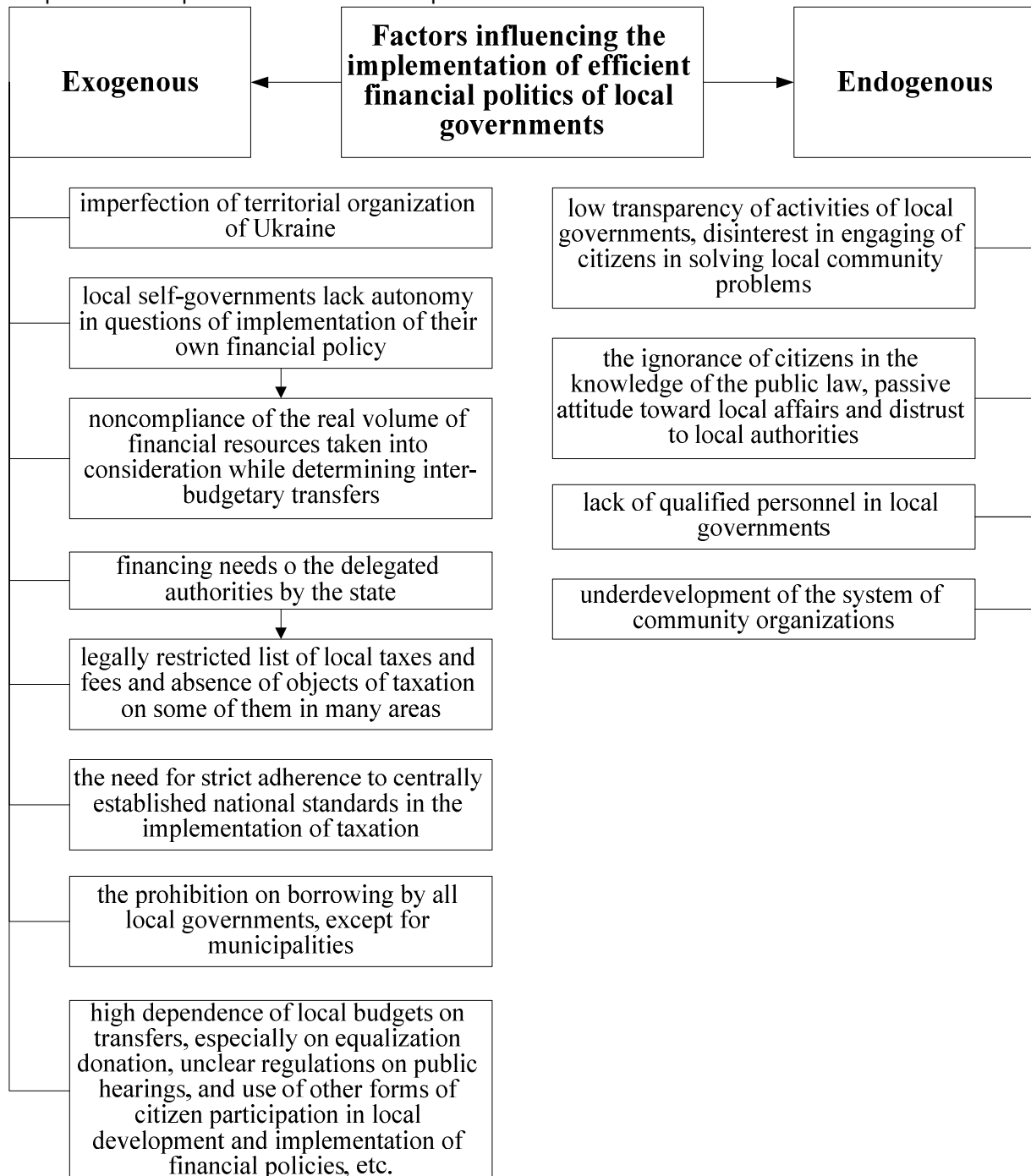


Figure. 2. Factors influencing the implementation of effective financial policies (compiled by the author, based on [9])

Endogenous factors influencing the implementation of effective financial policies of local authorities should include the following ones:

- 1) low transparency of activities of local governments, disinterest in engaging of citizens in solving local community problems;
- 2) the ignorance of citizens in the knowledge of the public law, passive attitude toward local affairs and distrust to local authorities;
- 3) lack of qualified personnel in local governments;
- 4) underdevelopment of the system of community organizations.

The analysis of fiscal policy implementation proved that the impact of local authorities on the formation of the financial resources of territorial and administrative units has rather decreased.

Given the carried out research, the major tasks of financial policies of local authorities have been formed. They include:

- optimization of tax systems to ensure the investment attractiveness of the region and innovation development;
- the increase of local authorities impact on the formation of the revenue base of local budgets;
- the increase of influence of local authorities on the formation of the income tax base;
- create opportunities for the use of market mechanisms to raise additional funds for social and economic development under the jurisdiction of local government areas;
- introduction of new mechanisms and measures over the use, formation and effective allocation of funds by local authorities;
- improving local budget management;
- develop mechanisms of motivation of areas that belong to grant aimed at increasing of tax revenues from state taxes and fees.

Conclusions and further research. According to the results of the study the following conclusions have been made:

1. The concept of financial policies of local governments, according to which the semantic value of financial policies of local government means is that it is a law based process of management of formation and use of funds, intended to ensure full implementation of specific functions of local government.
2. The classification of local authorities according to the functions performed by local governments in the implementation of monetary policy has been done. In the result of such a classification conceptual frameworks of effective monetary policy were developed.
3. The factors influencing the implementation of effective financial policies of local governments are grouped into exogenous and endogenous.
4. An important task of the financial policies of the local governments, the implementation of which will contribute to economic and social development of administrative units of the state and improve the welfare of citizens of Ukraine has been offered.

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Purpose. The purpose of the study is to develop the conceptual foundations of financial policies of local governments and their implementation.

Methodology of research. Research methodology is based on the use of the dialectical logic and systematic approach. General scientific methods and techniques are widely used in this paper. The methods of abstraction, induction, deduction, historical comparisons, as well as the analysis and synthesis, grouping and typology are the most widely used. The article analyzes the comparative interpretation of the term "fiscal policy" by a number of foreign and domestic scholars; common and opposite features of these interpretations have been studied, on the basis of which own definition of financial policies of local governments has been offered. On the basis of the grouping method the classification of local authorities has been performed. Thus, in the result of it three groups were defined: local governments; local executive bodies, state financial inspection. The systematic approach revealed the relationship between different groups of local governments. The method of induction and deduction is used to study the role of local authorities in the implementation of monetary policy and the development of the conceptual foundations of the efficient monetary policy. Ordering the factors the influence the implementation of effective financial policies of local authorities, and while developing the objectives of the financial policy of local authorities the methods of empirical and theoretical research were used.

Findings. The results of the study are as follows: the clarification of the concept of financial policies of local governments, classification of local governments in functions and the development of the conceptual foundations of effective monetary policy, systematization the factors that affect on the implementation of effective financial policies of local governments, the development of the most important tasks of the financial policies of local governments.

Originality. The scientific novelty of the study is to clarify the nature of the financial policy of local authorities, local government classification by functions performed by the local governments in the implementation of financial policies, developing conceptual frameworks of effective monetary policy.

Practical value. The practical significance of the paper is the possibility to use the achieved results and conclusions in this study by local governments.

Key words: fiscal policy, local governments, efficient fiscal policy.