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INTERBUDGETARY TRANSFERS AS AN TOOL OF FINANCIAL EQUALIZATION OF REGIONS: THE ORETICAL ASPECTS AND INTERNATIONAL PRACTICE

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The article examines the nature, types and significance of interbudgetary transfers. A synonymous connection between the terms official and intergovernmental transfers has been established. A significant part of the existing scientific approaches to the examined concept is considered, the differences and similarities between them is designated. According to the analysis of existing theoretical definitions of «interbudgetary transfer» it is established that it means a financial mechanism consisting of free and non-refundable transfer of funds from one budget to another, to finance expenditures in the declared amount and for socio-economic development. Among the interbudgetary transfers there are basic dotation, subventions, reverse dotation, and additional dotation.

The functions of intergovernmental transfers, in particular allocation, redistributive, regulatory, administrative, equalizing, stimulating, are defined and disclosed. The significance of intergovernmental transfers has been studied and, in fact, the necessity of the existence of this instrument in modern realities has been established, even with the implementation of the decentralization policy.

It is established that high-level transfer regulation and the implementation of decentralization policy are essentially mutually exclusive phenomena. Therefore, at the present stage of development of local budgets and local authorities, the importance of interbudgetary transfers is to ensure the financing of expenditures in transition, equalization of the economic situation of the territories, as well as providing funding for socially significant and resource costly areas.

A thorough analysis of world practice on budget equalization was made, which allowed to establish the most optimal and appropriate option for building inter-budgetary relations in Ukraine, which considers the strengths and avoidance of risks that have arisen in other countries. This approach allowed to define the theoretical basis for the use in Ukraine of a comprehensive system of inter-budgetary relations, which involves the use of various mechanisms in certain parts of them.

Key words: local budget revenues, transfers, tax and non-tax revenues.

МІЖБЮДЖЕТНІ ТРАНСФЕРТИ ЯК ІНСТРУМЕНТ ФІНАНСОВОГО ВИРІВНЮВАННЯ РЕГІОНІВ: ТЕОРЕТИЧНІ АСПЕКТИ ТА МІЖНАРОДНА ПРАКТИКА

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В статті досліджено сутність, види та значення міжбюджетних трансфертів. Встановлено синонімічний зв'язок між термінами офіційні та міжбюджетні трансферти. Розглянуто значну частину існуючих наукових підходів щодо досліджуваного поняття, встановлено відмінності між ними, а також схожості. За результатами аналізу існуючих теоретичних визначень поняття «міжбюджетний трансферт» встановлено, що під ним розуміється фінансовий механізм, що полягає в безоплатній і безповоротній передачі коштів з одного до іншого бюджету, для фінансування видатків у задекларованому обсязі та для соціально-економічного розвитку території. Серед міжбюджетних трансфертів виділяють базову дотацію, субвенцію, реверсну дотацію, додаткові дотації.

Визначено та розкрито функції міжбюджетних трансфертів, зокрема алокаційну, перерозподільну, регулюючу, адміністративну, вирівнюючу, стимулюючу. Досліджено значення міжбюджетних

трансфертів та фактично встановлено необхідність існування даного інструменту в сучасних реаліях, навіть при впровадженні політики децентралізації.

Встановлено, що існування трансфертного регулювання на високому рівні та впровадженням політики децентралізації по суті є взаємовиключними явищами. Тому на сучасному етапі розвитку місцевих бюджетів та місцевої влади значення міжбюджетних трансфертів полягає у забезпеченні фінансування видатків у перехідний період, вирівнювання економічного становища територій, а також забезпечення фінансування соціально значимих та ресурсно-затратних сфер.

Здійснено ґрунтовний аналіз світової практики щодо бюджетного вирівнювання, що дало змогу встановити найбільш оптимальний та підходящий варіант побудови міжбюджетних відносин в Україні, який враховує сильні сторони та уникнення ризиків, що виникали в інших державах. Саме такий підхід дозволив встановити теоретичні основи для використання в Україні комплексної системи міжбюджетних відносин, що передбачає використання різних механізмів у певних їх частинах.

Ключові слова: доходи місцевих бюджетів, трансферти, податкові та неподаткові надходження.

Problem setting and its relationship with important scientific and practical tasks.

«Interbudgetary transfers» is a fairly common economic category and is widely used both in practice and in research. The use of budget regulation methods is important and widely used to avoid a situation of budget imbalances. Therefore, the using of economic principles, methods, techniques makes it possible to respond in a timely manner to the lack of own funds and does not deprive the authorities to dispose of resources to perform their functions and ensure the development of the region. In addition, financial equalization is an important element in creating a level playing field and opportunities for the development of different regions.

In this context, we can distinguish the existence of quite similar, at first glance, the categories: «budget regulation», «interbudgetary transfers». It should be noted at once that these categories are correlated as part and whole: intergovernmental transfers are one of many methods of budgetary regulation. Given that budget regulation is the provision of funds from state revenue sources to other budgets to balance them for the implementation of economic and social development programs of a particular territory, we will reveal the essence and features of the category of intergovernmental transfers in more detail.

Overview of recent research and publications. The modern realities of the state's development testify to the final choice of a decentralized form of government, which directly concerns the financial support of the region. At the same time, the regions are different in their characteristics (area, number and age of the population, socio-economic activity, etc.). Accordingly, these factors affect the filling of budgets: some regions are characterized by a high level of budget profitability, while others, on the contrary - sufficient or low. In addition, the current challenges related to the spread of coronavirus infection COVID-19, the introduction of quarantine restrictions, as well as the global crisis factor indicate the complexity of the process of forming the revenue side of the budget at the appropriate level of coverage of expenses. Therefore, the reduction of economic activity confirms the increasing role of inter-budgetary relations aimed at covering the imbalance between revenues and expenditures. The topic of interbudgetary transfers has been studied by many scholars such as I.P. Sidor, T.G. Bondaruk, Y.M. Kazyuk, L.M. Marshuk, V.L. Tsipura, V.I. Kravchenko, K.M. Tkach and others [2-8].

However, in most scientific sources the issue of interbudgetary transfers is covered unilaterally and from a theoretical point of view, without taking into account the current realities of decentralization reform.

The purpose of the article. The purpose of the study is to identify features, highlight issues related to tactical and organizational aspects of interbudgetary regulation. To achieve the goals in the article it is planned to solve such tasks as the study of the concept and types of interbudgetary transfers; determining the importance of interbudgetary transfers.

Presentation of the main material of the study with a full justification of the obtained scientific results. Interbudgetary transfers in modern realities occupy an extremely important place in the system of budgetary regulation. Therefore, first of all, it should be done a theoretical analysis of this category. It should be noted at once that the terms «official transfers» and «interbudgetary transfers» are synonymous. The adoption of the Budget Code of

Ukraine in 2010 began to use the term «interbudgetary transfers», but the theory still uses another as well. In addition, modern statistical reporting still uses the term «official transfers».

The most complete idea of the concept under study can be obtained by analyzing its definition of different scientists. Thus, the definitions of «interbudgetary transfers» are given in Table 1.

Table 1 – Definitions of «interbudgetary transfer»

Author	Definition
Paragraph 32 of Article 2 of the Budget Code of Ukraine	«Funds that are transferred free of charge and irrevocably from one budget to another»[2].
Sidor I.P.	«Budget funds that are transferred from one budget to another free of charge and non-refundable in order to prevent discrepancies between the amount of budget funds and the powers assigned in the process of division of competencies and responsibilities»[3].
Bondaruk T.G.	«Form of implementation of the principles of interbudgetary regulation; a tool for formulating budget policy and process in the framework of the transfer of powers between budgets in terms of resource use»[4].
Kazyuk Y.M.	«Component of relations between budgets, which is an element of stabilizing the economy of regions by equalizing the budget and the implementation of various programs»[5].
Marshuk L.M.	«Financial mechanism implemented to avoid disparities in the resource provision of regions, maintain their balance and create favorable conditions for development through the instrument of interbudgetary relations»[6].
Tsipura V.L.	«An instrument of financial relationships between economic entities»[7].
Kravchenko V.I.	«A tool for organizing state regional policy. At the same time, certain types of interbudgetary transfers (dotation, subsidies, subventions) act as instruments of interbudgetary relations aimed at regulating local budget revenues»[8].

A systematic analysis of these definitions suggests that interbudgetary transfers are a financial mechanism, which is a free and non-refundable transfer of funds from one budget to another, in order to ensure the financing of expenditures in the declared amount and for socio-economic development of territory.

Like any institution, interbudgetary transfers exist to perform specific tasks and the functions assigned to them. «Thus, among the functions of interbudgetary transfers are:

- allocation (consists in the implementation of financial support of powers, by financing public needs in a particular territory);
- redistributive (implementation of financial equalization by redistribution of financial resources between territories);
- regulatory (ensuring the practical implementation of the economic potential of the territory);
- administrative (instrument of influence on local governments)» [9];
- equalizing (creation of more equal financial support of different territories regardless of their potential);
- stimulating (creation of a message aimed at improving the activities of local authorities to increase their budget revenues);
- economic independence of local budgets (approaching the situation of independence of local budgets from transfers by being able to independently finance expenditures);
- optimal implementation of budget allocations;
- stability in obtaining resources.

Simultaneously with the study of the category of interbudgetary transfers, it may be suggested that, in fact, their existence is a manifestation of inefficient fiscal policy in the state as a whole. That is, if you ensure a more rational distribution of revenues between different budgets and in certain amounts, you can get rid of the institution of interbudgetary transfers.

At the same time, in our opinion, the existence of interbudgetary transfers, even in the context of decentralization policy development, is necessary. This is due to the fact that the redistribution of revenues within the state and the provision of minimum standards in all regions is more effective if it is done by the central government (government and parliament), given that local budget revenues are in many cases insignificant and unstable, in particular due to the constant internal (seasonal) and external migration of taxpayers.

On the other hand, for example, the provision of public services at the local level is more effective if they are provided by local authorities (for example, through the operation of Centers for the provision of administrative services at local governments). However, such efficiency requires significant financial costs. Therefore, the combination of good governance by delegating certain functions and ensuring adequate funding is done through interbudgetary transfers.

That is, the main reason for using this institution is the purpose of covering the imbalance of the budget system. It necessary to note that interbudgetary transfers should not be an end in themselves of fiscal policy, which is manifested in the refusal to reduce expenditures or increase the rates of certain taxes. On the contrary, interbudgetary transfers should be used for a specific purpose and to maximize fiscal policy outcomes. Otherwise, it will create even greater gaps between revenues and expenditures, as well as discourage effective management of local government.

The common forms of budget equalization are vertical and horizontal. As for the vertical, it means the movement of budget transfers (dotation, subventions) from the budget of a higher level to a lower one. As for horizontal equalization, it is a reverse process, when funds from regions with higher solvency transfer to the state budget in order to eliminate national budget imbalances.

Analysis of world practice in the field of finance shows the existence of three different options for the public policy on interbudgetary transfers:

1. Separate mechanisms for equalization of imbalances (vertical or horizontal). This is done by dividing tax revenues and allocating funds from the state budget. At the same time, the financial potential is equalized through horizontal payments from more affluent regions to less. This mechanism is used in Germany.

2. Complex system. Vertical and horizontal imbalances are offset by a single integrated transfer system. This approach is used in Canada and Australia.

3. Correction of vertical imbalance. In this case, the local budget deficit is covered by regulatory taxes and transfers. However, horizontal alignment measures are not taken. This mechanism is used in the United States.

In our opinion, the use of a complex system is more rational for Ukrainian realities. Along with this, modern budget policy indicates the use of different mechanisms in certain parts aimed at achieving a single result.

Interbudgetary transfers are a broad category, as they are characterized by different types of such payments. Article 96 of the Budget Code of Ukraine classifies interbudgetary transfers «as:

- basic dotation;
- subvention (medical; for the implementation of social protection programs, investment projects; for the repair and maintenance of roads);
- reverse dotation;
- additional dotation (to compensate for state benefits)» [2].

The basic dotation is a transfer from the state budget to the local one. The reverse dotation is the opposite of the basic dotation and consists in the transfer of funds to the state budget from local ones. A subvention is a targeted transfer, that is allocated for a specific purpose and in a specific order.

It can be argued that interbudgetary transfers are a fairly common institution both in practical use and among scientific developments. At the same time, the nature of interbudgetary transfers and the implementation of decentralization policies are quite various phenomena. However, modern Ukrainian realities indicate a parallel deepening of decentralization policy and widespread use of interbudgetary relations. It is also worth noting that the use of interbudgetary transfers, even in recent years, is far from their essence, as they are not aimed at leveling territories in the socio-economic sense, but to finance current expenditures of local budgets.

Conclusions. Therefore, to create financial self-sufficiency of local budgets it is necessary to adhere to the following directions:

- sufficiency without transfers;
- balancing without transfers;
- high level of tax revenues.

We believe that the reduction of the level of interbudgetary transfers can be achieved through the introduction of the following measures:

- providing support to local individuals-entrepreneurs;
- creation of centers of education of the population by market methods and bases of realization of business activity;
- creation of innovation infrastructure;
- creation of cells (hubs) for the development and implementation of new ideas;
- active involvement of local scientists in the practical plane of development of the region's potential;
- creation of an industrial park that will be competitive with neighboring regions;
- development of the IT sector.

In our opinion, all of the above will not have any impact on the regional budget if there is no active fiscal policy, in particular by controlling tax evasion. *

*Approbation of research materials [1].

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