An extended abstract of the paper on the subject of:

“Reform of System of Inter-budget Relations as Focus Area of Improving Financial Support for Sustainable Territorial Development”

Problem setting. Practice proves that the financial capacity of today’s territorial development depends largely on inter-budget transfers. In this respect, a pending task of improving the system of financial support for sustainable territorial development is substantiation of the theoretical and methodological principles for establishing inter-budget relations, their role and position in reproduction processes in terms of ensuring financial self-sufficiency and self-reproduction of regions and individual territories, ways to improve the existing system of inter-budget relations.

Recent research and publications analysis. The range of topics concerning the impact of inter-budget relations on territorial development is considered in the works by V. Kravchenko, O. KryYLENko, I. Lunina, L. Makarenko, O. Shevchenko, V. Shvets, A. Shvetsov, Ya. Tsymbalenko, I. Vakhovych and other researchers. A number of topical issues of improving the inter-budget transfer system have been addressed to by the Budget Code of Ukraine.

The paper objective is determining the role of inter-budget transfers in formation of the Ukrainian local-government finances, and elaboration of proposals for reforming the inter-budget relations system with the aim to improve financial support for sustainable territorial development.

The paper main body. The need for reform of the inter-budget relations system is dictated by a series of problems, identified in the said sphere, namely:

- strong dependence of local budget incomes on inter-budget transfers;
- trends to continuous growth of inter-budget transfers ratio in the local-budget income composition, and to lowering of local budget independence;
- inability of local authorities to implement all the bulk of tasks imposed on them without inter-budget transfers;
- attainment of local budget balance through mere bridging the gap between incomes and expenditures by way of granting leveling-off subsidies;
- lack of self-sufficiency in majority of local budgets;
- actual transformational orientation of the system of inter-budget relations towards fiscal centralization;
- imbalance between local-budget payment liabilities and funding sources etc.
For meeting the above mentioned challenges to inter-budget relations, it is suggested to:
- introduce government guaranties of financial support for local authorities’ exercise of the delegated powers;
- form favorable conditions for local budgets’ building-up of their own income basis;
- when planning local budgets’ expenditures, to make an extensive use of adjusting factors with paying due regard to local context;
- for every fiscal year, determine statutorily a list of depressive territories to carry out an effective financial leveling;
- hold competitive selection of projects while granting investment subventions to territories;
- take as a basis for financial-leveling policy the criterion of getting donor budgets interested in fund donations by leaving a certain amount of exceeding budgets at local governments’ disposal;
- take as a basis for budget leveling the normative social standards of public service delivery etc.

Conclusions of the research and prospects for further surveys. The existing model of inter-budget relations in Ukraine needs an urgent reforming towards diminishing local budgets dependence on state budget transfers, strengthening their own income bases, elaboration of an efficient mechanism for motivation of donor regions etc.

Further survey can be conducted in the area of inter-budget relations organization in the advanced countries to determine the elements facilitating local authorities’ independence and self-sufficiency in the matters of financial support for sustainable territorial development.