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**THE REGIONAL DEVELOPMENT FUNDS AS A COMPONENT
OF THE LOCAL FINANCES MANAGEMENT SYSTEM
IN THE CONDITIONS OF DECENTRALISATION**

The regional development funds as a component of the local finances management system are researched. The necessity of their implementation in the context of decentralization of a power as instruments in which local governments have a direct impact is grounded. Strategic objective functioning regional development funds is determined and targets to achieve it are corresponded. Proposals on the creation of a fund and sources of content are developed. System management of the fund on the basis of the principles and tenets of decentralization is created.

Key words: self-local government, fiscal decentralization, regional development fund, local finances management system, management tools, socio-economic development.

The principle of the prevalence of central government decisions permeated the whole system of governance in Ukraine after the proclamation of independence. Nowadays the management capacity of local governments and outdated financial mechanisms to ensure internal development regions significantly increases the risk of exacerbation and socio-political conflict in the country. The mechanism of decentralization allows to improve the local finances management system which will focus more on the needs of municipalities in the region. This system will involve local authorities in the processes of democratic management of resource potential of territories. One of the primary challenges to fiscal decentralization is the alignment of the financial potential of the regions by enabling and creating «growth points» of production finances sources. As the result there are the opportunities to consolidate their revenue sources to form municipalities and regions self-sufficiency. The State Regional Development Fund (SRDF) doesn't ensure full implementation of the priority investment fields in each region.

This significantly limits the impact of local governments on the development of domestic financial potential of the region.

Therefore, need for a Regional Development Funds (RDF) is actualized in response to changes in local government of Ukraine in the context of decentralization.

The processes of development funds management in Ukraine is scarcely explored. This is indicated by a small number of scientific researches of this issue. O. Shyshko paid attention to research SRDF distribution mechanism, not their creation [5, c. 34 – 35]. Distribution mechanism in the system of EU financial funds to ensure implementation of regional policy were researched by S. Markowskij [1; 2] and M. Treschov [3; 4]. M. Treschov considered the possibility of the EU practice application to the SRDF distribution between regions in Ukraine. Its essence is to direct most of the funds for development of regions which level of socio-economic development is significantly lower than the average in the country. The discrepancy to current requirements of the most methods and tools of local finance management actually reached a critical point in the financial systems of the regions in Ukraine. This was indicated by the European experience and practice of local government financial security. It requires renovation and expansion of local governments management tools for the efficient generation and use of own incomes and increased access to resources of existing markets and opening new potential within each municipality in the region. The purpose of this article is to study the RDF as a component of the local finances management, to develop proposals for the procedure of its creation and formation of the management system of the Fund on the base of principles and postulates of decentralization. Regional development fund is the joint voluntary initiative organized by local authorities towards innovative development by creating cumulative development resource through targeted contributions and aimed at promoting the use of innovative financial instruments for sustainable territorial development in the context of domestic politics and regional development strategies for the development of municipal communities within this area.

The Strategic aim of RDF is to support and stimulate the sustainable development of the region based on the effective management of their own financial potential. The main tasks of RDF as a tool to increase regions financial support in the context of decentralization are:

- to assess the financial potential of the region and determine the sources of its financial resources formation;
- to determine the investment priorities in the region;
- to combine within the system of Fund domestic economic infrastructure in the region

with the external economic infrastructure (national, regional, international) providing interaction between municipal and private sectors, integration of components within the financial capacity of the region and access to them, the possibility of evaluating the effectiveness use;

- to create effective mechanism of selection, financial support and implementation of priority development projects in the region;
- to overcome inequality in the possibilities of financial self-sufficiency by creating regional «growth points»;
- to increase the socio-economic development and competitiveness of regions;
- to engage people of the region to solve the regional and local problems;
- to eliminate the principle of «state paternalism» in the financial support of regional development;
- to reduce the share of «recipient regions» in the economy and strengthening their financial self-sufficiency.

Methodical and organizational aspects of creating and managing RFR may be combined in a set of key structural elements that are the foundation of the creation of a financial instrument (fig. 1).

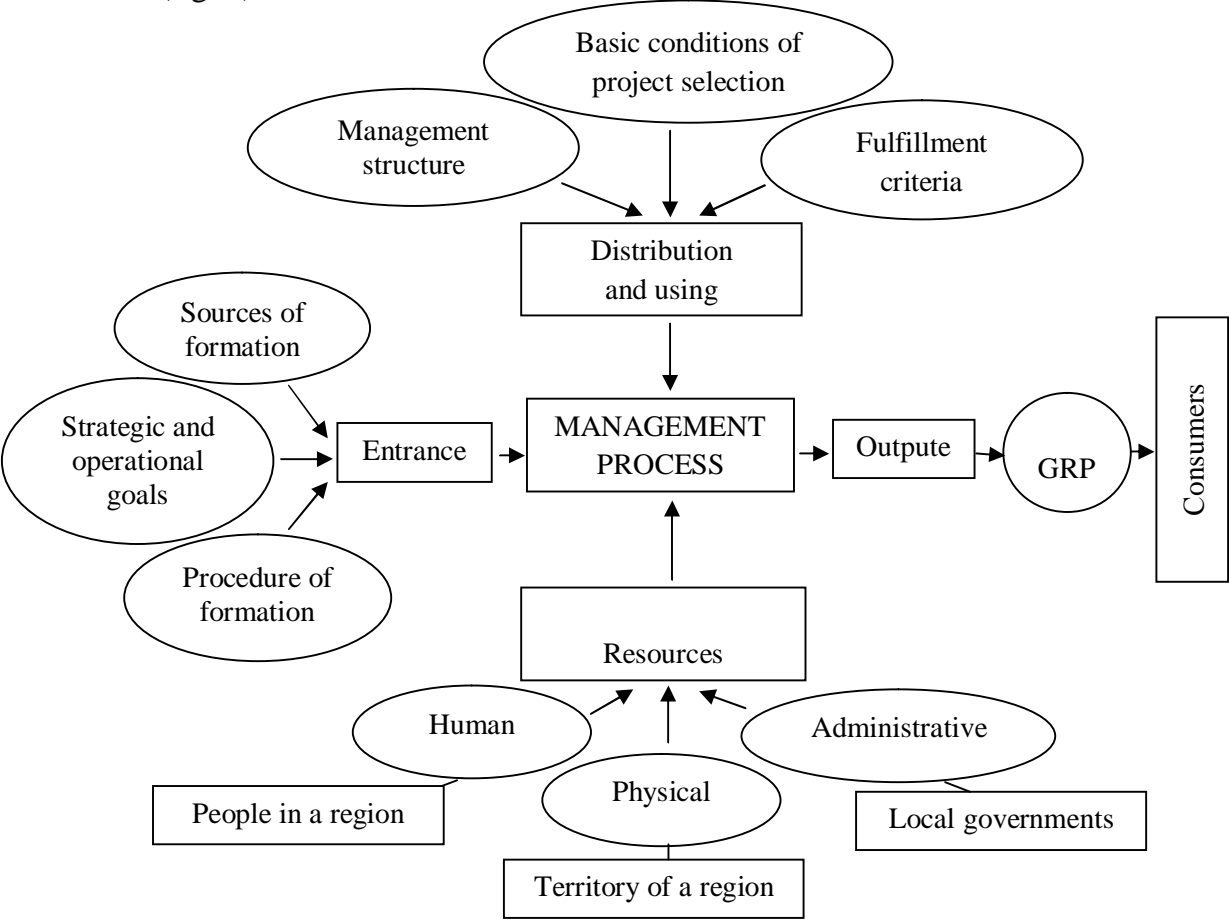


Fig. 1. The flowchart of the RDF management process

The analysis of the actual finances condition in the region, its financial capacity assessment and identification of sources of financial resources creation presedes by formation of RDF formation. There are two scenarios of RDF creation according to sources of funding: minimum scenario (only capital of municipalities) and maximum scenario (co-financing of SRDF, capital of municipal-private partnerships, loans and private investments).

Financial resources of municipalities produced by local governments in the region should be the priority sources of RDF formation. The largest share should take the funds mobilized by improving the municipal assets quality, municipal-private partnerships income and proceeds from completed RDF projects (fig. 2).

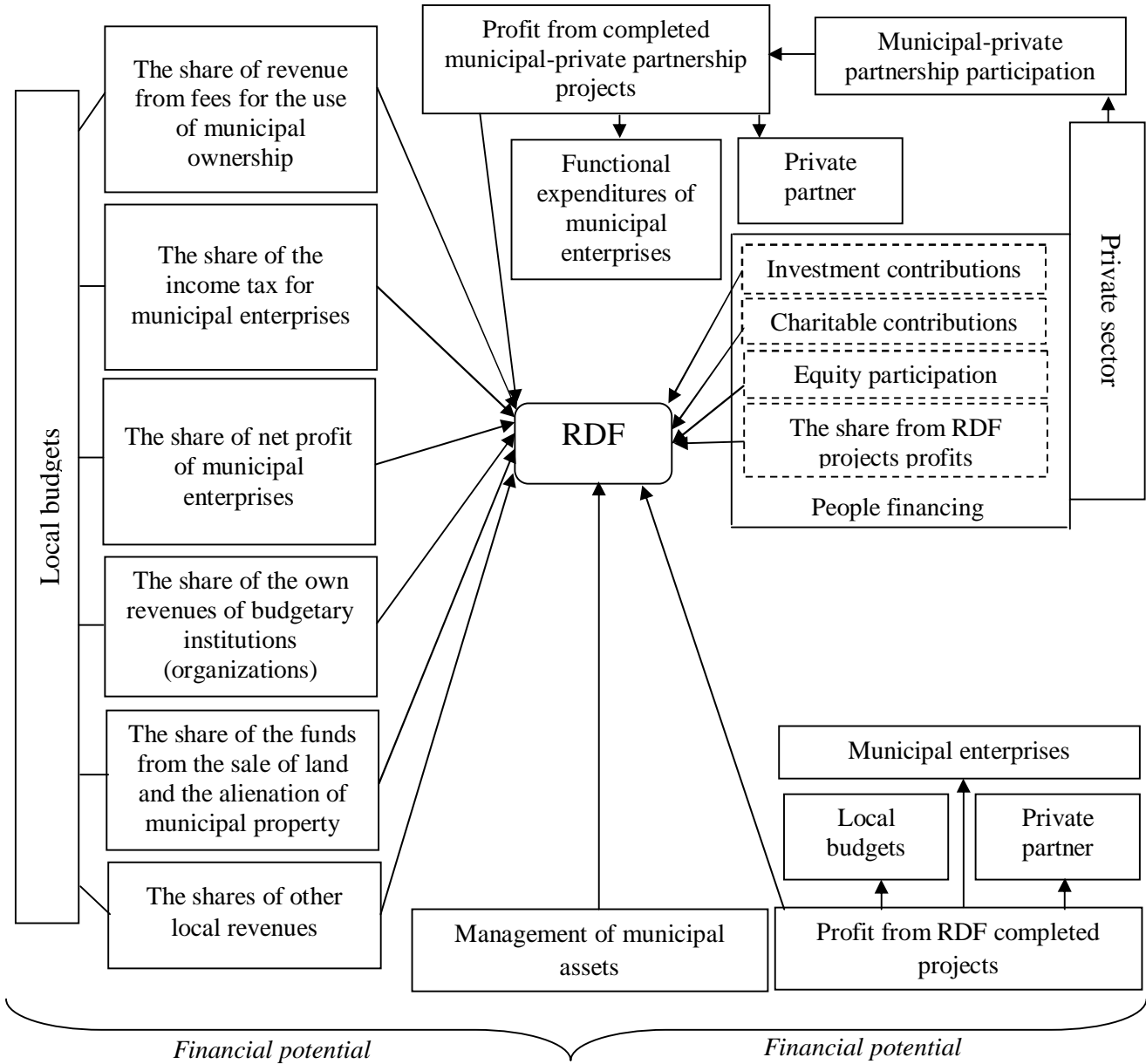


Fig. 2. Sources of RDF

RDF must have a management structure. RFR must have a management structure. There are a number of management subjects: supervisory board, director of the fund, fund manager, advisory committee, local governments and external consultants. Their selection, duties, powers and responsibilities, numerical and professional composition should be approved by provision about RDF in accordance with current legislation in local government.

The procedure for the RDF formation of stages, content, participants should be developed by management body of the Fund and approved by the local governments under applicable law. Establishment and operation of RDF provides certain measures (table).

Measures for the establishment and operation of RDF

Name of measure	A brief description	Responsible executor
Appointment of head of Fund	Head of the Fund is the Regional Council Chairman	–
Formation of the Supervisory Board	Formed of representatives of local governments at the district level on the basis of one representative from each District Council (a Head of Board should be elected through the representatives of the members of the Supervisory Board by voting)	Regional Council Chairman
Creation of Advisory Committee	The Committee includes representatives of local government and external consultants (volunteer) who perform maintenance projects. External consultants can be representatives of NGOs, academic and other institutions	Supervisory Board
The competitive selection of the Fund Manager	A private company is involved on a competitive basis and on terms of outsourcing. It evaluates and selects projects for funding from RDF bail responsibility for the decision (percent of the RDE for the reporting year)	Supervisory Board
Development of the procedure for RDF formation	The procedure is developed and approved by Supervisory Board based on Advisory Committee proposals. It includes information about the list and the percentage of deductions of taxes and fees from the local budgets in region, about financial participation of the private sector, distribution of profits from RDF completed projects and municipal-private partnership income (outside RDF), the percentage of development projects co-financing	Advisory Committee, Supervisory Board
Development of a competitive project selection	It is assumed preparing a list of mandatory and basic conditions for the selection of projects. Basic terms should be formed by sectors in accordance with the objectives of regional development and investment priorities. Their influence is not limited to projects. It applies to municipalities and local governments serving these projects. Also may be provided additional evaluation of economic, budgetary, financial and social efficiency of projects in quantitative terms	Advisory Committee, Supervisory Board, Fund Manager

Calculation of forecast RDF volumes for the budget period	The financial departments of Local Councils perform predictive estimation of RDR on budget period following the reporting one. They provide this information to one of departments Regional Council (eg Department of Economics)	Financial departments of Local Councils
Approval of the planned PDF amount for year	The relevant structural department (eg Department of Economics) of Regional Council is considering the information provided by local financial departments, summarizes and submits for approval by the Supervisory Board and Head of the Fund	The relevant structural department of Regional Council
The competitive selection of projects	Fund Manager implements the selection of projects and submit them for approval to the Supervisory Board and Head of the Fund	Fund Manager
Implementation of projects	The selected projects are being implemented the applicants in accordance with agreements concluded between the applicant and the Regional Council. The overall project implementation controls the fund	Applicants, Fund Manager
Evaluation of RDF effectiveness	There are two groups of indicators: general description funding from RDF and in certain fields (research and innovation, ICT, transport infrastructure, environment, energy, social infrastructure, labor market and vocational training, and other indicators of municipal development)	The relevant structural department of Regional Council

RDF distributing system is significantly different from the proportions of distribution, which are used to SRDF. In regions are much wider opportunities for rational distribution. In addition, RDF has more specific conditions of use.

There are two blocks of conditions of projects selection for funding from RDF: compulsory and basic. Basic terms of project selection sectoral formed in accordance with the objectives of regional development and related investment priorities. They should take into account:

- development strategy of the municipality;
- availability of municipal budget and investment plan;
- action plan to involve expenditure on research and innovation.

Distribution of RDF is not based on the guaranteed provision of funds to each municipality or district. Funds are distributed solely between RDF projects on a competitive basis in accordance with the established conditions.

RDF combines postulates of local government reform and financial decentralization. Fund Management owned directly local government. The strategic goal and purpose of creation and functioning RDF determined primarily by internal policies and strategies of regional development strategies of municipalities' specific fields. This expands the opportunities for increasing their own financial resources of the region and its efficiency.

There a number of expected results from RDF implementation in practice of local government in Ukraine:

- improving the management of regional development;
- territorial socio-economic integration and spatial development;
- improving the competitiveness of regions;
- reducing the gap in socio-economic development;
- ensuring the quality and accessibility of public services;
- development of municipal-private partnership;
- supporting of sustainable investment in the development of each region;
- increasing the level of professionalism of local authorities in the design and implementation of development projects territories;
- stimulation of local initiatives for effective use of internal capacity of municipalities and their maximum mobilization of financial resources;
- efficient allocation and using of local financial resources;
- ensuring of continuous development of municipal economic infrastructure in order to increase local financial resources.

Further research will address the issue of constructing a system of evaluation of actual impact of implemented RDF projects.

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