

CONCEPTS OF EFFECTIVE USE OF FINANCIAL RESOURCES FOR TERRITORIAL COMMUNITIES

КОНЦЕПЦІЇ ЕФЕКТИВНОСТІ ВИКОРИСТАННЯ ФІНАНСОВИХ РЕСУРСІВ ТЕРИТОРІАЛЬНИХ ГРОМАД

The article discusses the concepts of assessing the effectiveness of the use of financial resources of territorial communities. It has been established that the current concept provides for an assessment of such effectiveness separately from the financial resources of local budgets and financial resources of budget programs implemented by territorial communities. The use of a system of performance indicators, grouped into four groups, allows us to assess the effectiveness of the use of financial resources of territorial communities.

Key words: financial resources, efficiency, territorial communities, decentralization, local budgets.

У статті розглянуто концепції оцінки ефективності використання фінансових ресурсів територіальних громад. Встановлено, що діюча концепція передбачає проведення оцінки такої ефективності окремо по фінансових ресурсах місцевих бюджетів та по фінансових ресурсах бюджетних програм, які реалізуються територіальними громадами. Використання системи результативних показників, які згруповано у чотири

групи, дає змогу провести оцінку ефективності використання фінансових ресурсів територіальних громад.

Ключові слова: фінансові ресурси, ефективність, територіальні громади, децентралізація, місцеві бюджети.

В статье рассмотрены концепции оценки эффективности использования финансовых ресурсов территориальными общинами. Установлено, что действующая концепция предусматривает проведение оценки такой эффективности отдельно по финансовым ресурсам местных бюджетов и по финансовым ресурсам бюджетных программ, реализуемых территориальными общинами. Использование системы результативных показателей, сгруппированных в четыре группы, позволяет провести оценку эффективности использования финансовых ресурсов территориальных общин.

Ключевые слова: финансовые ресурсы, эффективность, территориальные общины, децентрализация, местные бюджеты.

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Formulation of the problem. The process of decentralization began in Ukraine in 2014 after the adoption of the Concept for the reform of local self-government and territorial organization of power in Ukraine (the Concept). One of the problems which needs to be solved in the field of local self-government, the Concept identified a deterioration in the quality and accessibility of public services as a result of the resource insolvency of local self-government bodies to exercise their own and delegated powers. One of the proposed changes to the Concept provided for the creation of appropriate material, financial and organizational conditions to ensure that local self-government agencies exercise their own and delegated powers. The creation of such conditions, in turn, should be carried out in compliance with the 20 principles proposed by the law, among which, we emphasize the principle of increasing the transparency and efficiency of using budget funds by introducing a program-target method for all local budgets. In addition, the Concept, among the expected results of its implementation, involves the introduction of standards (or norms) on the quality of public services provided to the population by local and regional authorities and determining criteria for assessing the quality of such services. That is, only the introduction of the program-target method for all local budgets, the Concept identifies as a way to increase the efficiency of using budget funds.

Analysis of recent research and publications.

Such Ukrainian researchers as Goryn V., Kyrylenko O., Markovich G., Malyniak B., and others made a signifi-

cant contribution to the formation of theoretical foundations of financial resources for territorial communities. At the same time, the notion of the efficiency of using financial resources for territorial communities is a concept *that needs to be studied more deeply.*

The purpose of the paper is to research the theoretical aspects concepts of effective use of financial resources for territorial communities.

Results and discussion. When considering the essence of the concept of «effectiveness» of using budget funds, the opinions of domestic scientists are close, and the concept is widely described in the current legislation. Etymologically, efficiency comes from the English word «efficiency», which one of its values has such a state or ability to perform something with the least cost of time or effort. In the context of our research, we will, by efficiency, understand the indicator (or several indicators) that will measure the resulting effect (result) from the actions of local governments to the costs (material, financial and organizational) incurred for its receipt.

Following this approach and the views of Swedish economists K. Wicksell and E. Lindahl, domestic scholars Malinyak B. and Goryn V. proposed a formula for determining the effectiveness of budget expenditures (formula 1) [1, p. 29]:

$$\frac{PUBLIC\ GOODS}{COSTS\ (TAX)} = EFFICIENCY \quad (1)$$

As can be seen from the formula 1, the scientists noted that the costs incurred for the provision of pub-

lic goods are embodied in the majestic taxes used for such purposes. This approach allows not to classify incurred expenses of local self-government bodies on material, financial or organizational understandings, that the source of their education in any case are compulsory payments in favor of the state in the form of taxes or fees. Markovich G. proceeding from the provisions of Art 20 of the Budget Code of Ukraine states that «...за наявності у своєму розпорядженні значних фінансових ресурсів, перед місцевими органами влади постає важливе завдання – максимально ефективно їх використання, за умови забезпечення при цьому прямого взаємозв'язку між розподілом коштів і фактичними результатами їх використання відповідно до визначених пріоритетів розвитку громади...» [...] in the presence of considerable financial resources, an important task for the local authorities is to maximize their effective use, provided that there is a direct relationship between the distribution of funds and the actual results of their use in accordance with the defined community development priorities...» [2]. Thus, the author of the concept considers the effectiveness of using budget funds mainly in the context of their relevance to the priorities of the development of the local community. This task, in her opinion, is achieved by applying the program-target method in the budget process.

A similar conclusion is that «...визначення пріоритетів при розподілі бюджетних ресурсів, виявленям джерел фінансування витрат та контроль за цільовим та ефективним використанням коштів можливо при застосуванні програмно-цільового методу формування бюджету, застосування якого... підвищило його ефективність, так як процес формування бюджету починається з зосередження уваги на результатах, які необхідно досягти в державному секторі та на ресурсах потрібних для досягнення цих результатів... [identifying priorities in allocating budget resources, catching sources of cost financing, and monitoring the targeted and effective use of funds is possible with the application of the program-target method of budget formation, the application of which ... has increased its efficiency, as the process of budget formation begins with focusing on the results that need to reach the public sector and the resources needed to achieve these results]» [3, p. 161] the authors of the textbook «Budget Management» have formulated. That is, according to the mentioned authors, the tools of the program-target method used in Ukraine ensure the efficiency of using budget funds. It is the concept of efficiency that is identified with the results to be achieved and the resources that should be spent on it.

Thus, a concept of «efficiency» of the adherents of the program-target method does not involve comparing spent resources of local governments to provide them with public goods but involves the existence of a mechanism for determining the optimal amount of

resources to provide such benefits (achievement of the set tasks).

The formed concepts indicate that there is no single approach to assessing the effectiveness of the use of financial resources of territorial communities. The problem of determining such efficiency is to develop a unified approach to assessing community benefits provided by territorial communities and to assess the resources provided by local authorities.

Developers and researchers of the program-target method in planning and implementation of local budgets proposed to evaluate the efficiency of using local budget funds through the prism of effective indicators [4; 5]. The process of calculation of these indicators serves as one of the components of the use of the program-target method in the budget process at the local level. In addition, Art. 20 of the Budget Code of Ukraine provided for an approach by which «...Такі показники мають підтверджуватися офіційною державною статистичною, фінансовою та іншою звітністю, даними бухгалтерського, статистичного та внутрішньогосподарського (управлінського) обліку [...] Such indicators should be confirmed by official state statistical, financial and other reports, data of accounting, statistical and internal (management) accounting...» (the Normative Concept). Thus, an estimation of the efficiency of using budget funds through the prism of effective indicators is carried out by the accounting services of the respective territorial agencies of the Ministry of Finance of Ukraine.

In the vast majority of studies, Ukrainian scientists adhere to the Normative Concept, deepening and expanding the scope of its use in the budget system of the country. Beyond the normative Concept, Malyniak B. and Goryn V. proposed to conduct an assessment of local budget expenditures for assessing their legality (first way) and efficiency (second way). In order to assess the effectiveness of local budget expenditures, an approach has been identified «...логіка визначення ефективності видатків бюджету передбачає оцінювання користі від послуг самими споживачами, тобто громадянами... громадськість є важливим суб'єктом контролю за ефективністю бюджетних видатків [...] the logic of determining the effectiveness of budget expenditures involves assessing the benefits of services by consumers themselves, that is, citizens ... the public is an important subject of control over the efficiency of budget expenditures...». According to the authors, the effectiveness of budget expenditures is estimated by their compliance with four criteria:

1. Observance of democratic procedures for planning and implementation of the local budget
2. Evaluation of compliance of budget expenditures with public priorities
3. Analysis of the implementation of budget programs and achievement of the planned goals
4. Study of the cost of services [1, p. 2–30].

Table 1

Concepts of assessing the effectiveness of using budget funds

Types of concepts	Characteristic	
The normative Concept	Using the system of performance indicators, which are grouped into 4 groups	It considers the interests of the state
Concept by Malyniak-Goryn	Use of criteria grouped into 4 groups	It considers the interests of the public; It determines the importance of democratic procedures in the budget process

In accordance with the above-mentioned approach, an entity that not only must but also is obliged to «evaluate» the effectiveness of the use of budget resources serving the population of the territorial community (Concept by Malyniak-Goryn).

In table 1 grouped the peculiarities of the presented concepts of assessing the effectiveness of the use of financial resources of territorial communities.

Table 1 shows that the Normative Concept, as well as the Malyniak-Goryn Concept, differ in view of the notion of efficiency, since they consider the interests of different parties in budgetary relations – the state and the public respectively. In addition, the Maliniak-Goryn Concept expands its view on the efficiency of using budget funds through the prism of observance of democratic procedures in the budget process.

That is, the Normative Concept differs from the approach by which the public (Malyniak, Goryn) assesses the efficiency of the use of budget funds so that evaluation can be carried out independently by public authorities without discussing it with local communities. The assessment itself is proposed to be carried out only on the basis of the accounting and reporting activities of local authorities.

The domestic practice of evaluating the effectiveness of using financial resources of territorial communities is based on the Normative Concept and the implementation of the program-target method in the budget process. The implementation of this method is described in Art. 20 of the Budget Code of Ukraine (Figure 1).

As can be seen from Figure 1, assessment of the effectiveness of using local budget funds is one of the components of the implementation of the program-target method in their planning and implementation by local authorities.

According to the proposed approach, the local budget consists of a set of *budget programs*, in relation to which each representative body determines the purpose of the program, its tasks, and responsible executors. *The result indicators* characterize the implementation of the budget programs adopted by the local community, the degree of performance of the tasks set and the achievement of the defined goal, and, ultimately, give an assessment of the performance of each budget program (Figure 2).

To carry out an assessment of local budget expenditures (or approved budget programs),

the Ministry of Finance of Ukraine developed the appropriate methodology and identified four groups of performance indicators:

1. Cost Indicators (determine the amount and composition of financial resources of budget programs that ensure their implementation and characterize the structure of expenditure);
2. Product Indicators (for example, the volume of produced products, services rendered or work performed for the implementation of the budget program, etc., and are used to assess the achievement of the program's aim).
3. Result Indicators (can be defined as the cost of resources per unit of product index (economy), the ratio of the maximum amount of manufactured goods (performed works, services rendered) to a certain amount of financial resources (productivity) or achieve a certain result (effectiveness), depending on the tasks performed provides implementation of the budget program);
4. Quality Indicators (characterize the achieved results of the quality of the created public good and satisfy the consumer at the expense of the funds of the separate budget program) [3, p. 164; 4; 5].

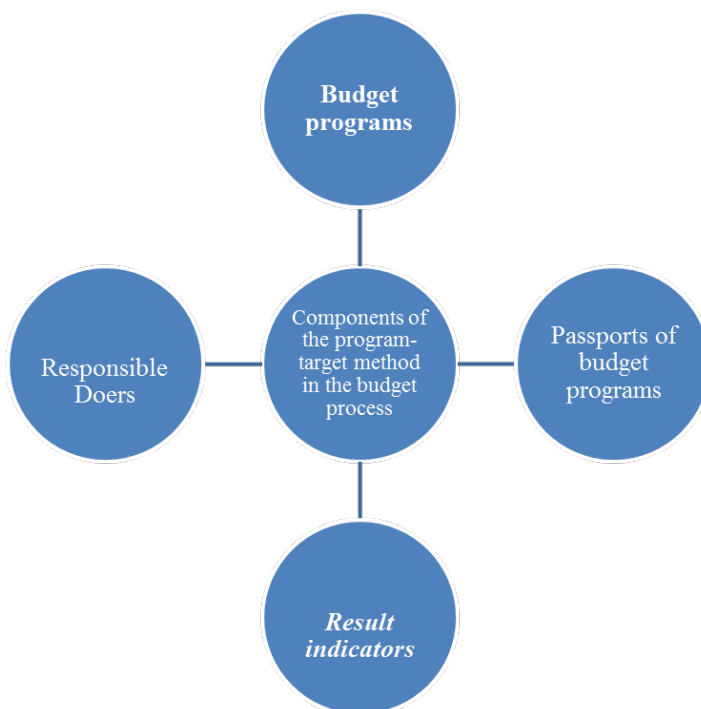


Figure 1. Components of the program-target method in the budget process

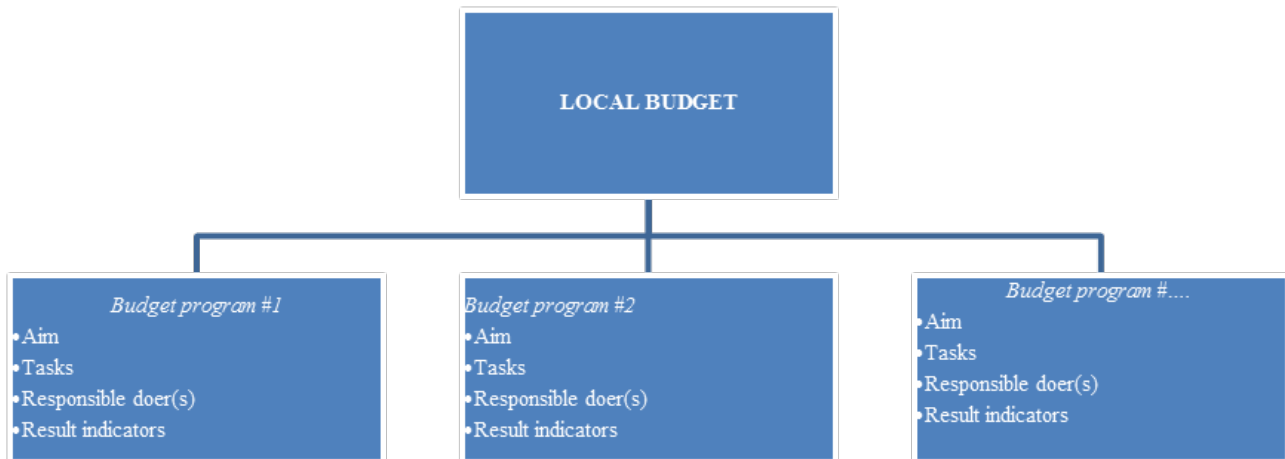


Figure 2. Components of expenditures of local budgets

The assessment of the effectiveness of the budget program is conditionally divided into an analysis of its compliance with the plan of the main spending manager, the priorities of socio-economic development of the country and the region and the current legislation and, in fact, for the analysis of the plan and actual indicators of the program itself [5]. For example, the budget program «Management in the field of Education and Science, Youth and Sports» was analyzed on the following results:

- Cost Indicators (the number of staff units, the area of administrative premises);
- Product Indicators (the number of received letters, applications, applications; the number of meetings held, meetings; the number of purchased equipment and items of long-term use);
- Result Indicators (the number of executed orders per employee; the cost of maintaining one staff unit and the cost of purchasing a unit of equipment);
- Quality Indicators (% of timely executed orders, letters, hits in their total number)

We note a certain conventionality of the proposed performance indicators, such as: the number of appeals by citizens and the number of executed orders per employee, which was 100% during the reporting period, as well as the number of meetings held – 100 per year, which ended with a «qualitative» indicator – a percentage timely executed orders, letters, appeals in their total number. It is clear that according to other budget programs, the «effectiveness» situation will be measured by similar indicators or close to them. This testifies to the existence of a completely formal approach to the decision of the performance of budget programs by their performers. The key issue that accompanies the current system of evaluating the effectiveness of using financial resources of territorial communities in Ukraine is that

performance indicators are offered and monitored by budget implementers themselves.

Conclusions. The concept of «efficiency» when using the program-target method of planning and implementation of local budgets implies the existence of a mechanism for determining the optimal amount of resources for providing public goods to local authorities. However, the volume of expended resources is not compared with the volume of provided public goods. The current practice of evaluating the effectiveness of the use of financial resources of the territorial community has shown that it is carried out by the State Audit Office of Ukraine. At the same time, the effectiveness of local budgets and budget programs is assessed separately. The study of the current practice using of financial resources for territorial communities through the prism of the developed indicators of their effective opens up for our prospects for **future research in this area of financial science.**

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