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JUSTIFICATION OF STRATEGIC DIRECTIONS FOR INCREASING THE EFFICIENCY OF STATE FINANCIAL MANAGEMENT OF THE REGION

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ABSTRACT

The article substantiates the strategic directions of increasing the efficiency of state financial management of the region, proposes an economic-mathematical model for assessing the optimal scale of tax-budgetary decentralization in the conditions of inter-regional differentiation. The authors emphasize that the urgency of solving the problems of state financial management of the region is due to the impossibility at this stage of creating a certain universal model of regional development. This is primarily related to the unfinished process of forming a comprehensive assessment of the territorial level of development, analysis of socio-economic differentiation and typification of regions, use of state and regional financial policy tools. It is noted that the finances of the region, as the main tool for the implementation of the state socio-economic policy, are designed to promote the development of production, the growth of employment of the population, the attraction of investments in the economy, etc.

Three options for the distribution of tax powers between the state and the regions were considered: 1) all tax powers belong to the regions, which independently determine the level of the tax burden and the volume of production of public goods; 2) all tax powers belong to the centre, which determines the level of the tax burden and distributes the received tax revenues between the regions, thus influencing the volume of production of public goods in each of the regions; 3) the distribution of tax powers between the centre and the regions, for which the volume of production of public goods in each of the regions depends both on the tax and budget policy of the centre and on the tax policy of each of the regions. Based on the application of economic-mathematical modelling methods, a conclusion was made about the dependence of the optimal level of decentralization on the level of interregional economic differentiation.

Two groups of problems have been singled out, which directly affect the financial management of the region and the consideration of which requires the application of different methodological approaches and methods of state administration: external problems that do not depend on specific regions, are common to all regions of Ukraine, but affect each of them differently them; internal problems that were formed under the influence of internal factors of socio-economic development, which determine the characteristics of each specific region.

The key factors of success for a specific region have been determined, provided that certain instruments of state regulation are applied.

Keywords: public administration, regionalization, regional finances, decentralization, socio-economic development, fiscal and budgetary policy, fiscal powers, budgetary transfers

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INTRODUCTION

The scale of increasing globalization of the world economy and "new regionalization" is turning national regions into independent players, encouraging the activation of competitive and integrative economic interactions in the global space. At the same time, the growing differentiation of regional development, the reform of inter-budgetary relations in the state necessitated a change in approaches to state management of the financial stability of regions, increasing the effectiveness of state regulation tools to improve financial support for socio-economic development of regions on the basis of stability and security.

Crisis phenomena in the world economy and the problems of a decrease in economic activity in the state affect the ability of regional socio-economic systems to withstand external and internal financial risks. Under such conditions, the dominant factors in achieving the effectiveness of the development of national regions are a high level of realization of one's own financial potential, the ability to attract external financial resources and direct them to highly profitable areas of economic activity, optimization of the structure of the region's finances according to the sources of formation and directions of use, and, especially, the tools of state administration, which is used to improve the process of regulating financial flows in the region.

The need to approach European standards of local self-government activity in Ukraine exacerbated the problems of developing regional finances, increasing the efficiency of state management of them on the basis of optimal determination of the ratio of the level of state and regional influence, as mandatory attributes of a democratic state.

Balanced development of state and regional socio-economic systems in Ukraine is impossible without solving numerous problems of forming state and regional budgets, including interregional redistribution of financial resources.

The outlined issues led to the need to research the complex scientific problem of the functioning and development of regional finances, and their effective state management.

Despite considerable work on this issue, it must be stated that today the essence and peculiarities of regional finances are paid much less attention than issues of national finances, and the state management of regional finances is still not distinguished by the complexity and systematicity of solving problems, which does not contribute to the achievement of financial self-sufficiency of the region.

LITERATURE REVIEW

One of the most important aspects of the socio-economic development strategy is the separation of powers between the centre and the regions. From the point of view of economic theory, this problem was first posed in the classic works of Ch. Tiebout [1] and W. Oates [2], in which justification was given for the advantages of a decentralized decision-making option by determining the volume and structure of the production of public goods compared to a centralized option.

Oates' decentralization theorem states that, in the absence of savings from the centralized production of public goods and interregional externalities, a decentralized decision-making option for the provision of public goods either increases the level of public welfare compared to the centralized option or provides the same level of public welfare. The size of the gains from decentralization depends primarily on the level of differentiation of demand for public goods in different regions and interregional differences in the costs of their production. However, the existence of positive external effects and economies of scale in the provision of a number of public goods and the administration of many taxes determine the feasibility of centralizing a number of economic functions of the state.

Tiebout's hypothesis asserts that under the conditions of 1) absolute mobility of the population, which has full information about the nature of socio-economic policy carried out in the regions, 2) the presence of a significant number of regions and 3) the absence of external effects, decentralization leads to an increase in the level of public welfare because it forms the prerequisites for adequately identifying the preferences of the population regarding the production of public goods and the fullest implementation of these preferences. When changing the place of residence, each individual chooses the best set of public goods and their prices, which are served by regional taxes. As a result, there is a certain market in which regional authorities compete for the involvement of residents, changing the level of tax rates, as well as the volume and structure of public goods that are produced to meet the needs of the residents of the region.

It is obvious that in reality the conditions on which Tiebout's hypothesis is based are only partially fulfilled (migration costs are too high, the population does not have complete and reliable information about the socio-economic policies carried out by the authorities of various regions, and there are significant external effects). However, as emphasized by Oates, the advantages of decentralization do not disappear even in the case of absolute immobility of the population, since the effective volumes and structure of the production of public goods differ significantly in different regions depending on the natural and geographical conditions and preferences of the population [3].

Decentralization has not only advantages but also disadvantages, as indicated by a number of researchers, in particular R. Prudhomme [4] and V. Tanzi [5]. One of the most serious problems of the decentralized model is the threat of inefficient tax competition between regional authorities. In an effort to speed up the rate of economic development of the subdepartmental territory, regional authorities can resort to a significant reduction in tax rates in order to attract new investments. Such a struggle for investments between regions can lead to a significant reduction in tax rates and the production of public goods in an amount that will be significantly lower than the optimal level.

However, J. Brennan and J. Buchanan consider interregional tax competition not so much a disadvantage but an advantage of a more decentralized model [6]. This position stems from their view of the public sector of the economy, which they see as a Leviathan that seeks to maximize its own scale and absorb as much of the private sector's resources as possible by increasing the tax burden. In order to prevent Leviathan's desire for expansion, it is necessary to move to a decentralized model in which regional authorities competing for the tax base will be deprived of the opportunity to increase the tax burden.

This approach is advocated by B. Weingast, whose reasoning is based on the fundamental political dilemma of the economic system: "A government that is strong enough to ensure the protection of property rights and the performance of contracts is also strong enough to confiscate a certain part of the welfare of its citizens" [7]. Weinghast sees the guarantee of protecting the interests of citizens from the encroachments of powerful state authorities in the use of a decentralized management model, which allows for maintaining competitive relations and is based on three main conditions:

- most of the powers of state regulation of the economy belong to regional authorities;
- free movement of goods and factors of production between regions is ensured;
- regional authorities operate under strict budget restrictions, by which Weingast understands the lack of access to money issuance and unlimited loans, as well as the lack of support for regional authorities from the central government due to the regional budget deficit.

The most radical critic of fiscal and budgetary decentralization, R. Prudhomme, points to a number of shortcomings of the decentralized model. Among them, in particular, the decrease in the effectiveness of the macroeconomic stabilization policy as a result of the loss of a significant part of the tax and budgetary powers by the central authorities, the decrease in the efficiency of the public sector due to the lower qualification and higher corruption of the apparatus of regional authorities, the formation of conditions for the deepening of interregional economic differentiation [8].

AIMS AND OBJECTIVES

The purpose of the article is to define and substantiate the strategic directions for improving the efficiency of state financial management in the region. To solve it, the authors set and solved the following tasks:

- to propose an economic-mathematical model for assessing the optimal scale of tax-budgetary decentralization in conditions of interregional differentiation;
- to consider options for the distribution of tax powers between the state and regions;
- to single out groups of problems that directly affect the management of the region's finances and the consideration of which requires the application of various methodological approaches and methods of state administration, and to establish the dependence of the level of decentralization on the level of interregional economic differentiation;
- to determine the key factors of success that help analysts to reveal the real state of use of the resource potential of the region, subject to the application of state regulation methods.

METHODS

To write the article, a systematic approach, and basic provisions of the theories of finance, management, public management and administration were used. Methods of comparison, synthesis and analysis, and graphic interpretation were used to establish regularities and special features of the development of the region's finances. To compare options for the distribution of tax powers between the state and regions, the article uses methods of mathematical modelling, in particular, methods of maximizing the level of the utility function for the average resident of the country. Determination of key factors of success and formation of conclusions regarding the effectiveness of state financial management of regions was carried out using methods of deduction, hierarchies, and clustering.

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RESULTS

Solving problems in the field of financial management of the region requires the development of financial relations at the level of "regions - the state" based on the definition of the commonality of their goals in ensuring the socio-economic development of the regions and the national economy of Ukraine in general. Having common sources of filling the state and local budgets and performing joint support functions in the implementation of the processes of social and economic development, the finances of the regions and the finances of the state differ significantly among themselves according to the following indicators:

- the level of financial security of socio-economic development of regions and the state;
- consistency of regional finance management functions with the goals, tasks and powers of local authorities regarding the completeness and effectiveness of using the resource potential of the regions and territories included in it;
- the ability of regions and individual territories to ensure the realization of socio-economic goals of their development in accordance with directive requirements of higher authorities;
- differentiation of regions according to their ability to meet social standards for ensuring the livelihood of the population with their own resources and the results of production and economic activity;
- differentiation of regions according to the level of their resource potential and the possibilities of their real use for a certain period of time;
- prospects for the development of regions if their needs for financial resources are met;
- availability of mechanisms for stimulating the social and economic development of regions and individual territories, etc.

The share of transfers in the revenues of local budgets is determined by the degree of independence of local self-government bodies and approaches to equalizing living conditions across the country. In most OECD countries, taxes received by local budgets do not exceed 5% of GDP and include not only tax revenues to local budgets but also national taxes distributed between the central and local budgets. Tax revenues to local budgets are most often formed at the expense of real estate taxes and income taxes (although they can come not only to local budgets but also to central ones).

Let's consider three main options for the distribution of tax powers between the state and regions:

1) all tax powers belong to the regions, which independently determine the level of the tax burden and the volume of production of public goods (absolute decentralization);

2) all tax powers belong to the centre, which determines the level of the tax burden and distributes the received tax revenues between the regions, thereby influencing the production of public goods in each of the regions (absolute centralization);

3) the distribution of tax powers between the centre and the regions, for which the volume of production of public goods in each of the regions depends both on the tax and budget policy of the centre and on the tax policy of each of the regions.

Let's start by considering the option of absolute decentralization. Let Pi residents of region i produce GRP in the amount of yi units per person. All tax powers belong to regional authorities, which determine the level of the tax burden by setting the rate of value-added tax in the amount of ti. Let regional authorities, forming the main parameters of tax and budget policy, proceed, first of all, from the preferences of the residents of the region regarding the choice between the consumption of individual and public goods.

Let the utility function (utility is the ability of consumer goods to satisfy people's needs. The term "utility" is used to denote the pleasure that people get from consuming goods or services) of one resident of region i has the form

$$u_i = a_i^{\alpha_i} b_i^{\beta_i}, \tag{1}$$

where a_i – he volume of consumption of individual goods by one inhabitant of the region;

bi – volume of consumption of public goods by this resident of the region;

αi and βi – parameters.

Let's assume that the law of diminishing marginal utility of income applies and the inequality holds $\alpha_i + \beta_i < 1$.

When determining the tax rate t_i, regional authorities, having at their disposal complete information about the preferences of the population, should maximize the value of the utility function:

$$u_i = a_i^{\alpha_i} b_i^{\beta_i} = [y_i(1-t_i)]^{\alpha_i}(y_i t_i)^{\beta_i} = y_i^{\alpha_i+\beta_i}(1-t_i)^{\alpha_i} t_i^{\beta_i}. \quad (2)$$

Then the optimal value of the tax rate t_i^{opt} can be determined as the maximum point of the function$u_i(t_i)$ $u_i(t_i)$. Differentiating the utility function *ui* by *ti* and equating the derivative to zero, we have:

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$$\frac{\partial u_i}{\partial t_i} = y_i^{\alpha_i+\beta_i}\left[-\alpha_i(1-t_i)^{\alpha_i-1} t_i^{\beta_i} + (1-t_i)^{\alpha_i}\beta_i t_i^{\beta_i-1}\right], \quad (3)$$

$$-\alpha_i(1-t_i^{opt})^{\alpha_i-1}(t_i^{opt})^{\beta_i} + (1-t_i^{opt})^{\alpha_i}\beta_i(t_i^{opt})^{\beta_i-1} = 0. \quad (4)$$

Hence

$$t_i^{opt} = \frac{\beta_i}{\alpha_i+\beta_i}. \quad (5)$$

It can be shown that when passing through a point t_i^{opt} derivative $\frac{\partial u_i}{\partial t_i}$ changes the sign from "+" to "–" and the point is indeed the maximum point of the utility function u_i.

The obtained result shows that with full decentralization of tax and budget powers, the optimal tax rate set by regional authorities depends on the ratio of elasticity coefficients ɑi and βi. The higher the coefficient of elasticity of the utility function of a typical resident of the region in terms of consumption of public goods compared to the coefficient of elasticity of the utility function in terms of consumption of individual goods, the higher the optimal regional tax rate will be. Thus, ceteris paribus, well-informed regional authorities will set a higher level of tax rates if the residents of the region show an interest in increasing the consumption of public goods, and a lower level of tax rates if the residents of the region show an interest in increasing the consumption of individual goods.

Consider the opposite option of complete centralization of tax and spending powers. In this case, regional authorities lose their authority to set tax rates, and central authorities set a single tax rate T for all regions. The tax revenues received are spent in the regions (these can be both direct expenses of central authorities and expenses of regional authorities, financed by transfers from the centre).

In this case, the volumes of consumption of individual and public goods by residents of region i are determined by the following conditions:

$$a_i = y_i(1-T), \quad (6)$$

where ki – the share of expenses of the consolidated budget of the country for financing the needs of region i, which is determined by the decision of the central authorities.

The variation of the utility function for residents of each of the regions during the transition from absolute decentralization to absolute centralization of tax-budgetary powers is determined by such actions of central management bodies as setting the level of the tax burden by changing the tax rate T and distributing tax revenues accumulated in the budget between regions through variation of distribution coefficients ki.

Let the central authorities not have at their disposal detailed information about the specifics of the inhabitants of different regions in relation to giving preference to the consumption of individual or public goods, but they have at their disposal information about the average resident of the country, and the elasticity coefficients of the utility function for the average resident of the country ɑ and β are correlated with by elasticity coefficients of utility functions for typical residents of the regions according to the formulas:

$$\alpha = \frac{\sum_i \alpha_i P_i}{\sum_i P_i} \quad (7)$$

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and

$$\beta = \frac{\sum_i \beta_i P_i}{\sum_i P_i} \tag{8}$$

Then the rational actions of the central authorities are aimed at maximizing the level of the utility function for the average resident of the country. This can be achieved by setting the tax rate at the level

$$T^{opt} = \frac{\beta}{\alpha+\beta}. \tag{9}$$

In the case of the distribution of accumulated tax revenues between regions in proportion to their population

$$k_i = \frac{P_i}{\sum_j P_j} \tag{10}$$

the specific weight of consumption of public goods in region *i* will be

$$b_i = \frac{\beta}{\alpha+\beta}\frac{\sum_j y_j P_j}{\sum_j P_j} = \frac{\beta}{\alpha+\beta} y, \tag{11}$$

where y – the country's GDP per capita.

Now let's consider a more complicated case of demarcation of fiscal and budgetary powers between the centre and the regions. Let the tax authority be divided between the centre and the regions so that the centre establishes a national tax rate T, uniform for all regions, and also gives the regions the right to conduct an independent tax policy by establishing a regional tax rate t_i. Revenues accumulated through the collection of a national tax are spent on the production of public goods in the regions and distributed among regions in proportion to their population, and revenues accumulated through the collection of a regional tax are fully spent on the production of public goods in the region.

We introduce the parameter of the level of centralization γ, 0 < γ < 1, and set the national tax rate at the level

$$T^* = \frac{\beta\gamma}{\alpha+\beta}. \tag{12}$$

Then the specific volumes of consumption of individual and public goods by residents of region i will be determined by the conditions

$$a_i = y_i\left(1 - \frac{\beta\gamma}{\alpha+\beta} - t_i\right), \tag{13}$$

$$b_i = \frac{\beta\gamma y}{\alpha+\beta} + t_i y_i. \tag{14}$$

Let the regional governing bodies use the same strategy as in the absolute decentralization option discussed above when forming tax and budget policy. Taking into account the parameters of the tax and budget policy of the centre and the region, the utility function for a typical resident of the region can be written as

$$u_i = \left(y_i - \frac{\beta\gamma y_i}{\alpha+\beta} - t_i y_i\right)^{\alpha_i}\left(\frac{\beta\gamma y}{\alpha+\beta} + t_i y_i\right)^{\beta_i} \tag{15}$$

Differentiating the utility function ui by ti and equating the derivative to zero, we get

$$-\alpha_i\left(\frac{\beta\gamma y}{\alpha+\beta} + t_i^{opt} y_i\right) + \beta_i\left(y_i - \frac{\beta\gamma y_i}{\alpha+\beta} - t_i^{opt} y_i\right) = 0. \tag{16}$$

Hence

$$t_i^{opt} = \frac{\alpha\beta_i y_i - \alpha_i\beta\gamma y + \beta\beta_i y_i - \beta\beta_i\gamma y_i}{\alpha\alpha_i y_i + \alpha\beta_i y_i + \beta\alpha_i y_i + \beta\beta_i y_i} \tag{17}$$

In order to give a meaningful interpretation of the obtained result, let's consider a number of possible combinations of model parameter values. Suppose that the residents of the region give preference in the choice between public and individual goods in the same proportion as the average resident of the country as a whole ($\alpha_i = \alpha$, $\beta_i = \beta$). Then the expression for determining the optimal regional tax rate (3.10) is simplified to

$$t_i^{opt} = \frac{\alpha\beta y_i - \alpha\beta\gamma y + \beta^2 y_i - \beta^2\gamma y_i}{(\alpha+\beta)^2 y_i} \quad (18)$$

Let the degree of centralization go to zero. Then practically all the powers regarding tax regulation belong to the regional authorities, and the optimal rate of the regional tax is determined by the condition

$$\lim_{\gamma\to 0} t_i^{opt} = \frac{\beta(\alpha+\beta)y_i}{(\alpha+\beta)^2 y_i} = \frac{\beta}{\alpha+\beta} \quad (19)$$

This result exactly corresponds to the one obtained within the model of absolute decentralization of tax and budgetary powers.

Let the degree of centralization go to unity. Then the tax rate payable to the central budget is the maximum. In addition to the national tax, regional authorities introduce a regional tax, the optimal rate of which is determined by a condition

$$\lim_{\gamma\to 1} t_i^{opt} = \frac{\alpha\beta(y_i - y)}{(\alpha+\beta)^2 y_i} = \frac{\alpha\beta}{(\alpha+\beta)^2}\left(1 - \frac{y}{y_i}\right) \quad (20)$$

If the level of economic development of the region corresponds to the national average, the ratio y/yi is equal to one, and the optimal regional tax rate will be zero. This means that the costs for the production of public goods, which are financed from the budget of the centre, exactly correspond to the preferences of the residents of the region, and the regional authorities do not need to accumulate additional resources to finance the production of public goods for the benefit of the residents of the region.

If the level of economic development of the region exceeds the average level in the country, the ratio y/yi will be less than unity. Therefore, the optimal policy of regional governing bodies is to establish such a regional tax rate that allows the regional budget to accumulate additional funds in order to increase the financing of the production of public goods.

If the level of economic development of the region is lower than the average in the country, the ratio y/yi exceeds one, then the introduction of regional taxes in addition to national taxes is inappropriate. In such regions, there may be a situation of overproduction of public goods, the central budget financed by tax revenues. If the regional governing bodies have the ability to dispose of the transfers of the centre without restrictions, then their optimal policy is to provide subsidies to the residents of the region in the amount

$$s_i = \frac{\alpha\beta}{(\alpha+\beta)^2}(y - y_i) \quad (21)$$

Let the degree of centralization be 0.5. Then the central governing bodies set the national tax rate at the level

$$T^* = \frac{\beta}{2(\alpha+\beta)}, \quad (22)$$

and regional governing bodies set the regional tax rate at the level

$$t_i^{opt} = \frac{\beta^2 + \alpha\beta\left(2 - \frac{y}{y_i}\right)}{2(\alpha+\beta)^2} \quad (23)$$

The higher the level of economic development of the region, the higher will be the optimal regional tax rate and the higher will be the specific volume of production and consumption of public goods.

Let us return to the initial formula that determines the optimal regional tax rate in the conditions of separation of fiscal and budgetary powers, and suppose that the level of economic development of the region corresponds to the average level in the country, but the residents of the region are more inclined to consume public goods compared to the average resident of the country, in contrast to individual Then yi = y, αi < α, βi > β, and the optimal regional tax rate is determined by the condition

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$$t_i^{opt} = \frac{\beta_i(\alpha+\beta)-\beta\gamma(\alpha_i+\beta_i)}{(\alpha+\beta)(\alpha_i+\beta_i)} = \frac{\beta_i}{\alpha_i+\beta_i} - \frac{\beta\gamma}{\alpha+\beta} \quad (24)$$

The higher the propensity to consume public goods in region i compared to the average level in the country and the lower the degree of centralization, the higher the optimal regional tax rate will be.

Equations (15) and (17) can be used to study the impact of changes in the degree of centralization on the well-being of residents of the country and its regions. The most important advantage of decentralization within the framework of this model is a more accurate account of the specific tendencies of the residents of the region, due to the informational advantages of the regional authorities. The biggest disadvantage of decentralization is the impossibility of supporting at a socially acceptable level the well-being of residents of underdeveloped regions who do not have the necessary economic potential to generate income that can be used both for the purchase of individual goods by the residents of the region and for accumulation in the regional budget to cover expenses from the production of public goods. It can be assumed that the smaller the differentiation of regions according to the level of socio-economic development, the better the result will be the decentralized model.

Consider a country consisting of ten regions that are characterized by the same population size. Let the utility functions for typical residents of the regions be characterized by the values of parameters α_i and β given in Table 1.

Table 1. Parameters of utility functions for typical residents of the regions.

Region	α_i	β_i
Region 1	0.4	0.4
Region 2	0.4	0.4
Region 3	0.45	0.35
Region 4	0.45	0.35
Region 5	0.5	0.3
Region 6	0.5	0.3
Region 7	0.55	0.25
Region 8	0.55	0.25
Region 9	0.6	0.2
Region 10	0.6	0.2
Country	**0.5**	**0.3**

Let's consider three variants of interregional economic differentiation.

Suppose that, according to the first option, absolute interregional parity is achieved in the country, and in each of the regions the GRP per person is equal to 100 conditional units. According to the second option, moderate interregional inequality arose. The vector of GRP per person corresponding to this option is formed as a sample from the general population described by a normal distribution law with a mathematical expectation of 100 and a standard deviation of 15, and the sample values are adjusted for the difference between the sample mean and the mathematical expectation so as to ensure the equality of the sample average 100 conditional units. According to the third option, a strong interregional differentiation has developed. In this case, the GRP vector per person is formed as a sample from the general population, which is described by the normal distribution law with a mathematical expectation of 100 and a standard deviation of 30, and the sample values are also adjusted for the correction, which allows to ensure the equality of the sample mean to 100 conditional units. The values of GRP per person corresponding to each of the above options are shown in Table 2.

Presented in Tables 1 and 2 parameter values make it possible to determine the values of the utility functions for typical residents of each of the ten regions for different values of the degree of centralization γ. By changing the degree of centralization, it is possible to influence the levels of utility for residents of different regions. The choice of the optimal degree of decentralization depends on the social welfare function of the country, which reflects the preferences of leaders and their voters.

Table 2. GRP per capita for various variants of interregional economic differentiation.

Region	Version 1	Version 2	Version 3
Region 1	100.0	116.8	72.3
Region 2	100.0	97.1	43.7
Region 3	100.0	118.5	25.5
Region 4	100.0	99.8	151.5
Region 5	100.0	87.0	96.2
Region 6	100.0	81.3	121.8
Region 7	100.0	88.5	139.8
Region 8	100.0	92.5	105.2
Region 9	100.0	97.6	141.6
Region 10	100.0	120.8	102.3
Country	**100.0**	**100.0**	**100.0**

Let's consider three possible criteria for evaluating the utility vector for typical residents of the regions - Bentham's utilitarian criterion [9], Rawls' maximin criterion [9], as well as their combination.

According to Bentham's utilitarian criterion, the welfare of each member of society has the same value, and the welfare of society as a whole is the sum of the values of individual utilities. The ranking of different utility vectors will not change if, instead of the sum of utilities, the average of them is considered, so this criterion can be written as

$$B = \frac{\sum_i u_i P_i}{\sum_i P_i} \tag{25}$$

Rawls's position shows an interest in making decisions in favour of the least well-off members of society (in this context, residents of the least developed regions). According to the Rawls criterion, the lowest of the values of individual utility functions is recognized as a measure of social well-being:

$$R = \min_i u_i \tag{26}$$

It is also possible to propose a compromise criterion that takes into account both the desire to maximize the average level of utility and the desire to improve the situation of residents of the least developed regions. This criterion can be expressed through the criteria of Bentham and Rawls by the formula

$$W = \delta B + (1 - \delta) R \tag{27}$$

where δ – weighting factor.

Since the Bentham criterion is significantly more stable compared to the Rawls criterion when varying the level of centralization, when comparing different options, it is advisable to set the value of the parameter δ at a level significantly higher than 0.5, but not higher than 1. In further calculations, we will use the value δ = 0.9.

Let's determine the values of social welfare criteria for each of these variants of interregional economic differentiation, changing the value of the degree of centralization from 0 to 1 in steps of 0.1 (Tables 3–5). The symbols B, R and W in the far-right columns indicate those lines for which the maximum value of the social welfare function is reached according to the criteria of Bentham, Rawls, and the compromise criterion, respectively.

Table 3 shows that in the case of absolute interregional parity, the optimal option for organizing the vertical structure of the public sector is the absolute decentralization of tax-budgetary powers since the values of the Bentham and Rawls criteria monotonically decrease as the level of centralization increases. Since interregional redistribution of income is not needed, the loss of information about the needs of the population as a result of centralization is not compensated by anything, which leads to a decrease in the values of the utility functions for residents of all regions and, accordingly, to a decrease in the values of all given functions of public welfare.

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Table 3. Value of social welfare criteria in case of absolute interregional parity. *(Source: generated by the authors)*

γ	*B*	*R*	*W*	max
0	23.787	22.865	23.695	*B, R, W*
0.1	23.784	22.864	23.692	
0.2	23.776	22.860	23.684	
0.3	23.761	22.852	23.670	
0.4	23.741	22.842	23.651	
0.5	23.714	22.829	23.626	
0.6	23.681	22.814	23.594	
0.7	23.641	22.795	23.556	
0.8	23.593	22.774	23.511	
0.9	23.539	22.749	23.460	
1	23.476	22.722	23.400	

As Table 4 shows, in the case of moderate interregional inequality, the value of Bentham's criterion monotonically decreases, and the value of Rawls's criterion monotonically increases as the level of centralization increases. The decrease in the utilitarian criterion is explained by the loss of informational advantages possessed by regional authorities, and the increase in the maximin criterion is due to the expansion of opportunities to improve the welfare of residents of less developed regions due to the removal of part of the income from residents of regions with a higher level of development, who act as financial donors.

The value of the trade-off criterion first increases then passes through a maximum and begins to decrease. This testifies to the possibility of determining the optimal variant of the separation of tax and budget powers between the central and regional authorities, which allows, on the one hand, to minimize the loss of significant information about the specifics of the regions and, on the other hand, to ensure a relatively fair distribution of income on the scale of the national economy.

Table 4. Value of social welfare criteria in the case of moderate interregional inequality. *(Source:*

γ	*B*	*R*	*W*	max
0	23.757	19.868	23.368	*B*
0.1	23.757	20.002	23.381	
0.2	23.750	20.130	23.388	
0.3	23.738	20.251	23.389	*W*
0.4	23.719	20.366	23.384	
0.5	23.694	20.474	23.372	
0.6	23.662	20.577	23.354	
0.7	23.624	20.673	23.328	
0.8	23.578	20.762	23.296	
0.9	23.524	20.846	23.256	
1	23.463	20.923	23.209	*R*

Table 5 shows that in the case of strong interregional inequality, absolute decentralization is inefficient not only according to the Rawls criterion but also according to the Bentham criterion. The fact is that, despite the loss of information about the specific preferences of the residents of the regions and the associated decrease in the level of utility, partial centralization provides a noticeable increase in public welfare due to the fact that the increase in the utility function for the residents of the least developed regions is greater and covers the loss of utility for residents of donor regions (this result is a consequence of the law of diminishing marginal utility of income).

Both the Rawls criterion and the compromise criterion point to the need for strong centralization of fiscal and budgetary powers, which, in conditions of strong interregional differentiation, is necessary for a noticeable improvement in the well-being of residents of the least developed regions.

Along with this, the calculations indicate the inconsistency of the current level of centralization of financial resources and the powers entrusted to regional authorities and allow to determine the optimal level of centralization in the range of 36–38% for the current level of interregional socio-economic differentiation in Ukraine.

Table 5. Value of social welfare criteria in case of strong interregional inequality*.*

γ	*B*	*R*	*W*	max
0	23.572	11.365	21.987	
0.1	23.594	11.918	22.073	
0.2	23.607	12.462	22.148	
0.3	**23.613**	12.997	22.215	*B*
0.4	23.611	**13.524**	**22.272**	*R, W*
0.5	23.602	10.799	22.122	
0.6	23.585	7.723	22.163	
0.7	23.561	8.383	22.196	
0.8	23.528	9.016	22.122	
0.9	23.488	9.627	22.139	
1	23.439	10.221	22.148	

The obtained results depend on a number of assumptions that were used to conduct the analysis, concerning both the form of these functions and the values of the parameters that characterize them. However, in our opinion, they allow us to formulate a quite certain conclusion about the dependence of the optimal level of decentralization on the level of interregional economic differentiation. In conditions of strong interregional differences, substantial centralization of tax revenues in the budget of the central government is objectively necessary. With the reduction of interregional differences and, especially, the reduction of the gap between the level of economic development of the least prosperous and typical for country (modal) regions, much wider opportunities for using the advantages of decentralization are opening up. Therefore, the country's socio-economic development strategy should provide for a review of the distribution of fiscal and budgetary powers between the centre and regions as interregional economic differentiation decreases.

It is important to note that the dual subordination of the region's finances to the state financial policy and socio-economic development goals of the regions and territories included in it not only determines the specifics of this category of finances but also largely limits its management functions. We are talking, first of all, about the limited management of finances created in the regions. The uncertainty of regulatory requirements from the state for the completeness and efficiency of the use of the resource potential of the regions, taking into account the socio-economic, demographic, production and other features of each of them, a priori puts them in unequal conditions for ensuring socio-economic development. Therefore, one of the promising areas of managing the region's finances should be the issues related to the determination of alternative options for ensuring the socio-economic development of the region with its own financial resources and the selection of the most real and effective of them. Orientation to the maximum use of one's own financial resources requires the development and substantiation of a new strategy for their management, which should be based on the principles adequate to the conditions of functioning of the public sector of the economy. This means that the management of the region's finances should be considered from the standpoint of an interrelated set of measures, instruments, and financial institutions that focus on the issues of ensuring its socioeconomic development. In this aspect, two groups of problems should be singled out, which directly affect the management of the region's finances, and the consideration of which requires the use of different methodological approaches:

- external problems of a regional nature (political, legal, social, economic, organizational and other), which do not depend on specific regions, are common to all regions of Ukraine, but affect each of them differently;

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- problems of an internal nature, which were formed under the influence of internal socio-economic, production-economic, demographic, historical-cultural, ecological, geographical-spatial and other aspects that determine the characteristics of each specific region. It is obvious that the composition and nature of internal factors are individual for each region. And therefore, the search for ways of their effective use requires a separate approach to each region, based on its goals and tasks in ensuring social and economic development.

It should be stated that in the domestic practice of regional finance management, there are no mechanisms that would respond to changes that may affect the development of the regional economy in the future. In our opinion, the financial management processes of the region should be built from the following positions:

- assessment of the influence of external factors on the development of the regional economy and the development of preventive measures aimed at preventing possible negative consequences while simultaneously concentrating efforts on the maximum use of positives in the formation of the financial potential of the region;
- • effective use of the internal capabilities of the region, based on the maximum involvement of real and hidden reserves of the regional economy, capable of increasing its financial power in ensuring the goals of socio-economic development.

The result of the implementation of the first direction should be a reduction of losses of capital accumulated and created by the regions due to the prediction of external risks (political, economic, social, technological nature) and timely adoption of management decisions aimed at their complete or partial liquidation. The directions of influence of the external environment on the financial condition of the region are presented schematically in Figure 1. The PEST analysis is considered to be the most recognized method for diagnosing the impact of external factors on an economic entity, which aims to determine those factors of the external environment that have the greatest impact on an economic entity, and predict the dynamics of the influence of these factors (favourable or unfavourable) [10]. In this case, taking the region and its financial potential as the main object of research, it is important to identify the degree of uncertainty of the influence of the external environment on its activities, as well as to justify how it should be taken into account in the management of the processes of creation and use of financial resources.

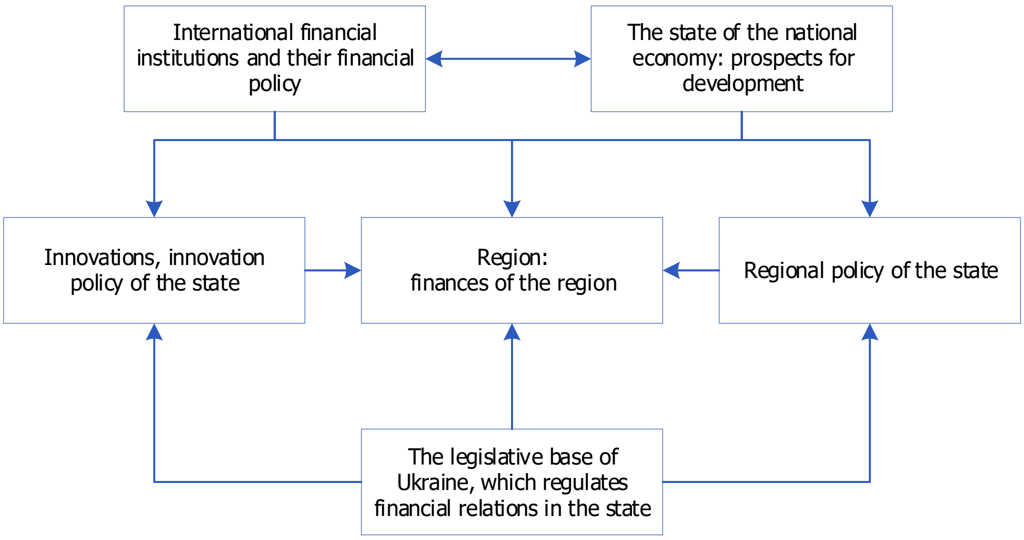

Figure 1. The external environment affecting the development of the region and its financial potential.

Forms of influence of the external environment on the financial activity of regions can be divided into direct and indirect (mediated) with the appropriate choice of methods for assessing their influence. Direct methods of external influence on regions of the economic environment are proposed to include those whose action has a one-way movement from higher authorities to the region and indicators of quantitative measurement. Direct forms of influence on the formation of the region's finances should include:

• resolutions and requirements of international financial institutes that specifically relate to the financial activities of the regions of Ukraine;

• resolutions of government structures regarding the regional policy of economic development of regions; established norms regarding the effective distribution of state and regional financial resources;

• state tax policy and its legislative framework, which establishes tax payment requirements for all economic entities;

• the legislative framework of Ukraine, which regulates financial relations "state - regions";

• other legislative acts and government resolutions that directly affect the formation of the financial system (subsystem) of the regions.

The main strategic task of the study of the above-listed influencing factors on the formation and development of the financial activity of the region is to identify possible changes that may occur in the composition of the factors and their effect in the future. Typical methods of assessing the impact of these changes are various types of expert assessments based on the processing of information obtained as a result of conducting a sociological survey of specialists who investigate the problems of the development of financial activities at the international, national and regional levels. Methods of monographic, retrospective analysis can be recommended, on the basis of which similar situations from the management practice of other countries are revealed, which may be acceptable for the conditions of Ukraine.

The sources of increasing the efficiency of the use of the financial power of the region are the reduction of risks of a foreign economic nature as a result of the development and implementation of measures of a preventive nature.

Research and identification of its competitive advantages in the market environment is an important direction for increasing the efficiency of the region's financial management.

It is about the ability of the region to implement new innovative technologies; produce competitive products; provide such services to the population and legal entities that are not available in other regions; attract foreign and domestic investments to the region, etc. Indicators characterizing:

- the share of GRP of a specific region in the total amount in Ukraine;
- GRP development rates by year;
- the composition and structure of the main types of economic activity (TEA), which are the main fillers of the budget and tax revenues;
- profitability of the main types of products included in the budget and tax fillers;
- the number of the population living in the region and its structural distribution by age, employment, income, etc.;
- the number and structure of business entities (legal entities) by types of economic activity, number of employees, financial result from business;
- the number of unprofitable enterprises in the region and the amount of losses, etc.

On the basis of a comparative analysis of similar indicators achieved on average in Ukraine and the most developed regions, and a SWOT analysis, the weaknesses and strengths of the region as a complete industrial and economic complex in the market space are determined and measures aimed at increasing its competitiveness are developed. The main directions for identifying competitive advantages of the region in the market environment are schematically presented in Figure 2.

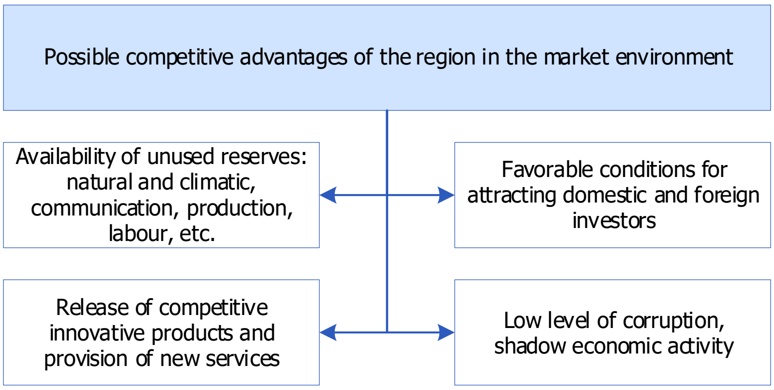

Figure 2. The main directions of possible competitive advantages in the market environment.

The financial aspect of these competitive advantages is implemented through the region's ability to increase its presence and position itself on domestic and foreign financial and product markets, supplying them with high-quality, innovative products and services, creating favourable conditions for attracting foreign and domestic investors.

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The targeted focus of the region's financial management system on the implementation of identified competitive advantages should focus on determining the effectiveness of their use, choosing the most appropriate options, and developing mechanisms for their implementation. Since there are no mandatory and universally recognized rules for solving such tasks in the economic theory and practice of management, and different methodological approaches are used, we consider it appropriate to choose the strategic directions of the region's development according to the efficiency criteria in the following sequence:

- determination of the competitive profile of the region;
- assessment of the sufficiency of the region's financial resources to realize its competitive advantages;
- identification of key factors of success in managing the finances of the region.

The competitive profile of the region is determined based on the results of a comparative analysis of all regions of the country based on a set of identical indicators that characterize the presence of regions on external and internal financial markets, the volume and profitability of financial operations. The obtained results are input information for substantiating and choosing the most effective areas of foreign economic activity for the region, developing and adopting management decisions of regional power structures regarding the creation of a favourable situation for their development. The determination of the competitive profile of the region concerns not only its foreign economic activity, but should cover all components of competitive advantages, ranking them according to the following criteria:

- expenses for realization of competitive advantages;
- income from their implementation;
- influence on the implementation of strategic areas of regional development.

Determining the competitive profile of the region should be considered an important stage in the selection of strategic directions for the development of regions, which at present is almost not highlighted by strategic management and is not used in domestic practice.

The assessment of the sufficiency of the financial resources of the region for the realization of its competitive advantages is based on the results of the analysis of the indicators that characterize the financial results, costs for the realization of the identified competitive advantages and comparison with the financial capabilities of the region. If the financial resources of the region are insufficient, then the issues related to the search for additional sources of financing through the attraction of domestic and foreign investments, the expansion of financial relationships between regions, the introduction of new financial instruments within the limits of current legislation, etc. should be resolved.

An important task of local authorities is to create a favourable competitive environment in the region, the conditions of which have a positive effect on the competitiveness of economic entities. First of all, this should concern those enterprises and organizations that produce those types of products and services that are the main creators of GRP and fillers of state and local budgets through the payment of taxes.

Achieving a positive result from the implementation of issues related to the determination of the competitive profile of the region should not only be closely linked with the goals and objectives of managing its socio-economic development but also be widely advertised among real and potential investors.

Determination of the competitive profile of the region in the market environment and assessment of its financial capabilities in the implementation of measures aimed at achieving the set goal is the basis for identifying key success factors (KSF).

In the theory of strategic management, the definition of KSF is the final part of research in the search for directions of strategic development of economic entities and the initial information base for the development of mechanisms for their implementation. A review of foreign studies on these issues shows that most often KSF are defined for individual firms, corporations, multinational companies or from an industry perspective [11]. In domestic practice, when developing a strategy for the development of regions, the national economy in general, KSF is usually not determined, and accordingly, it is not taken into account when developing strategies.

In our opinion, the definition of KSF when justifying the strategic directions of the development of regions, taking into account the influence of the market environment, the macroeconomic situation in the country, competition in obtaining financial resources should become not only an important task of analysts who develop strategies for their development but also an integral component of the development technology. Since the KSF evaluation method remains undeveloped in domestic practice, we consider it necessary to highlight the main starting positions for its use when justifying the strategic directions of the development of the regions of Ukraine.

Determination of key success factors for a specific region is carried out with the aim of:

- concentration of attention of managers, executive authorities on those areas of production, economic and financial activity of the region, which are able to ensure its positioning on the financial and commodity markets;
- develop and implement measures that stimulate the development of the most profitable types of economic activity in the region;
- evaluate the possibility of implementing the most effective areas of the functioning of the regional economy from the standpoint of their financial support;
- justify the investment policy of the region in accordance with the chosen strategic directions of its development.

The number of KSF may be different for each region. Significant differences may also concern the choice of directions of strategic development. However, taking into account the general economic situation that has developed in the country in recent years, as well as the peculiarities of the development of domestic regions in the near future, it is possible to single out a number of typical factors that influence their development and can play a key role in achieving successful functioning in the market environment.

Among such factors, we propose to include (Figure 3):

- availability of resource potential in the region, including primarily financial, production, and labour potential. Based on the results of the analysis, the strategic goals of the region's development are clarified, sources of financing are determined and its resource policy is substantiated;
- the ability to effectively use the resource potential of the region in the conditions of a market economy characterizes the competence and ability of the executive power at the regional level to use the competitive advantages of the region, to create a favourable situation for the development of entrepreneurship and to attract foreign investments for the implementation of strategic directions of the region's development. It is advisable to assess the ability to effectively use the resource potential of the region on the basis of comparative analysis;
- according to the selected indicators that are actually achieved in Ukraine in general or in individual regions and based on the application of a score for the level of the achieved result.

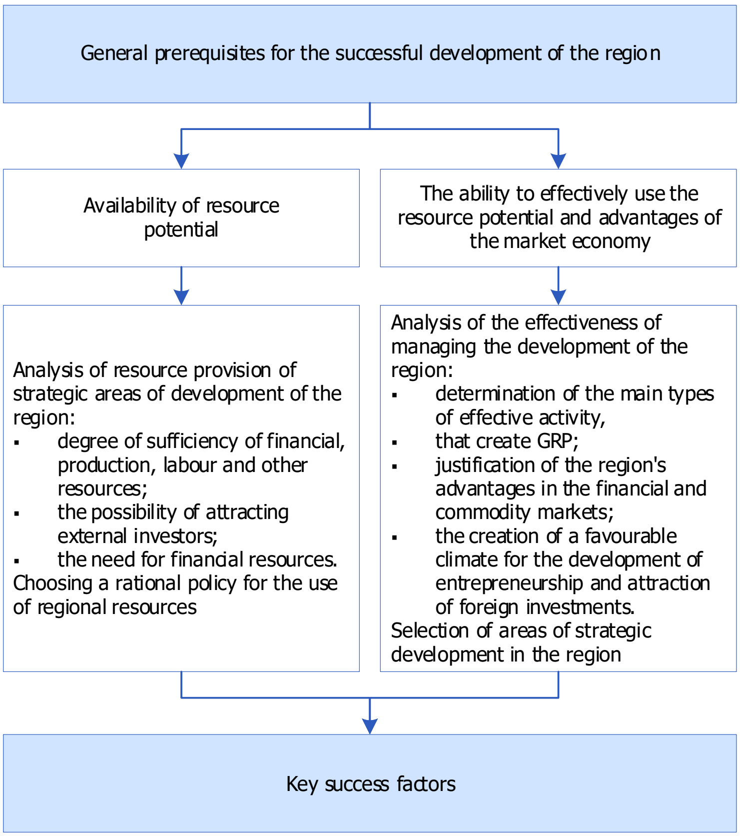

Figure 3. Structural diagram of the sequence of operations in the determination of KSF.

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Thus, KSF is a tool that helps analysts identify the real state of use of the resource potential of the region for a specific period of time and the maximum possible level of achieving business results in the future with full use of their own resource capabilities and attracted external investments. At the same time, KSF reveal the level of competence of management structures, their ability to achieve successful functioning of the region in a market environment.

DISCUSSION

In general, the discussion on the problem of fiscal and budgetary decentralization did not lead to the formation of a single opinion about its optimal scope. In our opinion, the solution to the issue of the optimal degree of decentralization should be the result of a compromise between the criteria of minimizing the loss of important information about regional specificity and ensuring a fair distribution of income on the scale of the national economy, taking into account the nature of interregional economic differentiation.

The classic analysis of Tiebout and Oates is based on the theory of public welfare of Vilfredo Pareto and the apparatus of the ordinal theory of utility, which does not require interregional comparisons of welfare levels. However, in conditions of significant interregional economic differentiation, the central authorities cannot do without interregional comparisons when developing a strategy for the socio-economic development of the country and forming a regional economic policy. This determines the need to study the socio-economic consequences of decentralization using the apparatus of the cardinal theory of utility.

The definition of KSF is important not only for substantiating the strategic directions of the regions' development but also for the main business entities located on their territory.

Moreover, the goals and directions of their strategic development may not coincide and may even be opposite in some cases. However, in all cases, the definition of KSF of economic entities forms important information for the development of mechanisms for the implementation of their development strategy in accordance with success factors. The key position in achieving success in the functioning of any business entity is the factors related to the effective use of financial and, in particular, monetary resources, which in an integrated form, determine not only the nature of economic processes but also the main positives and negatives that this arises. That is why the adoption of the criteria related to the financial support of the strategic directions of the development of the regions as a basis for identifying the KSF is of fundamental importance for the development of mechanisms for the implementation of the strategic goals of their development.

CONCLUSIONS

The study of the problems of the functioning and development of regional finances, reflected in the article, confirms the relevance of the chosen topic. Modern trends in the development of the economy of Ukraine not only actualize regional issues but also require the search for new and improved established state mechanisms and organizational and economic methods of managing the financial resources of the region, as well as the formation of its financial potential as a basis for sustainable development.

The results of the research gave grounds to claim that in Ukraine there will continue to be a problem of creating an optimal financial model of the territorial community, which would consolidate state financial resources, local budgets, finances of the real sector, collective and state enterprises, households, resources of financial and credit institutions. A single effective mechanism for managing regional finances has not been created, which leads to their dispersion and complicates control over their use.

The democratization of social relations, the formation of public society, the development of the financial system of Ukraine in accordance with the market conditions of management have brought significant innovations to the state management of the financial resources of territorial communities. The change in the local management system contributes to the gradual implementation of the state policy of administrative and economic decentralization aimed at the acquisition of greater independence by the regions. At the same time, the expansion of the powers of local self-government bodies implies an increase in their responsibility, including for the state of financial support of the region. This leads to the objective need to solve a number of problems, extremely important for ensuring the efficiency of functioning and balanced development of the state in general and regions in particular.

Solving the problems raised by the authors should help state authorities and local self-government in the formation of a modern model of financial support for the region.

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ОБҐРУНТУВАННЯ СТРАТЕГІЧНИХ НАПРЯМІВ ПІДВИЩЕННЯ ЕФЕКТИВНОСТІ ДЕРЖАВНОГО УПРАВЛІННЯ ФІНАНСАМИ РЕГІОНУ

У статті обґрунтовано стратегічні напрями підвищення ефективності державного управління фінансами регіону, запропоновано економіко-математичну модель оцінки оптимальних масштабів податково-бюджетної децентралізації в умовах міжрегіональної диференціації. Автори акцентують, що актуальність вирішення проблем державного управління фінансами регіону зумовлена неможливістю на цьому етапі створення певної універсальної моделі регіонального розвитку. Це передусім пов'язано з незавершеним процесом формування комплексної оцінки територіального рівня розвитку, аналізу соціально-економічної диференціації і типізації регіонів, використання інструментів державної та регіональної фінансової політики. Зазначено, що фінанси регіону як головний інструмент реалізації державної соціально-економічної політики, покликані сприяти розвиткові виробництва, зростанню зайнятості населення, залученню інвестицій в економіку тощо.

Розглянуто три варіанти розподілу податкових повноважень між державою і регіонами: 1) усі податкові повноваження належать регіонам, які самостійно визначають рівень податкового навантаження і обсяг виробництва суспільних благ; 2) усі податкові повноваження належать центру, який визначає рівень податкового навантаження і розподіляє одержані податкові доходи між регіонами, впливаючи тим самим на обсяги виробництва суспільних благ у кожному з регіонів; 3) розподіл податкових повноважень між центром і регіонами, за якого обсяг виробництва суспільних благ у кожному з регіонів залежить як від податково-бюджетної політики центру, так і від податкової політики кожного з регіонів. На підставі застосування методів економіко-математичного моделювання зроблено висновок про залежність оптимального рівня децентралізації від рівня міжрегіональної економічної диференціації.

Виділено дві групи проблем, які прямо впливають на управління фінансами регіону і врахування яких потребує застосування різних методичних підходів і способів державного управління: зовнішні проблеми, які не залежать від конкретних регіонів, є спільними для всіх регіонів України, але по-різному впливають на кожен із них; внутрішні проблеми, які сформувались під впливом внутрішніх факторів соціально-економічного розвитку, що визначають особливості кожного конкретного регіону.

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Визначено ключові фактори успіху для конкретного регіону за умови застосування тих чи інших інструментів державного регулювання.

Ключові слова: державне управління, регіоналізація, фінанси регіону, децентралізація, соціально-економічний розвиток, податково-бюджетної політика, податкові повноваження, бюджетні трансферти

JEL Класифікація: E61, H21, O18, R38, R50