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REGULATORY MECHANISMS FOR FISCAL DECENTRALIZATION

The decentralization of public finances is an integral part of budgetary regulation, namely, regulation of intergovernmental relations, of which the state is one of the parties. The regulatory mechanisms of fiscal decentralization – a set of forms and methods of influencing the organization of budgetary relations at the subnational level, are formed to meet the challenges of regulating the process of fiscal decentralization.

Regulatory mechanisms, in addition to the establishment of territorial finance management standards and quality management requirements in the context of fiscal decentralization, are designed to contain incentive elements that promote responsible autonomy in fiscal policy at the subnational level. As a rule, regulatory mechanisms are aimed at preventing the inefficient development of the fiscal decentralization process [1].

According to S. Larina [2], the effectiveness of fiscal decentralization requires the central authority of regional and local authorities to set budget policy goals, develop models of social behavior taking into account parameters, or consolidate the positive effect of fiscal decentralization, or prevent the occurrence of situations contradict the established requirements (as an option – level their consequences). The central government “forces” territorial structures to act accordingly, and here its position in the implementation of the budget decentralization strategy and approaches to the development of regulatory mechanisms is important.

The development of regulatory mechanisms for fiscal decentralization should be carried out comprehensively, combining the principles of reasonableness, complementarity (compatibility and interconnectedness) as a common basic framework and the principle of specification, as an additional compensation tool with clearly determined conditions for restoring broken budget interconnections to maintain stability of the public finance management system [3].

At the same time, an effective model for organizing intergovernmental relations should be based both on a clear delineation of expenditure and income powers, giving all levels of government sufficient sources of income or authority to locate (install) them to implement their functions.

For example, in the USA, Australia, Canada, New Zealand, Switzerland, communities (voluntary associations of residents) not only make their decisions independently of the federal and state governments, but also ensure their implementation at their own expense. This forces citizens to make better decisions,

because an increase in public goods requires high costs, which means higher taxes [4].

The instruments of budget regulation of local budgets include: in the Russian Federation regulatory deductions from regulatory income; the provision of intergovernmental transfers in the form of subsidies, subventions, subsidies, including subsidies allocated from the fund of financial support for municipalities [5]; in the US, through subsidies, subventions and subsidies, the government can actively influence the socio-economic development of municipalities. Inter-budgetary equalization in the United States is represented by a complex system of budget grants allocated to budgets of different levels; in Germany, interbudget transfers to communities in the form of subsidies play an important role, since a powerful system of equalization of budgetary sufficiency due to “solidary” taxes (where the VAT redistribution system is of great importance) is used mainly for land. For local governments, revenues from taxes and other sources are not sufficient to fully implement a number of programs. Therefore, they are dependent on land subsidies. Some subsidies (as in the United States) are allocated for specific purposes, and some can be freely disposed of. Such a scheme for equalizing fiscal resources at the local level is intended to reduce the inequality of communities within each land, since in some there are large tax revenues, and in others there are not enough funds to finance community spending commitments [6]; in Canada, intergovernmental transfers in the form of earmarked and non-earmarked transfers are provided to ensure minimum national standards below budgets. There are three main areas of the vertical redistribution of budget funds: non-earmarked transfers to equalize budget revenues, transfers as part of funding approved programs, and financial assistance as part of a financial support plan [7]; in France, which is a unitary state and is characterized by a high degree of centralization, government subsidies and subsidies are used to equalize local budget revenues [6].

Regulatory mechanisms should have a stimulating effect on the financial behavior of subnational authorities, promote the growth of quality and responsibility in managing public finances. So, fiscal decentralization is aimed at the formation of a qualitatively new system of public finance management.

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