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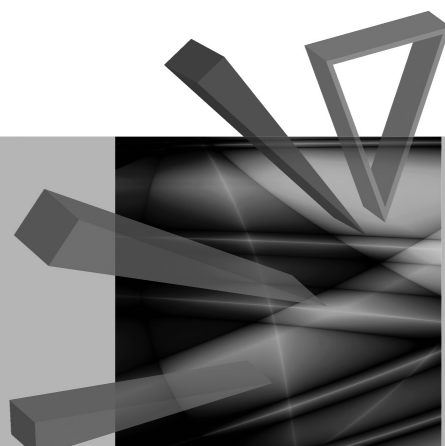
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# **Kryzys finansowy a programowanie rozwoju jednostek przestrzennych**



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## FINANCIAL TOOLS OF STIMULATION OF SOCIAL AND ECONOMIC DEVELOPMENT OF A REGION

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**Summary:** The shortcomings of stimulation of social and economic development of the regions of Ukraine are presented in the article. The conceptual financial instruments and the principles of their application to stimulate social and economic development of Ukraine are shown. The instruments are supposed to contribute to extend the opportunities of regional development financing and to the efficient usage of financial means.

**Keywords:** region, financial tools, stimulation of the region, social and economic development of the region.

### 1. Introduction

Modern problems of social and economic development of Ukraine are sufficiently caused by unevenness of development of its regions, low level of efficiency of spatial structure of the economy and essential differentiation of a standard of living of the population in country regions. That creates preconditions for social tension in society, threatens territorial integrity of the state and stimulates dynamics of its social and economic development. The nature of such problems is also seen, first and foremost, in the absence of incentives to increase and effectively use the financial potential of regional growth of the state. It demands theoretical and methodological justification of financial instruments of stimulation of social and economic development of the region to increase competitive advantages and effectively use resource potential.

Ukrainian and foreign scientists – economists essentially contributed to the formation of financial instruments to increase social and economic development of regions. The attention of scientists is generally accented on the budgetary capacity of the region, as a factor of social-economical development, clarification of shortcomings of the interbudgetary relations and the need of their transformation and tools of investment attractiveness of the region.. However, there are a lot of problems connected with financial resources caused by excessive centralization in the management of social and economic development of the region, lack of interest of the

territory in their productive using, the absence of incentives to detect the reserves and increase financial potential which causes urgency of scientific experiments to answer questions concerning financial instruments of stimulation of social and economic development of the region and demands activation of theoretical and practical searches of the solution of this problem.

The main objective of the research is justification of conceptual and applied financial instruments of stimulation of social and economic development of regions in Ukraine.

## **2. Statement of the main material of research concerning financial tools of stimulation of social-economic development of a region on the example of Ukrainian regions**

The stimulation of social economic development of regions is one of the main tasks of the state regional policy of Ukraine which should: reduce regional differentiation, stir up investment activity, promote effective use of budgetary funds and local resources, strengthen competitiveness of a region, coordinate priorities of economic development of regions with corresponding all-majestic priorities, promote interregional integration and cooperation and solve interregional problems.

The carried-out analysis shows that the stimulation of social and economic development of regions of Ukraine has not been effective yet and is generally formulated only on the legislative regulatory base to introduce a number of instruments and stimulate the development of regions. However, it demands improvement because of practical steps on the introduction of these tools which show new unsolved problems.

The insufficient volume of financing is the main problem of stimulation of social and economic development of regions of Ukraine. Legal aspect of financial support of social and economic development of Ukrainian regions, if to consider its quantitative side, develops rather actively, but its analysis shows a low quality and efficiency. According to the Ukrainian legislation the instruments of stimulation of regional growth cause that the main source of financing are state means and partially local budgets. Despite certain financial support from the state, low dynamics of social and economic development of Ukraine and, in particular, its regions is observed. At the same time the experience of other countries testifies that a more effective instrument of stimulation of regional growth is indirect, directed on the creation of favorable conditions for development of private business. The support of leading regions by the budgetary dating has a little perspective. Thus, the improvement, as to the stimulation of development of regions, is necessary for the conceptual beginning. It means, first of all, there is a need to shift the accent from straight lines to the mediated financial instruments of stimulation, strengthening partnership between local government and local business. The public policy in the sphere of stimulation of



development of regions should provide encouragement development of all regions: strong and weak, donors and recipients.

**Table 1.** Financial instruments of stimulation of social and economic development of regions of Ukraine

Shortcomings of stimulation of social economic development of Ukrainian regions	Ways of a solution	
	financial instruments	decision level
Absence, backwardness and discrepancy of legislative base, lack of regulation of questions of stimulation of social economic development of the regions	adoption of the special legislation, financial management	state
Absence of the financial concept, strategy and policy of stimulation of social economic development of the regions	creation of special body, development of financial strategy and policy of stimulation of social economic development of the region	state, regional
Insufficient financial security of social economic development and limitation of financial resources in the regions	state support, transfer, budgetary investments, taxes, tax concessions, tax holidays, delays from tax payment, credit rate, soft loans, decentralization of budgetary funds, cancellation of debt on taxes, norm of depreciation charges, creation of special funds, guarantees	state, regional
The inefficient section and not productive use of financial resources in the regions	state orders, state contracts, tax, licenses, quotas, borders of decentralization of budgetary funds	state, regional
Loss of incentives by regions with high level of social economic development to increase their own financial (tax) base	decentralization of management of the social economic development of the region	state, regional
Absence of forecasting of development and methods of control over financial streams on the basis of business projects	creation of business – plans	local

Sources: own research.

Moreover, the problem of shortage of financing social economic development of the majority of Ukrainian regions and considerable financial dependence amplifies not a productive use of financial resources. The elimination of that demands the stimulation of regions to increase such efficiency on the basis of development of the corresponding financial instruments. Other important problem, which brakes the practical introduction of effective instruments of stimulation of regional growth, is the misunderstanding of the essence of interregional relations in the state which has been for many years. In Ukraine there is constantly an increase in tension of the relations between «strong» and «weak» regions. It is caused, on the one hand, by the objective reasons – unreasonable financial and organizational centralization which limits possibilities of regional authorities to regulate economic processions

in regions. On the other hand the objective factor operates: it is deterioration of interregional opposition to political forces in connection with the existence of clear regional split of political orientations of the population. Politicians constantly provoke discussions about «feeding» of one regions by others.

Thus, the stimulation of social and economic development of regions of Ukraine is defined by the solution of the whole complex of the problems which financial instruments to solve it are various and presented by us in Table 1.

The state covers practically all problems of stimulation of social economic development of its regions for which development and acceptance of financial instruments are necessary.

In particular, the solution of a lack of financial resources of Ukrainian regions for the requirement satisfaction of social economic development causes the need of stimulation of regions, to increase financial potential for the purpose of increase in a standard of living of the population which can occur by the use of various financial instruments, basic of which are taxes. Taxes concern interests of different subjects and financial situation in the region and cause the increase in the budgetary potential of social economic development of the region by the increase in tax receipts – the main source of formation of the budget.

It is necessary to notice that the main task of a tax policy consists of budget filling by sufficient financial resources for requirement satisfaction and on this basis of stimulation to development. There are shortcomings of a stimulating role of tax tools of the state regional policy of providing Ukrainian social economic development with high level of taxation, use of preferential taxation for evasion from taxes payment which interferes with ensuring sufficiency of tax profits to the budget testimony. Stability and sufficiency of receipt depends on the solution of these problems for the budget, and it will define possibilities of satisfaction of social economic needs. Thus it is necessary to create incentives which will guarantee development in regions financial sufficiency.

There is a considerable variety of tools of tax incentives social economic development in the world practice. The use of privileges in taxation: tax holidays, tax subsidies, reduction of tax rates and so on are the most important among them. The creation of incentives on separate activities, for example investment is the purpose of use of privileges In taxation. Tax subsidies are tax preferences which are necessary for the maintenance of a certain type of economic activity or the population. The essence of tax holidays is such a thing that subjects of managing are released from the taxation of some taxes in whole or in part during a certain period. In the most effective way of tax incentives there is a reduction of tax rates. After all the operation of such a tool, that is different from other tools, extends on all managing subjects or the population, and it is based on a principle of justice of taxation.

For the last years in Ukraine a number of legislative normative documents have been accepted which concerned the reduction of rates of the taxation and simplification of the system of taxation, in particular: the rate of VAT decreased from

28% to 20% (from 1995 year); the tax on the income of the enterprises has gradually reduced from 30% to 25% (from 2004), to 23% (from 01.04.2011 to 31.12.2011) and to 21% (from 01.01.2012) Its reduction is still planned to 19% (from 01.01.2013 to 31.12.2013) and to 16% from 01.01.2014. The tax on the income of individuals in 2004 decreased to 13 % on a flat scale of the taxation of everything, that is similar for all irrespective of the volume of their income. Since 01.01.2007 a rate has increased to 15%, and since 01.01.2011 the progressive rate has been 15-17%. The contribution of legalization of shadow economy was the main objective of reduction of such rates of the taxation. Thus, in the last years the measures were taken, which promoted the increase in the budgetary potential of social economic development of the region. However, such actions are not enough.

Tax revenues, being a body of budgets, form about 63-76,3% of the consolidated budget of Ukraine<sup>1</sup>, and therefore define its account ability. For the purpose of budget filling by the income, the tax policy should be based on an incentive taxation principle. It means that optimum rates of the taxation on different types of taxes (on the income of the enterprises, of the income of physical persons, on a property, a payment for the earth and so on should be found) will allow to maximize the size of total receipts in the budget.

Formation of the tax income of local budgets occurs generally at the expense of a tax from the income of physical persons, as a part of a tax on the income of the enterprises which remains in the local budget (a tax on the income of the enterprises of a municipal property), a tax from owners of vehicles and other self-propelled cars and mechanisms, a single tax for subjects of small enterprise, a payment for the earth, a payment for the licensc for the right to sell alcoholic and tobacco products, payments for the trading patent for some types of an entrepreneurial activity, local taxes and so on.

The carried-out correlational-regressive analysis showed a high level of interrelation of volumes of a tax from the income of physical persons with tax revenues in local budgets. With the increase in volumes of receipt of a tax from the income of individuals for 1%, total tax revenues in the local budget grow by 0,72% at not changed values of other tax revenues. which allows to define a tax from the income of individuals as the main budgets-making tax of local budgets. On this basis there is a need of development of metodological approaches to optimalization of a rate of a tax from the income of physical persons, as a financial instrument of stimulation of social economic development of the region.

In 2000-2003 and from 2006 this tax completely remained at level of local budgets and made more 57% of their profitable sources without the interbudgetary transfers. The decrease in a rate of a tax from the income of physical persons in 2004 to the level of 13% became the reason of reduction of level of unemployment. Though, in 2004 the arrivals from a tax from the income of physical persons in comparison

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<sup>1</sup> <http://www.ukrstat.gov.ua>.

with 2003 were reduced by 2,28%, in 2005-2006 they exceeded the value of 2003 for 28,13% and 68,56%, and also the growth rates of this tax. Therefore such an approach grew. Since 01.01.2011 in Ukraine the progressive rate of a tax from the income of physical persons has been at level of 15-17% in Ukraine. In Ukraine the rate of the taxation of the income of physical persons is one of the lowest<sup>2</sup> However, for individuals with low income, which makes a significant part of the population of the country, its level is the highest.

In the course of calculations it is revealed that with the growth of the tax rate budget revenues also grow and the income of the population at the same time decreases and, on the contrary, with its reduction, respectively, the income of the population grows and receipts in the budget decrease. The growth of the rate of tax from the income of physical persons to a certain level stimulates the legalization of own income having exceeded which the population will hide it and it will provoke the growth of shadow economy and at the same time, will cause the reduction of level of financial security of social economic development through the reductions of receipts in the budget. In our opinion, for the coordination of regional and private interests it will be better to optimize a tax rate from the income of individuals with the use of the A. Laffer's theory which will allow to reduce deviation level from tax payment and to provide an optimum ratio between budget revenues and the population. A. Laffer's research is theoretically proved: the more citizens, the richer state. With the help of «a tax curve» professor A. Laffer proved that the increase in tax tension can be negatively reflected in the formation of revenues of the budget, reduction of aforementioned tension at the same time or with an interval in time which positively influence volume of tax revenues. Therefore the search of suitable rates of the taxation for stimulation of financial sufficiency of social economic development of the region is an objective need.

For the justification of a suitable rate of a tax from the income of individuals, we consider it pertinent to establish the connection between a volume of production of GAC in the region and a salary which will allow to define a rate for which the population of the region is interested to pay a tax from the income of individuals to the budget and in a condition to provide own requirements at the expense of means which remain at their order<sup>3</sup>. Thus, the optimum rate of a tax from the income of individuals is in an interval of its values:

$$\min\left(1 - \frac{\alpha \times GAC_V}{I_V^*}\right) \leq x \leq \max\left(1 - \frac{\alpha \times GAC_V}{I_V^*}\right),$$

where:  $x$  – is a rate level of a tax from individuals;  $I_i^*$  – volumes of the income of the population of the  $i$ -region of Ukraine which gets under the taxation (for example

<sup>2</sup> [http://zaxid.net/home/showSingleNews.do?podatok\\_](http://zaxid.net/home/showSingleNews.do?podatok_).

<sup>3</sup> І.М. Вахович, І.М. Камінська: Фінансова спроможність регіону: діагностика та механізми забезпечення, Видавництво «Надстир'я», Луцьк 2009.

that all income of the population of the region is formed at the expense of a salary  $I_i=CF_i$ ;  $GAC_i$  – volumes of production GAC (Gross added cost) of the  $i$ -region;  $\alpha$  – standard value of factor of a salary capacity of GAC:

$$\frac{CF_v}{GAC_v} \geq \alpha, \text{ or } \frac{I_v^* \times (1 - E)}{GAC_i} \geq \alpha,$$

$CF_i$  – fund of compensation of the population of the  $i$ -region.

The factorial analysis of dependence of receipts in local budgets of a tax from the income of individuals depending on the level of a rate of taxation and a volume of tax base showed that the income of local budgets increases as a result of taxation basis expansion. Therefore it is necessary to accompany all possible methods of stimulation of an "exit" of economy from a shadow quicker and, first of all, the reduction of rates of the taxation. is even more effective if there is offered a financial instrument of stimulation of social and economic development of regions of Ukraine. Moreover, this financial instrument of stimulation of social and economic development of the region puts all its inhabitants in identical conditions, which means it does not make the section of tax cargo cancel tax evasion.

If income from this tax in local budgets also decreases in the first year, the income from other taxes, in a detail of VAT, grows as a consequence of increase in the use because the income of the population which remains after the taxation at their order is spent and forms savings, is invested in economy. And as it is known, the VAT-tax on the use and its tax tension is created by consumers of end products through the subjects of managing transfer into the budget.

If the population income grows, its expenses on consumption and therefore the part of expenses of individuals increases by the different benefits which in a type of tax come in the budget. It also increases budget revenues. Assuming that the part of expenses of individuals for the different benefits in VAT got to the budget, it is possible to argue that the costs of VAT form not less than 20 % of revenues of the budget, and the rest is the income of the enterprises, trade, intermediary and other bodies which create or give the benefits to individuals. Thus, the reduction of budget revenues from a tax of individuals will be compensated by the growth of the income for the account of VAT. Budget revenues will grow in long-term prospect at the expense of the reduction of volumes of evasion from tax payment from the income of individuals.

The expanding of the taxation bases as a result of use of such a stimulating financial instrument of social economic development of the region lets us argue that even regions in which there are the lowest values of an average salary in a month, but with a very high price level on a basis consumer goods and services, and also on the goods of the increased comfortableness, achieve stable demand for these

groups of the goods. Thus, the population even of these regions owns sufficient resources for providing their own requirements for these goods and services, that is for today considerable volume of pay for work is in a shadow. At the same time, for guaranteeing the increase in receipts in local budgets, it is necessary to support actions on the decrease in a rate of the taxation to support actions which control strengthening of tax discharge from the income of individuals, increase in the responsibility for violations of law for the purpose of not admission of concealment of a salary of workers.

Moreover the results of use of such a policy of stimulation of the taxation should be tied with the state wastes. We consider, which is important in modern conditions, that receipts in the tax budget from the income of individuals had the target direction. It would be necessary to define them as the ones which are used only for the social purposes (education, health protection, social protection and a social assistance of the population). This would promote the improvement of a social assistance of the population and improvement of their financial sufficiency. After all and it in turn promotes the legalization of the income of the population trying to receive social benefits and services no matter what level at the expense of the local budget.

So, the offered model proves the possibility of increase revenues in budget at the expense of tax receipts as a result of reduction of a rate of a tax from the income of physical persons. It guarantees ensuring financial prosperity in the region, and also displays an optimality of distribution of the income between the state and the population.

At the same time, in the government budget there are concentrated considerable financial reserves which can contribute to the increase of social economic development of the region. These resources are intended for the region and in the form of transfers come back to its territory. Therefore borders of centralization of budgetary funds are one of the most important financial instruments of stimulation of social economic region developments.

The existing system of centralization of budgetary funds is characterized by the insufficiency of own sources of income at formation of local budgets and the dependence to a bigger or smaller extent on official transfers of state bodies of all Ukrainian regions.

For today, according to the law on local self-government, there is expansion of rights of regional authorities and transfer of a part of the state functions to local authorities. The law also concerns the stability of local budgets (guaranteed own income) and the right to independently define the directions of use of means of local budgets. In practice, the tasks and the implementation of taken over function is not accompanied by appropriate financial resources. Therefore it is possible to approve the fact that, with the investment of local bodies with power to distribute budgetary funds, sources of financing of local budgets were not defined. The decentralization of budgetary funds as a financial instrument of stimulation and providing social economic development of regions should occur in the direction of financing of

expenses in a place of the requirement of users in the public benefits. This will give the chance to define, after careful consideration at the level of the regional power, necessary volumes of receiving public benefits and their financing. This way the principle of fiscal justice will be realized.

The mechanism of stimulation of social economic development of Ukrainian regions should be based on recognition of formation needs of such a volume of own financial resources of the region which will provide self-financing of local budgets and in the future stable regional growth. From this point of view, we consider it is necessary to develop conceptual approaches to decentralize the management of social economic development of the region that is caused by discrepancy between the rights and power of bodies of the regional power and accurate sources of their financing. The dependence of local budgets on the center, public policy of the passive help to regions, does not stimulate them to increase self-sufficiency of social economic development. To solve this problem, it is necessary to develop a model of division of volume of budgetary funds between nation-wide and regional levels depending on productivity of their use. In our opinion, to achieve it, it is important to concentrate on regional level of tax revenues (under condition of their more productive use in a certain region in comparison with nation-wide level), collected in a part of a region, where they come back to it in the form of transfers. It allows to avoid oncoming traffic of budgetary funds as well as strengthen the control over their target use and improve regional management.

We consider a part of tax revenues which is necessary to leave at region level, and present it is possible to determine them by a ratio:

$$\%T_i^r = \frac{\beta_i \times \gamma_i}{\beta'}$$

where  $\%T_i^r$  – percent of splitting of tax revenues which is necessary to leave at the level of  $i$ -region;  $\beta_i$  – the assessment of utility (productivity) of 1 hrn from the budget which remains in the  $i$ -region ( $\beta > 0$ );  $\gamma_i$  – the assessment of dependence of the local budget of the  $i$ - region from official transfers from public authorities ( $\gamma > 0$ ) that is an assessment of needs in each additional hryvna of transfers.

The developed approach to the management centralization by social economic development on the basis of forming the rational section model of budgetary funds between government and local budgets, permits not only to raise the level of social economic development of Ukraine by ensuring financial independence but also to formulate interests of regions in the productive use of financial resources.

### 3. Conclusions

As it has been proven providing social economic development of a region considerably depends on the level of financial security and, in the conditions of its



shortcoming and dependence, on the center which causes the need of introduction of effective financial instruments which would expand own possibilities for regional growth and stimulate regions to increase financial and effective potential to use. The most effective financial instruments from this point of view are the optimization of the taxation of the income of physical persons and the decentralization of budgetary funds. Summing up, we can notice that the given financial instruments of stimulation of social and economic development of regions of the state will be important for the management of other countries.

## Literature

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## INSTRUMENTY FINANSOWE STYMULOWANIA ROZWOJU SPOŁECZNO-GOSPODARCZEGO REGIONU

**Streszczenie:** Artykuł przedstawia zagadnienia związane z brakami w stymulowania rozwoju społeczno-gospodarczego Ukrainy. W artykule przedstawiono także koncepcyjne instrumenty finansowe i zasady ich stosowania w celu stymulowania rozwoju społeczno-gospodarczego Ukrainy. Instrumenty te mają przyczyniać się do wydłużenia możliwości finansowania rozwoju regionalnego i skutecznego wykorzystania środków finansowych.

**Słowa kluczowe:** region, instrumenty finansowe stymulowania regionu, rozwój społeczno-gospodarczy regionu.