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THEORETICAL FOUNDATIONS FOR BUILDING THE FINANCIAL CAPACITY OF LOCAL SELF-GOVERNMENT BODIES

The article examines the theoretical foundations of building the financial capacity of local self-government bodies under fiscal decentralization. The relevance of the study stems from the need to align community powers and resources, as well as from the heterogeneity of approaches to interpreting local finance and the criteria used to assess community capacity. Local finance is defined as a component of public finance that encompasses resources, instruments, and economic relations through which services are delivered and territorial development is supported. Its functions are refined, and the system of local finance is presented through interrelated blocks: resource, expenditure, instrumental, sectoral, managerial, and institutional.

A synthesis of scholarly approaches made it possible to substantiate the financial capacity of local self-government bodies as the ability, based on own and attracted resources, to steadily perform assigned and delegated powers, ensure basic services in line with established standards, and support community development. It is shown that such capacity results from the combination of decentralization parameters and local fiscal autonomy and is manifested through a balance of institutional, legal-regulatory, and resource dimensions. Managerial priorities under instability are identified: continuity of critical services, liquidity reserves, scenario-based budgeting, and financial risk management. Key features of financial capacity are distinguished, related to the territory's economic base, the influence of the external environment, and institutional organization.

Approaches to assessing the financial capacity of territorial communities are generalized: the normative approach (according to the criteria of the governmental methodology) and scholarly models that combine budget indicators with measures of economic potential and expenditure effectiveness. It is demonstrated that the choice of an assessment method should be determined by the purpose of analysis—from a preliminary diagnosis of capacity to a comprehensive evaluation of a community's ability to provide services and ensure development.

Keywords: local finance; financial capacity; local self-government bodies; fiscal decentralization; territorial community.