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THE EFFECT OF LOCAL FINANCING UPON REALIZING THE FINANCIAL INDEPENDENCE OF LOCAL UNITS IN DECENTRALIZED ADMINISTRATIVE SYSTEMS

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Abstract

The increasing level of residents' requirements of the local community led to the necessity for sufficient local funding to satisfy the residents' requirements and services of the local units affiliated with the decentralized administrative systems on the one hand, and to the role of local financing in the financial independence of local units on the other hand.With the presence of local financing, the financial independence of local units is achieved and is considered one of the conditions for financial independence, which is the provision of local financing to the units away from central support. The study focused in this research to clarify the concept of local financing for local units with a statement of its conditions and importance and to clarify the concept of financial independence and its relationship to local financing. The weakness and lack of local funding generates weakness in the financial independence of the units, as it turns to the central government to provide financial resources to the local units, which enhances the central government's dominance over its units and limits its financial independence and freedom to dispose of its local financial resources. On the contrary, the abundance of local funding for the units enhances their financial independence and the disposal of any central government support that weakens or limits their financial independence.

Introduction:

Decentralization counts upon the independence of local units in decentralized administrative systems.Without financial independence and local funding, we cannot call any political system as an administrative decentralization, where the provision of a financial system the most important for its local units, providing the financial independence of those units. This enhances the effectiveness of administrative decentralization through the dependence of its local units on their own financial resources. Also, local financing is the vital source for local units due to the importance of the role it plays in preserving the independence of the local unit and its success in performing its tasks, meeting the services of its local residents and achieving the unit's goals in a better way away from government support and preserving its independence and freedom to act in the affairs of the local unit.

Research objective: The main objective in the research is to clarify the importance of local finance for the financial independence of local units, and how to influence the achievement of the objectives of the local unit by providing local financial resources or weakness in the provision of these resources.

Research importance: The importance of the research stems from the significance of local financing for local units and the importance of its availability to enhance the full financial independence of local units. Through it, the goals planned by the local units are achieved and to advance the reality of development and achieve the highest level of welfare for the residents of the local units while ensuring the success of the administrative decentralization system.

Research problem: The problem is illustrated through the following questions:

1- Does local finance has a major role in promoting and achieving the financial independence of local units?
2- How can local finance achieve financial independence?

Research hypothesis: Local funding is considered one of the most important ways and means to enhance financial independence within local units. Everything that provides local funding for local units all enhances the financial independence of those units, and vice versa. When there is no local funding, local units resort to asking for help from central governments which reduces the financial independence of those units and enhances the dominance and control of the central government over them.

Research Methodology: In order to reach the objectives of the research study, the descriptive analytical method was relied on mainly by describing and clarifying the concept of domestic finance in general with an explanation of financial independence. The descriptive approach goes to describe the facts and analyze them to obtain complete results of scientific benefit.

Research Structure: In the current research, the study was organized into an introduction and two sections, and a conclusion. The second section included clarification of the concept of financial independence, which came under the title the concept of financial independence.

First: What is local finance?

The trend about applying the democratic systems in most countries of the world led to more support for local government, which was offset by an increase in the volume of services and requirements.Although the central government takes over some services and tries to respond to them, some of these duties must be delegated to local governments to undertake this in the provision of these services.This requires the provision and management of more funds to meet the increasing domestic spending without detracting from its local financial independence (Bakir, 1977).

1- **The concept of local finance**: Linguistically, it means finance as it is in Al-Muheet dictionary, (milto" gave money), (maal" money), and (malaat" got money) and (tamawlat" was financed). I gave him money. Finance means that making money. Idiomatically, it is the provision of funds and the inventory of all financial means to accomplish a specific project.The concept of financing in general is the search for appropriate methods for obtaining funds and the selection and division of those methods to obtain the best mixture between them in a manner commensurate with the quantity and quality of the needs of the institution (Durghutia, 2011).

The Encyclopedia of Britannica also defined it as: a set of actions and behaviors that provide us with the means of payment. The purpose of funding is for projects and their development, whether public or private. Funding is for cash and not for goods and services (Abdulatif, 2015), while local financing is defined as all available financial resources that can be provided from different sources to finance local development at the level of local units in a way that achieves the largest rates of development.It maximizes the independence of the localities from the central authority and achieves the desired development, so the abundance of self-financial resources plays an important role in what it can provide to local units.Without these resources, these units cannot achieve their goals and projects and cannot carry out their functions and obligations towards citizens, which makes them go to government support by obtaining loans and subsidies, which often include conditions restricting the freedom and independence of local units (Qasim, 2017).

2_ The foundations of local finance: The foundations of local finance is a set of rules upon which successful policies of local finance are based, in order to work on achieving successful financial management that includes access to local development. (Badran, 2017)The keyfoundations are:

A- Locality of the resource: The locality of the resource means that the resource container is entirely local within the scope of the local unit that benefits from this container and its proceeds. This bowl should be distinct from the central resource bowl.
B- Self-resource: We mean the subjectivity of the resource is the independence of local authorities with the authority to determine the price of the resource within certain limits with its collection and link so that it can reconcile its financial needs with the outcome of its resources (Al-Jindi, 1987).
C- Ease of resource management: we mean the estimation of the resource container, the cheap cost, and the relative abundance of the resource.

3_ Sources of local financing: The sources of local financing are divided into two types, the internal sources, which are specific to the local unit, and the external sources that apply from the central government to the local unit.

A- The internal financial sources: Among the most important internal sources are:

_ Local taxes: Taxes are at the top of financial studies, where this significance does not come from the fact that taxes are an important source of revenue, whether they are in general for the state or locally for local bodies only, but also because of their political, economic, social and other effects.Taxes play an important role as the most important tools of revenue policy and also represent a main source for covering expenses in many areas.Taxes, according to financial jurisprudence, are defined as the financial obligation that arises when the legally determined event is realized (Muhamed, 2019). As for the taxes of local bodies, they are defined as local taxes that should be the main source of financing local expenditures (Ismail, 2011).It is clear to us through this definition that taxes have characteristics that characterize them, namely (Al-Janabi, 2015).

- The tax is a cash deduction.
- The tax is to be paid.
- The tax is finally paid.
- Tax according to the mandated ability and without specific consideration.
- Finally, the tax achieves public benefit.

_ Local fees: The fee is generally defined as a sum of money paid by the beneficiaries to the state in exchange for a specific service of public interest that the state performs for them. Fees at the local level are the cash sums received by local authorities for what they provide to residents of local units of local services through local public utilities (Qubailaat, 2019).Among the most well-known local fees are building permit fees, transportation fees, customs fees, education fees, advertising fees, and finally fees for commercial professions (Badran, 2017).The fee subjectivity is identified by certain characteristics, namely:

- Monetary characteristic.
- Forcingcharacteristic.
- Return or special benefit.
- Achieving public and private benefit altogether. (Aboodi, 2019)

_ Revenues of local units property: many local units at the present time in most countries of the world alike own and manage some institutions, projects and bodies related to service of a commercial or industrial nature.This brings them revenues when they own these projects and bodies that are considered among the local financial resources. The revenues are what the local unit obtains in the form of rent or proceeds for its real estate funds or in the form of profit from its economic projects of an industrial or commercial nature (Aboodi, 2019).It is also known as the cash amounts resulting from the commercial activity of the local unit, such as managing the markets or leasing real estate owned by it and other properties belonging to the local units (Mubithin, 2014).

B_ **External Sources**: The most important external sources of domestic financing are (Asskari,2008):

Government aids: government aids are defined as measures taken by the central government that aim to provide a specific economic benefit to local authorities (Al-Banna, 1992).These government programs are to fill the deficit in the local budget for the purpose of financing local projects and businesses to provide all services, and may be presented in normal or exceptional circumstances.Therefore, these government aids may include many forms of financing, including direct payments, loan guarantees, and special tax exemptions.The main justification for these subsidies is to stimulate development (Al-Tammimy,2019). These aids are also known as those monetary sums provided by the central government to local councils in order to help them cover part of their expenses (Al-Banna, 2012).

Government aids are of two types:

- Allocated aids: that is, they are spent on a specific project or a specific limited facility.
- General or unallocated aids: They are those that are not conditional on a condition or restriction (Badr, 2017).

Loans: Loans are a financial resource that is as important as tax revenues, especially at a time when financial burdens have become large and the state and local units are unable to impose new taxes.The local units use loans as a tool to fight inflation and motivate credit (Assaf, 2020). Therefore, the loan is defined as a contract whereby an individual (or banks or institutions) borrows a sum of money from the state in return for his pledge to pay it with a specified annual interest according to the size of the borrowing amount (Khalifa, 2017).As for local loans, they are the amounts obtained by local units by resorting to the central government or specialized banks and credit institutions.These loans are used to finance local projects that the local units' budget is unable to cover (Mubithin, 2017).

There are several types of loans, which are:

- In terms of the borrower's freedom (optional and mandatory in exceptional times). (Dardory and Akhdhar, 2018)
- In terms of source (inside and outside the country) (Al-Kadhi, 2014).
- In terms of duration (long-term and short-term) (Abdali,n.d.).

Grants and donations: are what the central government (government agencies) or external parties donate financial resources to local units, and they are either directly to the local unit or indirectly by contributing to the financing of the projects it is carrying out (Aboodi, 2019).

Second: The concept of financial independence

1_ Defining financial independence: Financial independence is defined as the local unit owning financial assets independent of the financial assets of the central authority and other local units.Therefore, they are under disposal of them as they wish, without referring to other parties and taking their approval.Financial independence is a cornerstone of the local administration, as without it, the local unit is forced to refer to the central governments and take their approval to be under disposal of any money or resource (Al-Amri, 2008).It is the provision of financial resources for the local unit so that it has the right to own those resources or funds of its own, as well as allowing it to prepare its own budget and manage it freely, provided that it is within the limits of the state's general policy.Therefore, the local units must have financial independence, because without it, the legal independence of these units remains void. Financial independence is enough to make the legal independence real and not apparent to the local units (Attahrawi, 2004).It is also known as the financial means that are placed at the disposal of local communities (Yaqutt, 2011).

_ Aspects of financial independence: One of the most important manifestations of financial independence is (Qasim,2020):

A- The local authorities should have their own financial budget that is independent of the state's general budget.
B- The local authorities should have sufficient financial resources to cover the greater part of their expenditures.
C- The local authorities should have its own financial systems that are independent of the financial systems of the central authorities.

3_ Justifications for financial independence: Among the most important justifications for financial independence are (Qabani, 1981):

A- Ensuring the independence of local units (Al-Jindi, 1987).
B- Administration democracy and the global trend stress the importance of the concepts of popular participation and belonging.
C- Financial independence has an effective role in capital formation for local units through its role in developing and implementing projects and making good use of local resources.
D- Financial independence helps reduce the pressure upon the central system (Rasheed, 1971).
E- Financial independence achieves justice in the distribution of financial burdens and public costs without distributing taxes on various facilities (Qubailaat, 2010).

4_ Financial independence and local financing: Financial independence is directly related to the local financing of local units, as the higher the self-financial capacity of the local unit, the more it enjoys a greater degree of financial independence.The adequacy of the financial resources of the local unit is usually reflected in the level of independence that it enjoys, and it dispenses with government support and the need for it, which would negatively affect its independence.(Yousif, 1971) The most important indicators of the impact of the weak financial resources of the local unit on its independence are:

A- Weak capacity of the local unit to respond to the local citizens' needs:The issue of the weakness of the financial resources of the local unit is one of the most important factors that affect the extent to which the local councils respond to the citizens' needs, making them unable to provide all the needs and services.
B- Increasing the subordination of local units to the central government:The weakness of the self-financial resources of the local unit and its heavy dependence on the transformations coming from the central government leads to its inability to achieve a degree of financial independence that it enjoys under the provisions of the constitution or the law that grants it this right.
C- Weakness of the local unit's capacity in the issue of executive leadership:The dependence of local units on central support or central funding through aids, donations and grants leads to weakness in their local authorities, as they are unable to develop spending plans, in return for an increase in the authority of executive leaders who focus their efforts to obtain financial assistance from the central government.

Conclusion

Although the necessity of providing local financing to ensure the existence of the financial independence of the local units, we can note that in most countries of the world that implement the administrative decentralization system, there is not enough local financing to meet their local needs, which suffers from a defect in their financial independence. Among these countries is Iraq and its local units, as it always suffers from a lack of local financial resources for its units, which depend mainly on government support.

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