DEFINING APPROACHES TO DETERMINING NATURE OF SUBSIDIZED REGIONAL BUDGETS AND ITS TYPOLOGY

Tavbulatova Zulaj Karievna (a) *, Tashtamirov Magomed Ruslanovich (b), Frolova Irina Veniaminovna (c), Kulakova Nadezhda Vasilievna (d), Makhmudov Khozhbaudi Abubakarovich (e)
*Corresponding author

(a) Chechen State University, Chechen Republic, Grozny, Russia,
(b) Chechen State University, Chechen Republic, Grozny, Russia,
(c) Southern Federal University, Rostov-on-Don, Russia,
(d) Ministry of motorways of the CR, Chechen Republic, Grozny, Russia,
(e) Chechen State Pedagogical University, Chechen Republic, Grozny, Russia,

Abstract

This article is aimed at researching relevant problems of forming the financial base of territory budgets in the federal state. Modern development of Russia in terms of social and economic, budgetary-tax aspects is accompanied by disparities and spatial inequalities at the sub-federal level. This stems from several internal and external factors, reflected in various ways: natural and climatic conditions, structure of regional economy, disparities in industrial and production development, etc. Different combinations of the above mentioned factors create at the sub-federal level a certain environment which affects characteristics of social and economic development, and, consequently, the generation of territory finances. Regions, characterized by more favourable social and economic environment, possess the necessary potential, when having efficient economic management, are able to mobilize the sufficiently high level of financial capacity to fulfill imposed expense obligations within the budgetary-financial mechanism. This also impacts the possibility to increase a taxable base due to higher economic activity and differentiated regional economy, consequently, provide a steady inflow of tax and non-tax revenue. This research analyses approaches of scientists to interpreting the phenomenon of a subsidized budget. The authors’ definition of this phenomenon has been revised. Criteria of referring to a territory budget as belonging to the financially dependent group have been established. The typology of regional budgets in terms of their financial independence has been developed. Major factors and issues, leading to the increase of the dependence of regional budgets from the financial support of the federal government, have been revealed.

Keywords: Budget, system, federal, revenue, subsidized, typology.
1. Introduction

Regional social and economic systems play the major role when mobilizing the financial resources within the consolidated state monetary fund. If a consolidated fund is treated as a combination of budgets of all levels in a budget system, then the biggest part of revenue source is formed by regional consolidated budgets or budgets of the sub-federal level, which directly include the budgets of the RF subjects and local monetary funds. Therefore, the role and meaning of this segment in a financial system, as well as the relationship, formed as a result of mobilizing income, increase (Shash, Borodin & Tatuev, 2014).

The distinctive feature of the finances at the sub-federal level is the fact that the budget of a federal subject provides financing for not only the expense, incurred as a result of its activity, but also imposed as additional expense obligations from the federal level (Shvetsov & Bulash, 2008). The generated monetary means are distributed among three major expense targets:

1. Individual expense obligations of a federal subject;
2. Joint expense obligations, incurred as a result of partnership administration between the federal government and regional authorities;
3. Expenses of a federal subject to fulfill obligations, financed by unrequited sources such as a government subsidy.

All the above mentioned targets ought to be sufficiently provided by the corresponding volumes of revenue sources.

It ought to be noted that within the federal budgeting the sub-federal level budgets have mismatches between the volumes of obtained revenue competence and imposed expense obligations, which disrupts the balance of a given budget.

Stemming from the fact that the entire volume of expense obligations, imposed on the sub-federal level budget, does not correspond with the revenue potential, there is a discrepancy between these categories which results in the imbalanced budget and issues with completing the expense obligations. The degree of imbalance in each case depends on the financial state of a corresponding budget, which is determined by the volume of means, lacking to fully cover the expenses from the revenue sources (Rodionova, 2012). To bridge this gap and provide finances for all state services and expense obligations, additional financial resources are sought for from the higher or same-level budgets within the federal bodies of power. These resources include subsidies, allocated to the budgets in order to redress imbalances in fiscal capacity.

In the area of budget interrelationship within the given system there is a typology of sub-federal budgets, where the classifying criterion is the amount of unrequited means, required to close the gap between expense and income. In other words, accounting for the high level of spatial inequalities in the Russian economy and social and economic disparities in regional development, the practice of the budget system involves dealing with the budgets that are continuously forced to rely on additional revenue sources such as unrequited transfers for financing expenditure and functioning. These budgets become inherently dependent, as they cannot fulfill the imposed expense obligations through their own budget potential or cannot fully realize their potential.
2. Problem Statement

Although at the moment no model of a budget system exists that can function in a fully balanced and sustainable way, solving the above mentioned issues, there is an objective necessity to close the gap between expense and income, as well as reduce the number of the budgets, relying on considerable financial support from self-sufficient territory state monetary funds (Poliak, 1998).

The problem of dependence as a phenomenon is relevant for modern Russian budgeting theory and practice and its research has utmost importance for achieving well-balanced budgets of various levels in a budget system. It is important to explore such notions as «subsidized nature» and «highly subsidized budget».

In the Russian theoretical and scientific literature the issue of dependence is little studied, as the phenomenon is relatively new. Subsidized budgets emerged in the country as a result of commercializing the economic system in the 90s, since in the command-and-control centrally planned economy of the Soviet period this question, concerning subsidies and imbalanced budgets of territories, was never raised (Somoev, 1999).

One of the first researchers, who tried to identify the notion of a «subsidized region» was the professor V.M. Rodionova, describing as a subsidized region all territorial entities, whose «regional and local authorities, as a result of prevailing conditions, do not have sufficient means to exercise their power» (Rodionova, 1994).

This idea is further developed in the research of P.A. Ibragimova, who believes that sufficient means are tax and non-tax revenue, enabling to achieve self-sufficiency and self-sustainability.

The functional approach to understanding the interpretation of a subsidized budget was applied by I.S. Karakizova, who investigated the category of finances in the context of subsidized regions.

Since this type of regions cannot build its own financial capability to solve current economic issues, it performs the function of spending subsidies on fulfilling social obligations.

The author defines as subsidized budgets those with the share of financial support from the federal budget equal to 45-75%, and tax potential of 0,4-0,9 (relation between tax yield of a territory and expenditure of a regional budget), tax share, included in the regional budget - 75-80% (Karakizova, 2006).

The issue with a subsidized budget is expressed in determining the level of the financial state, where a budget becomes imbalanced and ceases to be self-sufficient. In this context I.V. Sugarova notes that «subsidized budgets ought to include those, characterized by the financial state, emerged as a result of inability to secure financing the expenditure, related with completion of tasks and functions as provided for in the legislation as well as imposed by its own revenue sources» (Sugarova, 2015).

Thereafter, the questions of researching the issues of subsidies in regional budgets represent a relevant topic for investigation.

3. Research Questions

Researching the issues of subsidized territory budgets in this article requires completing the following tasks:

1. To define the contents of such phenomenon as the subsidized nature of regional budgets;
2. To establish the classifying criteria of subsidized and highly subsidized budgets;
To reveal and outline the typology of territory budgets in terms of financial dependence degree.

4. Purpose of the Study

The aim of study is identifying the quality characteristic of the phenomenon of subsidized budgets in a federal state.

5. Research Methods

To carry out the studies it is necessary to rate the subsidized budgets in terms of dependence on budget aid and define the notion of a highly subsidized budget, which is used in scientific research.

As budget legislation imposes limitations on a subject of the RF in case exceeding the subsidized share in the total volume of its own revenue 10%, consequently, it seems reasonable to establish the boundary of dependence at this point. The following rating of territory budgets in terms of dependence level is suggested in Table 1.

<table>
<thead>
<tr>
<th>Type of region</th>
<th>Subsidy share in region revenue</th>
<th>Quantity 2015</th>
<th>Quantity 2016</th>
<th>Quantity 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-sufficient</td>
<td>0%</td>
<td>11</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Low-subsidized</td>
<td>&lt;10%</td>
<td>39</td>
<td>35</td>
<td>34</td>
</tr>
<tr>
<td>Medium-subsidized</td>
<td>10-40%</td>
<td>29</td>
<td>34</td>
<td>33</td>
</tr>
<tr>
<td>Highly subsidized</td>
<td>&gt;40%</td>
<td>6</td>
<td>6</td>
<td>8</td>
</tr>
</tbody>
</table>

The type of a highly subsidized budget is determined in case of exceeding the subsidized share 40% of the total amount of the consolidated budget income of a RF subject, which implies a considerably fragile financial condition of a territory budget and total dependency on unrequited financial aid from other levels of a budget system to fulfill expense obligations.

According to Table 1, the number of subsidized regions in Russia has grown for the last three years, besides the level of dependence of those territory budgets is rising as well. In 2016-2017, 85% consolidated budgets of the RF subjects were subsidized, 8 of them highly subsidized, the Republic of Tyva has the biggest share of subsidies (59,3%).

Modern development of consolidated budgets of the RF subjects faces the issue of lacking revenue sources. These territories occupy 90% of Russia, with over 75% of population. This state continues to aggravate for the last decade which puts some regional budgets in the permanent loss situation.

Taking into account the growth of the financial dependency of highly subsidized budgets on the federal government, apart from the above mentioned measures a range of limitations is established in the area of inter-budget relations:

- An executive body of the state authority of a RF subject cannot enter a contract of cash servicing the budget execution of a RF subject, budgets of territory state non-budgetary funds and budgets of its municipal entities, stated in the article 215 BC RF;
• In order to decrease the dependency the bodies of regional authorities sign the agreements with the Russian Ministry of Finance concerning the measures to increase the efficiency of using the budget means and inflow of tax and non-tax revenue in budgets of a RF subject.

Also, the regulations, concerning the issues of deficit and government debt, are tightened. For highly subsidized budgets the threshold level of deficit is established as no greater than 10% of the declared amount of revenue of a RF territory budget, with the level of other budgets at 15%. The amount of government debt of a highly subsidized budget cannot exceed 50% of revenues of a territory budget, for the remaining budgets the amount is 100%.

In highly subsidized regions when forming the expenditure on the maintenance of government bodies of the RF subjects the standards are used which account for the index of regional budget expense, differentiating regions in terms of living costs, as well as the scale effect of economy, resulting from various population, redistribution of public authority.

6. Findings

Studying the given limitations, applied to subsidized territory budgets, and criteria of their identification for providing the budget aid, it is possible to distinguish certain features which are typical for subsidized and highly subsidized regions:

1. Absence or inefficient realization of existing territory economic potential which leads to lower economic indicators, compared with the average values of the country, and weak social and economic development, as well as financial discipline;

2. Poor taxable base, as a result of low economic activity of territory business entities, absence of diversified regional business, poor development of manufacturing industries, low living standards of population and etc.;

3. Lack of own revenue sources for financing current expenses in order to provide all government and municipal services (Botasheva, 2012);

4. High level of dependency on budget financial support from other budgets of a system;

5. Chronically fragile financial condition, turning into long-term dependency and decreasing motivation to achieve self-sufficiency.

Therefore, researching the approaches to the interpretation of dependency on subsidies as a phenomenon and methods of its identification has enabled to formulate the authors' definition of such notion as a subsidized budget – this is continuous form of fragile financial condition of a territory budget, emerging in struggling regions, unable to find its own revenue sources to cover current expenditure, established by legislation, which induces considerable financial dependence on unrequited budget aid.

This interpretation is used for identification of subsidized territory budgets within the given work.

7. Conclusion

This research has enabled to determine a number of certain features, characteristic for subsidized territory budgets:

1. No participation in revenue formation, only in disposition of funds;

2. No generation of financial means;
3. Consumption of allocated budget means, generated at other levels of a budget system;
4. No investment in economic industries;
5. No realization of extended reproduction processes.

The critical form of region functioning decreases the possibility to realize the economic potential and reduces financial discipline, which results in the issues with implementing the budget-tax mechanism to provide for expense obligations. This leads to the absence of self-sufficiency and well-balanced budgets and requires drawing on unrequited financial support in the form of subsidies to cover expenses.

Based on the presented interpretation, it ought to be noted that dependency is rooted in the level of development and the type of a region which corresponds with underdevelopment and depression (Buts, Drobyshevskij & Kochetkova, 2005).

Therefore, dependency of territory budgets as a fragile financial condition and development requires the government bodies to solve this problem in order to achieve a well-balanced budgeting system. This condition does not stimulate receivers of subsidies to find a way out of this critical state, it only serves as a temporary solution to close the current gaps between their own expenses and revenue sources which helps to reinforce these trends in Russia. The major task of budget policy and mechanism of inter-budget relations is to drive highly subsidized budgets out of dependency state and increase self-sufficiency and sustainability of territory budgets at every level of a budget system.

References
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