

# Nature of subsidization of Russian regions

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**Abstract**—Today, one of the most pressing problems of Russia is to improve the efficiency of public administration. A special place in this process is the strategic planning of socio-economic development of the state: the developed forecasts, concepts, programs and plans are the most important tools for the implementation of the policy. The most important problem is the planning of socio-economic development of regions in Russia, as each region has distinctive characteristics due to geographical, socio-economic, geopolitical, ethnic and natural factors. Despite considerable attention from Federal and regional authorities to the strategic planning of regional development, the level of development of the methodology of this process remains insufficient, in particular in the scientific literature and the practice of subjects of the Russian Federation there is no uniform approach to the nature and content structure strategy of development of the territory, are not determined the principles and logic of the development of forecasting and analytical documents. In the article the questions of development of regions of Russia are considered, identified the causes of subsidization and financial insolvency of Russian regions. In order to solve the urgent problems of low competitiveness of a large number of regions, the Government of the Russian Federation is trying to create a new institutional framework that will allow economic entities to work and develop without any restrictions, but openly and in accordance with the established legislation.

**Keywords**—*subsidized region, socio-economic development, development strategy*

## I. INTRODUCTION

Uneven territorial development is an objective process typical for many countries of the world. All regions of the Russian Federation have very different opportunities for socio-economic and investment development. In this case, subsidized regions are in a difficult situation, the number of which is significantly higher against the background of a narrow range of donor entities. For external investors subsidized regions are unattractive, as they are characterized by increased risks. Subsidized regions generally do not have sufficient own investment resources to update their production and technical base, as required by the strategy of modernization of the Russian economy.

The problems of studying the level of socio-economic development of the regions are touched upon in the works of many scientists, such as A. G. Granberg, T. G. Morozov, B. L. Leksin, A. N. Shvetsov, A. L. Gaponenko, V. G. Polyansky, etc. This issue is given an important place, since the improvement of the level and quality of life of the population is not possible in the absence of economic growth, in turn, the low level of social development has a negative impact on economic development.

The influence of certain factors on the economic characteristics of the regions were considered in the works of V. P. Zhdanov, D. S. Lvov, A. G. Porshnev, Yu. N. However, currently there is a lack of elaboration in the direction of quantitative relationship of factors of socio-economic development.

## II. MATERIALS AND METHODS

The theoretical and methodological basis of the study are the works of domestic and foreign scientists, which reflect the problems of socio-economic development of the regions and their deep differentiation.

The study is based on systematic, process and strategic approaches. The use of a systematic approach has ensured the need to consider the regions as a set of complex, heterogeneous and dynamic components in the system-forming structure of the economy and its management with a clear justification of resource, material and technical, organizational, personnel, financial and investment support for regional development. The study of regional development from the perspective of the process approach allowed to analyze the structure of regional processes, to study the features, forms and directions of relations between processes and their groups. The strategic approach ensured the validity of the development of mechanisms for self-determination of regional socio-economic systems in the external environment, orienting the strategic orientation of systems for development, and not exclusively for growth, in addition to the management rationalism associated with the identification of internal reserves of economic growth based on improving the efficiency of the use of all types of resources.

To achieve the required quality of work, the following methods were used: methods of strategic planning; method of expert assessments; methodological approaches of welfare economy, neoinstitutional economy; method of comparative dynamics; economic and mathematical method; statistical methods; complex-target method.

## III. RESULTS

In the Russian economy, there are donor regions and subsidized regions (recipients), since the subjects of the Russian Federation have significant differences in the levels of economic development, industry specialization, natural and climatic conditions.

Grant (from lat. "dotatio" – "gift, donation" is:

1) the funds that are allocated to help unprofitable enterprises from the budgets of the appropriate levels, and the amount of cash proceeds of these enterprises is less than the

costs that the enterprise bears in the production and sale of this product. The meaning of financial support is to compensate for the increased costs and cover the losses incurred. Subsidy policy is widespread in countries with the predominant public administration of the economy, and is almost unusual for market economies, as in this type of economy tightened requirements for self-financing and self-sufficiency;

2) monetary payments of the state in the form of benefits that are provided to citizens and individual organizations for special purposes or to cover losses;

3) funds from the Federal budget aimed at supporting regional and local budgets, provided that their own revenues are insufficient [1].

The budget legislation of the Russian Federation contains the following definitions:

- inter-budget transfers – funds provided by one budget of the budget system of the Russian Federation to another budget of the budget system of the Russian Federation;
- grants – inter-budget transfers provided on a gratuitous and irrevocable basis without establishing the directions and (or) conditions of their use [2].

The subsidized region is a region that is not able to fulfill its obligations under the legislation due to the lack of its own income. He receives financial assistance from the higher budget.

In the region-the donor, the collection of revenues is more than entrusted to him spending powers.

Regions are divided into four groups according to the level of the estimated share of inter-budget transfers from the Federal budget (except for subventions, as well as subsidies from the Investment Fund of the Russian Federation) in the amount of own revenues of the consolidated budget of the Russian Federation.

1. If the share of inter-budget transfers from the Federal budget has not exceeded 5% within two years (over the last 3 fiscal years), no restrictions are imposed on the regions.

2. If the value of the share of inter-budget transfers from the Federal budget was 5-20% within two years (for the last 3 reporting financial years), the regions are prohibited from carrying out cash services for the execution of the regional budget by regional authorities, such services can only pass through the Federal Treasury.

3. If the size of the share of inter-budgetary transfers from the Federal budget made within two years (for 3 last reporting financial years) from 20 to 60%, regions have no right to carry out expenditure powers which not with the solution of the questions relating to their competence and to exceed the standards of forming of expenses for compensation of regional officials established by the Federal government and the maintenance of public authorities of the region.

4. If the value of the share of inter-budget transfers from the Federal budget within two years (for the last 3 reporting financial years) exceeded 60% of the volume of own

revenues of the consolidated budget of the region, in addition to the above, the following measures are taken:

- an agreement is signed with the Ministry of Finance of the Russian Federation on the implementation of measures to improve the efficiency of the use of budgetary funds and increase the revenues of tax and non-tax revenues of the regional budget;
- execution of the budget of the region is organized by opening and maintaining personal accounts in bodies of Federal Treasury;
- the financial body of the region submits to the Ministry of Finance of the Russian Federation documents and materials that confirm the compliance of the draft budget of the region for the next financial year with the requirements of the budget legislation of the Russian Federation;
- organization of annual audit of the annual report on budget execution of the region by the accounts chamber of the Russian Federation or in the order established by the Ministry of Finance of the Russian Federation, the Federal service of financial and budgetary supervision [2].

The first group includes: city of Moscow, Khanty-Mansi Autonomous Okrug-Yugra, Yamalo-Nenets Autonomous Okrug.

The second group includes the Republic of Bashkortostan, Karelia, Komi, Krasnoyarsk, Perm, Khabarovsk territory, the Volgograd, Vologda, Irkutsk, Kaluga, Kemerovo, Leningrad, Lipetsk, Moscow, Murmansk, Nizhny Novgorod, Novgorod, Novosibirsk, Omsk, Orenburg, Samara, Sakhalin, Sverdlovsk, Tver, Tula, Tyumen, Chelyabinsk, Yaroslavl region, St.-Petersburg, Nenets Autonomous Okrug.

The third group includes the Kabardino-Balkar Republic, Republic of Adygea, Buryatia, Kalmykia, Mari El, Mordovia, Sakha (Yakutia), North Ossetia-Alania, Tatarstan, Udmurtia, Khakassia, Chuvashia, Altai, TRANS-Baikal, Krasnodar, Primorsky, Stavropol territory, the Amur, Arkhangelsk, Astrakhan, Belgorod, Bryansk, Vladimir, Voronezh, Ivanovo, Kaliningrad, Kirov, Kostroma, Kurgan, Kursk, Magadan, Orel, Penza, Pskov, Rostov, Ryazan, Saratov, Smolensk, Tambov, Tomsk, Ulyanovsk, Jewish Autonomous regions, Chukchi Autonomous region.

The fourth group is represented by the Republic of Altai, Dagestan, Ingushetia, Karachay-Cherkess, Tuva, Chechen, Kamchatka region.

The grants allocated for the purpose of alignment of budgetary security of regions are provided as a part of the Federal budget and distributed between subjects of the Russian Federation. They form the Federal Fund of financial support of subjects of the Russian Federation. These subsidies are provided to the regions on the condition that the level of their estimated budget provision does not exceed the established criterion. The indicator of the level of estimated budget provision can be determined by the ratio between the estimated potential tax revenues per inhabitant of the region and the same average for the consolidated budgets of other subjects of the Russian Federation [2].

Donor regions do not receive subsidies from the Federal budget to equalize budgetary provision.

In 2018, out of 85 subjects of the Russian Federation, only 12 regions are donors, and the remaining 73 (i.e. more than 85%) are recipients.

The number of donor economic regions has changed dramatically in recent years. The Republic of Tatarstan, Moscow, St. Petersburg, Leningrad, Moscow, Samara, Tyumen, Sakhalin regions, Nenets, Khanty-Mansi and Yamal-Nenets Autonomous districts in 2012 belonged to the donor regions (in 2011 they were also Kemerovo, Lipetsk region, Perm region). All these regions have a fairly high level of socio-economic development. In 2013, subsidies to equalize the level of budget provision are not provided for Moscow, St. Petersburg, Leningrad, Moscow, Tyumen, Sakhalin regions, the Republic of Tatarstan, Perm region. In 2018, subsidies were not received by the Republic of Tatarstan, Moscow, St. Petersburg, Leningrad, Moscow, Samara, Sakhalin, Sverdlovsk and Tyumen regions, Nenets, Khanty-Mansi and Yamal-Nenets Autonomous districts.

In the economy of the XXI century, a significant role is given to the regions, as their development depends on the vector direction of change. The main method of studying the processes taking place in the region is economic analysis. Under the most General approach analysis (from Greek. analysis – decomposition) is considered as a method of scientific research (knowledge) of phenomena and processes, which is based on the study of the components of the elements of the system. The analysis serves as a starting point for forecasting, planning, management of economic objects and their processes.

The increase in the number of subsidized regions can be explained by the following reasons: first, it is a structural restructuring of the country's economy (the country went through a crisis caused by the emergence of more advanced industries that produce goods-substitutes); secondly, it is the unstable political situation in the region (in different periods of time there were military actions).

In our opinion, the increase of the region's investment potential contributes to the reduction of the region's subsidies. To assess the investment potential, characteristics that reflect the factors of production in the region, the results of economic activity, the level of scientific activity, the degree of implementation of scientific achievements, the development of infrastructure should be used. Investment risk assessment should be based on potential losses of investments and income [3, 4, 5].

The main indicators characterizing the investment attractiveness of the region include:

- efficient use of production and resource potential;
- economic potential of the region, which includes in addition to indicators of production and resource potential characteristics of the state of various types of infrastructure: production, transport, social;
- innovative potential, including the level of entrepreneurship development, characteristics of innovation and small business, the state of market

economic relations, market infrastructure, changes in the structure of the economy;

- characteristics of the quality of life of the population and the level of consumption, which allow to assess, in addition to economic efficiency, also social;
- characteristics of risks that are of interest to the investor, allowing to assess the level of protection of its interests from various conflicts (social, interethnic), risk factors.

The presented system of indicators affects all areas of the region's activity and allows to fully assess its investment attractiveness, since the elements of this system allow to determine the possible consequences of investment and investors' preferences.

The place and role of the financial system in the regional economy are contradictory. It arises because the prevailing in the region's economy is the turnover of state capital, in which the system of savings is not connected with the system of investment demand, and national capital is weak and unstable.

"The role of economic interests in the economic development of society is known. Functionally, economic interests also have a direct impact on institutional evolution. They are, in essence, a motivating force, which in the future, transforming, contributes to the formation of formal and informal institutions, as well as enforcement agencies" [6].

In terms of the institutional economy, in most countries it is the financial sector (banks) that plays a crucial role in the financial intermediation system and outperforms other intermediaries in terms of economic potential.

It should be noted that the preservation of the region's dependence on Federal subsidies for a long period is currently unacceptable.

If we compare the level of subsidies in the Russian regions for 2018 and 2017, we can see that the level of subsidies has not changed. We can note its decline in two groups of regions: with a reduction in the volume of transfers (mainly highly subsidized regions) and with a faster growth of own (tax and non-tax) income, especially income tax. The increase in the level of subsidies was mainly observed in the regions more affected by the crisis (Ivanovo, Kurgan region, Mordovia) or received a large addition of transfers [7].

#### IV. CONCLUSION

It is impossible to ensure the economic growth of the region, based only on state support, which includes financial support. Positive dynamics of development of the region is possible only if there are own financial resources, however, it is obvious that subsidized regions are deprived of them. Consequently, the regions should build a new development strategy aimed at achieving their own financial independence [8, 9, 10, 11]. A possible instrument for achieving this goal can be a regional investment program that meets the existing economic conditions. Development of new investment projects should contribute to building the financial potential of the region and increase its financial self-sufficiency [12, 13, 14, 15].

Currently, in the unstable situation of subsidized regions caused by the deficit of Federal budget funds due to the economic crisis, the implementation of the regional investment program will ensure the functioning and development of the region's economy on the basis of its own financial resources.

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