

# *Development of municipal finance: pre-conditioning the new industrialization of the Russian economy*

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**Abstract**—The article considers the problem of the progress in the regional economy in the view of the development of municipal finance and the search for ways of the efficient evolvement of municipalities with the aim to improve the well-being standard of the Russian population. The main goal of the research is to investigate the problems of development of municipal finance within the framework of the concept of new industrialization and to understand the trends in increasing the level of well-being of the people living in the regions. The essence of the terms "new industrialization, financial system, municipal finances, level of well-being" is investigated. The existing approaches to the analysis of the welfare of the population and the fiscal sustainability of municipalities are analyzed. Some recommendations are proposed for solving the problems of municipal finance development within the framework of the concept of "new industrialization" of the Russian economy

**Keywords**— *new industrialization, population welfare, economic growth, regional finance, problems of the development of municipalities, financial potential*

## I. INTRODUCTION

Today, we often hear the term "new industrialization", which is frequently used in the context of the state's economic growth and an increase in the level of a nation's well-being. In Russian economics, quite a lot of researchers were involved in the development of approaches to new industrialization and the mechanism for its implementation. First of all, I would like to mention the developments and research of the Ural economic school scientists. Many domestic economists express their views on this topic, many roundtables and scientific conferences are held on this topic, collective monographs have been published by representatives of the Ural scientific school, including those under the guidance of such scholars as an academician, Doctor of Economics Professor A.I. Tatarkina, Doctor of Economics Professors E.G. Animitsa, Doctor of Economics Professor V.P. Ivanitsky, Doctor of Economics Professor Y.P. Silin. Many articles on the topic of new industrialization are written by the Doctor of Economic Sciences O.A. Romanova. However, most of the studies consider the concept of

industrial development of the regional economy, where the resource potential and technical potential are affected, and the potential for influence of regional (municipal) ones per se and their incorporation into the system of development of the regional economy and improvement of the population's well-being, according to the authors, requires further study. If we turn to the definition of industrialization in various economic dictionaries, it means a process of accelerated socio-economic transition from the traditional to the industrial stage of development, with the predominance of industrial production in the economy. This process is associated with the development of new technologies. According to the authors, industrialization is a rather capacious concept and includes industrialization of all spheres of the country's economy, including the improvement of the financial mechanism and the optimization of cash flows in the country's economic system. The decisive factor is the industrialization of individual regions as components of the national economy. Accordingly, the prerequisites for industrialization are needed, one of which is increase in the well-being of citizens and improvement in the quality of life. Since government agencies in territorial entities are called upon to stimulate economic growth in the regions and improve the living conditions of their citizens, the role of municipal finance in this mechanism is decisive [2].

## II. THE FINANCIAL SYSTEM AS THE BASIS OF THE SYSTEM FOR NEW ECONOMY INDUSTRIALIZATION

Consider the integration of regional finance into the system of new industrialization within the framework of the regional economy development. Since today the main goal of any economically developed state and its government is to increase national welfare, with raising the standard of the population living included. At the present stage of development of the Russian economy, the goal of strategic development is also to raise the standard of living, combat poverty, reduce inflation. All researchers and politicians are most concerned about the question of how to do it quickly and efficiently. And in this case, according to the authors, the most important role is played by regional economies, their progress and, accordingly, the study of the structural components of the

regional economy, its evolvement mechanisms, including the development and improvement of financial development mechanisms. Today, the most important issues of improving the quality of life of the population in the crisis are related to the increase of the financial capacity of municipalities, providing municipal authorities with financial resources. To this end, we consider the relationship between living standards and the level of development of municipal finance [4].

Municipal and public finance have the most important role: they provide conditions for economic growth through the accumulation of budget funds and their distribution by industry in accordance with the state budget policy.

The financial system of the state is multi-level, and municipal finances are an independent level in this system. The emergence of municipal finance is determined by the necessity to better meet the needs of the population within the municipality. In the Russian Federation, the presence of a multi-level financial system is explained by the general decentralization of state power.

By definition of A.M. Babich, "Municipal finances can be viewed as a set of monetary relations connected with the formation, distribution, and use of financial resources for solving the tasks of the social and economic development of a municipality, improving the quality of life of the population living on its territory."

The main principles inherent in municipal finance are: balance, target orientation, unity, diversification, strategic orientation, economic situation management, consideration of strategic perspectives.

The main component of municipal finance is the local budget.

The local budget is a centralized fund of financial resources of the municipality, the replenishment and implementation of which is the responsibility of the local government.

The revenue part of local budgets includes local taxes and fees; part of the tax deductions of budgets of other levels secured by regulations, obtaining intergovernmental transfers, income from the privatization of municipal property, revenues of municipal organizations.

The autonomy of municipalities in the allocation of financial resources of local budgets does not exclude support from the regional and federal budgets. Financial resources can be attracted from credit and insurance organizations, as well as from enterprises with a municipal form of ownership.

Enterprises that exist and conduct business in the territory of a municipality also take part in the local finance formation.

Among other things, municipal finances consist of temporarily free funds of the population, subject to the implementation of a sound financial strategy by the municipal authorities.

The functions performed by the state authorities of the Russian Federation include:

- distribution of public funds for the implementation of targeted programs;
- implementation of targeted programs to solve local problems;
- regulation of intergovernmental relations, including that through targeted programs;
- control over the effective and targeted use of funds;
- monitoring compliance with legislation in the budget and tax sphere.

The expenditure part of the municipal budget consists of current expenditures and expenditures for the development of the municipality (municipal development fund).

Current expenses are those allocated to the maintenance of municipal facilities and institutions, their overhaul and other expenses associated with municipal organizations, which include: institutions of health, social security, sports, and education [3].

The municipality development fund includes expenses for the innovative development of the municipality, major investment projects within it, as well as other costs associated with improving the quality of life and increasing the level of expanded reproduction of life in the municipality.

### III. THE WELFARE OF THE POPULATION WITHIN THE NEW INDUSTRIALIZATION ENVIRONMENT

Considering the level of welfare of the population, according to the World Bank's data for 2016 for GDP per capita (current US \$) , Russia occupies the 67th place with a GDP of \$ 8,748 per capita [10], with the average \$ 10,191 GDP per capita in the world. The vast territory of the Russian Federation stretches from the Baltic Sea to the Pacific Ocean and the level of development of all Russian regions is different. This indicator is due to geographical, social, economic factors, the predominance of industry or agriculture and so on. The standard of living of the population in a certain region is estimated by different indicators: the level of income and social benefits, the availability of work and the level of payment, the cost of real estate and its availability, as well as many other parameters. The crisis phenomena of recent years have significantly affected the quality and cost of living in Russia, and the gap between its regions in terms of these indicators has only increased. According to the Ministry of Economic Development, in 2018, the population that lives below the poverty line is 19 million people, according to other sources the figure is up to 21 million people. If we analyze the data by region, we see the following picture. When calculating the rating, the experts analyzed 72 indicators combined into 11 groups which describe the main aspects of the quality of life [9]: income level, employment and labor market, housing conditions, living security, demographic situation, environmental and climatic conditions, health and education, social infrastructure, economic development and development of small business, development of the territory, and transport development. The scores for all groups were

summed up, and the results enabled determining the place of the region in the final ranking. The study used the data of Rosstat, the Ministry of Health, the Ministry of Finance, the Central Bank and other open sources [1].

According to the data of that study, the first positions are occupied by Moscow, St. Petersburg and the Moscow Region that have a combined rating score of more than 70 (minimum - 1, maximum - 100). They are followed by Tatarstan, the Krasnodar Region, Voronezh, Belgorod, Lipetsk Regions, the Khanty-Mansiysk Autonomous Region, and the Kaliningrad Region. A year earlier, most of these regions were also among the top ten. The only exception was the Kaliningrad region, which previously occupied the 11th place and has risen by one position [5].

The standard of living determines the degree of provision with material benefits of the citizens of a country or residents of a certain region, their financial and spiritual satisfaction with the volume of goods, services and opportunities that they can use in a given period. The basic indicator is the ratio of real income to the consumer basket. The concept of quality of life includes intangible factors. We can talk about the degree of moral satisfaction with life, the state of health, the degree of ecological safety of living in a particular region, psychological comfort and even the degree of bureaucratization of its state apparatus. The standard of living is often identified with a level of well-being, but this is not true. Welfare is a broader concept that includes not only material, but also spiritual benefits. For the growth of the well-being of the Russian population and building a new economy within the framework of the new industrialization concept, the mechanism of the regional economy development through the improvement of municipal finances plays an important role [6].

#### IV. PROBLEMS OF DEVELOPMENT OF MUNICIPAL FINANCE BASED ON ITS FISCAL SUSTAINABILITY ANALYSIS

The problem of municipal finance in modern Russia is the lack of sufficient sources of funding at both the federal and regional levels (there is no increase in production at the regional level). And with a limited amount of resources, the effectiveness of local finance management is insufficient. These facts are confirmed by the analysis of the management of municipal finance in a number of municipalities, carried out by the authors on the basis of an analysis of the individual territorial entities budgets in the Volgograd region (Kletsky, Zhirmovsky municipal districts, Demidovsky, Amovsky rural settlements) [7]. The authors calculated the indicators of financial independence and fiscal sustainability of these municipalities according to the method recommended by the economist N.I. Yashina. The concept of budget sustainability itself implies the state of the budget, which ensures the normal functioning of the subject of public authority, the implementation of all powers assigned to it on the basis of full and timely financing of budgeted expenses, including repayment and servicing of internal and external debt. Budget sustainability makes it possible to estimate the strength of the financial basis activities of the governmental agencies. The concept of budget sustainability is similar to the concept of financial sustainability of an economic entity: both concepts

are based on general principles - full coverage of current expenses, efficiency, and economy of expenditure of funds, compulsory investment, insurance of unforeseen expenses and risks. At the same time, they differ in character, in a content of similarly named principles, factors influencing the magnitude of stability, and so on. To assess the fiscal sustainability of the region, N.I. Yashina proposes to divide budget financing sources into three groups [8]:

- tax revenues and non-tax revenues;
- gratuitous income or financial assistance;
- other income or loans, and borrowings.

When considering budget revenues, it is necessary to take into account the volume of tax deficiencies. The system of coefficients proposed by a group of researchers shall be formed taking into account the following requirements:

- 1) The coefficients should be as informative as possible;
- 2) The coefficients should be calculated only according to the data of the existing report on the execution of budgets approved in the Russian Federation;
- 3) The coefficients should provide an opportunity to conduct a rating of municipal entities (ME) and subjects of the Russian Federation both in space (in comparison with other territories) and in time (monthly, quarterly and for a number of years);
- 4) For all coefficients, numerical standards can be specified for the minimum satisfactory level or range of changes.

To determine the budgetary stability of the MEs and the constituent entities of the Russian Federation, the coefficients of the structure of budget revenues are proposed:

C1 - fiscal sustainability ratio calculated as the ratio of the sum of tax and non-tax revenues to the total budget revenues. The coefficient of fiscal sustainability (C1) is determined by the formula:

$$C1 = (TR + NTR) / R, \quad (1)$$

where

TR - tax revenues,

NTR - non-tax revenues,

R - total budget revenues.

C2 - the coefficient of tax stability. It is considered as the ratio of tax (renewable) revenues to total revenues. The coefficient of tax stability (C2) is calculated by the formula:

$$C2 = TR / R, \quad (2)$$

where

TR - tax revenues,

R - total budget revenues.

C3 - financial independence coefficient is calculated as the ratio of tax and non-tax revenues to financial assistance. It is calculated as the ratio of the aggregate tax and non-tax revenues to the amount of financial assistance to the budget (subsidies, dotations, subventions). The financial independence ratio (C3) is determined by the formula:

$$C3 = (TR + NTR) / FA, \quad (3)$$

where

TR - tax revenues,

NTR - non-tax revenues,

FA - financial assistance.

The calculations of the coefficient of fiscal and tax sustainability and financial independence of municipalities carried out by the authors according to the above methodology and the obtained positive results indicate positive trends in the regional economy. The growth of tax revenues in 2016 and 2017 indicates the financial sustainability of this municipality and a steady increase in the standard of living of the population. The growth of tax revenues is associated with an increase in income in a territorial entity and, accordingly, an increase in the well-being of the population to a certain extent. Judging by the calculations of the tax and non-tax revenues ratio, it is appropriate to say that territorial entities can get rid of the budget deficit by reducing the volume of the subsidies from the state [11]. The increase in tax revenues is also related to the increase in production in the territories due to the decline in import, including agricultural products' import to Russia due to economic sanctions. According to the results of the calculations, it turns out that their budgets are quite stable, over the past three years there have been positive trends. The calculation of the independence ratios shows that it is the own revenues (tax and non-tax ones) that make up the total incomes of these municipalities. Reducing the ratio of total and absolute solvency indicates a decrease in the ability of the budget to carry out its priority socially significant tasks.

## V. CONCLUSION

According to the results of the calculations carried out by the authors, it is established that the growth of agricultural production contributes to positive changes in the structure of tax revenues and the formation of the revenue component of the municipalities budget in the Volgograd region. The budget deficit reduction comes due to the choice of priority areas of expenditures and optimization of other expenses.

Among the identified problems of municipalities, it is necessary to note the low level of management, as the municipalities of the Volgograd region work without elaborating a long-term development strategy, without active participating in various state and regional investment programs, without their own investment projects. These issues deprive municipalities of future development. Accordingly, by increasing the volume of funds raised to the local budget and increasing the level of efficiency of spending, it is possible to

achieve a more rapid growth of the economic potential of the municipality and an increase in the standard of living in it. The increase in the population living standard at the regional level is associated with the increase in spending on the social sphere, the increase in social payments, the development of regional programs to improve the quality of life of the population, including the development of a system to protect citizens from the negative impact of the US and Europe sanctioning the economy.

Summarizing the results of the study conducted by the authors on the effectiveness of managing local governments' finances in the Volgograd region, the following problems are identified in the management of local finances:

- inefficient allocation of budget funds;
- insufficient level of development of municipal statistics;
- misuse of budget funds;
- absence or lack of the municipal budget monitoring;
- problems in the effective management of municipal finance.

The most pressing and equally important problem in the modern environment is the problem of the relationship between federal and local budgets.

In this regard, there is a need to elaborate practical and theoretical recommendations on the organization of economic and financial relations between the authorities at all levels of the budget system. In the opinion of the majority of economists who are concerned with studying the problems of the regional economy, the following set of measures is proposed. Here are some of them:

- at the legislative level, to increase the responsibility of local governments for the implementation of projects, the executive powers of which were transferred by the highest authorities; also because of the development of a system for monitoring the quality of performance of powers;
- to work on preventing the insolvency of the budgets of municipalities, to reduce the budget deficit through an effective system of monitoring tax revenues;
- to improve performance indicators of budget spending through the introduction of a system aimed at the effectiveness of investment programs, as well as monitoring their efficiency;
- to improve the principles of providing financial assistance to local governments in the framework of formalizing its provision;
- to increase the level of transparency of spending and the formation of funds of local entities by introducing electronic systems, changing the reporting mechanism by municipalities;
- to calculate indicators of fiscal sustainability using proven methods, taking into account the specifics of the municipality.

These activities will allow local governments to more effectively manage budget funds, thereby increase spending on social programs, making social payments to certain categories of the population, maintaining the level of well-

being of municipalities citizens, which will subsequently stimulate the development of the regional economy and ensure sustainable development of the country's economy within the framework of the concept of new industrialization in Russia.

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