

# Features of Financial Potential Formation at the Regional Level

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**Abstract** — this research considers features of financial potential formation at the regional level. The given category is explained from the point of view of a systematic approach. Authors try to reveal «financial potential» through «financial resources». Economists usually use various definitions that have some drawbacks. An extended classification of the financial potential is proposed taking into account the sets of parameters. The author discloses the problems of financial potential formation of a republic in accordance with the systematic approach. It is important to emphasize the fact that the main budgetary incomes, namely, tax revenues account for the biggest share of the revenue structure. The author specifies the practical importance and makes the conclusion that tax revenues can be regarded as the investment in further development of a region. Theoretically, this is likely to generate some profit. However, there can arise the situation when using privileges may lead to losing some revenues but at the same time expected effect from their application is not reached.

**Key words**— *financial potential, a region, tax revenues, a budget*

## I. INTRODUCTION (THE IMPORTANCE OF THE REGIONAL FINANCIAL POTENTIAL FROM THE POINT OF VIEW OF A SYSTEMATIC APPROACH)

Nowadays financial potential of a vast majority of Russian regions does not provide a due standard of living. Moreover, it does not meet the needs of state bodies since this does not fully perform the assigned functions of management. This makes it necessary to stimulate the growth of the regional financial potential as the basis for the positive development of all its economic agents and households.

Creating the system for regional financial potential and increasing its effectiveness requires to estimate all financial cash-flows of a territory and to provide managing them by governmental and municipal authorities.

There is an increasing importance of searching for novel and innovative ways of such an influence under modern conditions. Despite the importance of regional financial potential in solving territorial problems, the theoretical and practical basis of its integrated assessment methods has not been developed yet, which negatively affects the use of existing municipalities.

The reason for this is the poor development of the problem and the absence of comprehensive scientific recommendations that can be applied by government.

Let's have a look at a financial potential from the point of view of the systematic approach. Many authors make an attempt to disclose this category through financial resources. Economists usually use different definitions that have some shortcomings.

On the one hand, the term «regional finance» linking regional budgets and interstate relations increases funding as resources. On the other hand, it is limited only by public finance.

First and foremost, finance is related to distribution and redistribution. Financial resources are generated by plants and organizations of all forms of ownership as well as by homes.

Another notion close to the previous one is «territorial finance». It seems to be less precise in this case since territories are not the subjects of economy. In this respect, we consider that the term «financial potential» enables us to reveal all the financial resources of the region. Furthermore, this makes it possible to uncover interdependence that can arise during the process of their formation, usage and expansion.

A fairly general concept of financial potential is contained in the research of A.M. Volkov who was the first to use this term in Russia. He believed that financial potential was «part of the national income resources that is eventually translated into material composition along with the growth of the means of production». [1, 149 Volkov A.M. Advanced planning of financial resources. – M.: Finance, 1976.].

The most interesting definitions of financial potential are those that can be applicable to the region. So, O.Yu. Sviridov notes that «the financial potential of the region is more capacious than the region's finances» [2, 113 Sviridov O.Yu. Finance, monetary circulation and credit. – Rostov-on-Don: MarE, 2004.]. According to his point of view, financial potential encompasses all current financial possibilities of the region. It includes the consolidated budget, off-budget funds, interbudgetary cash-flows; securities issued by authorities and bodies of the subject of the Russian Federation or local authorities; financial potential of companies; people's money in banks and other financial institutions as well as in the form of various securities; financial resources of the banking system's institutions of the region and capital raised by banks from other regions.

According to G.G. Golodova, this definition also contains some uncertainties. [G.G. Golodova. Financial potential of a region: the essence and management elements / Bulletin of RUPP, Economy, 2010. № 4. – p. 13-21].

Firstly, the number of securities issued by authorities is taken into account in the budget of the appropriate level. Therefore, there is a double account.

Secondly, the part of money is utilized for purchasing government securities. Besides, the source of funds from enterprises and organizations is vaguely formulated – the essence of their potential is not discussed by the author.

However, the author further points out that financial potential comprises fixed assets, nature resources and other elements of welfare that are concentrated in the region. Finance is part of its financial potential. Such a definition cannot be accepted at all because some of these elements are included in the regional economic potential (nature resources potential) along with the financial one.

One of the approaches to the interpretation of the term «potential» is resource. According to this approach, such scientists as L.A. Abalkin, V. Andrianov, M. S. Skripnichenko argue that the potential is the set of different types of resources that are needed for functioning or developing a system. In particular, L. Abalkin notes that we cannot contrast the notions «potential» and «resources».

Potential – a «generalized aggregate characteristic of resources that is tied to the place and time. The scientist defines economic growth potential as the ability of national economy, its industries, enterprises to produce goods and provide services to meet people’s needs» [5, T1, p. 64] Abalkin L.E. Selected Works: In 4 vols. / Free Economic Society of Russia; comp. Gribanova O.M. - M: JSC "NPO" Economics ", 2000. T. 1, - p. 58.

To sum up, it is possible to make the conclusion that the potential, from the business perspective, is considered to be the unity of available resources and possibilities of using them. The potential as an economic category reflects not only the present or another state of an economic entity but also feasible processes and tendencies of its further development and, consequently, the level of its functioning effectiveness.

### 2.1 Financial potential classification and its formation aims at the regional level

A more accurate analysis takes us to use expanded classification of financial potential taking into consideration the ensemble of parameters. It is shown in table I.

Financial potential is implemented with the aim of:

- providing regions with necessary financial resources – own, borrowed and received in order of redistribution;
- stimulating the subjects of financial system to give rise to financial flows;
- redistributing resources among the subjects of the economic system, the region and in favour of the federal center as well;
- taking control of the formation process, distributing and using financial resources;
- insuring from possible threats.

A quality financial potential of a region is defined as the result of the interactions of such elements as the potential of enterprises, financial institutions, insurance companies,

households, investment and nongovernmental pension funds and the fiscal potential.

Table I. Financial potential classification and its formation aims at the regional level

Classification criterion	Classification criterion	Aims of formation and the analysis
Depending on localization	State potential	The elaboration and implementation of the development strategy aimed at increasing a standard of living
	Regional potential	
By degree of involvement	Formable potential	Minimizing the impact of risks and uncertainty
	Realizable potential	The implementation of the regional development strategy
	Unrealizable potential	The possibility to use it in the future
Depending on formation source	Own potential	Setting macroeconomic and budgetary parameters
	Attracted potential	Making decisions on the security emission of Russian subjects, giving loans, the inquired amount of financial support from federal center.
Depending on the sphere of formation	The potential of real sector organizations	The evaluation of opportunities to increase production and heighten the competitiveness of the region
	Budgetary tax potential	The assessment of the adequacy of mobilized resources for financing the costs of the region
	The potential of credit institutions	The evaluation of possibilities to raise investments for financing regional programmes and projects
	The potential of investment and pension funds	The estimation of the level of region’s capitalization, and possibilities to increase resource base of economy’s subjects
	The potential of homes	The assessment of opportunities to increase region’s welfare
Depending on the units of measurement	The absolute size of potential	The evaluation of opportunities for financing the expenditures, lending to the economy, financing regional programs and projects
	The relative size of potential (level)	Positioning the region among other subjects of Russia

\*Developed by the author

The value of each individual potential depends on a wide range of factors. There can be the following factors: the values

and trends of macroeconomic development indicators of the country and the region (GRP, inflation rate, unemployment rate, etc.), the state budget, the solvency level of legal entities and individuals, the balance of payments, the degree of risk, the degree of business and household confidence in power, the state legislative and regulatory framework.

The factors such as the quality and stability of management personnel at the macro and mezzo level, their technical equipment, the effectiveness of the developed socio-economic policy are important for the country under the conditions of formation of a real united economic space across the country.

It is needed to take into consideration the impact of internal factors on the country under the study. They can be related to the state of the world financial system including currency markets, the world tendencies that have a huge influence on economy and politics as such, the presence of barriers for entry into foreign markets, the change in the share of groups of countries and individual states in world GDP and world trade. Apart from that, additional economic, social and psychological facts make the difference to the values of these kinds of potential.

## 2.2 The financial potential management of the republic Bashkortostan

We need to regard the financial potential management of a region from the point of the process approach.

Bashkortostan is considered to be one of the leaders in terms of the management of state and municipal finance amongst the subjects of the Russian Federation. Therefore, if we look at this from the point of GRP, Bashkortostan is in top-10 and stands at number 8th by the amount of the consolidated budget incomes per capita amidst the regions of the Volga Federal District. More than one third of tax revenues is provided by enterprises specializing in the mining industry: 23,1% - the manufacturing industries, 7,6% - the transport and the communication industries. The republic occupies the second place by the agricultural output among all subjects of Russia.

A budget is regarded as the material basis for the government to perform its tasks and functions. The main task of the subjects of Russia is supposed to be increasing budgetary incomes. It is crucially important to realize that the overwhelming majority of Bashkortostan's incomes are mainly tax revenues that make up more than half of all the republic's incomes.

It should be noted that tax revenues from income tax are chiefly provided by legal entities. As far as 2016 is concerned, we should notice that the budget of the republic was replenished with the corporate income tax in the amount of 28764,6 million rubles. The plan completion was ensured by 97,5% [2].

As for 2015, the quantity of the budget's revenues shrank by 270 million rubles (0,9%) because of the decrease in the incomes of the republic's primary tax payers (PJSC «Bashneft» and the Bashkir soda company). Payouts were equal to 15,7 billion rubles to both the state budget and the republican budget that is 3.1 billion rubles less than it was in

2008. The profit tax of PJSC «Bashneft» in 2016 accounted for 12,8 billion rubles while in 2015 – 16,9 billion rubles. If we take the Bashkir soda company, its value equals 2,9 billion rubles in 2016 and 1,9 billion rubles – in 2015.

The second and no less essential source of the republican budget's income is the personal income tax. It is known that the amount of the personal income tax that was gathered in Bashkortostan's budget in 2016 was equal to 22197,1 million rubles or 68,9% of the annual plan. Such a kind of income rose by 1,483,1 million rubles (7,2%) compared to 2015. The personal income tax had a huge influence on the growth of the wage fund (according to the Bashstat data for 2016, the Federal labor market increased by 5.9%, in 2015 - by 2.7%) [3].

Making the budgetary incomes grow requires us to take a number of some measures. Firstly, we need to create and support favourable conditions for the development of the real sector of this region. Secondly, it is reasonable to set effective tax regimes. Finally, the Russian tax system ought to be reformed to the proper extent.

The priority ways of the tax policy development of the Republic of Bashkortostan that are defined for the period till 2030 are closely connected with the continuity in achieving the goals and objectives set before. It is related to increasing the effectiveness of the tax system for providing the set economic growth rates, fulfilling social guaranties, stimulating investment and innovation activities under the current economic conditions.

In accordance with the tax policy of the republic, the main aim of the state programme is to organize the way of how we can improve the quality of budget management. Moreover, it also links to what is needed to improve the tax legislation of the Republic of Bashkortostan.

Nonetheless, the most considerable factor entailing the increase of budgetary incomes is the development of the entrepreneurial activity in Bashkortostan. It can be explained by the fact that the revenues that are transferred to the budget by the entrepreneurs make up a significant fraction in the tax revenue structure of the republican budget. As of January 1, 2017, Bashkortostan registered 131081 subjects of small and medium-sized businesses (4330 more than in 2015), including 2677 small enterprises, 41934 microenterprises, 367 medium-sized enterprises, and 86103 individuals [5].

These entrepreneurs direct a huge quantity of taxes to the budget of Bashkortostan. In 2016, the transfer of taxes on the total income from small and medium-sized businesses increased by 5,9% to 6,56 billion rubles. As a result, the budgetary incomes are directly dependent on the profit sum that entrepreneurs get, and also on the cost of their property. An entrepreneurial activity provides additional jobs whereby it give rise to the budgetary revenues from personal income tax.

The level of taxation in the Republic of Bashkortostan is declining with the view to increasing economic activity growth. This can be proved by the tendency of rising jobs and constantly growing number of enterprises. We can conclude that if lowering the level of taxation is significant for entrepreneurs, we are likely to expect Bashkortostan's

economy to grow. This is because an entrepreneur gets some increase in his working capital which will be directed to the development of the enterprise - and, thus, it will lead to the upturn in the taxable base.

## II. CONCLUSION

Overall, the change in the level of Bashkortostan's budgetary incomes can be regarded as a kind of investment into the further development of the region. This is theoretically supposed to generate some profit. Albeit, there may be the situation when using privileges prevents a budget from getting some incomes but at the same time the expected effect from the usage of them is not achieved.

The solution to this problem might be state aid. We can observe the measures of the state support of the entrepreneurial activity that are taken in the Republic of Bashkortostan. The level of financial support for medium and small businesses in recent years has significantly increased in the Republic of Bashkortostan, but all this assistance does not give the desired result. As a consequence, municipal subsidiaries must become the executors of subsidy programmes and financial support should be provided on a grant basis.

We still need to improve business infrastructure. The upshot of this was the fact that the republican long-term target program «Development and Support of Small and Medium Business in the Republic of Bashkortostan for 2013-2018» was accepted. This document was adopted in Bashkortostan for the first time. It was validated by the government ruling. The cost of such support in 2016 was estimated in the amount of 520 million rubles. The plan fulfillment was ensured by 98,7%.

Another factor contributing to the increase in the budgetary incomes of Bashkortostan is the registration of large tax payers («Rosneft», «Gazprom», «Moscow-Efes Brewery») in the tax authorities. The budget of the republic in 2016 got 1,5 billion rubles due to this registration that brought on rising budgetary incomes.

The authorities of the Republic of Bashkortostan do a huge amount of work to attract the companies which pay lots of taxes to the budget. Furthermore, the government tries to provide legal entities and individuals with all kinds of privileges and to create the conditions for implementation of various programmes and projects.

Effective performing functions takes Bashkortostan to pay due attention to the tax policy because it is an important element of the budget income structure of Bashkortostan.

It should be noticed that the problem of forming the budget incomes of the subjects of the Russian Federation is one of the most difficult in the practice of implementing economic reforms in our country. There is not another aspect of this reform that would be exposed to the same serious critique and would be the subject of such vivid discussions and the object of an analysis and contradictory ideas for the reform.

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