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The Innovative and Budgetary Region Development based on the Public-private Partnership Mechanism

Irina Matyushkina^{1*}, Inna Igolnikova², Dina Pogonysheva³, Olga Mikhaleva⁴, Valentina Fetschenko⁵, Natalia Shchelikova⁶

¹Bryansk State University Named after Academician I.G. Petrovsky, Bryansk, Russian Federation, ²Bryansk State University Named after Academician I.G. Petrovsky, Bryansk, Russian Federation, ³Bryansk State University Named after Academician I.G. Petrovsky, Bryansk, Russian Federation, ⁴Bryansk State University Named after Academician I.G. Petrovsky, Bryansk, Russian Federation, ⁵Bryansk State University Named after Academician I.G. Petrovsky, Bryansk, Russian Federation, ⁶Bryansk State University named after Academician I.G. Petrovsky; Bryansk, Russian Federation. *Email: bryanskgu@mail.ru

ABSTRACT

The paper has analyzed the consolidated budget dynamics of one of the Russian the regions during 2010-2014, studied the socio-economic development trend of the region, assessed the investment dynamics in fixed assets, and identified the changes in the number of the region organizations dealing with scientific researches. One of the analysis' directions is "organizational and economic regulation of the regions' development." The paper offers the certain recommendations how to optimize the investment and budgetary management of regional development based on the public-private partnership mechanism and gives reasons for the improving the organizational and economic measures dealing with the optimization of the budget management development in the region. Introducing the innovation development programs in the region, the financing of which requires the extensive financial resources, it is impossible to withdraw surplus funds from the local budgets of the region due to the following "slow downing" of the innovation sector development in the region. Therefore, the vertical budget policy plays an important role in solving such issues.

Keywords: Innovative Development, Budgetary Development, Socio-economic Development, Regional Development, Public-private Partnership
JEL Classifications: F63, I25, R11

1. INTRODUCTION

The result of the theoretical sources' generalization on the problem has revealed that nowadays one of the priorities of regional Russian policy is to reduce inequality of socio-economic development of regions. The great differentiation in the development levels of the regions and population life conditions can be overcome using the effective organizational-economic and budgetary management of regional and investment development based on public-private partnership mechanisms. The investment partnership of government and business definitely improve the effectiveness of the sectorial and regional infrastructural development of regions.

We should note that the Russian current state regional policy is still more focused on the support of regions, rather than on

their development. The evidence of this may be found in the constant increase of subsidized regions, relative share growth of governmental grants and subventions in total budget incomes of regions, etc. The solution of regional problems, as a rule, is sought not by mobilizing the internal resources and rational use of competitive advantages, but only by providing the additional funds from the state budget. Moreover, the financial resources provided by the center in most cases are used in challenging the regions insufficiently reasonably and effectively.

The development budgets, which are, on the one hand, a source of capital investment, investment and innovative activity in the region, and, on the other hand, an instrument influencing on business activity in the region, are formed within the local budgets. However, the creation of development budgets formed by the incomes defined

by the budget code is typical not for all the local budgets, and this fact creates the even more territories' dependence on the help from the "Centre," i.e., the help from the Federal budget.

2. OBJECTIVES, METHODOLOGY AND RESEARCH STAGES

The aim of the study is to analyze and develop an organizational-economic mechanism of innovative and budgetary development of regions, Bryansk region in particular, based on the public-private partnership mechanism.

The methodological basis of the study includes the dialectical principles of correlation between the subject and object, process and result, something single, special and general, and the unity between the tradition and innovation.

To achieve this aim the research has used a set of complementary methods:

- The general-theoretical methods of knowledge (analysis, synthesis, analogy, comparison, correlation, generalization, classification, systematization, abstraction, interpretation, analysis and generalization of literary-scientific resources, documents and real-life experience, and others.).
- The experimental research methods (analysis of the regulatory and informative documents, results and expert descriptions of management activities).

The research stages. The conducted research consists of the following steps:

- The first stage is an exploratory one the aim of which is to solve the study problems of the existing scientific-literary resources on innovative and budgetary development of regions, introduce the public-private partnerships in various areas and sectors of the economy, formulate the theoretical and methodological data based on the conducted research results, and identify the aims and objectives of the research.
- The second stage is a stage of analysis and generalization of the main research theses; use of the selected methodology to the analysis of the research problems.
- The third stage is a development stage of the specific organizational-economic mechanism of innovative and

budgetary regional development (the Bryansk region as the example) based on the public private partnerships.

3. RESULTS AND DISCUSSION

In order to determine the importance of the theses given in the introduction about the budgetary development features of the regions, we analyze the consolidated budget of Bryansk region during 2010-2014 (Table 1) (Bryansk Region in Figures, 2015).

During 2010-2014 the consolidated budget incomes of the region increased by 43.2%, the last year has seen 4.4% of the increase. At the same time in 2014, compared with 2013, the organization profits tax decreased by 5.4%. This fact may be explained by the decrease in the tax base of organization profits tax of large taxpayers registered in the region. However, the general trend in revenues on this type of tax is positive during the analyzed period.

The tax revenues have also increased thanks to the individual income tax by 57.2% in 2014, compared with 2010, and by 5.5%, in comparison with 2013. The main factor contributing to this trend is a growing tax base for taxes. The excise tax decrease by 7.1% in 2014, compared with 2013, is connected, on the one hand, with the decrease in production and alcoholic beverages sale due to the increased competition, which is related to the increased rates of excise tax and minimum retail prices. This decrease may also be explained by the reduction in extra charges on alcoholic beverages from 25% to 10-17%, excise tax payment at the place of production, and, on the other hand, by the growth of production share and oil Class 5 products sales with a lower tax rate.

Analyzing the consolidated budget expenditure pattern of the region, we can note that a large share in the expenditure pattern in 2014 is accounted for by the education expenses (13.495 million rubles) and the national economy expenses (12,441.3 million rubles). The analyzed period shows the increase of expenses on the national economy by 2.3 times in 2014, compared with 2010. However, in 2014, compared with 2013, these expenses decreased by 12.7% due to the reduction in road fund revenues and expenditures on agriculture and fisheries thanks to the Federal budget subsidies on actual rather than planned costs.

Table 1: The consolidated budget of the region, million rubles

Indicators	2010	2011	2012	2013	2014	From 2014 in %	
						2010	2013
Incomes, including	32749.9	38525.2	42543.2	44918.1	46899.4	143.2	104.4
Organization profits tax	3662.5	5239.8	6626.8	4436.1	4198.7	114.6	94.6
Individual income tax	7145.4	8067.8	9442.4	10638.2	11228.4	157.2	105.5
Excise taxes	2018.4	2381.6	2722.8	2728.6	2535.2	125.6	92.9
Total income tax	1095.6	1342.1	1697.1	1764.4	1924.6	175.7	109.1
Property taxes	2510.3	2577.6	3074.6	3381.0	4111.5	163.8	121.6
Expanses, including expanses on	33803.9	38633.2	44095.1	48679.7	47731.8	141.2	98.1
National economy	5393.3	6195.4	9965.9	14257.8	12441.3	By 2.3 times	87.3
Housing and public services	3601.6	2814.4	2084.3	1565.8	1581.7	43.9	101.0
Education	8330.8	9892.2	12132.0	13383.4	13495.0	162.0	100.8
Health care service, physical training and sports	3565.1	6863.4	7823.3	6406.1	7163.7	By 2 times	111.8
Social policy	6915.7	7682.5	7210.2	7281.2	7150.9	103.4	98.2
Profit (+), deficit (-)	-1054.0	-107.9	-1551.9	-3761.6	-832.4	78.9	By 4.5 times

The negative trend is the decrease of total expenditures on housing and public services of almost by 2 times in 2014 as compared to 2010. During the whole analyzed period there is a tendency to increasing expenditures on education (62.0%) and health care, physical education and sports (by 2 times in 2014 as compared to 2010). Expenditures on social policy remain almost stable. In 2014 social expenditures has made up 7,150,900,000 rubles.

Then, we will analyze the level of the regional budget dependence on uncompensated receipts from the budgets of other levels. Figure 1 shows the dynamics of uncompensated budget receipts of the region from the Federal budget.

As it is known, nowadays in the Russian Federation there is the implementation of the Concept of long-term socio-economic development till 2020 according to which there is the need for the transition from the export-resource economy to the innovative socially-oriented economy. It can help to greatly expand the competitive potential of the Russian economy by increasing its comparative advantages in science, education and high technologies and on this basis to use new sources of economic growth and welfare. The considered region together with other regions of Russia started focusing on an innovative type of development.

Bryansk Region refers is one of the industrially-developed regions with a large number of manufacturing industries and the innovative development potential. As it is known, to increase economic activity and innovative attractiveness the territory of the subject is divided into 5 main and 4 interregional zones of economic activity.

The zones of economic activity are:

1. Bryansk multifunctional industrial and logistics zone of economic activity. It has the industrial, scientific and educational potential. The main economic specializations are engineering, military-industrial complex, production of construction materials and woodworking. In this territory the zone of advanced development with its focus on the transport and logistics complex is formed.
2. Karachev industrial-recreation zone of economic activity. Its economic potential development basis is a many-sectors industrial complex. A tourist-recreational component is the promising direction of the zone development.
3. Pochevsk industrial zone of economic activity. Its economic potential development basis is a plant working on elimination of chemical weapons and an agro-industrial complex. The

manufacturing industry development is the promising direction.

4. Unecha industrial zone of economic activity. The main economic specializations of the zone are engineering and process industry. The construction industry development and oil refining are the promising directions.
5. Trubchevsk agro-industrial zone of economic activity. The agro-industrial complex development is the promising direction for investment.

The zones of interregional economic activity are:

1. Dyatkovo - Kirov - Lyudinovo industrial zone. The main specialization of the zone is the development of cooperation ties between machine-building plants.
2. Karachevsk tourist-recreation zone. It unites Bryansk, Orel and Kaluga regions.
3. Novozybkovsky Region-Gomel Region international zone. The zone of advanced development specializing on production of construction materials is formed there.
4. South agro-industrial zone. The main economic specializations are agricultural production and food industry.

More comprehensive analysis of the innovative development of the Bryansk region over the last years demands the analysis of the dynamics of changes of main socio-economic indicators of the development of the region over the period from 2010 to 2012 which Table 2 presents.

Analyzing the dynamics of the Gross Regional Product the reducing processes in the region economy can be noted. The total increase of this has made up 67.3%, and in such a case over the last year it has increased by 10.1% as compared to the previous year.

There is the growth dynamics of fixed investment. At the same time, analyzing investment in the main source of financial receipts, it can be noted that sources raised such as bank loans present larger fraction.

Over the last years, agricultural products have greatly increased (by 2 times in 2014 as compared to 2010) agricultural products that is caused by increasing investment attractiveness of the agricultural sector of the region resulting from good logistic development, lands suitable for their involvement in farming business, favorable environment. Moreover, about 20 special programmes aimed at supporting certain agricultural activities are annually realized in the region. Agricultural organizations are provided state subsidies for reimbursement of outlays at investment loan repayment.

The innovation potential assessment demands considering the dynamics of individual indicators of the development of the region. Priorities of the region innovative development and the economy transition to an innovative component is determined by such strategic documents as the Strategy of Socio-economic development of Bryansk Region till 2025 and the Law of Bryansk Region on 9 July 2006 No. 39-Z "On Science, Scientific-and-Technological and Innovation Activities in Bryansk Region." Besides, the State "Economic Development, Investment Policies and Innovative Economy of Bryansk Region" program

Figure 1: Structure of uncompensated budget receipts of the region from the Federal budget in 2014

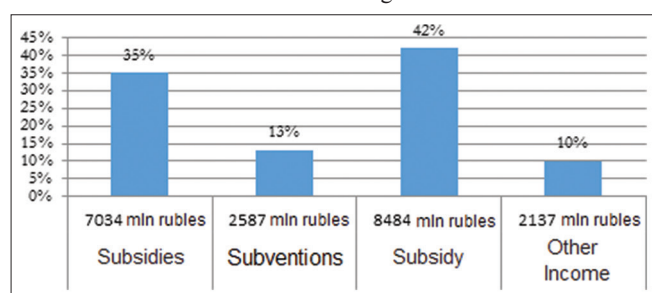


Table 2: Main socio-economic indicators of the development of the region

Indicators	2010	2011	2012	2013	2014	From 2014 in %	
						2010	2013
Population, thousand people	1275.3	1264.4	1253.7	1242.6	1232.9	96.8	99.2
Number of persons active in the economy, thousand people	598.6	598.8	611.7	605.1	603.2	100.8	99.7
Number of the unemployed, thousand people	51.9	45.5	32.7	33.3	31.9	61.5	95.8
Population money income, million rubles	205336.8	233876.3	263937.0	301825.1	325105.7	158.3	107.7
Population cash outlays, million rubles	196093.9	226557.9	262439.5	296632.1	321908.3	164.2	108.5
Average monthly earnings, rubles	12325.6	13912.0	16530.0	18973.9	20906.7	169.6	105.1
Gross regional product, billion rubles	147.0	174.2	207.4	223.3	245.9	167.3	110.1
Investment in fixed capital, million rubles	41989.0	48013.8	46551.2	60864.2	66825.4	159.1	102.9
Agricultural products, million rubles	26561.1	33191.7	35953.2	43410.3	56116.5	By 2 times	115.1
Public transport freight turnover, million t/km	1301.0	1220.0	1195.0	1551.0	1286.0	98.8	82.9
Public transport passenger turnover, million pkm	693.0	665.0	588.0	444.0	429.0	61.9	96.6
Retail turnover, million rubles	110850.2	135800.9	152515.5	173077.4	196187.2	176.9	103.4
External turnover, million dollars	1423.1	1585.3	1651.7	1594.7	1302.6	91.5	81.7

(2012-2015) containing the subprogram “Development of Innovative Activity” is realized.

Nowadays in the field of regional development there is frequent inadequate investment in capital expenditures which is usual for the regions of Russia. Therefore, there is the need for the development of approaches to arrangement of conditions for the search of stocks of financial resources using organizational-economic and budget management of the development of the regions with the application of public-private partnership mechanisms.

To be completed the above-stated task proposes to use the following tools: Concession, lease of state assets, leasing, joint operating agreements and production sharing agreements, preferential credits, regulated tariffs, concessional taxation, special transfer deeds, financial c loan and guarantee facilities, and so on. Figure 2 schematically shows the proposed approach to organizational-economic and budget management and budget management of the development of the region in particular by using public-private partnership mechanisms.

One of the possible ways to develop the regional economy, in our view, is to optimize budget management of regional development that has the following objectives within the framework of federal regulation: Concentration of budget resources for the implementation of priority development of the “donor regions” at preventing the further growth of interregional disparities and providing budgetary financial aid for the beneficiary regions due to reorganization of the socio-economic sphere of the region. Thus, it is necessary to solve the main national tasks which are implemented in the regions. There are the following priorities such as priority development of innovative production in the region, transport infrastructure development (at least, the construction of modern roads). These issues are topical and require urgent solutions creating new sources of additional stocks of financial resources in Bryansk Region. Let us consider the noted directions for optimization of socio-economic relationships in the state in detail.

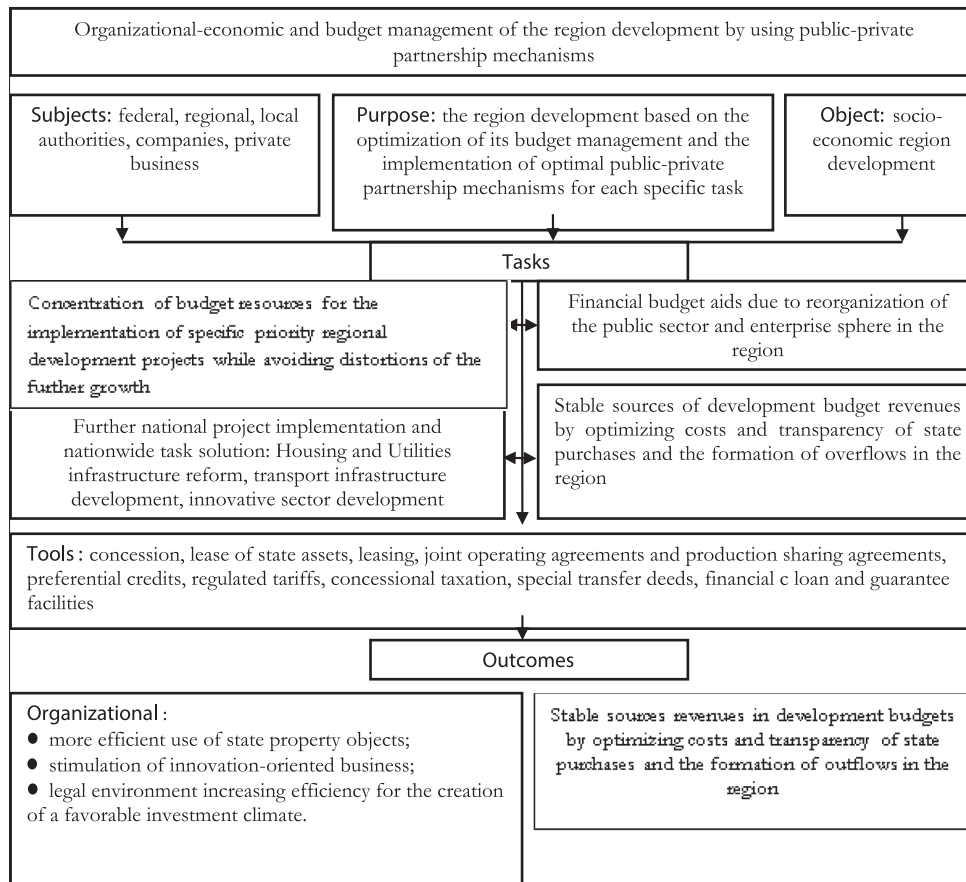
The innovation sector development in the context of regional socio-economic development is one of the most important tasks of the state regional policy. The region innovative potential is determined by a set of companies developing innovations. They are research

institutes, design departments, small ventures companies which are unevenly located across the country. As the region innovative potential analysis shows, its development demands procurement of additional capital. However, current indicators of the federal and local budgets on income and expenditure show that in the modern context the state and its regions have poor real financial opportunities to support innovative development. Further, the lack of adequate transport infrastructure needed by entrepreneurs, and which has intensified investment caused increased transport costs, and thereby caused significant damage to export-oriented sectors (Mikheev). On one hand, underdeveloped infrastructure is a disadvantage for investors (both Russian and foreign), and on the other, it is an attractive target for capital investments. In fact, reconditioning and construction of modern roads which in Russian demands much financing is also a great deal in the expenditure state budget. The proper solution to this task demands procurement of additional capital.

The disadvantages of inter-budget relationships between the state and its regions hamper Housing and Utilities infrastructure reforms (Matyushkina and Mikhaleva, 2012). Significant benefits for utilities and communal payments, inter-budget relationships imbalances compromise the implementation of reforms in this sphere. Therefore, the development of the system of inter-budget relationships aiming at the establishment of the fiscal local authorities’ autonomy will create the conditions for the Housing and Utilities infrastructure reform promotion. Exactly regions contend with all difficulties of the sinews of an undertaking for Housing and Utilities infrastructure companies (this cost item takes Russian average of about 12-14% as part of local budgets). Thus, tax on profits of public utility companies completely is gone into the disposal of local authorities. We think that the outcome of innovative development of the regions should be the creation of new jobs in service activities supplied by the Housing and Utilities infrastructure, rapid modernization of companies in priority sectors, large-scale involvement of private investors into non-traditional for them spheres of management, territorial marketing by using the “umbrella brands” and so on (Igolnikova et al., 2015).

As a result of inadequate investment in capital expenditures in the field of contemporary regional development the mechanism of public private partnerships as a tool for the search for stocks of financial resources for social and economic development of the regions must

Figure 2: Diagram of organizational-economic and budget management of the development of the region in particular by using the public-private partnership mechanism



be considered. Innovative development, transport infrastructure and utilities should be considered as the main directions of the implementation of investment partnerships between state governments and business at the present stage of economic development. Investment partnerships of the region and the business could be the mechanism which will employ investment resources to these sectors of the economy and will also improve the project implementation efficiency.

Public private partnerships directed on the institutional framework strengthening for outsourcing businesses, citizens and their associations into the local or regional levels of economic development. The importance of public private partnerships in the investment development of the regions, the growth of small and medium business, the introduction of engineering capacity, the development of initiatives at all levels of authority is already recognized.

4. CONCLUSION

The world practice shows that the state cannot independently provide finance and high-quality services to the population. Despite the close cooperation between central, regional and local authorities the possibility of government intervention are limited that opens prospects for deeper cooperation between the public and private sectors. Consequently, the private sector starts playing greater role in providing services.

Nowadays the problems of the transparent and effective institutional environment formation at the local level are extremely urgent for the Russian Federation. Public private partnerships as the potentially effective institutional mechanism of management of financial resources of the state will not be able to effectively solve the problem on the use of the investment budget and the creation of new jobs without it. Very high levels of corruption and non-transparent of state purchases in various spheres, weak protection of private business interests and implementation of projects often based not on the methods of project financing are the main factors hampering the development of such partnerships in the regions. In this regard, for foreign investors most Russian regions are regions with the significant institutional risk factor at the implementation of investment projects that greatly hampers partnerships between the state and business.

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