

Risk Management in Providing the Region for Fiscal Security

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Abstract: The paper describes modern tendencies of budget risks management in the region. Some factors of budget-fiscal security and its threshold limit value for the Russian Federal subjects and municipal units are revealed. The set of inner threats arise under the influence of a current state of budget-fiscal relations at the regional level. So, if a Federal subject doesn't aim at the effective development of budget-fiscal relations, a social sphere, then a social and political situation in the country becomes aggravated. Therefore factors, to destabilize the regional budget security, can arise. Outsider threats are more or less far from budget-fiscal relations of the particular region, because they appear depending on the condition of the budget and fiscal systems of the state. A system of factors which generate budget risks, areas of budget risks at the regional level is well founded.

Key words: Budget risks • Budget expenditures • Budget entropy • Budget-fiscal security of the region
• Threats to the budget-fiscal security of the region.

INTRODUCTION

It is historically proved that arising and developing of inter-budget relations are closely connected with developing of state finances (i.e. arising and developing of the state budget) and with developing of the administrative-territorial system (i.e. establishing some levels of state controlling the country while delegating some duties to regions and the body of local self-government) [1, p.28].

S. Yilmaz, F. Vaillancourt and B. Dafflon write: "Intergovernmental reforms have been at the center of public sector change in countries across the globe. Indeed, the World Bank's World Development Report on Entering the 21st century asserts that two forces will influence development policy in the first part of this century: globalization (the continuing integration of countries) and localization (self-determination and the devolution of power). This force of "localization", which in the international literature, is also referred to as "decentralization" is that of the division of public-sector functions among multiple types of government, central and subnational. Such "decentralization" is occurring in unitary and federal states alike" [2].

Foreign experience proves that it is possible to find a balance in between centralization and decentralization of

budget-fiscal competences in case budget and fiscal federalism are united as the main principles of their functioning [1, p.17].

S.P. Sazonov, A.V. Lukyanova and E.G. Popkova write: "In general (economic) perspective, the content of this mechanism is a set of organizational and financial relations, embodied norms of budget law, prevailing in the management of the budget system, planning (forecasting), organization, management and control of income and expenditure budgets and extra-budgetary funds of all levels of government" [3].

That is why elaborating of the best economical system of federal and region relations, mechanisms of making and realizing different economic and financial relations at all levels is very important [1, p.8]. The interdependence flows in both directions – federal and state governments provide substantial financial support to lower levels and federal and state governments rely on states and localities, respectively, to provide services effectively with those funds [4].

Burson J. analyzing reforms of the American budget system, writes: "Assessing the mounting pressures on state and local government finance and evaluating the resulting implications for the stability of our financial system and regional economies is a complex, but important, challenge" [5].

It was necessary to use absolutely different ways in reforming the Russian budget system, which was based on principals of budget federalism. It guarantees unity and integrity if the territories keep independence even in solving different problems of the region. Budgets are considered to be independent financial institutes, which are organized on the base of differentiation of fiscal and budget authorities according to the levels of the Russian budget system. So, to change methods of forming budget revenues of the regions on the basis of providing the budget-fiscal relations and security for stability is of great importance now.

Technique and Results: There are new problems to solve in the area of regional development connected both with developing of budget independence of the Russian Federation subjects and with the necessity to keep a level of financial centralization. On the other side there appear new problems in the area of controlling regional development. The necessity to provide regions for effective social and economic development, the population for a higher level of services is provided by the fiscal position of the budget potential. It makes us to consider budget-fiscal security of the region.

It is almost impossible to solve any of the problems both at national and international levels without economical security.

Nowadays a lot of internal and external factors, crisis developments make life very unstable. So, to harmonize budget-fiscal relationships of the region is very important to have the ability to keep stable characteristics of development. That is why controlling occulting budget risks at the regional level has a particular importance because it is the main factor of providing the region for budget-fiscal security [6, p.56]. Administrative agencies make budgetary decisions (requests) in an uncertain environment. The manner in which agencies respond to this uncertainty is captured through the nature of their risk bearing behavior. Three possible types of budgetary risk bearing behavior can be exhibited by an administrative agency under conditions of uncertainty: risk aversion, risk neutrality and risk acceptance [7].

The primary objective of managing budgetary risk at the regional level for its development is providing a stable system of budget-fiscal relations for organization.

The level of budgetary risk is uncertain. It undergoes fundamental changes in time and is under the influence of different risk-contributing factors.

These risk-contributing factors influence the degree of the risk incidence; they influence the final risk. By-turn, they are divided into external and internal ones. The system generating the main types of budgetary risk at the regional level is represented by Figure 1.

Taking into account the significance of the budget in providing any country for a good life, it is possible to assert that safety of the state is essential. Only then it is possible for the state to pay with an allowance for the budget income and expenditure of different levels.

Budget security contemplates such a budget policy which could orient, first of all, on realization national economic interests of the country. Fiscal security is getting its independent role while the Russian fiscal system is being changed. It is a part of economical security of the state because it gets as well as pays taxes into the state budget revenues.

National researchers consider problems of budget-fiscal security of the region as episodic, as a set of threats of budget-fiscal security isn't made and indicators of the budget-fiscal security are not given.

In our research we would like to emphasize that budget-fiscal security of the region makes budget-fiscal relations safe from internal and external threats. This budget forms budget-fiscal resources of the region to provide territories for self-development if there is a budget-fiscal control of their forming and using. и расходованием.

Particular threshold values of the budget-fiscal security indicators for the subject of the Russian Federation and municipal institutions are revealed if you analyze the Budget Codex of the Russian Federation (Table 1).

Government bodies' activity and the overall objectives of the regional budget policy are directed to reach a balance and stability of budget-fiscal relations in the region so that it could help to solve the main social and economic tasks of the region. As a result budget-fiscal relations themselves are able to generate entropy. So, let us calculate the entropy of the budget expenditure of the Kursk region.

We should note that nowadays the Kursk region is a developed agrarian and industrial region which has a real macro-regional influence. The iron and power industries have been raised according to the annual report [9, p.71].

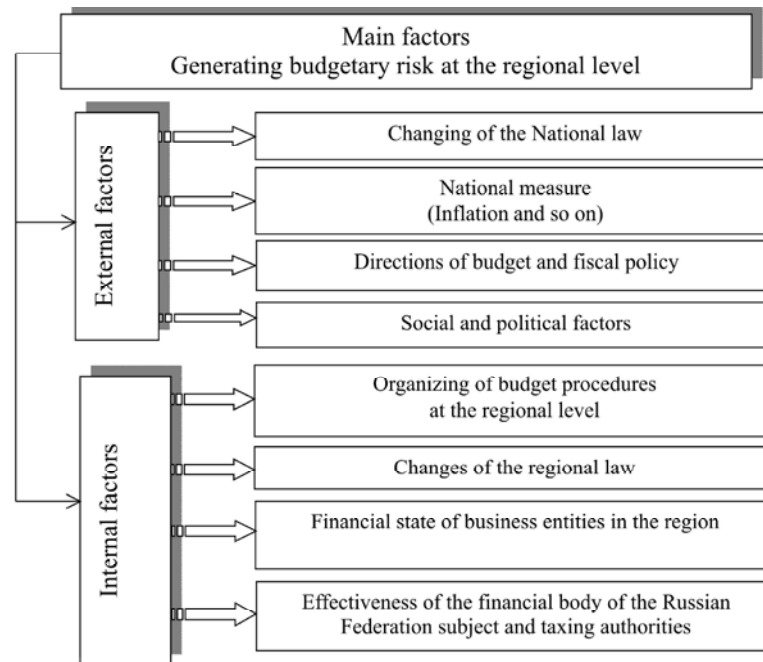


Fig. 1: The system of the main factors generating budget risks at the regional level.

Table 1: Indicators of the budget-fiscal security and their threshold values for subjects of the Russian Federation and municipal institutions.

Indicators of the budget-fiscal security	Threshold values	Section of the Budget Codex of the RF [8]
Budget Deficit RF (the Russian Federation)	The budget deficit is the subject of the Russian Federation should not exceed 15% of the approved total annual revenue budget of the Russian Federation, excluding the approved amount of gratuitous receipts.	Paragraph 2 of art. 92.1
Local budget deficit	Local budget deficit should not exceed 10% of the approved total annual revenues of the local budget, excluding the approved amount of gratuitous receipts and (or) the income tax revenues on additional statutory rates.	Paragraph 3 of art. 92.1
Public debt of the RF subject	The limit should not exceed the approved total annual budget revenue of the Russian Federation, excluding the approved amount of gratuitous receipts.	Paragraph 2 of art. 107
The amount of municipal debt	The limit should not exceed the approved total annual revenues of the local budget, excluding the approved amount of gratuitous receipts and (or) the income tax revenues on additional statutory rates.	Paragraph 3 of art. 107
The limit spending on servicing the public debt of the subject of the Russian Federation or on the municipal debt	The limit amount of debt service should not exceed 15% of the costs of the corresponding budget, except for the expenditures that occur due to subsidies provided from the budget system of the Russian Federation.	Article 111
The volume of subsidies to level fiscal security of subjects of the Russian Federation	The amount of subsidies to be approved for the next fiscal year and planning period cannot be less than the total amount of these grants approved for the current financial year.	Article 131

Let us make calculations of entropy of the budget expenditure of the Kursk region on the base of mathematical evaluation of entropy, developed by N.V. Shalanov. These calculations could be used to evaluate

the effectiveness of the budget expenditure of the Russian Federation subject [10].

The formula to calculate the entropy of expenditure of the Russian Federation subject:

Table 2: Characteristic of different areas of the budget risks in the region.

Indicators	Guaranteed budget result	Possible budget spending	
	Non-risk area	Area of possible budget risk	Area of critical budget risk
Deficit of the budget of the RF subject	The budget deficit of the subject of the Russian Federation shall not exceed 15% of the approved total annual revenue budget of the Russian Federation, excluding the approved amount of gratuitous receipts.	The budget deficit of the subject of the Russian Federation approved 15-20% of total annual revenue budget of the Russian Federation, excluding the approved amount of gratuitous receipts.	The budget deficit is the subject of the Russian Federation for more than 20% of the approved total annual revenue budget of the Russian Federation, excluding the approved amount of gratuitous receipts.
Public debt of the RF subject	The limit should not exceed the approved total annual budget revenue of the Russian Federation, excluding the approved amount of gratuitous receipts.		The limit of the amount exceeds the approved total annual budget revenue of the Russian Federation, excluding the approved amount of gratuitous receipts.
The limit spending on servicing the public debt of the Russian Federation	The limit of the amount of debt service should not exceed 15% of the costs, except for expenditures that are made from subventions.	The limit the amount of debt service costs exceed 15-20% of the total expenditure, except expenditure, which are covered by subsidies.	The limit the amount of debt service exceeds 20% of the costs, except for expenditures that are made from subventions.

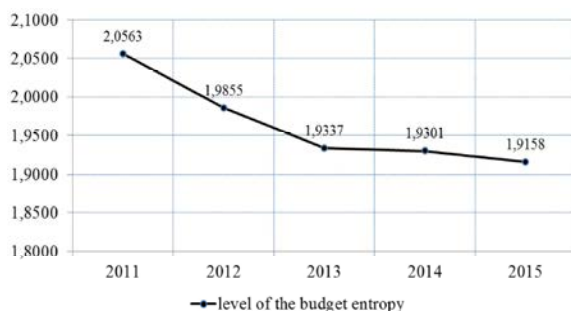


Fig. 2: The level of the budget entropy expenditure of the Kursk region.

$$H = - \sum_{i=1}^n e_i \ln(e_i)$$

where “H” is a level of entropy of the expenditure of the Russian Federation subject;

“ e_i ” is a share of the expenditure of the Russian Federation.

Spending of the budget of the Kursk region in their classification in 2011-2015 are given using accountable and planned figures of the budget. Their weighting is determined in Figure 2.

Evaluating of the budget entropy expenditure of the Kursk region in 2011-2015 shows a steady indicator, i.e. the difference between minimum and maximum is 0,14 (in 2011 – 2,0563; in 2015 (as planned) – 1,9158). Therefore controlling spending in the Kursk region is rather certain,

systematic and regular. The maximum indicator of the entropy expenditure in the Kursk region is 2,0563 in 2011.

Activity of the authority of the Russian Federation subject is becoming regular in the analyzed period. It is due to the minimizing and variability of the budget entropy of the Kursk region.

We suppose that nowadays it is advisable to use sets of indicators of the budget-fiscal security of the region in the risk areas keeping in mind possible budget spending (Table 2).

CONCLUSION

For better and effective budget management the participants of the process should timely identify potential fiscal risks and determine the correct assessment. It will make possible to take the necessary measures to prevent them at the level of the Russian Federation subject.

Thus, analyzing the fiscal security in the region it is possible to distinguish an actual direction. We suggest studying and prevention of institutional threats for the fiscal security of the region. The variety of threats affecting the fiscal security of the region can be divided into internal and external with respect to the region.

In modern conditions, the budget-fiscal security provides for such a fiscal policy that would be directed primarily to the realizing of national economic interests and economic growth of the country.

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