

## Modernization of Local Government: Priority Needs

<sup>1</sup>A.L. Tatarkin and <sup>2</sup>K.A. Novikova

<sup>1</sup>Member of RAS, Doctor of Economics, Professor, Director of the Institute of Economics of the Ural branch of Russian Academy of Sciences

<sup>2</sup>Competitor of the Degree of Candidate of Economic Sciences, the Assistant of the Director of the Institute of Economics of the Ural Branch of Russian Academy of Sciences

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**Abstract:** Innovation territory politics, its essence and development, activity directions transfers to the jurisdiction of regions and municipalities. Characterizes of region for its sustainable development are reviewed in this article. Every territory has definite set of specific features, that are characterized this territory. Set of these features and needs can be named by one word “potential” or “capacity”. We would us “potential”. “Wide” definition of territory potential and also definition of socio-economic potential are given in this article. Transferring to innovation development is very important nowadays. That is why innovation potential and its importance is noted in this publication. All territories are different for their contents. Competitive advantages of every territory instigate interregional differences in the development of in financial capacity. Thus, there is a need to smooth out these differences by increasing of territory potential. Territory potential can be estimated by different methods. In this article it is suggested a method of point-rating assessment of territory development potential. The interrelation of the potential level, calculated by the point-rating assessment method and distribution of intergovernmental transfers is considered in our publication. The rating of socio-economic situation among economic subjects of the Russian Federation is showed. It is suggested to create a specific department that will estimate territory development potential. The dependence of population needs and territory development level, investment and select management of economic development, that exactly influence on territory development level and also on development level of the whole country is considered in this article.

**Key words:** Territory Potential • Innovation • Rating • Donors • Recipients • Science Potential • Intellectual Potential • Strategic Plan • Point-Rating System • Intergovernmental Transfers

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### INTRODUCTION

Nowadays the main attention of the most economic reforms (including creation of information society, formation of innovative space, knowledge-economy) leads to the level of regions and municipalities. It is rationally to use new methods to forming basic principles of joint innovative policy of the federal centre and regions (territories), to determining essence and content of economy subject innovative development processes, to elaborating assessment criteria of different effective strategic directions of economy territory development.

With the increasing role of territories (regions, municipalities) in the socio-economic life, the

responsibility and importance of subjects’ government for creation such conditions which would be able to satisfy that subject’s population, to motivate them for improving territory status, increases.

The sustainable development of region is characterized by its ability [1]:

- To satisfy social needs of population and market agents;
- To provide reproduction exactly by internal economic turnover;
- To form conditions (resource, social, organization), which guarantee worthy quality of population life.

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**Corresponding Author:** Tatarkin A.I., Member of RAS, Doctor of Economics, Professor, Director of the Institute of Economics of the Ural branch of Russian Academy of Sciences.

Every territory (region and municipality) has definite development potential. After this objective potential assessment it is able to define the level of territory development and its needs in additional financial resources.

The term “potential” is applied for definition of means, sources and resources that are in present and can be used for approving goal, solving exact challenge and also unique opportunities of individual subject of economic relationships in any sphere [2]. It is necessary to monitor the situation in economic social sphere of every region, to objectively estimate current resources, to justify rational choice of trajectory and mechanisms, providing optimal socio-economic territory development. The potential of territory development, from one side, is able to present by itself resource, industrial, labor and intellectual potential. But from another, these elements (parts) are parts of socio-economic potential. Under the socio-economic potential it is traditionally understood the collection of all available resources within its borders (means, sources, resources, knowledge)-material and spiritual, natural and human, that have already involved into social industrial processes and that can be used for improving economic opportunities, establishment and strengthening of socio-politic stability, increasing the level and quality of this territory population [3]. The territory potential assessment can be made with using different methods and approaches (system, cognitive, class ways) and then assessment is based on strong and weak sides and opportunities and threats (SWOT-analysis). It is possible to estimate politic, spirit, social and resource spheres. Territory potential analysis can be carried out as in internal environment (to consider internal elements of economic development), as in external environment to estimate the role and territory situation in current moment among other territories. After have received information, it would be able to evaluate more objectively generalized territory potential.

The transition to innovative development is the most important now in conditions of Russian economic transformation. But today there is objective need in innovative “fullness” of attractive investments. Scientific knowledge, education has high importance in creating competitive advantages of region as factors of industrial development and as factors of regional innovative potential formation [4].

The regional development based on innovations is the most important factor of competitiveness formation

and also of its retention and socio-economic development is the result of both processes. For providing high rates and innovation region sustainability it is necessary to have advanced regional innovative system as specific institutional environment including a set of phase states of innovation processes which can be changed by influence of public innovative politics, subjects and objects of innovative activity [5]. Management of innovative processes, character of which depends on territory features, is in frames of regional innovative system [6].

The strategic elaboration necessity of transferring economics to innovation development way, based on system research of innovative development potential, determination of its increasing ways and effective realization is identified by that in conditions of economic globalization and strengthen global competitiveness there is a formation of new growth paradigm on the basics of innovation and knowledge using as the most important resources. Innovation activity and science technical progress became elements of sustainable economic growth of the most advanced countries of the world, knowledge – the forth factor of industry, the importance of which increases quicker than resources, capital and labor and knowledge-management is not individual program product of data base, but it is priority strategic management of the state, territory, enterprises and it is oriented to development and maximum using innovation potential, to organization of effective management actions based on the set of intellectual, inform and program resources [7].

Historical differences in economic regional development of the Russian Federation influence on polity, structure, economic effectiveness, strategy and tactics of institutional reforms and socio-economic politics.

Municipalities must to accumulate (as in the Russian Constitution) all present resources for the most effective using with a goal of creating favourable conditions for population and business. The favourable geographical position, resourcing, industry, investment attraction, human potential, innovative activity, - all these elements constitute competitive advantages. But not every territory has this set of resources for development. Territory needs are as mobilization base for providing system territory development, increasing territory potential. If territory development potential is high, the ability of the territory to compete with other territories of the country is higher.

Competitive advantages of territory are formed by detection of available resources (industrial, labor). Then it is necessary to investigate that spheres of socio-economic territory development which are involved in less degree into improving territory position because of financial limitation, lack of qualified employees, etc. That's why it is necessary to invest into that spheres where there is "failure" of development. Thus it is realized the opportunity to increase territory potential, including creating new working places, elaborating industrial processes and developing "knowledge-economy". In self-development the territory can build on have already created conditions and also on national and global innovative processes, that allow to take leading places in any ratings and to be as "locomotive" of economy development [8].

But, competitive market can and must be as necessary but not the main condition for sustainable and harmony development of economics and social well-being. Competitive market is considered in experts' assessments as the main favorable environment that can provide and cannot provide success development and social prosperity. Only diversity of ownership and polystructural character of economics at centralized plan regulation of priority development directions for society, including the most effective and resulting resources and institutes, can provide sustainable and harmony functioning of the whole society [5].

It is necessary to establish new territory needs, their treats for sustainable development and also opportunities for their satisfaction in conditions of financial limitation. That is why there are intergovernmental transfers. Financial means from above budgets transfer to territory budgets. So all territories of the country are divided into two groups: donors and recipients. It is done for a goal to align levels of territory development by grants, subsidies, subventions. Nowadays this distribution is based on assessments of territory budget capacity. If now exactly territory potential plays the most important role, it is more logically to distribute budgetary funds by using territory potential assessment, isn't it? In this case it is said about aggregate territory potential, which includes economic (resource, industrial, market) potential, potential of human resources, etc. there are different methods of potential assessment: quantity and quality approaches, expert assessment method, system analysis and others. In the literature experts pay attention to theoretical and methodical aspects of specific kinds of development potential. According to aggregate potential, the quantity

of methods limits. It is because of different problems [4]: lack of statistic facts; necessity of general observation and researches; subjectivity of received assessments; time and financial costs.

We suggest method of point-rating assessment of territory potential. Sufficient quantity of point-rating assessment method has already been nowadays. Some researchers in this sphere carry out analysis, attractive experts, which note their assessments of every parameter of territory development. Other researches rank regions according to present statistic information [4].

So the potential as system definition including human, industrial, financial, resource and others, influences on socio-economic development of territory. Every kind plays its own "score": in the most or less degree. That is why it is suggested to estimate the potential during report period (year, half a year, once at quarter): conditions for population life and development, demography, migration, investment attraction, sustainable development of territory economics, resourcing. Every element of assessment has own quantity of points (can be rated by numerical scale, for different assessment-different quantity of points, but it must be 100 in sum) [9]. During the whole period there is process of point collection and then points are recorded in specific "map", where it is clearly written how much and for what indicate points were recorded. For territory alignment by rating assessment of territory development it is necessary to elaborate "technological map", which will includes different indicates of territory development and quantity of points of every kind. Different methods of territory potential development assessment can be used at the determination of any indicate. Aggregate result of federal subject development is formed by summing municipalities' indicates, that are in borders of this subject. By the end of the reporting period all accumulated points are summed. Then it is rated all territories. Rating assessment ranges from 0 to 100 points during reporting period [10]. Territory that took the most of points is estimated as a leader.

All territories are rated. At the majority of methods [11], there is not unit table of the rated points of rating and potential development level. It is suggested by authors the next graduation: territories with high potential, with low potential, medium potential and with unsatisfactory level of development potential (Table 1). The territory alignment by redistribution of intergovernmental transfers is based on territory rating.

Table 1: Dependence of rating point and territory development potential level

Territory development potential level	Rating point	Value of territory development potential level	Territory
High	90-100	the highest level	
	80-89	high level	
Medium	70-79	near to high	
	60-69	more than medium	
	50-59	medium	
Low	40-49	less than medium	
	30-39	low	
	20-29	the lowest	
Unsatisfactory	0-19	unsatisfactory	

Ratings can be represented in tables or graphics, which shows what territory (region or municipality), become a leader.

Territories are rated by status of donors and recipients. Very often territories with the lowest points are recipients. These territories are with low and unsatisfactory territory development potential level.

Rating of socio-economic position of federal Russian subjects, constituted by experts from rating agency “RIA Rating” on the base of aggregating key indicators of regional development, showed that Moscow and St.Petersburg are at the first positions. It is because of economic and social balanced spheres in these cities. Also in the first ten: Moscow district, Tatarstan republic, Khanty-Mansy Autonomous district, Tyumen district, Krasnodar region, Belgorod district, Voroneg district, N. Novgorod district. At the another poles of rating; Karachaevo-Cherkes republic, Buryat republic, Zabaikal region, Jewish autonomous district, Kurgan district, Republic of North Osetia, Altai Republic, Republic of Kalmykia, Tyiva republic, Ingushetia republic. These regions have not got available level of own incomes for development and the dependence degree of their budgets from federal centre is in high level. So, share of own incomes of regional budget of Ingushetia republic is 16%, Republic of Tyiva-24%. Sverdlovsk region takes 19 place of the rating [5].

Calculations show that it is close relation of development potential level and opportunities for potential growth with budgetary redistribution. SWOT-analysis can be considered as the final stage in the assessment and is able to “highlight” all sides of territory development. It allows to estimate development perspectives or, conversely, to correct it. Resource analysis is right and for assessment of territories that received means from resourcing as main income source.

This system of territory alignment based on the distribution of intergovernmental transfers can be used as

at the federal subjects’ level and as at the federal level (relatively the Russian federation). Potentials of all municipalities that are in one federal subject can be estimated in this subject. Assessment results can be used as a basic for distribution of intergovernmental assignments between local budgets. If there is distribution of federal governmental transfers, the basic of assessment will be potentials of federal subjects. We can see clear relationship: firstly it is constituted rating of municipalities, then it is estimated and rated federal subjects by assessment of municipalities’ development level. Generalized assessment of federal subjects will be different because of different quantity of municipalities which are developed in different degree in every federal subject.

Thus, constituted maps show development level of aggregate development potential and of private sides of territory development keeping determined parameter of territory development as the basic.

There are municipalities which have higher development potential along with those who are forced to “make both ends meet”. For example, Yekaterinburg that is in Sverdlovsk region, have higher territory development potential and is the donor in the intergovernmental transfers and, other side, town Malyshevo (in Sverdlovsk region too) is industry town, hasn’t got a special potential and requires great financial means from regional budget. So it is only one example. In that district there are more than 85% of such territories. Picture of economic development in other regions can be another, but tendencies are the same, territories haven’t got unit potential.

The assessment of knowledge-economy is difficult procedure, considering the majority of factors. In the most of methods it is estimated the degree of conformity of economy to our view about what knowledge-economy is it. Comparing is performed with available samples, in other words comparing is performed with states of different national economics.

The development of intellectual potential of population must be priority national program of the country. On the base of innovation strategy the Government of Russia elaborates public innovation program which is a part of socio-economic program of the Russian Federation during the medium period. The public innovation program includes federal targeted innovation programs of the most important main innovations, large innovative projects, federal programs of innovation activity supporting and development of innovation infrastructure. Governments of federal subjects elaborate regional and interregional innovation programs. Local governments develop complex program of innovation activity within their financial opportunities and powers [8].

So we can suggest making a special control department (committee, board) that will estimate territory development potential. They can function at the Executive governments of the federal subjects and also at the federal level. Different department can function, for example budgetary, finance and tax boards. At the local level there are such departments at the municipalities' administrations.

Point-rating assessment method gives aggregate view to the situation in the territory (region, municipality or the whole country). This method aims at increasing control of effective distribution intergovernmental transfers, if budgetary commitments are quality or not. And those territories which have less potential level, can influence on potential development by collecting points and constituting rating and give the task of forming a self-developing territory.

Territory development nowadays is intended to orientate on needs of either territory or population of this territory. Revenue increasing level, educational and infrastructural investments expands opportunities for development of individuals and population as a whole. At the consideration of investment questions in this or that sector of socio-economic development, it is important to rank priorities of its attraction for investment and prosperity growth. It is necessary to develop this socio-economic sector, then after receiving benefits, to distribute means for sector development and conjugate spheres of socio-economic territory development. In this direction the selective model of economic management is advantageous for needs territory satisfaction, for its development and competitiveness increasing of the Russian territories in the conditions of the Russian economic transformation. The transition to the selective management of economic processes allows to develop territory as a whole as unified socio-economic system.

The alignment of economic territory development of the country creates favourable conditions for development in different direction (development of internal market, optimization of socio-economic reforms and satisfaction of population needs). And, conversely, differentiation of territories hinders an unified police of socio-economic reforms, increases internal differences in any individual federal subjects and country as a whole and that's why it creates obstructions in the development of national economics and integrity of the state and society.

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