

*PhD Shukhrat Musalimov*  
*Tashkent Institute of Finance*

## **REVENUE POTENTIAL OF LOCAL BUDGETS: PECULARITIES AND PROBLEMS OF FORMATION IN MODERN CONDITIONS**

***Abstract.** The article discusses the role and significance, the place of the revenue potential of local budgets in the total system of financial support of municipal education, the essence of the revenue potential of local budgets in a broad and narrow sense were revealed, the mechanism of formation and use of the revenue potential of local budgets and its elements were studied, quantitative and qualitative expression of this concept on the example of its composite element – “the tax potential of the local budget”.*

*In the conditions of market transformation of the economy of Uzbekistan, the issues of improving the potential of local budgets are considered to be crucial. The development of the national consumer goods market is becoming a priority area of the country’s economic policy at this stage.*

*The basis and an important feature of the current stage of development of fiscal system of Uzbekistan is the need to strengthen the financial independence of local authorities, firstly, to ensure expenditure commitments and, secondly, for the economic development of their own territories.*

*The change in the volume of expenditure commitments because of the revision of the list of issues of local importance is not provided with the process of increasing the tax autonomy of local self-government bodies. The balance between revenues and expenditures in local budgets is ensured not by the growth of their tax revenues adequate to the growth of expenditures, but by providing financial assistance. The values of the indicators of the share of revenues and expenditures of local budgets in revenues and expenditures indicate the existence of decentralization of revenue sources, however, these indicators do not take into account the real degree of financial independence of local authorities, but only allow us to assess the legislative interpretation of the level of own revenues of local budgets.*

*At implementing reforms of inter-budgetary relations and local self-government, it is especially important to adequately assess the opportunities of budgets of all levels to mobilize taxes and other payments to the budget system.*

*Therefore, the relevance of the research of the budgetary resources of municipal education, as well as the peculiarities of the formation of their own tax revenues of local budgets, particularly, it is due to the need for theoretical understanding and comprehensive consolidation of these problems, the search for possible ways to overcome them.*

**Keywords:** *municipal education, local budgets, potential, revenue potential of local budgets, structure of local budget revenues, tax potential of local budgets.*

### **Introduction**

“Current trends in the development of the world economy, measures for smoothing out the impact of negative external factors on the economy of the Republic of Uzbekistan, demographic trends and tensions in the labor market, the necessity of increasing the production potential of territories, ensuring employment growth and improving the living conditions of the population is considered an important point in a comprehensive solution to the transition of the country’s economy to the path of sustainable development and enhancement the welfare of the population by strengthening the revenue potential of local budgets” [1].

A new stage of reforming and modernizing the budget system of the Republic of Uzbekistan, strengthening its revenue potential predetermined the need to revise the approach to choosing new factors of ensuring the sustainability of the revenue base of local consolidated budgets, as well as to create conditions for their use.

Nevertheless, the achievement of sustainable growth based on a real restructuring of the methods of regulating the revenue base of local budgets and increasing the budgetary capacity of municipal education is constrained by one of the most important restrictions for ensuring economic growth and development - financial resources, which role is constantly increasing. In addition, a certain contradiction is clearly demonstrated in the Republic of Uzbekistan – a modern fiscal system has been formed that provides financial resources to the state and municipal education, but at the slightest manifestation of risks and threats, this system is destabilized, consequently a liquidity crisis, a transition to budget deficits, an outflow of funds from the country’s local budgets, an increase of inflation rate and others are being occurred.

The shortage of financial resources is particularly observed at the regional level, whereas, on the one hand, there have been negative trends and problems in the development of certain parts of the consolidated local budget of the country

following of increasing economic, social, demographic and environmental imbalances.

On the other hand, the regions were involved in a competitive struggle for attracting financial resources in the form of taxes and budget funds. In this regard, it makes sense to take into consideration not only the search for effective methods of inter-budgetary relations, but also the conditions, mechanisms and tools by which these factors can be combined and used most effectively, that is, factors of growth and development of the revenue potential of consolidated local budgets should be taken into account, allowing them to be provided in the long term period.

The lack of an integrated approach to the formation and use of financial flows in the regions is primarily due to the absence of regional sections in most government documents, where financial components are prescribed in a limited way. Alternatively, there is an underestimation of certain elements of the revenue potential of local budgets, since currently, the main focus is on the formation and use of the tax potential of local budgets with complete disregard and weakness of the methods of budget alignment. Consequently, the working programs and strategies for the development of regions are often turned out to be financially unsecured.

It is well known that the possibilities of the regions of the Republic of Uzbekistan in the formation of the revenue potential of local consolidated budgets are different due to natural and climatic conditions, the existing system of division of labor and the structure of the economy, the level of development of production, etc.

The current practice of “transferring” from the republican to the regional level of most economic problems in the absence of sufficient resources in the regions to finance their solutions is even greater the degree has strengthened regional differentiation, weakening the financial possibilities of economic development of regions.

The importance of adjusting the approach to the formation and use of the revenue potential of consolidated local budgets is that, based on regarding the financial opportunities of the state and all links of local budgets of the region, it is necessary to ensure an increase in the level of its financial adequacy. Such approach involves the identification, development and consideration in the formation and implementation of state policy in relation to the regions of such aspects as fiscal policy, banking policy, policy for the development of the insurance market, securities market, etc., the constant development of which leads

to deformation of the structure and composition of the revenue potential, since a size and role are not sufficiently taken into account in the working out of regional development strategies.

### **Materials and methods**

In the process of studying modern theoretical and regulatory frameworks, as well as the established practice of forming local budget revenues, all the tasks of the dissertation research were solved.

In the Budget Code of the Republic of Uzbekistan, such a basic concept as “budget revenues”, which fully applies to the level of local self-government is defined by the exclusion method as “funds coming into the budget, with the exception of funds that are sources of financing the budget deficit”.

This interpretation does not contain indications of the most essential aspects of the concept of “local budget revenues”, but it fully satisfies the goals of budget accounting and the budget process.

A comprehensive analysis of the general concept of “income” carried out from the economic theory view allowed to reveal the dualism of the definition of “local budget revenues”. Accordingly, for the goals of scientific research, we formulated this definition as objectively existing economic relations arising between state authorities, local self-government, individuals and legal entities in the process of redistribution of GDP due to the formation of the budget fund, as well as an integral part of the financial resources of municipal education in the form of specific forms of implementation and indicated redistributive relations.

The basic principles of the formation of local budget revenues in accordance with international law and the realities of the Republic of Uzbekistan were also formulated, as well as the importance of municipal budget revenues for the successful functioning of local self-government and the economy of the country as a whole.

The formation of local budget revenues occurs due to the division of budget flows arising in the process of using GDP between local budgets in the form of differentiation, distribution and redistribution.

Thus, in the current structure of local budget revenues in the Republic of Uzbekistan, there are serious problems that can be eliminated by finding additional reserves for the growth of local budget revenues. Most particularly, this must be done in terms of tax and non-tax revenues, only in the second with the attraction of funds to the territory in the process of budget redistribution.

In the economic aspect, finding and attracting additional reserves for the growth of tax and non-tax revenues is not only an issue of additional fulfillment of local budgets, it is also an issue of forming a modern legal framework, conditions for business development and the implementation of various socially-oriented municipal programs.

According to Yu.A.Vlasova, Abramova A.I. “The revenue potential of local budgets requires more active implementation of public-private partnerships, to facilitate extremely business by introducing tax incentives and speeding up and simplifying bureaucratic procedures, reducing the share of unproductive expenditures and enhancing productive ones, which will lead to an increase in the effectiveness of the budget policy of the region. Nowadays, a comprehensive solution to increase the revenue potential of local budgets can lead to a powerful positive effect for the entire economy of the region in the long-term period” [2].

A.Seleznev, N.Dotsenko consider that “an important macroeconomic task is the “system of forming local budget revenues, due to the urgent concern of a real deficit in financing local budgets” [3].

As O.V.Serebryakova noted, “Financial support of municipal education as one of the most difficult and urgent issues of local self-government reform” [4].

The absence of single definitions of the essence of the “revenue potential of local budgets”, which most scientists identify with the investment or budget potential; its elements, as well as the relationships between them, complicates the process of its formation, use and expansion [5].

It is important to note that the “profitable”, “financial” and “investment” potentials are independent categories, differing input elements, mechanism of influence, etc., however, to a certain extent they are intersected - the investment potential partially includes financial, and financial potential – part of the resources allocated for investment [6].

### **Results and Discussions**

The revenue potential of local budgets in a broad sense should be defined as the ability of local budgets of the region to ensure growth and development in the long term due to the aggregation at most available resources, as well as the conditions (mechanisms and tools) created by the state, organizations and households of the region for the formation, distribution and use of these resources in order to achieve certain financial results, ensuring expanded reproduction and social development. At the same time, the followings should be provided:

- availability of own sources of financing that meet the basic needs of the region;

- the possibility of attracting external sources in the necessary volumes on acceptable terms;

- formation of resource volumes at an acceptable level of risk;

- the presence of institutions ensuring the effectiveness of finance management in the region [7].

Under the revenue potential of local budgets in a narrow sense, it is proposed to understand the aggregation of revenue sources received by the subjects of the financial system, necessary to ensure a simple reproduction of enhancing the quality of life in the region (i.e., that entails about the potential used).

For a clearer analysis, we have proposed an expanded classification of the revenue potential, taking into account the aggregation of parameters. Moreover, two approaches can be taken into account: process and element. From the point of view of the process approach, we propose to allocate the following components of the revenue potential of local budgets: resources created during this period; borrowed resources and accumulated resources. Such categories as finance, financial resources, subjects of the financial system, financial policy and others should be identified as system elements of the revenue potential of local budgets.

In the most general form, the mechanism for the formation and use of the revenue potential of local budgets includes:

- a set of principles on the basis of which the formation and realization of potential takes place – a systematic approach, regarding the peculiarities of the region, continuity of the process of formation and management of potential, self-sufficiency, interconnection of potential elements, improvement of financial relations, accumulation and use of financial resources, transparency of the processes of formation and use of resources and potential, public-private partnership in the field of resource formation, minimizing possible risks and other;

- a set of financial instruments – loans, credits, bonds, taxes, etc.;

- a set of financial valuation methods – ratios calculation, factor analysis, valuation, regulatory, deviation analysis, etc. [8].

Quantitative- revenue potential of local budgets is determined as a result of the interaction of such elements as the potential of budget organizations, the potential of local budget units, the fiscal potential of the region. At the same time, it should be taken into account that the revenue potential of local budgets involves:

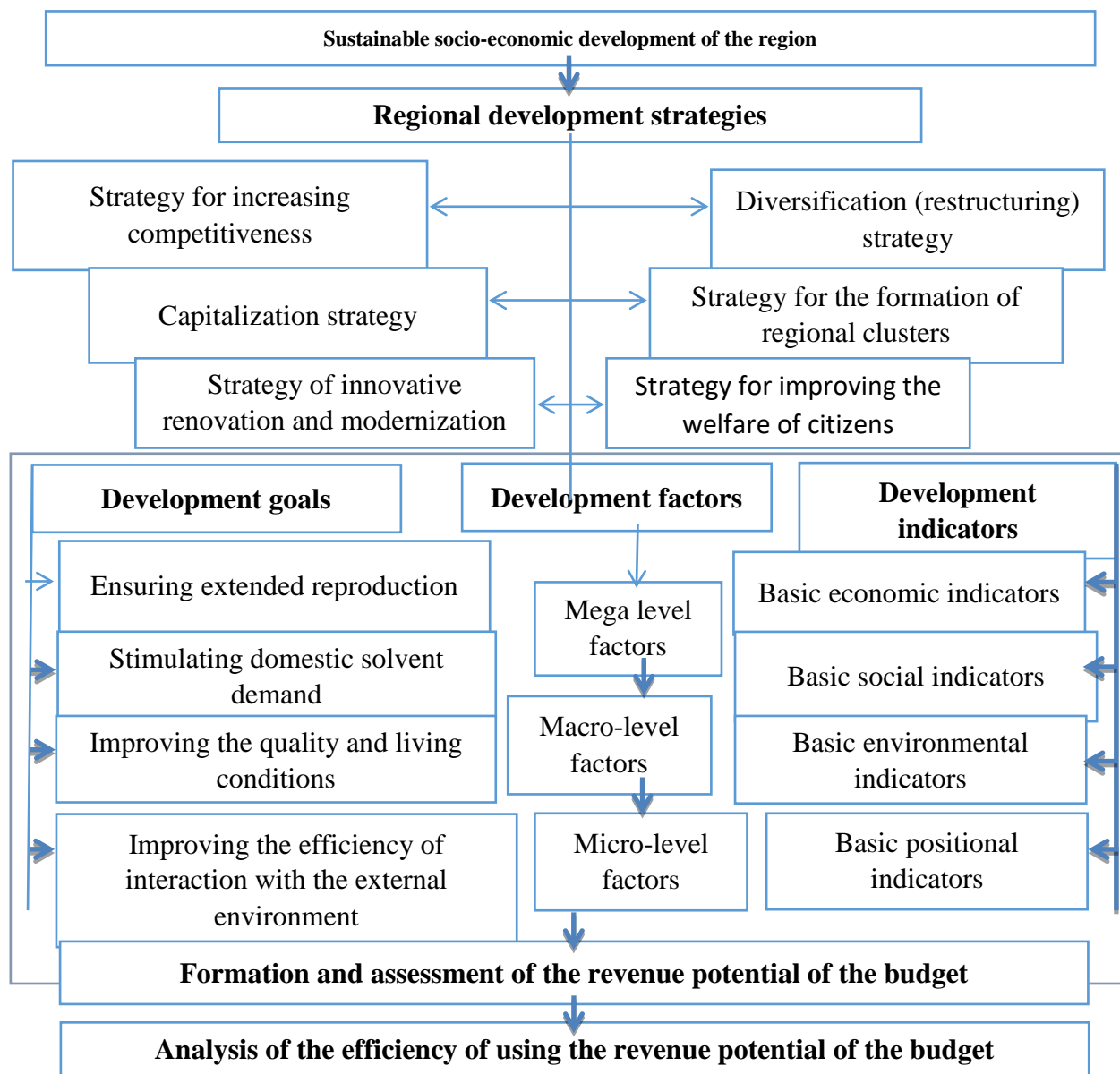
- the result of the activities of both a separate link of local budgets, as well as the region and the country as a whole;
- is a necessary condition for ensuring the economic security of territories;
- characterizes the ability of the region to create sufficient necessary financial resources;
- characterizes the level of development of the financial and budgetary system of the region;
- is a measure of the effectiveness of the activities of regional government and authorities;
- represents the result of the harmonization of the goals and interests of the state, the region and its subjects;
- reflects, on the one hand, the existence of threats to socio-economic development, and on the other, the region's ability to counter emerging risks and threats.

Additionally, it is necessary to consider that the parameters of the revenue potential of local budgets are a system of information for the development and implementation of the strategy of socio-economic development of the state and its particular region. It is well known that real estate tax revenues are entirely in responsibility of local authorities and play a crucial role in the medium-term planning of their budgets [9].

The revenue potential of local budgets is realized in order to:

- providing the regions with the necessary budgetary resources;
- stimulating economic entities to increase financial inflows;
- redistribution of resources between the local budget and the subjects of the financial system of the region, as well as in favor of the republican center. A decrease in the volume of transfers in the revenue policy of local budgets (for example, tax revenues) leads to a marked increase in their debts [10];
- to control over the process of formation, distribution and use of financial resources;
- insurance against possible threats.

The role of assessing the revenue potential of local budgets in the process of developing and implementing a socio-economic development strategy is determined by the mechanism of making strategic and operational decisions that ensure the sustainability and stability of the socio-economic development of the region (Fig. 1).



**Figure 1. The role of revenue potential in achieving sustainable development of local budgets<sup>1</sup>.**

Furthermore, on the one hand, the revenue potential of local budgets characterizes the possibilities of implementing the development goals of the region, and, on the other, the volume of the potential depends on the effectiveness of their implementation.

<sup>1</sup>Prepared by the author



For a spectacular argumentation of the methodology for determining the revenue potential of local budgets, it is possible to consider one of its structural elements – the fiscal potential of local budgets using the ratios of the fiscal potential of local budgets (Table1).

**Table 1**

**Table of ratios of the fiscal potential of the region<sup>2</sup>**

Indicators	Potential level				
	high	Above average	average	Below average	low
Expense coverage ratio as the ratio of the region's own budget revenues to its aggregate expenses (R1)	> 1,0	0,75-1,0	0,5-0,75	0,25-0,5	< 0,25
The ratio of concentration of own income as the ratio of own budget income to the aggregate income of the region (R2)	> 0,8	0,6-0,8	0,4-0,6	0,2-0,4	< 0,2
The ratio of provision of the population with its own income as the ratio of the value of the region's own income per inhabitant, to the country's own income per inhabitant (R3)	> 2	1,5-2,0	1,0-1,5	0,5-1,0	< 0,5
The ratio of the region's own revenues to the amount of inter-budget transfers (R 4)	> 4,0	3,0-4,0	2,0-3,0	2,0-1,0	< 1,0

The fiscal potential of local budgets (Fp) in absolute terms is the amount of funds raised by local budgets and extra-budgetary funds:

$$FP = TP + NTP + IBT$$

where **TP** are tax sources generated by the local budget;

**NTP** - non-tax sources attracted by the local budget;

**IBT** - inter-budget transfers.

### Conclusion and proposals

1. The lack of a unified conceptual framework and a unified theoretical approach to identifying elements of the region's revenue potential holds the possibility of its formation and expansion. The revenue potential of a region in a broad sense can be defined as the aggregate of the maximum possible financial resources, as well as the conditions for their involvement created by the state and the subjects of the region's economy for the formation, distribution and accumulation of these resources in order to ensure growth and socio-economic development in the long term, achieving certain financial results.

2. As elements of the revenue potential of local budgets, it is necessary to allocate such components of the potential as fiscal, organizations, each element of the system of local budgets should be evaluated in absolute and relative volume, as well as identify risks causing a decrease in the volume of the potential.

<sup>2</sup>Prepared by the author

3. Atworking out a strategy for the development of local budgets, it is necessary to take into account the size of its financial potential. At the same time, such stages should be highlighted as identification of local budgets; assessment of the state of fiscal potentials; identification of external and internal factors and threats to economic growth, both quantitative and qualitative; assessment of the revenue potential of local budgets, as well as a report preparation on its state; analysis and assessment of investment needs and investment climate of the region; analysis of the results of using the revenue potential of local budgets and assessment of budget management in the region, working out of a strategy for developing the revenue potential of local budgets, which should be linked to the development strategy of the country's budget system.

4. Taking into consideration the constant changes in the external and internal environment, it is necessary to develop a mechanism for managing the revenue potential of local budgets, providing for the management of its formation, use and increase, as well as the management of financial relations, emerging risks and threats. It should be based on interrelated and interdependent principles: synchronicity of macro-, meso- and micro-level development; adaptation to changes in the external environment; strategic flexibility; public-private and social partnership; accumulation of temporarily free financial resources; economic security; incentives; transparency.

#### **References and used literature:**

1. Resolution of the President of the Republic of Uzbekistan No. 5614 dated on January 8, 2019 "On the concept of integrated socio-economic development of the Republic of Uzbekistan until 2030".

2. VlasovaYu.A., Abramova A.I. Problems of strengthening the revenue potential of regional budgets in Russia on the example of Kaluga region // Creative Economy. (No. 10 / 2015), pp.34-39.

3. Seleznev A., Dotsenko N. Revenue potential of local budgets and its national significance // Economist. - 2016. - No. 9. - pp. 12-22.

4. Serebryakova O.V. Financial stability of municipal education as a priority in the development of fiscal policy at the local level // Regional economy: theory and practice. - 2017. - No. 11. - pp. 126-131.

5. Kalinina T.L. Revenue potential of local budgets and economic growth of the region. SPB.: IPK "Institute of SPb TUOR". 2016. p.– 421

6. Skvortsova E.D. Transition from factors to economic growth potential //Russian entrepreneurship. - 2015. - No. 5. pp. 163-167

7. Timofeev G.DT. Financial opportunities for economic growth of Russian regions //Regional economy: theory and practice. - 2017. - № 13 (70). pp.29-39 .

8. Vokhobov A.V., Zhamolov H.N. Coordination of inter-budgetary relations. Textbook/ Tashkent Financial Institute, Tashkent, 2002.p.239.

9. TommasoOliviero, Annalisa Scognamiglio. Property tax and property values: Evidence from the 2012 Italian Tax Reform European Economic Review. <http://www.sciencedirect.com/science/article/pii/S0014292119301084>.



10. Chiades.P., Greco.L., EmailAuthor, Mengotto.V., Moretti.L., Valbonesi.P., Fiscal consolidation by intergovernmental transfers cuts? The unpleasant effect on expenditure arrears. [www.scopus.com/record/display.uri?eid=2-s2.0-85054804836&origin=resultslist&sort=plf](http://www.scopus.com/record/display.uri?eid=2-s2.0-85054804836&origin=resultslist&sort=plf)