

## Chapter 9

# Financial Instruments of Regional Economic Policy Implementation

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### **ABSTRACT**

*This study is dedicated to the rationalizing of theoretical and methodological principles as well as elaboration of practical recommendations for the improvement of the financial mechanisms of regional development. Scientific findings in the area of financial mechanisms of regional development have been subject to analysis; the purpose and the main objectives have been set and financial principles and instruments of regional development have been defined. The role of financial support has been rationalized in relation to the specifics of the social and economic interests of the region and its steady development. The main purpose of reforming the financial mechanisms has been set as such providing for the social and economic development of the regions in the Russian Federation. It has also been clarified that the financial potential of the region is a key factor in serving social and economic interests of the region by means of financial mechanisms.*

### **INTRODUCTION**

Regions showing steady economic growth make a priority goal within social and economic development strategy and are also an indicator of the strong economy of the country. For this reason, the acute problems requiring urgent solution include identifying the regional potential, applying efficient instruments for utilization of such potential, economic effect maximization and meeting regional socio-economic needs, which are expected to result in the steady development of the region. National economy encompasses a certain economic mechanism which defines the country's and its regions' rate of competitiveness and measures the economic system's potential to provide for the development of the society and to create economic goods.

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Financial support of regional development is a problem which has been elaborated for a long period with varying success, but has never been solved completely. The system of giving financial support to the regions has always remained largely dependent on the decisions taken by governmental authorities, which leaves local authorities with no space for action or initiative in search for financial resources.

Lack of financial resources for regional development is explained by a number of factors including the following: the majority of the regions have insufficient tax basis, they are economically unappealing for investors and lack potential and infrastructure to attract financial resources from the international organizations into their project activity. Therefore, such regions are particularly vulnerable, experience lack of financing and, thus, require different financial mechanisms and instruments to support their development.

To a great extent, the efficiency of the financial mechanism in a region affects the efficiency of the regional policy, improves quality of living and functionality of the social programs.

Currently, regional development is marked by ineffective local management system, pretentiousness of the strategic planning, disproportions of socio-economic development varying from region to region and escalating social inequality. There is a well observed dependency of local and regional budgets in terms of resources distribution, i.e. financing largely comes from inter-budgetary transfers, which doesn't stimulate local authorities' initiative in searching for their own resources of covering the expense.

## **BACKGROUND**

The shift of the Russian economy towards the market economy made a drastic change in building up and utilizing regional financial resources. This resulted in a more significant role of finance and financial policy which aims at the acceleration of economic growth and creating competitive environment. All the branches of the regions' financial system are responsible for the policy implementation as they are directed towards a common goal of mobilizing financial resources and their efficient utilization (Morozova, 2010).

Successful performance and development of the regional economy greatly depend on the conditions in the region and its ability to provide self-sustained budget for its activities, define its own priorities in development and financial stability maintenance and achieve well-balanced financial indices while expanding its economic resources (Verbinenko & Badylevich, 2012).

These factors contribute to the bigger financial functionality range of the region when it concerns socio-economic development and require strengthening financial support by means of efficient management of available and potential financial mechanisms.

Maintenance of the stable economic growth in the regions, as well as in the country, remains a priority task of socio-economic development. Thus, the urgent issues in focus are evaluation of the economic potential of the region, application of efficient instruments of its utilization, economic effect maximization and meeting the needs of the enterprises and constituent territories of the region.

The purpose of the research is elaboration of practical recommendations on strengthening the financial mechanism of regional development, whereas its objectives include:

1. Rationalizing of the financial mechanism of regional development as an important factor of national economy effectiveness.
2. Systematizing methodology of evaluation of the regional development mechanism.

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