

BUDGETARY PLURALISM OF RUSSIAN AUTHORITIES

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This paper raises an issue of inconsistency of the RF budgetary legislation with the federal legislation on local governments and the current practice of organization of sub-national governments within Russian regions. The paper analyses the existing budgetary and governance system of the Russian Federation and shows that there is no one-to-one correspondence between the number of governance tiers and the number of tiers of the budgetary system in the Russian Federation. While the RF budgetary and tax legislation grants budgetary rights only to the federal government, regional governments and one level of local governments. However the actual number of sub-national government levels in Russia varies from 2 to 4. Depending on the number of tiers of sub-national governments, Russian regions can be grouped into four categories. Federal legislation leaves local governments with the very limited (if any) budgetary rights. Having little legal rights local governments start to enforce the informal power over taxpayers and electorate. The author's goal is to show the necessity of amending the current federal legislation by granting the localities the right to form one more level of sub-national government which could be assigned with the adequate responsibilities (based on subsidiarity principle), with the right to raise revenues adequate to these responsibilities. The new system must provide for accountability of all sub-national governments to their constituencies through the election procedure. The paper also shows the existing limitations that currently do not permit sub-national governments to enjoy actual independence in decision making on budgeting and revenue raising and thus to provide public services in the most efficient way.

1. Participants to Intergovernmental Fiscal Relations in the Russian Federation

There is no problem in identifying participants in intergovernmental fiscal relations, where such relations are built between the federal center and Federation subjects (Russian regions). There exists one to one correspondence between these two levels of government and two levels. The relations between these two levels are governed by budgetary and tax legislation of the Federation.

As regards intergovernmental relations at the sub-federal level, the situation there is different. Federal legislation that has to deal with intergovernmental fiscal relations between bodies of local self-government and bodies of state power of subjects of the Russian Federation provides no straightforward guide to which bodies of government may play the role of direct counterparts of subjects of the Federation in intergovernmental fiscal relations within regions. Federal tax and budget legislation as well as general principles of organization of local self-government enjoying the status of a federal law allow different candidates to compete for that role.

The RF federal legislation provides for three tiers of the budgetary system within Russia and accordingly there are three levels of participants in intergovernmental fiscal relations. The Law on General Principles of Organization of Local Self-government in the Russian Federation prohibits the subordination of one municipal settlement to another.

Still the federal tax legislation provides that the number of levels of the budget system in subjects of the Federation may exceed the number of the government levels (at least representative branches of government), meaning that no one-to-one correspondence exists between levels of government and levels of intra-regional budgetary system. In other words, the legislation admits of the existence of higher and lower local budgets: budget of a municipal settlement having a representative branch of government and budgets of populated areas within its jurisdiction having no representative branch of government. The Law on General Principles of the Organization of Local Self-government in the Russian Federation refers to those sub-municipal budgets as *expense budgets*: “Local budgets may include expense budgets of certain populated areas and territories that are not municipal settlements (see Article 35, paragraph 3). It makes no fundamental difference: for execution of such expense budgets higher level budgets direct revenues to lower level budgets, making expense budgets a variety of budget. Besides, the federal legislation provides no definition of an expense budget. As regards bodies of local self-government of sub-municipal territories, the law expressly provides for that they may be set up in any territory of whatever population size, with the regional legislation assigning territory only to municipal settlements.

2. How many levels of government are there in the Russian Federation?

Let us try to figure out how many levels of government exist in the Russian Federation and how differ their budgetary rights. To start with we have to identify differences in the degree of freedom of budgetary systems of different levels of government.

Let's compare different levels of government from budgetary rights' perspective.

2.1. Federal level

We'll start from the top. The Federal Government forms and executes the federal budget. What makes the federal government different from other levels of government is that sources of revenues and spending functions are established exclusively in the legislation of the same level, i.e. federal. Therefore when federal bodies of government are faced with the task of bringing projected expenditures in conformity with projected revenues they enjoy abundant choices such as:

1. establishing what taxes are to be used (abolished), expanding (reducing) the tax base and/or increasing (decreasing) applicable rates of existing taxes *without any limitations*;
2. debt issuing and attracting borrowings;
3. cutting down (increasing) expenditures¹.

2.2. Regional level

The next level of government – subjects of the Federation (regional administrations) – form and execute regional budgets. It is typical of the regional governments that most (if not all) of their revenue sources and a considerable portion of spending are determined by the federal government. Hence, regional governments are constrained to as many as the following choices for providing balance between their planned revenues and expenditures:

¹ Strictly speaking, one more way of revenue generating resorted to extensively in Russia by all levels of government is deriving revenues from the use of owned state and municipal property. However, earnings from business or commercial activities shall not become an end in themselves. That this source of budget revenues has become so popular in Russia, including at regional and local levels, is one more proof of that governments are in lack of other material independent sources of budget revenues.

1. adopting (repealing) of taxes permanently assigned by the federal tax legislation to regional level; increasing (reducing) regional tax rates within the range established in the federal tax legislation;
2. debt issuing and attracting borrowings within the limits imposed by the federal legislation;
3. reducing (increasing) expenditures within the limits established by the federal legislation²;
4. receiving transfers from the higher level budget.

Here we see a significant difference between budgetary rights of regional governments and the federal center. Still all subjects of the Federation enjoy equal rights in terms of choices available to them for balancing their budgets. When forming their budget proposals, even Tatarstan and Bashkortostan (which used to enjoy fiscal privileges given to them as an exception by the federal government) have to choose from the same set of alternatives as do other regions.

However, regional authorities in the Russian Federation have either a single-tier or a double-tier structure. The latter is normally established in regions where local governments are formed at the level of small towns and villages. The second tier of regional government in this case is purely executive and is appointed by the regional “center”. However, for convenience’s sake of functioning of remote territorial subdivisions of a regional government they are assigned with what may be called as a *budget*. Sources of revenues and spending items for such “budgets” are usually determined from the top, causing one to regard them as expense budgets or strict financial plan. Thus, the existence of a double-tier regional government has led to emergence of an extra level of the budget system and one more category of participants in intergovernmental fiscal relations. Regions with a double-tier structure of regional administrations prefer not to provide intergovernmental transfers directly to local governments. They rather delegate this function to their territorial subdivisions that will then distribute them among local governments under their supervision. In so doing they are running the risk of violating the Budget Code’s principle of uniformity of approach to local governments in intergovernmental relations.

² Limitations on expenditure cuts are dictated by a big number of federal mandates, with no limitations established in the legislation vis-a-vis expenditure increases.

2.3. Local level-I

The federal legislation establishing the foundations of fiscal relations between regional and local governments applies only to relations between a subject of the Federation and just one level of local authorities. In fact there are regions where local governments represent two tiers. This happens due to various reasons and we will analyze them later. Whether regional authorities recognize the second tier of local governments or not is left exclusively to discretion of subjects of the Federation. If there existed only one tier of local governments, fiscal rights assigned to them in the federal legislation would have enabled all localities to balance their revenues and expenditures by:

1. introducing (repealing) taxes assigned by the federal tax legislation to local taxes; increasing/reducing rates of local taxes within the range set by the federal tax legislation; expanding/reducing the base and/or increasing/reducing rates of certain local taxes *without any limitations*³;
2. borrowings within the limits prescribed by the federal *and regional* legislation;
3. increasing/reducing expenses within the limits prescribed by the federal *and regional* legislation;
4. receiving transfers from regional budgets.

Thus, regional and local authorities would have enjoyed the same degree of fiscal autonomy in forming their budgets.

2.4. Local level-II

Can local budgets have lower levels? The actual practice has shown that depending on the type of settlement where local self-government was formed, preferences of local authorities, and availability of qualified managerial personnel financial relations in the territory under local authorities' jurisdiction may fall into either of the following patterns:

1. All budgetary funds of a municipality are accumulated on one budgetary account, with expenditure discretion vested in the "central" body of the executive branch of local government.

³ A number of local taxes to be abolished after introduction of the sales tax.

2. All budgetary funds of a municipality are accumulated on one budgetary account, with fixed budgetary sums disbursed to sub-municipal subdivisions of local administrations for financing their spending within narrowly prescribed spending items.
3. Sub-municipal subdivisions of local administrations are assigned sharing rates of taxes yielding revenue to a body of local self-government of a municipal level. Spending of those revenues is narrowly constrained by prescriptions of the “central” body of local self-government. In case of below-the-target or surplus collections of taxes expenditures can be reduced/increased upon approval by the “central” bodies of local self-government.
4. Territorial subdivisions of local administrations are assigned rates of taxes yielding revenue to a body of local self-government. Territorial subdivisions of local administrations enjoy greater choices in terms of how total revenues collected in their territories will be allocated among spending items.

In practice “sub-municipal” budget accounts of type 2 are customarily referred to as a fixed financial plan imposed by the upper administration, whereas type 3 and type 4 accounts are all the same called local budgets. Apparently, in case of a fixed financial plan no budgetary rights are assigned, while sub-municipal budgets can at least reduce/increase expenditures and receive transfers.

“Sub-local” or “sub-municipal” budgets of territorial subdivisions of local administrations are normally executed by appointed officials from among local bodies of government. However, some of the regions are in the process of forming local bodies of government appointed by election within territories already administered by local self-governments. Such newly set up bodies of power usually fail to acquire full budgetary rights inherent in local bodies of government and at best have to content themselves with type 3 or type 4 budget or else continue to be on a fixed financial plan.

Notably, even where a municipal settlement with budgetary rights is formed at the level below raion there can nevertheless be sub-municipal budgets/financial plan within such municipalities. For example, if a municipality is a sel’soviet (village council) or a rural district, every constituent village of such a council may have a separate budget (budgetary estimate).

Interestingly, in a number of regions with local self-governments formed at the level of large cities and raions and with sub-municipal governments with limited budgetary rights formed within such municipalities regional authorities are trying to intervene in the relations between municipal and

sub-municipal authorities. They seem to be driven by the assumption that as the federal center is entitled to interfere in their relations with municipalities, they can also bring influence to bear on intergovernmental fiscal relations that develop beyond their immediate reach.

3. Types of sub-national governments in Russia

Composition of sub-regional governments in different regions of Russia can take many forms, subject to local traditions and priorities of regional leaders, such variety being allowed by (or at least not explicitly conflicting) the Russian legislation. The sorts of patterns that may appear here are:

I. Formation of local governments at the level of cities and raions

Municipalities are for the most part formed at the level of larger cities reporting to the regional government and of raions (smaller cities are included into raions). Their financial relations with bodies of government of a Federation subject (such as the size of transfers and sharing rates of regulating taxes) are determined directly by bodies of regional government. This kind of pattern is typical of most subjects of the Federation. On the sub-raion level these local governments usually create its divisions as sub-local executive bodies to bring into life the decisions taken by the upper elected government. These divisions may open their bank accounts but these accounts are credited and debited according to the upper municipal government's plan.

II. Sub-raion principle of formation of local bodies of government

Municipal settlements are formed at the level of settlements of any size, including large and small cities and rural districts ("sel'soviets") alike.

According to Article 1 of the Federal Law on General Principles of Organization of Local Self-government in the Russian Federation the major criteria to classify a locality as belonging to municipal settlements are: a) appointment of bodies of power by election, b) availability of municipal property and c) independent budget. With the lines along which intergovernmental fiscal relations are organized today whereby regional and local levels have to continuously agree their budget figures, the existence of numerous subjects of intergovernmental fiscal regulation makes the system prohibitively complicated. The experience in dealing with subjects of the Federation suggests that where municipalities are formed at levels below raions, regional governments are very reluctant to recognize them as participants in intergovernmental fiscal relations, preferring a direct calculation of financial aid for them. As noted earlier, with this structure of local bodies of government regional administrations normally form a second tier of the executive branch of

regional government at raions' level (the so-called territorial subdivisions of regional government). Financial relationships between localities and the region are determined directly by bodies of government of a Federation subject but more often the relationship between them may not be direct but established through appropriate territorial subdivisions. Importantly, the above model can be found in its pure form only in a few Federation subjects. One and most typical case in point is Tyumen oblast where all of the 295 municipalities formed on the basis of sub-raion principle have independent budgets and build their relationships with the oblast either directly or, in certain cases, through raion's territorial subdivisions of the regional administration.

III. "Double-layer cake" or "matryoshka" model

However, in their quest for simplicity most of the Federation subjects have taken a different approach, potential scenarios that can be identified here being such as the following:

1. Regional bodies of government initiate the creation of an intermediate level of local bodies of government at raion level, the result being that bodies of local self-government are simultaneously formed at the level of raions and cities reporting to the regional government (referred to as level I of local governments) and in *all constituent* populated areas such as small towns, rural districts, districts within cities reporting to the regional government (level II of local governments). Hence, the sum total of jurisdictions constituting "municipalities" of the second tier forms the territory of a "municipality" of the first tier.

Financial relations between regional authorities and level-I local government are determined in a direct fashion. Financial relations between regional authorities and level-II local government are established through level-I local government. Therefore, distribution of grants and regulating taxes received from the regional budget, among budgets of level-II local government is the responsibility of level-I local government. Such a system of local bodies of government can be encountered only in a few subjects of the Federation, in particular in Astrakhan oblast.

2. Regional bodies of government refuse to recognize bodies of local self-government as being full-fledged participants in intergovernmental fiscal relations. In so doing they delegate their intergovernmental fiscal regulation powers to those "traditionally" formed bodies of local self-government from whose territory sub-raion municipal entities have spun off. In this scenario "traditional" municipalities are termed as level-one municipal settlements, while sub-raions are referred to as level-two municipal settlements. Thus,

the territory of level-one “municipal settlement” contains territories of level-two “municipal settlements” as incorporations, although failing to fully encompass them.

Financial relationships between regional authorities and level-I local governments are directly determined by the former, whereas those between the region and level-two local governments are partially determined by the former but primarily by level-I local governments, in conflict with the Law on the General Principles of the Organization of Local Self-government ruling out subordination of one municipal settlement to another.

The above model of organization of local self-government is rather common, typical cases in point being Vladimir and Moscow regions.

Let us see whether all of the above-mentioned types of local governments enjoy equal fiscal rights. Clearly, the municipalities described by base models of type I and II enjoy all heretofore mentioned budgetary rights of local bodies of government. The only problem in building fiscal relations in regions with local governments set up at the level below raions is lack of appropriate information required for objective and well-reasoned decision-making vis-a-vis distribution of financial resources to municipalities by way of fiscal regulation. The chief cause of such lacuna is that information is collected by territorial branches of federal agencies (State Committee for Statistics and the Ministry for Taxes and Duties), using a traditional (aggregated) administrative and territorial division for grouping those data together.

The situation with the “double-layer cake” model of local governments and, hence, local budgets described earlier in paragraphs 1 and 2 is somewhat different. With this type of structure no equality can be ensured between “parent” and “subsidiary” local governments.

It stands to reason that one and the same local tax cannot be introduced in one and the same territory by two different bodies of government. By the same token, a taxpayer cannot be made to pay twice a full amount of one and the same tax to two different budgets. At the same time, by establishing a distinction between revenue sources of different layer-municipalities as prescribed in

the Law on the General Principles of the Organization of Local Self-government⁴ a subject of the Federation will inevitably put them in an inequitable position. The outcome of such distinction may be either that the list of local taxes will be divided into two (or more) parts, each body of local self-government receiving the right to levy taxes only from the resulting partial list, or that authority to introduce the complete list of local taxes will be delegated to just one of the levels of local self-government that will establish rates at which local revenue sources are to be shared by lower budgets or finance directly cities and towns located in their jurisdictions (in accordance with expense budgets). It is the latter approach that is normally taken in practice.

Fiscal rights of local governments that are not authorized to introduce local taxes leave them only the following choices for balancing their budgets:

1. borrowings within the limits set by the federal *and regional* legislation;
2. reduction (increase) of expenses within the limits set by the federal *and regional* legislation;
3. transfers from higher level budgets.

IV. Local governments having no budgetary power

The list of possible scenarios of “fight” waged by regional authorities against mushrooming bodies of local self-government set out in the previous section is not still complete. Given below are two more commonly used options which actually eliminate the budgetary power of local government even with the elected representative and executive bodies:

1. Regional authorities represented by their territorial subdivisions unilaterally assume or, actually, retain what used to be their functions to levy local taxes and form local budgets within territories under their jurisdiction. As a result municipal bodies of government execute expense budgets assigned to them assuming responsibility to their citizenry neither for how revenues are formed nor for how those revenues are spent.

⁴ «Where within the boundaries of a municipal settlement (other than a city) there are other municipal settlements, the terms of competence of municipal settlements, municipal assets and revenue sources of local budgets shall be delineated by the regional legislation or, in respect of municipal settlements within a city, by the city Charter » (Article 6.3).

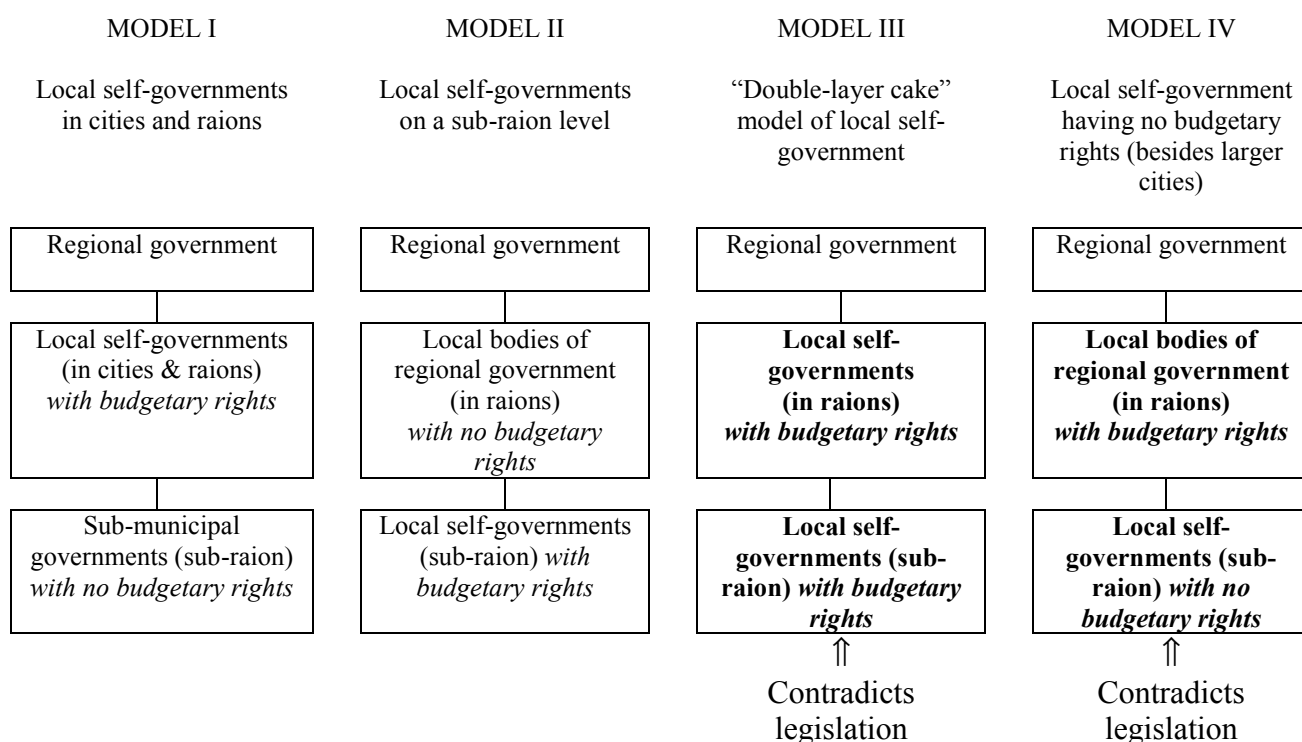
2. Regional authorities represented by their territorial subdivisions officially and “voluntarily appoint” themselves to perform functions, delegated to them by bodies of local self-government, of establishing local taxes and forming local budgets in territories within their jurisdictions, with the same outcome.

Expropriation of budgetary rights of bodies of local self-government has been taking place in an increasingly large number of Federation subjects. Novosibirsk oblast and Karachai-Circassian Republic are typical examples of the third and fourth scenarios respectively.

In regions building their relations with municipal settlements along either of the above lines bodies of local self-government enjoy full-scale rights only in cities directly reporting to the region. Governments in the rest of municipalities, although formally appointed by election, are deprived of their chief attribute: capacity to independently draft and execute their budgets. Concurrently, budgetary rights are assigned for unintended purpose to the executive territorial subdivisions of regional administrations that are not directly accountable to the citizenry for whom they make decisions on taxation and provision of public services.

Fig. 1 exhibits possible organizational structures of sub-federal bodies of government. Table 1 groups Federation subjects under those structures.

FIG.1 TYPES OF SUB-NATIONAL GOVERNMENTS IN RUSSIA



4. How to count for local governments?

We took a look here at all levels of government that have been in existence in Russia to date. From what has been discussed one can infer that the “depth” of Russia’s government system is not homogeneous in that it may vary in particular regions from 2 to 3 levels. In some cases a kind of local governments may be established even on the 4-th level⁵. However the budgetary system of the Russian Federation provides only for three levels of the budgetary system leaving the regions with only two of them. Thus, the number of budget levels does not necessarily correspond to the number of levels of government (at least of the representative branch thereof).

The RF State Statistical Committee reports on about 27,500 different kinds of rural and urban settlements. In the estimates of the Ministry of Affairs of the Nationalities and Migration there are about 12,200 municipalities in the Russian Federation today. The figure includes all elected local bodies of government that are registered by the Ministry in its Register of municipalities. Of these over 1000 municipalities possess no municipal property. If one calculates how many bodies of local self-government are assigned budgetary rights and the discretion to levy local taxes (local capacity to tax being a factor enabling local governments to have full-fledged budgets rather than financial plan), the resultant figure would be only about 3,500 municipalities (see Table 1). “Poles apart”, as they say.

Here we recognize that over 8,000 mayors and their governments have been taken away the legal rights to raise revenues and take decisions on budget expenditures. Strange as it is they do not complain about this a lot.

5. The foundations of the public power in Russia

Presumably, the above mentioned submissiveness is attributable to that losses of self-sufficiency, independence, ability to forecast revenues, plan expenditures, etc., resulting from infringements on budgetary rights granted by the federal legislation to local governments, are in fact negligible, no matter how appalling such infringements may seem (especially to foreign experts). In other words, it makes almost no difference whether localities enjoy formal fiscal autonomy or not. Local governments of either type find themselves controlled in their choices to almost the same extent.

⁵ It takes place in regions where on sub-raion level villages are united into “selsoviets” (a kind of a county). Selsoviets may further be splitted into single villages.

The difference between the status of localities that enjoy full budgetary rights (provided by the federal legislation) and those on fixed financial plan appears to be immaterial, there being almost no distinction between the true local budget and financial plan.

At the same time local governors concentrate enormous informal power. Local governors have the informal negotiating power to increase their financial plan. Local “tzar” can influence local companies through threatening them to switch off from water, gas and electricity supply. He also may accumulate non-tax revenues in off-budget funds and use them independently without nearly any control. He also can suggest local company to provide direct services to local government instead of being registered as a taxpayer. The existing budgetary system in Russia provides for larger informal rather than formal power to local governments, the formal power being miserable because of the federal limitations imposed on local budgetary rights.

6. Who is accountable for public money going to local level?

In what follows we will prove that there is no actual accountability of local governments for the public money they collect and spend. In the current system local governments are assigned with inadequate revenue raising and public service provision responsibilities.

6.1. Revenue assignments across levels of government

As shown earlier, the discussed budgets of different levels of government differ considerably in alternatives they have to determine amounts of revenues available to them and in choices of how those revenues will be allocated among particular spending categories. Revenue autonomy, i.e. the power to adopt taxes, is enjoyed (although to a different extent) only by the federal level, level-one regional governments and level-one local governments.

The tax legislation clearly distinguishes between three types of taxes levied in Russia: federal, regional and local. A tax is assigned to a particular type only by including it into the list under a relevant name.

Federal taxes (including rates and what they should apply to as well as payers of taxes) are established in the legislation of the Russian Federation together with the procedure for payment to the budget or extra-budgetary funds and levied across all Russia.

Of regional taxes the enterprise property tax and forest fee are established in the legislation of the Russian Federation and levied across Russia, with rates determined by regional laws. It is notable that regardless of its rate, the federal legislation causes 50 percent of total collections from the

enterprise property tax to be dedicated to local budgets in the jurisdiction of taxpayer's location. Regional governments may choose to adopt (establish) only the duty for support of education imposed on natural persons and sales tax (with rates to be established within the range defined in the federal legislation). Upon introduction of the sales tax the duty for support of education is to be repealed. Strictly speaking, enterprise profits tax should also be classed among regional taxes to the extent that it goes to regional budgets as regions may levy any regional rate up to the centrally prescribed statutory limit.

Of local taxes (see Table 2) three taxes: personal property tax, land tax and registration fee on individuals engaged in entrepreneurial activities are established in the federal legislation and apply throughout Russia. The Federation also establishes what shares of the land tax would be distributed to the federal, regional and local governments through the requirement for concentration of part of the revenue in regional (20 percent) and federal (30 percent) budgets.

However, until recently (before the introduction of the sales tax that has repealed the overwhelming majority of local taxes) localities did have, even if very limited, law-making power in that they could choose the tax base for, and rate to be levied on, six taxes (of which two can be levied only in health resort zones). Those taxes were:

1. Tax on construction of manufacturing facilities in health resort areas;
2. Health resort fee;
3. Fee for parking of motor vehicles;
4. Fee for the right to shoot movies and telefilms;
5. Fee for setting up gambling business;
6. Fee for territory cleaning in populated areas.

It should be pointed out that the first four fees being in effect user fees, the last one, despite a similar name is sort of an earmarked fee. We call it "sort of" because in the absence of targeted budgetary funds at the local level it is impossible to track down spending of revenues received from particular sources. Hence, the fee for territory cleaning is the only independent source of revenue for local budgets. In a number of municipalities it indeed was a significant source of revenue, its contribution to local budgets amounting to 15 – 20 percent of total tax collections. For example, in

Omsk City that could not expect any significant aid from the region the fee was set at 2 percent of the turnover. In Lipetsk City it was 1.5 percent of the turnover.

After the introduction of the sales tax localities have the discretion to adopt the base and rate for only the health resort fee (although by far not all Russian localities are in health resort areas to take advantage of their right).

Thus, budgetary rights of local governments to adopt taxes are extremely limited and dwindle year by year (see Table 3), becoming practically indistinguishable from budgetary rights enjoyed by administrative-territorial entities that are devoid of taxing power. That is why even regional authorities not always realize the existence of the earlier described differences between levels of the budget system, in particular the differences between levels of local budgets, and give a very loose interpretation to the term “municipality” converting cities and towns below the regional level alternately to budgets and fixed financial plan. In any case this explains why estimates of the number of existing administrative-territorial entities at the local level in Russia differ.

6.2. Expenditure assignments across levels of government

Regional governments in Russia often look upon local budgets as expense budgets (or fixed financial plan) of administrative-territorial entities, with very detailed expenditure norms developed at the regional level, including in areas that are considered to be the responsibility of local governments. Thus, spending options and total amounts available to localities are heavily controlled by the federal and regional legislation. Federal and regional mandates and higher-level expenditure norms leave little, if any, room for real alternatives to localities. Restrictions of local rights to change the type of, liquidate or privatize social assets have the same effect.

At present most of spending norms provided by federal ministries for lower-level governments are developed as recommendations and are usually physical standards⁶. For example, the federal standard for cost of delivery of housing and public utility services per 1 m² of total dwelling space set out in the “Concept of Reform of Housing and Utilities Sector in the Russian Federation”⁷ cannot be considered a compulsory federal norm for lower level budgets. The Concept emphasizes that the given standard shall be used only “for distribution of federal budget funds among subjects

⁶ See Direction of the RF Government N 1063-r dated July 3, 1996.

⁷ As approved by Russian President’s Decree N 425 of April 28, 1997.

of the Russian Federation”. Therein established indicator of the ratio between coverage of H&U costs by households and the level of costs of H&U service delivery is not a compulsory norm either to be adhered to without fail by lower level budgets and is provided only for calculation of transfers.

As regards the federal expenditure norm for education mentioned in the Federal Law on Education N 12-FZ of January 13, 1996, no straightforward conclusion can be drawn therefrom, whether the federal norms are “minimum permissible” norms for all levels of budgets or only for federal educational establishments⁸.

Until recently the said norms were used primarily for calculation of the so-called “justified level of fiscal sufficiency” for the distribution of funds from higher-level budgets. However, financial resources received by regions were barely sufficient to support social infrastructure inherited from the pre-reform period. Strapped for financial resources, regions were incapable of increasing expenditures on maintenance of the existing infrastructure to over federal norms. Therefore, in drafting their own budgets regions were interested in using federal norms as a bench-mark to justify a resulting non-supportable deficit and claim an additional financial aid from the federal budget. Often recommended federal norms constitute the basis for regional norms mandated by the regional legislation⁹.

⁸ Paragraphs 2, 3 and 4 of Article 41 of the Law read as follows:

“2. Financing of educational establishments shall be on the basis of state (including departmental) and local financing norms calculated per student, or pupil for each type, kind and category of educational establishments.

3. Federal norms of financing educational establishments shall be prescribed annually in the federal law passed simultaneously with the federal budget law for a respective year and are minimum permissible norms.

4. Regional and local norms of financing shall take into account specific features of an educational establishment and be sufficient for coverage of locality’s average operating expenditures related to education process and use of buildings, structures and standard equipment of an educational establishment”.

⁹ For example, see the Law on the Budget System of Moscow Oblast, whereby localities are obliged to adhere to around 60 expenditure norms.

The most important of all effective norms adopted at the federal level by the Russian Government is a “Uniform Schedule of Rates of Wage Payments to Budget Sector Employees”¹⁰. Budget sector employees include employees of all agencies financed from a budget of any level, including local budgets, except for employees of government administrations.

In addition to wage norms per budget employee federal authorities keep under control the number of employees in budget organizations. They do it indirectly, by establishing standards of public service delivery. However, rather than referring to quality or quantity level of service delivery (e.g. quality of education received by students or number of students) those standards have to do with cost indicators (number of teaching hours for particular school subjects, time to be spent in a hospital with a particular disease, etc.). Localities are in effect obliged to comply not only with specific wage norms but also with the total size of the wage fund for budget employees accounting for about 25 percent of total budget expenditures.

Regional and local governments are subject to even more stringent constraints imposed on their spending decisions and total spending by federal laws on entitlements and social benefits to specific population groups.

The “Concept of Reform of Housing and Utilities Sector in the Russian Federation” constrains local spending choices by imposing a fairly rigid requirement to fix a “maximum allowable share of households’ own expenditures on payment for housing and public utility services in a combined household income”. Local budgets are thus mandated to subsidize costs of housing and communal services for low-income individuals.

These entitlements and subsidies for certain segments of the population¹¹ are prescribed in more than 120 federal legislative acts of which 45 were passed prior to 1992 but are still in effect. Local

¹⁰ See RF Government Regulations N 785 of October 14, 1992 *about Differentiation of Levels of Wages of Budget Sector Employees on the Basis of the Uniform Schedule of Rates* and N 823 of August 24, 1995 *on Increase of Rates (Wages) of the Uniform Schedule of Rates of Wage Payments to Budget Sector Employees*, as amended and supplemented.

¹¹ «A certain segment» may include fairly broad groups of the population. For example, August 6, 1992 Resolution N 2464-1 of the RF Supreme Council on Introducing Order into Payment for Services of Pre-school Institutions and Financial Support to the System of Such Institutions” stipulates that “as of April 1, 1992 the rate of payment charged to parents shall not exceed 20

governments are required to subsidize 37 types of benefits. For some of them the number of eligible classes of individuals reaches 15.

The federal legislation from the onset encumbered local budgets with payment of most of the above-mentioned subsidies and benefits. It is estimated that for the majority of local budgets expenditure needs for covering those mandates exceed all of their revenues, including transfers.

The Law on Financial Foundations of Local Self-government provides that “bodies of local self-government shall be entitled to fulfil decisions of bodies of state power resulting in loss of revenues or increase of expenditures within funds transferred to them by way of compensation”. However, more often than not local governments fail to prove that funds transferred to them “by way of compensation” are insufficient, because strictly speaking it can be proven only if funds were transferred for the designated purpose. In practice the amount of funds required for compensation is just "taken into account" in establishing sharing rates of regulating taxes or calculating total grants. Thus, when payments of subsidies or benefits fail to be made eligible individuals sue the responsible local government to receive the entitled benefit, with most of such cases lost by local governments.

7. Policy recommendations:

Principles of Intergovernmental Fiscal Relations

In what follows we will analyze how the problem of building intergovernmental fiscal relations at the sub-federal level is addressed in the federal legislation and what kind of reasoning can be brought forward from an economic rationale standpoint for encouraging subjects of the Federation to build stable, transparent and efficient fiscal relations in regions.

7.1. Equality of budgetary rights of all counterparts in intergovernmental fiscal relations on sub-national level

Right now the federal legislation establishing the foundations of fiscal relations between regional and municipal authorities has to do with relationships between regional government and one level of local governments. Therewith it allows for the establishment of local governments at any

percent of costs of care provided to children in a given institution”. Hence, the overwhelming majority of the population falls into the eligible class entitled to this benefit. Until recently monthly child benefits have also been paid indiscriminately.

territorial level. A list of local budgets that will play the role of regional government's partners in intergovernmental fiscal relations shall be put together by bodies of state power of the region (Federation Subject).

However, a fairly large number of regions have more than one level of local governments. As discussed earlier, different Russian regions use different models for establishing local bodies of government in accordance with priorities and traditions supported by the subject of the Federation.

The principle by which municipal settlements enjoy equal budgetary rights in the context of their fiscal relations with regional governments¹² implies that whatever are the territories acting as region's counterparts in intergovernmental fiscal relations, they shall be given equal rights to introduce local taxes, choose tax bases and rates to be levied, and equal borrowing power and rights to adjust the level of their spending and receive grants from the regional budget. The federal legislation provides no straightforward guide to whether equal rights shall be given to any territory where the residency opted for establishment of local self-government or whether the right to class a territory administered by local self-government as a municipality and an equal participant in intergovernmental fiscal relations shall be vested in a region. Clearly, the federal legislation in this field needs to be amended and supplemented but regardless of the answer to the above question, there are certain arguments for or against fiscal decentralization that shall be taken into account in selecting an organizational structure of a sub-federal government.

First, subdividing local governments will work for diminishing the scope of issues handled locally, enhance the need for centralization of revenues in the regional budget and weaken local governments as institutions¹³. A subject of the Federation won't only have to assume the

¹² See the Concept of Reform of Intergovernmental Fiscal Relations in the RF in 1999 and for a Period up to the Year 2000, and Budget Code.

¹³ In Tyumen Oblast as a result of change-over to the sub-rayon principle of the organization of local self-government the share of expenditures financed from local budgets dropped from 59 to 45 percent. The reason why it happened is because many social assets that used to be funded from rayon budgets (for example rayon hospitals) had to be assumed by the oblast as small municipalities are unable to and should not finance such facilities providing services to the citizenry of many municipal settlements. A possible alternative to funding of such facilities from regional budgets may be municipal associations set up for maintenance of the said assets within the boundaries of

responsibility for performance of many functions theretofore performed locally but also regulate fiscal relations with a larger number of municipalities, which is no small a task, when one has to deal with hundreds of small municipalities.

Second, the smaller the size and the lesser the diversification of local economy the greater the risk of loss of local budget revenues as a result of economic problems occurring in the course of budget execution, such losses being unrecoverable to local governments.

Third, a choice of candidate territory for granting independent budgetary rights shall be guided by considerations of efficiency in delivery of governmental services to the public. Clearly, a candidate territory with a broad tax base will be able to spend more per capita in provision of services to their residents as a result of a spin-off, but this will hamper access to public services for citizens of neighboring territories with a narrower tax base.

Fourth, the efficiency of service delivery is a function of expertise and skills of the personnel available in localities. Lack of skillful experts in management of government finances, budget planning and accounting creates a danger of that local budgets will be planned and executed inefficiently.

Fifth, bodies of state power shall be given access to sources of information independent of local governments to obtain data on the size of economy (tax base) and expenditure needs of municipal settlements. If that is a problem, regions will hardly be able to ensure fair distribution of regional budget funds among localities. Bodies of state power of a Federation subject shall keep that in mind when deciding on to which levels of budgets they will distribute funds for fiscal regulation.

The importance of the above factor will be a function of a share of fiscal regulation funds in total revenues of local budgets. Where it is small, i.e. if the budget system is vertically balanced, availability or lack of objective statistical data on revenue potential and expenditure needs of local budgets won't be of critical importance for deciding on which territorial level should participate in intergovernmental fiscal relations. But where it is great, availability of data imposes significant constraints on subject's counterparts in intergovernmental fiscal regulation.

former rayons, but as municipalities will have to jointly fund the expenditures it will be difficult for them to come to a consensus on establishment of such associations. Regions will have to step in to delineate financing responsibilities among municipalities, thereby limiting their fiscal autonomy.

For a budget system at a sub-federal level to be vertically balanced, local budgets should be allowed to exercise broader revenue options. This can be accomplished by allowing local governments to adjust their per capita revenues on their own through introduction of local taxes and choosing rates at which they will be levied, and through revenue sources assigned to them on a permanent basis for financing their spending functions. However, those issues only partially fall under the jurisdiction of regional governments. For example, a list of local taxes and fees is determined by the federal legislation. Regional governments are free to assign to localities any revenue sources available to them but the same bodies of regional governments are responsible for ensuring an appropriate balance between expenditure needs and revenue options open to localities, this being one of the forms of intergovernmental fiscal regulation requiring reliable and fairly detailed information on objects of regulation.

Genuine expansion of revenue autonomy of local budgets lies in the hands of federal authorities. It is the federal level that can assign adequate taxes to localities on a permanent basis, property taxes in the first place. It is the federal level that can introduce the so-called “split” rate for personal income tax, to allow localities to bring real pressure to bear on how much revenue they can raise and, accordingly, become accountable to their citizenry for the quantity and quality of public services they provide.

The tax system where every budget level is assigned appropriate taxes will help establish a vertically balanced budget system and abandon the use of regulating taxes that work against stability and transparency in intergovernmental fiscal relations.

7.2. Equality of local governments in their fiscal relations with a regional government

The principle of equality of local budgets in their fiscal relations with a regional government implies that the subject will apply a single methodology to all localities for calculation of the need for financial aid from a higher level budget. Norms of financial expenditures on delivery of public services, norms of per capita budget revenues that are key to calculation of the size of financial aid to localities shall also be determined by a single methodology, subject to social, economic, geographic and other differences of the municipalities and to total transfers received by localities from the regional budget by way of distribution of revenues for fiscal regulation.

General financial assistance to local budgets can take the form of transfers or tax sharing. For an approach to calculating financial assistance to each locality to be objective, transfers and shares of regulating taxes shall be considered together. Once total amount of financial assistance to be distributed to each municipality is known, one can decide on a fiscal tool for distribution of

revenues to localities: sharing rates of regulating taxes or transfers. As the use of sharing arrangements provides an incentive for local authorities to expand the tax-base and raise more revenues from their territories, with the benefits derived therefrom also by higher-level governments, one can recommend that the maximum portion of financial assistance they are entitled to, be distributed to localities in the form of shares of regulating taxes, with the rest provided in the form of transfers¹⁴.

The provision of the Law on General Principles of the Organization of Local Self-government in the Russian Federation (Article 6, paragraph 4) whereby bodies of regional government are entitled to give their powers to local self-governments is sometimes interpreted in a sense that they are entitled to delegate, *inter alia*, to raion governments (raion subdivisions of regional administrations) or governments of level-one municipalities their powers to distribute revenues by way of fiscal regulation. Presumably, such interpretation is wrong, as it runs counter to the principle of localities' fiscal equality in dealing with regional governments: while per capita revenues of municipalities are adjusted by administrations of level-one municipalities, per capita revenue equalization may be achieved only within the boundaries of their jurisdictions but not for all municipalities within a region. In keeping with the principle of localities' fiscal equality in dealing with regional authorities may delegate to level-one municipalities only the right of physical transfer of revenues for fiscal regulation in amounts calculated beforehand by a method common to all municipalities across the board. In this case revenues for fiscal regulation shall be transferred to a level-one municipality in the form of earmarked subventions to be further distributed to local budgets. In this scenario the budget of the level-one municipality serves as a transit account, with powers for intergovernmental fiscal regulation retained by regional authorities.

¹⁴ Although local governments have no formal tax administration rights and are not responsible for collection of not only federal and regional but even local taxes, in fact they can contribute to higher collections, including of federal and regional taxes, by bringing influence to bear on tax payers and by inducing greater collection ardor from tax inspectorates working in their territories. By increasing collections of regulating taxes to the extent that they are dedicated to local budgets, localities willy-nilly benefit higher-level governments (except where collections increase through non-cash offsets). The latter are therefore interested in that all localities retain other than zero shares of regulating taxes. Where no important local taxes exist, the above practice of exploiting local authorities will inevitably continue.

However, the most consistent practice in a period of transition to abandonment of regulating taxes will be for regional authorities to assign to every municipality uniform rates of taxes that will be shared. If the result will be too wide a disparity in per capita revenues of municipalities, the system may be supplemented with a “fraternal” horizontal re-distribution of revenues. In this scenario “negative” transfers (contributions payable by rich localities to the fiscal equalization fund) shall not take the form of confiscation, when first uniform rates are set for all municipalities and then rich municipalities forfeit all that has been collected by them from those uniform rates. Such arrangement will allow an efficient combination between fiscal sufficiency equalization and application of uniform sharing rates. It is especially appropriate for Russia where disparity in fiscal sufficiency (See Table 4) is exceedingly wide.

As regards the process of re-distribution of financial resources among municipalities as a tool of fiscal regulation, its coherence is totally independent of how many local budgets are full-fledged participants in intergovernmental fiscal relations at the subject level. Transparency and efficiency of the process can be ensured through formalization of methods of fiscal equalization and abandonment of negotiation for agreeing budget figures. The only problem one may face here is lack of sufficiently detailed information warranting an objective assessment of revenue options and expenditure needs of small municipalities. But even with this deficiency, it makes no sense to delegate fiscal regulation powers to “level-one” municipalities as they are also in lack of the required information. But if regional governments believe, that “down there they know better”, they may request localities to provide the information that “level-one” municipalities use in decision-making.

8. Policy recommendations:

Add one more level of budgetary system on the sub-national level

Taking into consideration the above discussed principles of intergovernmental relations on sub-national level we have come up with the following policy proposal. To make the public finance system more efficient and transparent and to make government officials accountable for revenue raising and public services provision it would be reasonable to add another tier to the budgetary system by introducing the possibility to form one more level of sub-national government with fully fledged budgetary rights. This would permit to split expenditure responsibilities across all levels of sub-national governments in accordance with the subsidiarity principle. This would also simplify the delegation of responsibilities from one level of government to another. It would ensure that each level of government has the most appropriate expenditure functions assigned to it and has adequate

revenues to finance these functions. This would eliminate many conflicts that arise when regions try to organize public governance efficiently.

For this federal legislation should be amended in what concerns the system of elections of local governments providing to allow for elections to two tiers of local governments. The expenditure and revenue assignments across all levels of government should be clarified and revised accordingly.

9. Conclusion

The diversity of budgetary schemes used at the sub-federal level is an indication of regional quest for a more rational organization of intra-regional fiscal relations. Although models of organization of sub-federal governments dictate only the framework of intergovernmental fiscal relations, the choice of a particular model will drive important parameters of intergovernmental fiscal relations, such as division of expenditure responsibilities among levels of government, assignment of revenue sources and needs for distribution of financial assistance. The said diversity also shows that at the regional level intergovernmental fiscal relations are not confined to relations just between regional and level-one local budgets. It stands to reason therefore that reforms of intergovernmental fiscal relations initiated by the Russian Government shall encompass all existing levels of the budget system and all participants in intergovernmental fiscal relations. Leaving sub-federal and municipal levels outside the scope of intergovernmental fiscal reform undertaken by the federal government will jeopardize end-goals of the reform effort. Achieving the ultimate goals of equalization of minimum fiscal sufficiency with due regard for objective differences in expenditure needs of territories, creating incentives for localities to develop their tax-bases and raise higher revenues for their budgets may be feasible only if the reform of fiscal relations between the Federation and subjects of the Federation is backed by similarly intended reforms at regional and municipal levels.

Table 1. Types of sub-national governments in Russia

Model I. Local self-governments in cities and raions (with all municipalities enjoying full-fledged and equitable budgets)

| <i>№</i> | Region | Number of local self-governments with budgetary rights | <i>№</i> | Region | Number of local self-governments with budgetary rights |
|----------|--------------------|---|----------|------------------------|---|
| 1 | Aghinsk-Buryat AO | 39 | 33 | Murmansk oblast | 17 |
| 2 | Altai kraï | 71 | 34 | Nenets AO | 11 |
| 3 | Altai Republic | 11 | 35 | Nizhni Novgorod oblast | 51 |
| 4 | Amur oblast | 28 | 36 | Novgorod oblast | 22 |
| 5 | Arkhangelsk oblast | 26 | 37 | Omsk oblast | 33 |
| 6 | Belgorod oblast | 22 | 38 | Orlov oblast | 27 |
| 7 | Buryat Republic | 23 | 39 | Perm oblast | 40 |
| 8 | Chita oblast | 31 | 40 | Primorski kraï | 31 |
| 9 | Chukotski AO | 9 | 41 | Republic Marii El | 17 |
| 10 | Chuvash Republic | 26 | 42 | Republic Sakha (Yakut) | 35 |
| 11 | Daghestan Republic | 52 | 43 | Rostov oblast | 55 |
| 12 | Evenk AO | 4 | 44 | Ryazan oblast | 29 |
| 13 | Ingush Republic | 45 | 45 | Sakhalin oblast | 19 |
| 14 | Irkutsk oblast | 37 | 46 | Samara oblast | 37 |
| 15 | Ivanovo oblast | 27 | 47 | Saratov oblast | 41 |
| 16 | Kaliningrad oblast | 22 | 48 | Smolensk oblast | 27 |
| 17 | Kaluga oblast | 49 | 49 | Sverdlovsk oblast | 68 |
| 18 | Kamchatka oblast | 8 | 50 | Taimir AO | 4 |
| 19 | Karelian Republic | 19 | 51 | Tambov oblast | 30 |
| 20 | Kemerovo oblast | 35 | 52 | The Jewish AO | 6 |
| 21 | Khabarovsk kraï | 19 | 53 | Tomsk oblast | 19 |
| 22 | Khanti-Mansi AO | 23 | 54 | Tula oblast | 26 |
| 23 | Kirov oblast | 44 | 55 | Tuva Republic | 19 |
| 24 | Komi Republic | 21 | 56 | Tver' oblast | 41 |
| 25 | Komi-Permyatski AO | 7 | 57 | Udmurt Republic | 31 |
| 26 | Koryak AO | 5 | 58 | Ulianovsk oblast | 24 |
| 27 | Kostroma oblast | 31 | 59 | Ust-Orda Buryat AO | 6 |
| 28 | Krasnodar kraï | 48 | 60 | Volgograd oblast | 39 |
| 29 | Krasnoyarsk kraï | 57 | 61 | Vologda oblast | 28 |
| 30 | Leningrad oblast | 29 | 62 | Voronezh oblast | 34 |
| 31 | Lipetsk oblast | 20 | 63 | Yamalo-Nenets AO | 13 |
| 32 | Magadan oblast | 9 | 64 | Yaroslavl' oblast | 19 |

Model II. Local governments on a sub-raion level

| № | Region | Number of local self-governments with budgetary rights |
|----------|------------------|---|
| 1 | Khakass Republic | 96 |
| 2 | Orenburg oblast | 578 |
| 3 | Penza oblast | 406 |
| 4 | Stavropol krai | 309 |
| 5 | Tyumen oblast | 295 |

Model III. “Double-layer cake” model of local self-government

| № | Region | Number of level-I local self-governments with budgetary rights | Number of level-II local self-governments with budgetary rights |
|----------|-------------------------|---|--|
| 1 | Astrakhan oblast* | 12 | 141 |
| 2 | Bryansk oblast* | 38 | 36 |
| 3 | Chelyabinsk oblast | 39 | 15 |
| 4 | Moscow oblast | 69 | 7 |
| 5 | North Ossetian Republic | 9 | 4 |
| 6 | Pskov oblast | 26 | 2 |
| 7 | Republic of Mordovia | 25 | 400 |
| 8 | Vladimir oblast | 15 | 48 |

* Territories of «level-I» municipalities are fully covered by «level-II» municipalities.

Model IV. Local self-governments having no budgetary rights (besides larger cities)

| № | Region | Number of local self-governments with budgetary rights | № | Region | Number of local self-governments with budgetary rights |
|----------|------------------------------|---|----------|--------------------|---|
| 1 | Adygei Republic | 2 | 6 | Kurgan oblast | 2 |
| 2 | Bashkortostan Republic | 5 | 7 | Kursk oblast | 5 |
| 3 | Kabardin-Balkar Republic | 5 | 8 | Novosibirsk oblast | 5 |
| 4 | Kalmyk Republic | 3 | 9 | Tatarstan Republic | 7 |
| 5 | Karachai-Circassian Republic | 4 | | | |

Table 2. Local taxes and levies, 1999

| Tax | Tax is imposed by: | Tax Base is set by: | Tax Rate is set by: | Payments go to: |
|--|---|--|---|--|
| a) Personal property tax* | Federal Government simultaneously for the entire RF | Federal Government | Regional and local authorities | Local budget |
| b) Land tax* | Federal Government simultaneously for the entire RF | Federal Government | Regional and local authorities | Shared among Federal, regional and local levels at the ratio of 30 : 20 : 50 |
| c) Registration fee on individuals engaged in entrepreneurial activities | Federal Law simultaneously for the entire RF | Regional and local authorities | Regional and local authorities | Local budget |
| d) Tax on construction of manufacturing facilities in health resort areas**** | Local authorities | Local authorities | Local authorities | Local budget |
| e) Health resort fee | Local authorities | Local authorities | Local authorities | Local budget |
| f) Fee for the right to engage in trade** | Local authorities | Local authorities | Local authorities | Local budget |
| g) Earmarked duties on individuals and businesses for the purposes of support of militia, landscaping and street cleaning, support of education and other purposes | Local authorities | Federal Government: for individuals - 12 minimum monthly wages; For businesses - minimum wage multiplied by number of employees | Local authorities within federal limits 0 - 3% | Local budget |
| h) Advertisement tax | Local authorities | Federal Government: Cost of services | Local authorities within federal limits 0 - 5% | Local budget |
| i) Tax on resale of motor vehicles, hardware and personal computers** | Local authorities | Federal Government: transaction amount | Local authorities within federal limits 0 - 10% | Local budget |
| j) Charge on dog owners** | Local authorities | Federal Government: minimum monthly wages | Local authorities within federal limits (0 - 14% per annum) | Local budget |

| | | | | |
|---|-------------------|---|--|--------------|
| k) License fee for the right to trade in wine and vodka products** | Local authorities | Federal Government: minimum monthly wages | Federal Government 2500 - 5000% per day of trade | Local budget |
| l) License fee for the right to hold local auctions and lotteries** | Local authorities | Federal Government value of goods put up for an auction or an issue amount of lottery tickets | Local authorities within federal limits 0 - 10% | Local budget |
| m) Fee for issuance of an authorization to a municipal apartment** | Local authorities | Federal Government minimum monthly wages | Federal Government 0 - 75% | Local budget |
| n) Fee for parking of motor vehicles** | Local authorities | Local authorities | Local authorities | Local budget |
| o) Fee for the right to use local symbols** | Local authorities | Federal Government value of sold products | Local authorities within federal limits 0 - 0.5% | Local budget |
| p) Racecourse participation fee** | Local authorities | Local authorities | Local authorities | Local budget |
| q) Racecourse prize fee** | Local authorities | Federal Government prize amount | Local authorities within federal limits 0 - 5% | Local budget |
| r) Charge on individuals participating in racecourse betting** | Local authorities | Federal Government payment for participation in the game | Local authorities within federal limits 0 - 5% | Local budget |
| s) Fee on exchange transactions ** | Local authorities | Federal Government transaction amount | Local authorities within federal limits 0 - 1% | Local budget |
| t) Fee for the right to shoot movies and TV films ** | Local authorities | Local authorities | Local authorities | Local budget |
| u) Fee for territory cleaning in populated areas** | Local authorities | Local authorities | Local authorities | Local budget |
| v) Fee for setting up gambling business** | Local authorities | Local authorities | Local authorities | Local budget |
| w) Housing and social infrastructure maintenance fee** | Local authorities | Federal Government volume of sales | Local authorities within federal limits 0 - 1.5% | Local budget |

* According to the General Part of the Tax Code, as soon as representative branches of regional governments put into effect Real Estate Tax in their jurisdictions, taxes referred to in a) and b) will cease to be levied.

** Pursuant to the Federal Law No. 150-FX of July 31, 1998 as soon as representative branches of regional governments put into effect Sales Tax in their jurisdictions, taxes referred to in d), f), i), j), k), l), m), n), o), p), q), r), s), t), u), v) will cease to be levied.

Composed according Russian tax legislation.

Table 3. Revenue structure of local budgets across the Russian Federation for 1998

| Revenue type | RUR in billions | % |
|---|------------------------|----------|
| Total local revenues, including: | 317.5 | 100.0% |
| local taxes | 44.7 | 14.1% |
| Local non-tax revenues w/o sales of property | 10.8 | 3.4% |
| Revenues assigned to locality on a permanent basis by the federal legislation | 47.0 | 14.8% |
| Regulating taxes | 132.3 | 41.7% |
| Subventions | 9.4 | 2.9% |
| Funds under mutual settlements | 19.8 | 6.2% |
| Subsidies and transfers | 53.2 | 16.7% |
| Sales of property | 0.9 | 0.3% |
| Borrowings | -3.1 | -1.0% |

Estimated from RF Ministry of Finance data

Table 4. Range of per capita local and assigned revenues of municipalities in subjects of the Federation measured by means of Gini index from 1998 data

| № | Region | Gini Index | № | Region | Gini Index |
|----------|----------------------------|-------------------|----------|------------------------------|-------------------|
| | Russian Federation* | 0,23 | | | |
| 1 | Belgorod oblast | 0,18 | 16 | Novosibirsk oblast | 0,29 |
| 2 | Ivanovo oblast | 0,19 | 17 | Pskov oblast | 0,29 |
| 3 | Karelian Republic | 0,19 | 18 | Smolensk oblast | 0,29 |
| 4 | Chukotski AO | 0,20 | 19 | Lipetsk oblast | 0,30 |
| 5 | Kamchatka oblast | 0,20 | 20 | Buryat Republic | 0,31 |
| 6 | Marii El Republic | 0,23 | 21 | Novgorod oblast | 0,32 |
| 7 | Tula oblast | 0,23 | 22 | Amur oblast | 0,33 |
| 8 | Stavropol krai | 0,23 | 23 | Leningrad oblast | 0,34 |
| 9 | Ust-Orda Buryat AO | 0,23 | 24 | Omsk oblast | 0,35 |
| 10 | Volgograd oblast | 0,24 | 25 | Altay Republic | 0,37 |
| 11 | Tver oblast | 0,25 | 26 | Astrakhan oblast | 0,40 |
| 12 | Vladimir oblast | 0,25 | 28 | Sakha Republic | 0,41 |
| 13 | Saratov oblast | 0,27 | 29 | Karachai-Circassian Republic | 0,44 |
| 14 | Republic of Mordovia | 0,28 | 30 | Tomsk oblast | 0,46 |
| 15 | Rostov oblast | 0,28 | 31 | Ingush Republic | 0,48 |

** variations in per capita regional revenues (without shared taxes and transfers) within the Russian Federation*

