Introduction
Despite of continuing progress of federative relations, many features of the Unitarian state still remain in Russia including serious underestimation of regional peculiarities, absence of effective mechanisms of raising mutual responsibility of separate budget system branches, and clear policy of quality improvement of regional financial management.

The last decade features three in reality interrelated trends, which seem formally contradictory:

- Decentralizing of budget resources;
- Formal centralization of tax and budget authorities;
- Both federal liabilities and informal autonomy of regional and local authorities are sufficiently secured by the financial sources.

Russia experiences a sharp deficit of institutional possibilities necessary to conduct effective federative policies, even because the political and economical legal equality of regions is to the greater extent the declaration, than actually existing phenomenon in our country. It is enough to mention, that the maximum regional GDP per capita in Russia is in 14.5 times less than minimum one, while in Australia — in 1.4, in Canada — in 1.8, in Switzerland — in 2.2 times.

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The inter-regional contrasts in regional socio-economic development represent one of severest problems in our country. And these contrasts have increased recently. If in 1995 the regions of Russian Federation differed in average per capita production of GDP in 22.4 times, in 2000 the gap rose to about 40 times. The difference between own per capita revenues make up about 180 times\(^4\). Natural and climatic, cultural and historical factors, as well as features and results of territorial economic structure formation in the country underline socio-economic differentiation. Insufficiently clear demarcation of authorities and responsibilities between different budget levels with regard to the payment of wages, benefits and allowances in public sector, repayment for consumed energy resources leads to regional and particularly local budgets overload with the federal liabilities, unsecured with financial sources. One of the possible problem solution concerned with the removal of differences in regional development and living standards is the improvement of the system and mechanisms of interbudget relations between federal center and subjects of Federation, as well as subjects of Federation and institutions of local government. The interbudget relations exist in all countries. However state structure of particular countries influences both the mechanism, and principles of their arrangement. The federative system of our country reflects also on interbudget relations. Budget federalism is exhibited in normative-statutory definition of tax and budget relationships between different budget levels, consolidated tax payers and different budget levels, as well as in concretization of the rights and responsibilities of the above mentioned parties at all stages of budget process. Thus, the observance of defined statutorily rights to legal equality (independence) of the “inferior” budgets in their relations with “higher level” ones should be a necessary, though not a single condition of budget federalism. The budget federalism in Russia has begun to be established in the early ninetieth. As a result of the reform relatively formalized rules-rates of allocations from the federal tax revenues uniform for all regions, being more objective and "transparent" criteria of financial assistance distribution - allowed eliminating spontaneous decentralization of resources and political bargaining between federal and regional branches of authority. However this reform has been unfinished and has not lead to the creation of strong statutory basis of Russian budget federalism. In 1996-98 the crisis of interbudgetary relations and regional finance aggravated, subjectivism in allocation of financial resources between the levels of budget system and regions was strengthened, the delays in the payment of the wages to the public sector workers become widespread, and the debts of the regional and local budgets increased sharply. The late nineties became the turning point in the establishment of substantial budgetary federalism in Russia. The Budget Code\(^5\) and the first part of the Tax Code\(^6\) came into force, laying the foundations for the new budget system creation in the country. Proceeding from the realities of the late 1990s, “The Concept of Reforming of Interbudgetary Relations in Russian Federation in 1999–2001 Years” defined basic directions of the serviceable system creation of budget federalism in Russia. Its essential feature is the creation of budgetary independence of the subjects of Russian Federation and the inducements system urging regional authorities to conduct balanced and responsible budget policies while simultaneously observing social guarantees


\(^5\) Budget Code of Russian Federation. (April 11, 1998), No. 55-FL.

\(^6\) Tax Code of Russian Federation (First Part). (July 31, 1998), No. 146-FL.
provided in the Constitution of Russian Federation and federal legislation. However expected changes did not occur in the full degree. Therefore, in spite of the fact that the interbudget relations were developed rather dynamically during last years, nevertheless, many problems have remained unsolved till now. Trying to improve the situation, the Government has elaborated “Program of Budget Federalism Development in Russian Federation Designed till 2005”. The purposes of this program in many respects are similar to those already specified earlier in “Concept of Interbudget Relations Development in 1999-2001”. They include the the strengthening of independence of the different levels budgets, the improvement of economic efficiency, and increase in budget responsibility.

Meanwhile instead of budgets independence, the attraction of tax funds to the federal center is provided, and the 48th Article of the Budget Code is violated thereby. So, in 2001 as compared to 2000, the funds allocation was accomplished in favor of the federal center (See Table1)

*Table1*

One of the major unsolved problems remains the demarcation of authorities between governmental bodies of different level. First of all it is observed in budgetary and tax sphere where there exists still unclear demarcation of outlay powers and responsibilities between bodies of executive authority of different levels. This uncertainty results in the interpretation of the law “from a position of a political strength” and widely distributed practice of the legal suites of regional and local governmental bodies with consequent write-off of assets from the budget accounts based on writs of execution.

Outlays of the regional and local budgets are controlled through centrally established norms and rates. The dependence of these budgets on annually established proportions of federal tax funds division undermines inducements to tax competitiveness and investment attractiveness growth of the regions. We should notice that the practice of deriving money from the “higher level” budgets causes the funds spending on momentary needs and the demand rise for new financial injections. Program of the Budget Federalism Development in Russia contains a general scheme of outlay power demarcation between governmental bodies of different levels designed up to 2005. The proposals for the subjects concerning both normative and legal regulation, and funds supply and funds allocation organization to secure outlay power are included in the Program. At the same time, the division of functions and authorities seems to be wrongful, contradicting the current practice.

So far the centralization of financial resources and reinforcement of power vertical conducted by federal center currently, essentially reduces the independence of the subjects of Russian Federation and assigns to the federal authorities additional responsibility for solving economic and social problems, in particular forcing to conduct more targeted and effective regional policies. The same processes at a regional level result in similar consequences. The regional elite violates federal legislation, frequently resorting to “shadow mechanisms” of additional funds extortion from the federal center or evading from full tax payments.

The acute problem is budgetary status uncertainty of municipal bodies. It is enough to mention, that from thousands of territorial units (1,097 towns, 1,084 settlements, 24,409 rural administrations) formally having the status of municipal bodies, only 5 thousands have the independent budgets.

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Chapter 1. Interbudgetary Relations and Fiscal Policy

According to the Budget Code (Article 10) the budgetary system of Russian Federation consists of three levels:

- The first level - federal budget and budgets of state off-budget funds;
- The second level - budgets of the subjects of Russian Federation and budgets of territorial state off-budget funds;
- The third level - local budgets.

According to the Code (Article 28) the budget system of Russian Federation is based on the following principles:

- Unity of a budget system of Russian Federation;
- Demarcation of the assets and outlays between budget system levels of Russian Federation;
- Independence of the budgets;
- Entirety of assets and outlays reflection in the budgets, and in state off-budget funds;
- Balance of the budget;
- Efficiency and thriftiness in budgetary funds use;
- General (cumulative) defrayal of the budget outlays;
- Publicity;
- Budget veracities;
- Targeting and special-purpose character of the budgetary funds.

Actually there still exist two administrative levels (territorial and settlement) at a local (subregional) level in Russian Federation, on which the control of the public finance is carried out, however Budget and Tax Codes of RF regulate only one level of the local budgets and tax and budget authorities, without dividing municipal bodies on territorial and settlement ones. As a result a lot of essential obstacles are created blocking the development of both budget system, and local governments.

One-level structure of state authority of the subject of Russian Federation and one-level local government in the regions or towns of regional importance, exists in 48 subjects of Russian Federation (Arkhangelsk and S.-Peretersburg regions, Krasnodar Krai etc.). One-level structure of state authority of subject of Russian Federation and one-level local government organized according to the settlement principle, can be found in 3 subjects of Russian Federation (Kursk and Tyumen region, Stavropol Krai). Two-level structure of state authority of the subject of Russian Federation and two-level pattern of local government exists in 9 subjects of Russian Federation (Novosibirsk region, Republics of Altai and Bashkortostan etc.). One-level organization of state authority of the subject of Russian Federation and two-level pattern of local government is created in 22 subjects of Russian Federation (Moscow, Krasnoyarsk regions etc.). Thus, in 22 subjects of the Federation two-level municipal formations ("territorial" and "settlement") have formally presented, while the real budget process is carried out only at a district (local) level9.

The transition of the Russian economics to the market relations has changed the conditions of the

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The budgets have started to be seen as independent financial institutions operating on the basis of demarcation of the taxing and outlay powers of the budget system levels of Russian Federation. Therefore it raises the importance of budget federalism, relations between federal public authorities and that of the subjects of Russian Federation, as well as relations between public authorities and institutions of local governments concerning the demarcation of budgetary and tax powers, outlays and assets, division and redivision of the last between the federal budget, budgets of the subjects of Federation and local budgets. Though the concept of budget federalism discovers first of all the appropriate relations between federal center and subjects of Federation, but the fact how they are shaped on this level, in many respects predetermines the relationships between public authorities of the subjects of Russian Federation and institutions of local government.

The reinforcement of financial foundations of local governments is impossible without the improvement of interbudgetary relations, aimed at establishing necessary asset and outlay powers, budgetary rights and guaranties of financial independence of local government institutions.

The security of municipalities with local financial resources directly depends on the degree of interbudget relations development, which are now imperfect and do not decide many current local government problems. The centralization of financial means in the federal budget and budgets of the subjects of Federation, availability of considerable financial counterflows between the budgets of all levels, huge deficit of the local budgets deprive institutions of local government of the possibility to decide problems vitally important for the population.

As it is known, currently the regulating taxes dominate in interbudget relations, while the share of taxes, assigned to municipal bodies, remains rather low and does not meet even their minimum requirements. The average (for Russia) share of the own tax revenues of the local budgets covers less than 15% of local outlay requirements. Such conditions of budget regulation result even in subsidizing local budgets being earlier balanced and unsubsidized. About 95% of all municipal bodies are subsidized currently.

It is perfectly clear that the interbudget relations development should rely on strong statutory basis strengthening legal guaranties of local governments financial independence. However, on the practice poor efforts still are undertaken for the creation of substantial legal and economical guaranties of genuine financial independence of local governments.

The adopted federal acts “About General Principles of Local Government Organization in Russian Federation”, “About Financial Foundations of Local Government in Russian Federation”, the Budget and Tax Codes of RF should secure financial independence of local governments, and provide local budgets with necessary asset sources. However above-mentioned acts have appeared to be incomplete in many respects and some of their provisions require essential clarification. Besides the adoption of the such relevant federal acts is necessary, as the act “About General Principles of Providing Local Government Institutions with Some State Authorities”, “About the Order of Reimbursement to Local Self-management Bodies of

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Additional Expenditures Resulted from Solutions, Taken by Public Authorities”, “About Minimum State Social Standards”, which are called to improve financial conditions of municipal bodies, introduce necessary amendments to the Budget and Tax Codes of RF.

According to the Budget Code of Russian Federation and federal act “About Financial Foundations of Local Government in Russian Federation” only municipal bodies are granted the right to form local budgets, therefore each municipal body should consequently have its own budget. Simultaneously the subjects of Federation propose currently to change the budgetary and tax laws of Russian Federation, granting to administrative - territorial units of the subjects of Russian Federation the possibility to form local budgets, establish local taxes and duties in order to optimize interbudget relations. However it is wrongful to identify administrative - territorial units of the subjects of Russian Federation and municipal bodies, as it is in the last where the independent solution of the locally important problems is ensured, while the public authorities of administrative - territorial units of the subjects of Federation are created for the realization of state authorities resulting from the conditions and purposes of administration of the subjects of Russian Federation.

The Budget Code of Russian Federation establishes the principle of local budgets independence, defines the authorities of local government institutions in the field of assets formation and budget outlays. However Budget and Tax Codes of RF do not guarantee a necessary level of own local budgets revenues, and in order to ensure the independence of the local self-management bodies, it is obviously insufficient simply to proclaim the principle of necessity to have own asset sources. It is more important to establish the particular list, magnitude and sources of own local budgets revenues, which could secure, at least, minimum social needs of the population of municipal units.

At the same time, the overwhelming majority of the local budgets are formed at the expense of financial support of the subjects of Federation, deductions from the federal and regional regulating taxes. Meanwhile, if the municipal body does not possess somewhat essential own sources of the revenues, any local government independence in resolving locally important problems is impossible. In exchange of the financial assistance of “higher level” budgets the local government institutions are frequently forced to change the policies and resolve locally important problems following the instructions of public authorities. As a result municipal bodies are deprived of the possibility to plan even on a short-term basis and to implement long-term comprehensive programs.

The first part of the Tax Code of Russian Federation practically envisions an actual abolishment of local taxes and duties system. It proposes to confine their list only to five sources, two of which - property tax and land tax - in case of real estate tax adoption referred to a regional taxes, will not be in force any more on the appropriate local territory.

In order to decrease tax burden on the enterprises, total number of taxes is decreased during the tax reform, and the tax rates are reduced. However, it seems to be unacceptable, when the annual changes in the tax and budget legislation permanently reduce revenue base of the local budgets leading to the removal of their revenue sources. Thus the compensation of local budgets revenues cuts by the by public authorities, as a rule, either is failed, or is not carried out in a full degree.

The tax on the maintenance of housing and socio-cultural objects has been abolished since 2001, on the average accounting for 13-15 % of the own tax revenues of the local budgets. The importance of this tax for the local budgets is determined largely by the fact that it was the basic and targeting source covering additional expenditures for the maintenance of socio-cultural and communal-household objects. It was paid by the enterprises to municipal bodies.
The Program of Development of Budget Federalism in Russian Federation provides for the essential increase of the own revenues role in the regional and domestic budgets by 2005, what means the creation of pre-requisites for transferring to the system of the budget revenue formation at each level basically at the expense of the own taxes. In other words, the realization of the concept “one tax-one budget” is proposed in the long term basis, when the collected federal taxes are directed to the federal budget completely, without any “division”, while regional taxes are directed only in the regional budgets, and local taxes - in the local budgets. This scheme is ideal, however it requires not only full division of powers between levels of authorities and expenditure powers between levels of budget system, but also constant amending of the tax and budget legislation. Meanwhile this “flexibility” of the tax laws can negatively reflect on the tax payers, decrease the collectability of the taxes and worsen investment climate. Therefore it is necessary to notice, that the practice of tax revenues division (as far as regulating taxes are concerned, provided annually established rates) is still under consideration.

To achieve the Program’s purposes, regional budgets are considered to be assigned basic revenue sources (deductions from the federal taxes) on a constant basis while local budgets are already granted this right by the Federal Act “About Financial Foundations of Local Government in Russian Federation”. Apparently, these norms are necessary to increase and the mechanism of their calculation should be improved.

The Program proposes to modify (basically positively) the division of tax authorities and revenue sources between the levels of budget system. At the same time the Program features several provisions and principles to be reflected in the tax laws, but being unacceptable for local government.

Not less than 70% or 25 percent points (55% (17.5) - in the regional and 15% (7.5) - in the local budgets) of profit tax revenues of the enterprises according to the Program should be directed to the consolidated budgets of the subjects of Russian Federation, with the rest (10 percent points) paid to the federal budget (uniform profit tax rate is 35%).

Thus, the share of the allocation of profit tax revenues is reduced with respect to local governments compared to 2001 when the federal budget takes 11 percent points, the regional budget - 19, including 5 percent points distributed to local budgets on the average for the subjects of Russian Federation.

Moreover, the approved chapter “Profit Tax of the Enterprises and Organizations” provides for the decrease of profit tax rate from 35 to 24% with the following sharing: 75 % — in the federal budget, 14.5%— in the budgets of the subjects of Russian Federation and 2 % — in the local budgets.

Evidently, that size of a municipal share of the divided profit tax rate does not countervail the abolished tax on the maintenance of housing and socio-cultural objects at all, and the profit tax introduced in January 1, 2001, paid in the local budgets and fixed by local authorities at the rates not higher than 5 %, has been abolished since January 1, 2002. Together with 2-percent municipal share of the divided profit tax rate as the own local budget revenues, there remains only a part of the profit tax paid in the regional budgets, sized not less than 5 % on the average for the subject of Russian Federation (Subitem 2 of Item 4 of Article 7 of the federal act “About Financial Foundations of Local Government in Russian Federation”).

The Program suggests to pay the total tax revenues on the incomes of physical persons in the consolidated budgets of the subjects of Russian Federation with the 50 % paid to regional and 50% - to local budgets provided the minimum guaranteed and aligning part of the local budgets would be foreseen.
The Program proposes to keep sales tax till 2005, without changing the proportion of its allocation to the regional (40%) and local (60%) budgets, but separating the minimum and aligning component.

Simultaneously pursuant to the Item 2 of the Order № 2-P of the Constitutional Court of Russian Federation as of January 30, 2001 the sales tax should be abolished not later than January 1, 2002. Therefore the Government of Russian Federation has introduced the bill to the State Duma (Parliament) which is taking into account the requirements of the Constitutional Court, but does not specify the rate of allocation of sales tax revenues to the regional and local budgets (this rate is kept till the abolition of the law of Russian Federation “About the Foundations of the Tax System in Russian Federation”).

The Program does not mention the property tax paid by the enterprises, physical persons, as well as land tax. Simultaneously the introduction of real estate tax in the long term prospective requires to specify their status. Apparently, the property tax paid by enterprises, physical persons, and land tax should have the status of the local tax to be paid completely in the local budgets. Property tax revenues should be collected on the local level, this fact is favored by the repeatability of their revenues, low mobility of tax base and economic efficiency. As the enterprises use domestic infrastructure (roads, municipal services), it is logical to assign the taxes levied on their property to the local budgets. The land tax revenues are distributed very evenly, that corresponds to the principle of the social justice. Besides while introducing the real estate tax, property taxes on the enterprises, physical persons, and land tax are abolished, and the transfer of the property tax of the enterprises to the category of the local taxes would prevent regional budgets losses.

As expenditure powers, stipulated in the Program, provide for the local financing of local road facilities, it would be expedient to assign the share of the transportation tax to local budgets on a constant basis at a rate of 50%, and also to keep behind the local budgets the state tax levied by courts of the general jurisdiction.

The federal act “About the Enactment of Part Two of the Tax Code of Russian Federation and Amendments to Some Acts of Russian Federation about the Taxes”13 grants to the representative local government institutions the right to establish the profit tax at a rate of 5%, which is paid to the local budgets. However the revenues from this source do not compensate completely to local budgets the removal of the revenues, connected to the abolition of the tax on the maintenance of housing and socio-cultural objects. Besides it is impossible to rely on a high collectability the profit tax, as the introduction of the additional tax rate will increase a tax burden on the enterprises.

The enactment of the federal act “About Financial Foundations of Local Government in Russian Federation” meant a certain step toward the change of established proportions between deductions from the regulating taxes according to temporary rates and own revenues of the local budgets in favor of the last. In Articles 52 and 58 of Budget Code of Russian Federation the own revenues of the federal budgets and budgets of the subjects of Federation can be transferred to the local budgets on a constant or temporary basis for the term of not less than 3 years. So far according to the budget legislation, a certain part of percent shares of the federal regulating taxes is not to be paid to the subjects of Federation on a constant basis. Such situation leads to the

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conflicts between the budget legislation and federal act “About Financial Foundations of Local Government in Russian Federation”, which are necessary to eliminate. At the same time, the federal public authorities continue to change annually the norms and rates of deductions from the federal regulating taxes in the local budgets not to the benefit of the local budgets.

According to the above-mentioned federal act the own revenues of the local budgets established on a constant basis, include VAT revenues within the limits of not less than 10 % on the average for the subject of Federation. However according to the federal Act “About Federal Budget of 2001” VAT collected in 2001, was paid in the federal budget at a rate of 100 % and thus the local government institutions in the current year did not receive any VAT revenues, guaranteed to them. It directly contradicts the federal act “About Financial Foundations of Local Government in Russian Federation”.

In the conditions of scarce financial resources for the solution of locally important problems the local government institutions experience additional difficulties as different federal legal acts and legal acts of the subjects of Federation grant them some state powers without transferring financial and material means for their realization.

Considerable amount of state powers, which the institutions of local government are granted, are connected with the financing of social payments and benefits established for certain categories of the citizens in the federal acts. In spite of the fact that the public authorities have not provided sources and order of financing for realization of such state authorities, local government institutions bear the responsibility before the population and law for the realization of solutions taken.

The creation of Compensations Fund in the federal budget in 2001 at the expense of the centralization of 15 % of the VAT, previously paid in the budgets of the subjects of Federation, can be regarded from different perspectives. On the one hand, this fact ensures the partial redirection of budget means from most wealthy regions to the benefit of the remaining subjects of Russian Federation (as tax base of VAT is highly concentrated), that contributes to the reduction of inter-regional discrepancies in budgeting. But on the other hand, the strengthening of funds concentration in the federal budget leads to the growth of financial counter flows. The VAT is one of the important regulating taxes, and its centralization and transfer of its part to the regions for strictly particular purposes, institutes and regulates the functioning of this tax. Besides its reallocation in budget system does not help the regions to repay the accumulated dept. Moreover the revenues from repayment of VAT arrears are paid in the federal budget.

The changes in budget and tax laws of Russia introduced in 2001 significantly modify the relationships between levels of a budget system. The high concentration of funds in the federal budget at the stage of primary distribution of the taxes along vertical budget system is considerably augmented. The regions, having reserved basic expenditure obligations, lose a considerable part of tax sources, what causes the growth of dependence from the federal budget. The lost revenues of the subjects of Federation due to VAT centralization in the federal budget are reimbursed to the regions as a whole by the reallocation through the Compensation Fund, but not in the full degree.

The changes in interbudget relations do not only fully decide, but rather aggravate the problem of the growth of donated territories, increasing also the regional differentiation in the tax potential and per capita budget security. Many subjects of Russian Federation have become close to the financial and budget self-sufficiency due to their efforts to develop own economical and tax potential. But now they appear to have been discarded back. Their dependence from the donations of the federal budget has increased.
Chapter 2. Kinds of Transfers And New Methodic of Their Allocation

2.1. Kinds of Transfers
The main purpose of the allocation of transfers is to increase opportunities of the subjects of Russian Federation with low budget security, in order to finance expenditures, imposed on them, and to provide equal citizens’ access to basic budgeted services.

The allocation of transfers should not preclude at least to achieve the following:

- Economic efficiency — to create and keep long-term inducements for regional authorities to conduct structural transformations, to maintain competitive environment, favorable investment and entrepreneurial climate;
- Budget responsibility — to administer the public finance on behalf of and in the interests of the population at a maximum effective utilization of tax and other resources of appropriate territories, to secure transparency and accountability of tax and budget policies;
- Political consolidation — to achieve the public consent on allocation of financial resources between levels of budget system and regions, create conditions for effective realization of their powers by regional public authorities within the framework of civic society, strengthen consolidation of territorial integrity of the country.

According to the Budget Code the transfers are classified as follows:

- Donations - budgetary funds granted to a budget of different level of the budget system of Russian Federation on gratuitous and irrevocable basis for covering operating expenses;
- Subventions - budgetary funds granted to the budget of different level of the budget system of Russian Federation or legal person on gratuitous and irrevocable basis for the realization of certain targeting expenditures;
- Subsidy - budgetary funds granted to a budget of different level of the budget system of Russian Federation, physical or legal person provided their participation in financing of target expenditures.

The federal budget contains the section titled “Financial assistance to other budget levels”. It consists of several Funds, the largest of which is the Fund of Financial Support of the Subjects of Russian Federation (hereinafter referred to as FFSS). There exist also the Fund of Regional Development created for realization of the federal programs of the development of regions and the Fund of Financial Assistance for Highly Donated Subjects of Russian Federation.

For the purposes of the Fund of the Financial Assistance of the Subjects of Russian Federation, the regions - donors, that collect the taxes in the amount sufficient to support themselves and the federal budget, and regions - recipients are defined. In Russian Federation there are 89 regions, and only about twenty regions are donors. However not all proficit subjects are the donors, spending practically all taxes on their territories (such as Tatarstan and Bashkortostan, which cooperate with the center based on the special agreements).

2.2. History of Transfers in Russian Federation
The gratuitous assistance to the regions - recipients designed for their social needs was provided variously in different times. Till 1991 the balance of the territorial budgets was achieved basically at the expense of differentiated rates of deductions from revenues sources (primarily, turnover tax). Thus the coordination of both outlays and revenues was carried out based on the prior-years
figures with the orientation toward an existing budget network and direct filling in “of estimated deficit”. The given system could operate only in conditions of the centralized budgeting. In new conditions it did not ensure effective granting of budget services and general balance of the budget system.

Originally, in 1992 - 93, there existed the donations transferred on a contractual basis to the regions, which lacked own revenues for most necessary payments. Since the second quarter of 1994 the new system of aligning transfers (funds intended for payment of pensions, salaries, compensations) was introduced based on the western model. The volume of the Fund of Financial Support of Regions - 22 % from a federal share of VAT revenues on the products produced on the territory of Russian Federation - was determined. The funds were transferred in the regions, where the budget revenues per capita were lower than average Russian level in order to compensate the gap between the them.

In 1995 the percentage of inflows in the Fund was increased up to 27 % from the VAT revenues. In 1996 – 1997 the Fund was filled in at the expense of 15 % deduction from all tax revenues of the federal budget except for customs duties and income tax, and in 1998 this figure was reduced to 14 %. In 2000 the volume of Fund was increased from 33 milliards rubles in 1999 to 57 milliards rubles, besides the targeting transfers were introduced.

All these years the amount of transfers depended on the amount of the collected taxes, which one, in turn, depended on the amount of regions – donors (see Table 2).

*Table 2*

They have included invariably Moscow, Lipetsk, Samara and Sverdlovsk regions, Krasnoyarsk krai, Yamalo-Nenets and Khanty-Mansi Autonomous Areas.

Since 2000 the database has started to be created not on the basis of reported data obtained from the regions, as before, but based on the state statistical reports. Simultaneously, the shares of regions in the Fund of Financial Support of the Subjects of Russian Federation were replaced by particular amounts, as it is impossible to forecast the collectability of the taxes with the confidence from a year to a year. And, besides it was attempted for the first time to evaluate tax potential of each region in order to direct already determined assistance, and to induce the local authorities to improve tax collection. The targeting transfers were also introduced in 2000: a partial assistance designed for the payment of children's allowances, and Northern regions assistance to pay compensations for electricity use for Far East and Arkhangelsk region (these transfers were introduced to control the resource use, and the regions have no right to utilize them for other purposes). A large population number and small tax potential are currently basic criteria for receiving large transfer.

The enactment of the act “About the Federal Budget of 2001” completed the transition to the new method of funds allocation in the Fund of Financial Support, which is specified in the Concept of Interbudget Relations Reforming in Russian Federation in 1999-2001. The reform of one of the key system components of interbudget relations - the mechanism of the alignment of regional budget security has been actually conducted within the last 2 years.

2.3. New Methodic of Transfer Allocation

The transition to the new method of transfer allocation was accomplished in 3 stages in the period of the preparation and authorization of the federal budgets in 1999, 2000 and 2001 (see Table 3).

The possibility of new method development has appeared only after the transition to the new formula of calculations. The method proposed for 2000 contains a lot of principally important innovations.

Firstly, the index of budget expenditures was started to be calculated not based on the budget
reporting data, but on the basis of objective and, as a rule, stable statistical parameters, such as regional coefficients of the salary, price level and municipal utilities costs, demographic structure of the population, transport accessibility.

*Table3*

Secondly, as the data on actual expenditures were not utilized any more, the possibility has appeared to calculate indexes of budget expenditures for each region separately, instead of calculating the average values for the groups.

Thirdly, when calculating the regional revenues, estimation of tax potential was utilized for the first time (as a correction coefficient). Though the estimation of the tax revenues was basically conducted by means of the previous method, this obviously allowed to introduce into the calculations a principal component of budget alignment scheme, rated second after the estimation of expenditure needs.

Fourthly, the transfers started to be calculated and affirmed not in the shares of FFSR, but in the absolute amounts. The proportional allocation of transfers, in its design, should promote an increase in regional interest to the collection of the taxes. However such inducements did not operate in practice, as the main part of the taxes is collected in non-donated regions. The payments between the federal budget and budgets of the subjects of Federation has sharply become complicated. The transition to the absolute amounts has improved budget planning conditions at a regional level and reestablished the general order for the transfers designed for all expenditure items of the federal budget.

In - fifth, the funds on “northern delivery” and subsidies on electricity payments were included in the composition of transfers. Despite a special-purpose nature of the given funds, their introduction into the transfer composition was justified by the fact that regional additional needs, connected to “transportation” or “energy” factors have to be taken into account when estimating budget security and in their essence belong to the expenditures of all budget sphere.

Finally, in order to strengthen the inducements to support economic development and to provide calculations options, FFSR was divided in two parts in the proportion of 80 by 20. The part of FFSR (80 %) is distributed between the subjects of Russian Federation, for which specific Gross Tax Resources are less than average Russian indicator, calculated proportionally to their deviations from the average level.

The rest 20 % of the FFSR are distributed between the least wealthy subjects of Russian Federation at the second stage (taking into account the amounts already allocated from the first part). As a result the total volume of transfers to such subjects of Russian Federation is combined from two parts.

It is necessary to notice, that such existence, basically, at the expense of the federal budget can result in the conversion of the regions - recipients of this second part of FFSR in the special group of “poor highly donated territories” in long-term prospective, uninterested in their own development. The application of correction coefficient for gross tax revenues definition which reflects the growth rate of the gross product could promote the minimization of relaxing influence of transfers on territory’s own activities. The possible negative influence of FFSR large withdrawals on the regions-donors (de-facto) should not be ignored. If one takes into account this influence, an existing order of FFSR creation may have to be changed. It would be possible to grant temporary privileges concerning tax deductions to the regions - donors, if their basic macroeconomic indexes decreased in the previous fiscal year.

The application of a principally new index to estimate the tax revenues of the regions has become innovative for 2001. It characterizes economic chances of a region to collect tax revenues in consolidated budget. Therefore the calculation of the Index of Tax Potential takes into
consideration the branch structure. For this purpose the ratio of the total added value of branches of a subject of Russian Federation to a similar average Russian indicator ("index of labor productivity") is multiplied by the system of correction indicators “inserted” in each other and reflecting the differences of tax load on the basic economic branches - industry, construction, transportation, trade, housing and utilities municipal services, and other branches (without agriculture, the contribution of which to the total tax revenues is too minor), with the further separation of industry branch structure, and inside it – the structure of fuel industry. The indicators of average Russian level of tax load on economic branches are used for the calculation of these correction indicators as are the shares of branches in total added value (for the branches taken into account).

The index of budget expenditures (IBE) of the subject of Russian Federation is used in the Methodic taking into account the differences in per capita norms of rendering budget services conditioned by the variations of objective conditions between the subjects of Russian Federation. IBE shows how much more (or less) budgetary funds (per capita) is necessary to spend in the subject of Russian Federation for providing appropriate budget services compared to average Russian level.

IBE of the subject of Russian Federation is the ratio of its calculated total per capita budget expenditures for the certain sectors to corresponding average Russian indicator. Thus the normative expenditures of the subject of Russian Federation are allowed for the following sectors: housing and utilities municipal services, primary and secondary education, preschool education, primary and secondary professional education, public health services, physical culture and sports, social assistance and social protection of the population, culture and art, public transportation, law-enforcement activities, public management, expenditures on the realization of the Federal Act “About the Veterans” (in the part concerning the financing from the budgets of the subjects of Russian Federation).

The normative budget expenditures of the subject of Russian Federation on housing and utilities municipal services are formed from the normative budget grants and additional budget expenditures on housing and utilities municipal services, provided the limitations in housing and utilities payments of the population. This index is calculated using the federal standards of the marginal costs of municipal services provision in economic regions, and inside regional indicators those for the Far North and arctic regions are calculated separately.

The normative budget expenditures of the subject of Russian Federation for the rest socially significant directions (except for expenditures on the realization of the Federal Act “About the Veterans”) are defined on the basis of 2001 average Russian norms of their financing (based on the data of the relevant ministries, estimations of the Ministry of Finance), corrected for each subject of Russian Federation by the coefficient of expensiveness (increase in the costs of arbitrary unit of budget services) and by correction indicators for separate directions of expenditures. The coefficients of expensiveness are calculated on the basis of local coefficients to wage, prices, cost indexes of power resources and municipal services and coefficients of transport accessibility.

It is principally important for both ITP and IBE, that they do not forecast or plan the amount of the revenues and expenditures of the subjects of Federation. Pursuant to the Budget Code the subjects of Federation form and execute their budgets independently. Centralized “budgeting” or even “balancing” of their revenues and expenditures is impossible, and if such possibilities exist, any formulas and criteria of transfer allocation would be unnecessary for this purpose.
Thus, the base element of the Methodic is the calculation of the Index of Tax Potential (ITP) and Index of Budget Expenditures (IBE) for each subject of Russian Federation. Therefore the procedure of calculation of ITP and IBE acquires a special importance.

As a result the volume of a transfer received by the subject of Russian Federation, depends on the Specific Per Capita Gross Tax Resources (GTR). They are calculated in a comparable form by means of the formula\(^{14}\):

\[
GTR_i = (a \times ITP_i / IBE_i)
\]

where:

- \(GTR_i\) - specific gross tax resources in comparable form of \(i\)-subject of Russian Federation;
- \(a\) - average level of the tax revenues of the subjects of Russian Federation per capita (5,413 Roubles), forecasted for 2001;
- \(ITP_i\) - index of tax potential of \(i\)-subject of Russian Federation;
- \(IBE_i\) – index of budget expenditures of \(i\)-subject of Russian Federation.

According to the new Methodic, the subjects of Russian Federation can be granted funds (within the limits of targeting transfers) on purchasing and delivery of commodities in the regions with restricted periods of delivery, and on the compensation of increased costs of electricity for the territories of the Far East and Arkhangelsk region.

For the method of allocation, "tuned" on rigid methodological principles which does not use reported data about the execution of regional budgets, the results of calculations, obtained in 2001, are stable enough. The relative transfer volumes as compared to 2000 have not been practically changed for 19 regions. The growth in 29 regions was a little bit above or below the average level. It is quite reasonable result, as the shifts (quite explainable) in allocation of transfers are inevitable in any formalized method of allocation.

The new method of transfer allocation applies the principle of territorial justice effectively enough. After transfer allocation, all (without exception) donated regions are guaranteed at least 77% level of the budget security (compared to average Russian level); the budget security of profitable regions increases in 4-6 times; security of regions with the substantial revenues below average Russian level essentially increases; the gap between 5 most and 5 least wealthy regions is reduced from 20.6 up to 3.8 times. It is a maximum result, which can be achieved provided the established levels of inter-regional differences, volume of FFSR and accepted proportions of its division between the first and second parts.

**Chapter 3. Taxes And Tax Supervision**

**3.1. Types of the Taxes**

According to the Act “About Foundations of Tax System of Russian Federation” and Tax Code of Russian, the federal taxes and duties include:

- a) VAT;
- b) excise duties imposed on certain products (services) and certain kinds of mineral raw materials;
- c) profit tax;
- d) tax on the incomes from the capital;
- e) income tax;
- f) fees paid in state social off-budget funds;

Regional taxes and dues include:
   a) property tax imposed on organizations;
   b) real estate tax;
   c) road tax;
   d) transport tax;
   e) sales tax;
   f) tax imposed on gambling business;
   g) regional license fees.
Local taxes and dues include:
   a) land tax;
   a) property tax imposed on physical persons;
   b) tax to advertising;
   c) tax to succession or donation;
   d) local license fees.

3.2. System of Tax Supervision
The tax supervision system includes the following participants: organizations and physical persons recognized according to Tax Code of RF to be the tax or due payers; organizations and physical persons recognized to be fiscal agents (according to Tax Code of RF); the Ministry of Russian Federation on Taxes and Dues and its subdivisions in Russian Federation.
According to Article 30 of the Tax Code of Russian Federation taxing authorities in Russian Federation are the Ministry of Russian Federation on Taxes and Dues and its subdivisions. In the cases, stipulated in the present Code, the customs bodies and bodies of state off-budget funds (the controlling functions of these bodies are discussed below) are granted the authorities of taxing bodies. Taxing authority, bodies of state off-budget funds and the customs carry out the functions and interact in the process of realization of their authorities and execution of their duties.
Organizations and physical persons, which are assigned the responsibility of payment of taxes and (or) dues according to Tax Code of Russian Federation are the tax and dues payers.
According to Tax Code of Russian Federation, the fiscal agents are assigned responsibilities for calculation, making deductions from the taxes and transferring taxes in the appropriate budget (off-budget fund). The fiscal agents have the same rights, as tax payers, if not stipulated differently in the Tax Code of Russian Federation.
Before the enactment of the first part of the Tax Code of Russian Federation, which came into force since January 1, 1999, the concept of "taxing body" was utilized in normative - legal base in

15 Tax Code of Russian Federation (First Part). (July 31, 1998), No. 146-FL.
a broad sense as collective identification of bodies of tax service (tax inspections), tax police, and customs. Tax Code of Russian Federation allows to systematize acting norms and provisions regulating the process of the taxation, organizes them in uniform, logically integral and matched system, eliminates such deficiencies of an existing tax system, as absence of uniform statutory and normative base of the taxation, large number and inconsistency of the normative documents, and absence of sufficient legal guaranties for the participants of tax relations.

The Ministry of Russian Federation on Taxes and Dues (here and after referred as MTD) was organized upon the Decree of the President of Russian Federation No. 1635 as of 23.12.1998. Earlier its functions were carried out by the State Tax Service (STS of RF). MTD is the assignee of STS of Russian Federation concerning the problems, functions, rights, responsibilities and other activities of STS of Russian Federation.

The structure of taxing authority is hierarchic: MTD (central control body), subdivisions of MTD (territorial bodies) in the subjects of Russian Federation, regions, cities and towns, and districts in cities. These taxing bodies create organizational, functional, and uniform centralized system of taxing authority. The legal status of the given system is instituted by the Act of Russian Federation as of 21.03.1991 “About Taxing Bodies of Russian Federation”. The taxing authority supervises the observance of the tax laws, the correctness of calculations, entirety and timeliness of taxes and other obligatory payments depositing in the appropriate budget, as well as currency exchange regulation.

The Board of Tax Control, Board for the Organization of Control Operations, Control and Audit Department, Board of Taxation of Financial Organizations, Department of the Taxation of Physical Persons, Department of Operations with the Largest Tax Payers are the structural subdivisions of the Ministry of Russian Federation on Taxes and Dues, which perform the controlling functions.

The Department of Tax Control Organization provides methodological and organizational aspects of taxing authority control operations, develops the methodology of revealing and suppressing the forms and methods of tax evasion, prepares proposals on the modifications in normative legal base. It also develops complex standard routine procedures of preparation, conduct and realization of the results of chamber and field tax inspections, performs regimentation of the order of tax control organization during the above mentioned inspections. It carries out planning, analysis and generalization of practice and results of taxing authority audit operations. It interacts with law-enforcement and different controlling bodies in the field of revealing, prevention and suppression of offences in the sphere of the taxation. The department performs methodological and organizational support of taxing authorities, controlling the usage of cash-box machines, observing the established order of cash operations and conditions of operations with the cash.

Department of Operations with the Largest Tax Payers is the separate structural division of the MTD (Tax Code of Russian Federation stipulates, that Tax Service of Russian Federation has the right to define the tax control features of the largest tax payers), as are the Board of Taxation of Financial Organizations (credit organizations, investment institutes, insurers), Department of the Taxation of Physical Persons, and also Boards for taxing authority activity supervision.

The Article 86 of Tax Code of Russian Federation stipulates the responsibilities of banks, connected to the registration of tax payers: the banks open accounts of organizations, individual businessmen provided they have the certificate of registration in the fiscal bodies. Thus, the banks participate in the tax control system. Besides an acute problem of “problem" banks has appeared after financial crisis in August 1998. Taxing authority which controls the timeliness and entirety of tax and dues calculations obtained from the tax payers in the different budgets of Russian Federation directly decides the “problem banks” issue.
It is necessary to consider separately the tax control under the expenditures of physical persons, which has been organized since 2000. The given provision is established by Article 86 of Tax Code. According to the Article, the expenditures of physical persons - residents of Russian Federation are the objects of tax control. The control of large expenditures is carried out, namely: property purchases, listed in the above named Article of TC of Russian Federation concerning property right by means of concluding sale and purchase agreement. The purpose of tax control is to determine the conformity between large expenditures of physical persons and his incomes.

*Tax collection includes the following main segments of operation:*

1. The record-keeping of the taxpayers; support of the database of the State register of the taxpayers;
2. Reception, input in the database, and chamber inspection of the accounting and tax reporting, as well as other information obtained from the taxpayers; informing of the payers about the results of such inspections; an imposition of sanctions for violation of the tax laws revealed at this stage of operation with consequent informing the payers;
3. Record-keeping of inflows in the budget; support of personal accounts of the taxpayers; revealing of arrears and overpayments, their off-sets, return of the unduly paid amounts of the taxes; charge of the fines; informing the payers about the results of these operations;
4. Field tax inspection (from an object choice to the issuance of the sanction order after it);
5. Collection of the indebtedness related to the taxes and dues in the budget, as well as financial and administrative sanctions for violation of the tax laws;
6. Compiling reports about inspection operation.

These technological segments are closely related with each other, as the same parties - taxpayer and state (on behalf of taxing authority) - interact at each stage. The solution of one general problem - collection of taxes - determines the operations of tax inspection at each stage. The separation of segments results from organizational reasons, the necessity of labor division of the tax supervisors in order to raise the productivity and quality of operations.

Now the structure of taxing authority of all levels is arranged in accordance with this segmental division of tax operation. For the optimal labor organizations in tax inspections, expenditure saving of the state for tax collection and cutting of budget losses, it is necessary to think over and organize the interactions between departments inside inspection, and also between inspections of different levels.

*Tax control itself is performed by territorial, regional or urban Boards of MTD.* As an example we consider the structure of Moscow Inter-district Inspection No. 44. The given inspection is selected as an example because it possesses particular features except for those similar for all tax inspections. The reason for that is that given inspection controls the activity of financial organizations. All tax inspections have following inherent structural subdivisions: Legal Department, Secretarial Office, Department of Financial - Economic Supply, Departments of Informational Support, Electronic Data Input and Chamber Inspections, Department of Execution Control of Credit Organizations of the payment orders of tax payers concerning taxes and dues transfers in the revenues of the budgets and off-budget funds, Department of Tax Withholding Check on the incomes of a payment source, Personnel Department, Department of Record-keeping, Reporting, Forced Collection of Arrears and Analysis. It is necessary to mention, that given structural subdivisions can not completely meet the requirements of all tax inspections, but the example shows the greatest spectrum of structural subdivisions. However as the given tax inspection do not control physical persons, the remaining taxing authorities feature the availability of the Department of Declaration and Collection of Taxes from physical persons. Specific structural subdivisions are the following: Department of Field Tax Inspections of
Investment Institutes, Department of Field Tax Inspections of Insurance Organizations, Department of Field Tax Inspections of Credit Organizations and Currency Exchange Regulation. Ordinary tax inspection unites the given subdivisions in aggregated Department of Field Tax Inspections.

For proper accomplishment of tax control, the tax payers are subject to registration in taxing authority of the legal persons, or entrepreneurs without creation of the legal person; the given provision does not extend to the physical persons. **According to TC of RF each tax payer should have Individual Number of Taxpayer (INT), uniform for all taxes and dues, including customs duties, and for all territory of Russian Federation.** The INT should be pointed out in all notices, sent to the tax payer, as well as in the declarations submitted to taxing authority, reports, applications and other documents. As far as INT is concerned, Tax Code of Russian Federation does not specify differences between legal and physical persons.

The record keeping of inflows in the budget, and maintenance of personal accounts of the payers are independent technological segments of territorial tax inspection operations. Given operations are specific and carried out completely in the offices, without visiting enterprises. A major task of the inspectors performing record-keeping of payments and maintenance of personal accounts, is to check the entirety and timeliness of tax payment in the budget (check of correctness of tax calculations, as was noted above, is carried out by other inspection subdivisions). The basic instrument of such check is payer personal account card now.

The Chapter 14 of TC of Russian Federation is devoted to the tax control issues, which are regulated by the present Code. The tax control encompasses the operations of taxing authority concerning the supervision of preventive measures realization and removal of violations, as well as concerning the institution of criminal or administrative proceedings of guilty persons for undertaking of tax offences. The Article 82 of TC of Russian Federation states that the tax control is carried out by the officials of taxing authority except for cases, when pursuant to the legislation the given activity is carried out by the officials of customs or state off-budget funds. Within the framework of tax control the taxing authority performs tax inspections, which are subdivided on chamber and field ones.

According to Article 88 of TC of Russian Federation, **chamber tax inspection is carried out in the location of taxing authority** on the basis of the tax returns and documents, submitted by taxpayer. Chamber inspection is conducted without any special resolution of taxing authority principal within three months from the date of submission by the taxpayer of the tax returns and documents. The given inspection should encompass only those documents, which matter for exact calculation of taxation objects and tax amounts. The basic features of chamber inspection include:

1. Mass operations performed by tax inspection during chamber inspections;
2. Mass errors made by the payers when filing the declarations, calculating tax amounts, resulting in mass chamber additional charges of rather considerable amounts, and, therefore, mass application of the tax and administrative sanctions;
3. Strict deadline for calculation of the tax amounts in personal accounts cards based on data provided by the payer;
4. Absence of the uniform, standard approach to the design of tax returns forms that makes them extremely inconvenient for manual processing and unsuitable for computer processing;
5. Absence or non-obvious nature of interrelations of tax returns indexes and calculations that makes practically senseless the spending of inspection resources on their obtaining and processing;
6. Necessity to submit a lot of additional calculations to the declarations “according to the arbitrary form”;
7. Responsibility of the payer to confirm the right to privileges announced in the declaration, and basic documents (agreements, payment orders, statements of banks etc.).

Basic elements of chamber inspection are as follows: the check of the entirety of submitted documents by the tax payer; a visual check of correctness of the tax reporting documents; inspection of timeliness of tax reporting submission, correctness of arithmetical calculations of the tax amounts; validity check of applying the tax and privileges rates by the tax payer; check of correctness of taxable base calculations. TC of Russian Federation does not envision the issuance of chamber inspection results. However given provision follows from general sense of Article 101 of TC of Russian Federation.

The results of field tax inspections are necessarily issued by the officials of taxing authority (Articles 100, 101 of TC of Russian Federation). According to the Act of Russian Federation “About Taxing Authority of Russian Federation”, field tax inspections should be conducted once per two years (or more rarely), based on written permission of taxing authority. However if the tax payer submits the reporting documents in time, and the previous inspection has not revealed violations of the tax laws, and there are no documents and information about violations or no doubts about the funds sources of the tax payer, or no other reasons, the field tax inspection may not be conducted in the above mentioned period. During field tax inspection the last three calendar years of taxpayer’s activity can only be covered. TC of Russian Federation clearly states, that the organization of repetitive field tax inspections is forbidden except for cases, when such inspection is carried out in connection with reorganization or liquidation of the tax payer - legal person, and also in connection with the inspection of the activity of taxing authority by higher taxing authority. The field tax inspection can not last more than two months. During field tax inspection the taxing authority can perform the following measures: inspect the territory and facilities of the tax payer, require to submit documents, extract the documents and objects, perform expertise, attract specialists of alien organizations. Besides the taxing authority can attract any physical person as the witness to testify. In case of dissent with the facts mentioned in the act of field tax inspection, as well as with conclusions and proposals of the inspecting representatives of taxing authority, the taxpayer has the right to notify taxing authority about it in fortnight period. TC of Russian Federation contains the appeal order of actions or inactivity of taxing authority. According to the TC of Russian Federation, during inspection taxing authority should not cause any wrongful harm to the tax payer or fiscal agent or their representatives or property in their possession, use or disposal. The total losses caused by wrongful acts of taxing authority or their officials during inspection, should be reimbursed in the full amount, including the missed profit (non-received income). According to federal acts taxing authority and their officials are responsible for causing damages to the tax payer, fiscal agent or their representatives as a result of undertaking wrongful actions. The acts of taxing authority, activity or inactivity of their officials can be appealed against in higher taxing authority (higher official) or in court (the filing of the petition in higher taxing authority does not eliminate the right to simultaneous or consequent filing of the similar petition in court). Higher taxing authority (the higher official) considers the petition not later than one month from the date of its reception. As a result of the petition consideration on the act of taxing authority, higher taxing authority (the higher official) has the right to keep the petition without satisfaction, to cancel the actions of taxing authority and to assign additional inspection, to revoke a decision and to stop the case about a tax offence, to change a solution or to take a new solution.
3.3. Creation of Treasury System of the Budget Execution

By the middle of 1992 the execution of the federal budget practically was out of control of the Government of Russian Federation. The delays in taxes and dues transfers to the accounts of the Ministry of Finance of Russian Federation, as well as in reporting submission have become the norm in the operation of many banks, including Central Bank of Russia. The last, in turn, practically has lost control under the accounts of budget establishments, which trying to yield more profits have transferred their accounts in commercial banks. An objective conditions of this situation was created by the adoption of the Constitution of Russia, which divided the functions of Government of Russian Federation and Central Bank of Russia.

According to Article 114 of the Constitutions of Russian Federation, the Government of Russian Federation ensures the execution of the budget, and the Article 75 of Constitutions determines the independence of Central Bank of Russia. Moreover, the law about Central Bank of Russia does not assign to it the functions of cash budget execution.

International experience and history of public finances in Russia offers practically non-alternative solution to the given problem - the creation of a treasury system of the budget execution, which was approved by Article 215 of Budget Code of Russian Federation.

To provide the unity of registration policies in Russian Federation, in 1999 the Ministry of Finance issued the order No.15-п, approving the operating instructions on book keeping of budget execution at all levels of the budget system. Now the real life application and adjustment of the above mentioned operating instructions is going on. To tell the truth, they are introduced very heavily, as everybody have already weaned from strict rules of the record keeping.

In January 23, 2000 the Government of Russian Federation approved the concept of uniform account operation of the federal treasury office in order to keep the records of the revenues and funds of the federal budget. It envisions the centralization of the record keeping and optimization of revenues and funds flows in the federal budget.

In 2000 the transfer of all revenue accounts to federal exchequer accounts system has been completed. The hardest was the transfer of revenue accounts of Customs Committee, but by December 17, 2000 this transfer was totally completed. Now the elements of the uniform account have been already introduced in many regions. The bodies of federal exchequer have been created in Republic of Tatarstan and Bashkortostan.

The significance of the realization of the uniform record-keeping concept for Russia is determined, in particular, as follows:

- The information about the inflow amounts in the consolidated budget of Russian Federation has become actual, as the speed of its obtaining is sharply increased.
- The information about total amount of the taxes and dues acting on territory of the subjects of Russian Federation is now accessible, as are the data about the conformity between the transfer amounts of the regulating taxes in the budgets of different levels and the rates of transfer allocation, stipulated by the legislation of Russian Federation.
- The government of Russian Federation will have the daily information on the funds movement of the federal budget on personal accounts of federal treasurer bodies, including operations related to their spending by the higher managers of federal budget Funds.
- The necessity and short-term borrowing in the internal and exterior financial markets is decreased, that, will reduce the expenditures of the federal budget directed to the maintenance of national debt.
- The speed of calculations in public sector will be increased, that finally will lead to the
settlement of the non-payments created in this sector; this problem is now very relevant for other sectors of economics.

All above listed advantages, which may occur with the introduction of the uniform account, together with the possibilities of preliminary and operating control of funds target usage, create substantial prerequisites of effective control and target use of federal budget funds by all participants of budget process.

Chapter 4. Non-Tax Revenues and Emissive Activity of Local Authorities

4.1. Types of the Non-tax Revenues
According to the Budget Code of Russian Federation (Articles 41 - 46) the non-tax revenues include:

- The revenues from the property use, both state or municipal;
- The revenues from paid services rendered by budget entities, subject to federal bodies of the executive authority, bodies of the executive authority of the subjects of Russian Federation, institutions of local government;
- Funds obtained as a result of measures of civil - legal, administrative and criminal proceedings, including fines, expropriating, compensation; funds obtained as a result of the damage compensation, caused to Russian Federation, subjects of Russian Federation, municipal bodies, as well as other amounts of forced withdrawal;
- The revenues in the form of financial assistance obtained from the budgets of other levels of the budget system of Russian Federation, except for the budget loans and budget credits;
- Miscellaneous non-tax revenues.

Except for the above mentioned tax and non-tax revenues one of the basic methods of financing of expenditures of the territorial budgets are the loans granted to territorial government bodies and local governments, first of all, on financing of capital investments.

4.2. Bonded Loans of Local Government Institutions
A certain experience has already been accumulated in Russia on the issue of municipal loans application, though not as great as compared to the western countries, many of which have more than century history, developed infrastructure and mechanisms of the support of bonds trade. Provided acute shortage of funds and deficit of the majority of the territorial budgets, it is possible to expect that all regions and cities will come to a solution to issue own loans.

According to the federal act “About Financial Foundations of Local Government in Russian Federation”16 municipal bonds are issued with the only purposes of realization of the programs and projects of municipal unit development approved in the order established by the charter of municipal body. Their issuance is ensured with municipal property and local budgets funds. The state does not bear the responsibility for the liabilities of municipal body, and in turn, the latter does not bear the responsibility for the liabilities of the state. The bonds of local government institutions are not included into composition of the internal debt of Russia, and the limitations and rules that are established for the liabilities of the Government of Russian Federation are not

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extended to them. The execution of obligations concerning the municipal bonds is carried out at the expense of local budget funds pursuant to the act about the local budget in a current fiscal year. The Decree of the President of Russian Federation stipulates, *that total amount of the dept can not exceed 30 %, and annual amount of its maintenance - 15 % from the amount of revenue part of the budget of the subject of Federation*\(^\text{17}\). The value of 15 % of budget revenue part, as limiting annual amount of funds directed to the debt maintenance, is really close to critical value. It is not critical for whole economics, but is such in international understanding. It is the limit, after which one starts to cut the rating of the borrower. As to 30-percent amount of the debt, this figure is again empirical and approximately corresponds to established practice worldwide of the issue of the municipal bonds.

*Currently borrowings of cities are basically being developed in Russia*, and such subjects of Federation, as Moscow and. St.-Petersburg, using their status, issue municipal, instead of regional loans. It is connected to the fact that there exists above mentioned Federal Act No. 126-FL as of 25.09.97., defining general provisions in the field of borrowings for local government institutions. Such law does not exist for regions, and the only document, they can use issuing loans, is the Act of Russian Federation No. 4807-1 “About the Foundations of Budgetary Rights and Rights to Create and Use Off-budget Funds of Representative and Executive Bodies of State Authority of Republics in the Composition of Russian Federation, Autonomous Areas, Krais, Regions, Cities of Moscow and St.-Petersburg, Local Government Institutions” as of 15.04.93, where even general provisions concerning the order of issue, placement and clearing off of the loans by the subjects of Russian Federation are absent.

The extension of functions of local government institutions and their involvement in national measures on the provision of the reproduction general conditions results in the growth of investment costs in the structure of local budgets expenditures. *The funds obtained at the expense of the loans basically are invested in social and economic infrastructure.* The local government institutions recognize that issue of the bonds is intended for the creation of “paid services” (the objects of urban infrastructure - housing and community services, road construction, etc.). The expenditures for interest payment on loans – and this is key issue – are included in the cost of rendering services (in the payments for the use of natural gas, water, electrical power, housing accommodation), and thus are shifted to the consumer. Therefore the expenditures for the maintenance and clearing of the municipal debt are not necessarily financed from the budget, they can be covered at the expense of the profit obtained from rendering services by organizations, which were created and developed due to the funds, attracted by means of issue of the bonds.

*The municipal bonds are also used to perform adjusting measures.* Attracting funds in the monetary market or in credit institutions, the local government institutions, on the one hand, withdraw free monetary capital, limiting its investment in some economic branches, and on the other hand, finance branches having the considerable public importance for municipal economy, but not yielding profits.

Unfortunately, *no-purpose loans similar to “State Short-term Securities” dominate in the structure of the loans of regions and cities*, the funds from the issue of which are directed to financing of budget deficit of the applicable level.

\(^{17}\) Decree of the President of Russian Federation “About the Issuance of External Bond Loans of Bodies of Executive Authorities of Moscow City, S.-Petersburg and Nizhny Novgorod regions”. April 8, 1997, No. 304
Early or late the given circumstances will result in the bankruptcy of municipality. As a result of constant issue of the bonds to cover local budget deficit at a low level of their emission (or full absence of such bonds), the small financial pyramids are created for financing of the investment projects, when the funds from the issue of the new loans go on clearing off of the previous ones, and thus the level of tax collection remains low. In turn, this results in the growth of cumulative debt of regions and cities, in the increase of spending on debt maintenance, and finally, in the growth of budget deficit.

The feature of the Russian municipal loans is the dominance of combined nature of clearing off of emission amount and payment of interests. The part of the funds, obtained from the emission, goes on the intended purposes (for the achievement of which the loan was taken), other funds go to finance arbitration (arbitration loans) and deposit transactions. In the first case the part of funds goes to purchase state short-term securities (for example, GKO), bringing higher interest. A deposit transaction has the similar purpose, but already at the expense of opening up the bank deposit. Thereby emitter has the possibility of deriving an additional income at the expense of price arbitration in the market of the dept liabilities.

The issue and placement of the bonded loan allows municipal body to decide the following problems:

- Smoothing of consequences of non-regular inflow of financial assets in the budget and liquidation of cash breaks, as well as weakening of dependence of territorial government bodies from federal ones;
- Decrease of an investment burden on the budget of municipal unit;
- Attraction of considerable additional financial resources without increasing tax burden on the enterprises located on the territory (if the execution of obligations under the loan will be carried out successfully);
- The financing of the socially significant investment projects or their preferential crediting (as a rule, deriving of the profit by the emitter is not the immediate purpose of the bonded loan);
- Improvement of elements of long-term emissive program and technology of their issue;
- Placement of securities.

In the conditions of the development of market economy, the expediency of loans issue is conditioned by the following circumstances:

- The financing of investment expenditures by means of the loans allows not to reduce social expenditures, which basically are financed through the local budgets;
- The operating realization of investments at the expense of funds obtained from the loans, in the long-term basis enables to increase social expenditures at the expense of additional tax inflows in the budget from the performed investment projects, and also promotes the solution of social problems, first of all, the decrease of unemployment. Vice-versa, the delay of investments is equivalent to the refusal to decide vital social problems;
- Usage of the loans gives a substantial possibility to local government institutions to finance the development budget purposely - to adopt different investment programs and to finance them at the expense of the loans. It allows providing not only general balancing of the budget, but also to balance the structure of budget expenditures to enable administering territorial reproduction process. On the other hand, the development budget predetermines borrowing policies of municipal bodies intended first of all for meeting the development needs of municipal economy.

Despite of the popularity of GKO-similar loans, the palm of superiority should be passed to the
industrial - investment pattern of borrowing (long-term loans), quite regularly applied in modern Russian conditions. According to such model, the extra funds are directed immediately to the financing of the particular investment programs, and the clearing off is accomplished from the revenues received from successfully realized projects. In American market, most developed in the world of the municipal loans, the share of similar borrowings makes up 70 %. In Russia the project loans are sparse so far, accounting for about 25 - 30 % of total issue amount. The given category includes the loans of Khabarovsk Krai, Tyumen region, Chukotka Autonomous Area, and also loans of the City of Moscow18.

As an example of the borrowing system organization the loan-investment system of Moscow (LIS) can be considered. Its features the uniform mechanism, which, on the one hand, permanently attracts funds, ensuring constant presence of the emitter in the bonds market (thereby constructing the liquid secondary bonds market, without which it is impossible to make borrowings effectively in the financial market and to attract different groups of the investors to finance the investment programs), and on the other hand, this mechanism ensures constant selection, preparation and realization of new investment projects. LIS has acquired a good reputation, having provided a considerable volume of fund inflows in the urban budget (interest for placing of the bonds in Moscow is the best) and financed the numerous investment projects of urban infrastructure. The Moody’s Agency has increased ratings of Moscow under the obligations in foreign and local currencies from " B3 " up to " B2 " level.

Despite some deficiencies and imperfections of LIS, it represents a principally new concept of organizations of borrowings system, complex system of municipal loans control, which is not available even at a federal level. It is possible to be convinced of it, having compared federal and Moscow systems of borrowings (See Table 4).

As it is seen from the table, the Moscow loan-investment system is oriented toward financing of the urban investment programs, instead of covering of budget deficite. Thus the rigid system of guaranties and obligations of the loans, and also organizational, technological and market components are provided: the volume of the investments, profitability of the loans, etc. are defined proceeding from a supply and demand.

The difficulties with the placement of the regional and municipal loans by the subjects of Russian Federation and local government institutions were conditioned both with objective, and subjective reasons, among which it is possible to mention the following:

- Unpredictability (instability) of economic and political situation in the country (general factor of system hazard for the emitter and investors);the extremely unstable financial and economic situation in Russia in the first years of the reforms, when hyperinflation made unprofitable any average and short-term investments; negative impact of numerous scandals in the Russian financial market (including the August crisis of 1998) has reduced the confidence of the individual investors to any securities;
- Backwardness of regional stock markets infrastructure and, consequently, high value of transaction costs; regional closure in the placement of the loans and absence of an exit to other territories;
- Minor investment potential of the population;
- Absence or deficiency of sufficient practical experience of the emitters in issuing dept obligations; problems of advertising campaign organizations (high price of

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expenditures on advertising); absence of methodical materials on organizations of loans issuance, etc.;

- Pressure of more competitive market of State Short-term Bonds (GKOs);
- Monetary and financial policies of Government of Russian Federation and Central Bank of Russia.

*Table 4*

No kinds of securities (except for the letters of credit) have been developed yet in the Russian financial space, and have been completely formed (according to western standards), and certain kinds of them are unavailable.

**Conclusion**

In the nearest future, the formation of the optimal pattern of budget federalism will still remain one of central tasks of economic development of the country. Its solution is impossible without increasing management efficiency of public finances, as well as without mobilizing that spare reserve, which is present in execution system of the budgets of all levels.

One of methods of solving the problem of large number of donated regions is the correct (from the point of view of dynamic and economic logic) enlargement of the Russian regions by taking the majority of the subjects of Federation on a level of budget security, sufficient for independent development. The meeting of minimum budget needs will allow regional authorities to manage their duties, so, and will create an objective possibility to increase substantially their responsibility. As the practice shows, the aggravation of funds shortage over a definite level does not raise and depresses sharply the efficiency of their usage, as the controlling bodies realize the frustration of their efforts. While there is no minimum financial covering of budget expenditures, there is no substantial responsibility either, the appearance of funds and control of their usage build up the culture of the budget responsibility.

Other approach is connected to cardinal increase in efficiency of aligning transfers. The achievement of the social justice for a territory should not go into too acute conflict with the concerns of an economic efficiency and political consolidation of the society. The improvement of allocations methods and transparency of routines transfer policies will allow the "deprived" regions, competitive in deriving of aligning budget resources, to determine operatively variations in the tendencies of development and react publicly on frequent informal arrangements. So far the established practice of chronic underfinancing of regional budgets expenditures will be utilized not only for achieving political purposes of federals (for example, for the growth of primary proficit of the federal budget), but also it will allow to deal out bureaucratic arbitrariness in the conditions of the "controlled conflict", actually substituting transfers by the loans.

The government authorizes the funds to regions quite often, without declaring the particular purpose of this financing. The absence of the purpose predetermines impossibility of the development of effective policies and unfairly extends the sphere of bureaucratic arbitrariness. The control can be concentrated in the greater extent on the results what can be promoted by the introduction in budget sphere of productivity and efficiency instruments of budget expenditures.

The absence of a truthful and detailed information about the regional and local budgets can cross out many efforts on reforming the regional finance system. The intrusion of regular practice of budget expenditures efficiency estimation will allow finding the solution of an extremely acute problem of poor resources concentration to decide priority budget problems. The “dependent” moods in interbudget relations should be substituted by the creation of public monitoring system to control quality of regional and especially local finance.

It is imperatively important to terminate the practice, naturally established in the last years, of
“pulverization” of extremely scarce financial resources in numerous off-budget funds. Regional and the local authorities should take responsibility for the usage of relatively smaller part of funds of a national budget system, but have much greater taxing and budget autonomies. *It is necessary to redevelop the federal act "About General Principles of Organization of Local Government ", allowing today multiple explanations of local government functions and establishing no clear demarcation of taxing and budget authorities.* 

The sphere of "shared" financing of budget expenditures should be extremely cut. Thus the list of expenditures subject to financing from the budgets of different levels, should be concretized in connection with budget classification on as much as possible high level. The observance of the principle “one tax — one budget” will allow to develop more rationally the culture of budget authorities and responsibility, and also to remove the practice of transfer on the budgets of the subjects of Federation of underfinanced expenditure burden which is completely the problem of a federal level. Currently regional and local authorities do not have possibilities to provide balanced budgets, accumulating the hopeless indebtedness of the social obligations.

Within the limits of tax share directed to regional budgets it is necessary to keep behind depressive regions a majority of the particular regulating taxes, collected on their territory, directing the rest of them to the federal budget. Other region, concentrating the powerful funds of tax inflows, should be treated on the contrary. The general proportions of tax division between federal and regional budgets should be maintained. Then depressive regions should receive the FFSR funds. *The essential challenging effect can be achieved at the expense of improvement of the FFSR division mechanism.* It is expedient to finance FFSR by means of increased share of the regulating taxes paid in the regional budget, which should not be subject to revision for a number of years.

State support of regions, in the greater extent, should be directed to stimulate their economic development, and in a rather smaller extent — to the passive financial assistance. It supposes the improvement of budget self-sufficiency of regions, reduced number of the regions - recipients of FFSR transfers and increase of investment component of federal budget expenditures. A local government should have the increasing impact on state regional policies. A basic task of its bodies is the provision of complex services for the population. The functions of local government institutions in the long-term perspective should be extended on the basis of gradual granting to those authorities both center’s, and subjects of Russian Federation’s powers and duties, which the former are able to execute.

*The effective policy of budget reform, in our view, encompasses the strengthening of the role of regional and local levels in the public finances administration with the purpose of the fullest realization of budget federalism principles.* Such policy should include the following basic components:

- The introduction of the state monopoly on sale of local natural resources;
- Separation of all taxes and dues on federal, regional and local ones;
- Provision of the self-sufficiency of the regional and local budgets, established in the legislation, by forming their revenue partly on the basis of an impartial assessment of their tax potential and clear definition of the expenditure obligations of regional authorities with the liquidation of the practice of the “unfinanced mandates”;
- Reinforcement of a financial base of local government institutions at the expense of granting them the share of deductions from the federal taxes on a constant basis and passing to them the authority to administer of property and income taxes;
- Financing of FFSR through establishment of an increased share of the regulating taxes paid in the regional budgets;
The introduction of the financial component of property in the sphere of budget regulation;
Execution of all budgets (federal, regional, local) in the full volume through a system of bodies of federal treasurer.

The local taxes and dues should be included in the basis of the own revenues of the local budgets. The principally significant importance has the attachment of such taxes to the local budgets, which would guarantee stable inflow of the revenues in local budgets, to institutions of local government, and would be uniformly distributed on the whole territory of Russian Federation. Therefore the local taxation should focus on property and income taxes.

In our view, while dividing the taxes and dues on regional and local, the former should include the tax to the users of highways (road tax) and tax from the owners of transportation means (transport tax) as far as the payments of the legal persons are concerned. To the local budgets should be directed: income tax on the revenues of physical persons, tax on property of organizations and physical persons, tax imposed on the owners of transportation means as far as payments of physical persons are concerned, revenues of privatization, and also those from the sales of municipal property, sales tax, uniform tax on imputed income, tax on gambling business, tax on advertising, gift and inheritance taxes.

Local taxes should necessarily include property tax paid by enterprises, real estate tax, taxes on cumulative (imputed) income referred in the first part of the TC to the number of regional taxes. Land tax should become local not only by its form but also by the essence. It means, that it needs to be paid completely in the local budgets, instead of transferring in the higher budgets. The financial security will stimulate the local government institutions to achieve better economic development, lead to the extension of the local taxable base, as these factors, and not the transfers coming from other budget levels impact the revenues of the local budgets. If the present situation will be kept it will lead to bankruptcy of local government bodies, because of low unstable own revenues of the territorial budgets.

Given the current legislation defines only the general provisions relating to the vesting of some powers on the local government institutions, it is necessary to develop and to adopt the federal act " About General Principles of Vesting Power on the Institutions of Local Government", earlier rejected by the Council of Federation. This law should provide legal guaranties and determine the mechanisms of passing necessary material and financial assets to local government institutions if vesting powers on them.

At the same time, the establishment of the financing order of some powers in the federal legislation transmitted to the local government institutions, cannot decide all problems, related to their financial security. Because of considerable amount of social obligations assigned now to the local budgets, and absence of sufficient resources in the budgets of the subjects of Federation, the federal budget for 2001 envisions the creation of Fund of Compensation (at the expense of VAT centralization).

The mechanisms of protection of the rights and interests of local government institutions in interbudget relations are not provided in the current legislation. In particular, there are no norms establishing legal mechanisms of judicial protection of the financial rights and guaranties of local government institutions. So, the disputes originated between municipal bodies, on the one hand, and public authorities, on the other, in connection with the demarcation and allocation of revenue sources between levels of the budget system, and granting certain powers to the institutions of local government are not subordinated to courts.
### Tables

Table 1. Funds Allocation Between Federal Budget and Budgets of the Subjects of the Russian Federation

<table>
<thead>
<tr>
<th></th>
<th>2000 (%)</th>
<th>2001 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Budget</td>
<td>52</td>
<td>58</td>
</tr>
<tr>
<td>Budgets of the Subjects of the Russian Federation</td>
<td>48</td>
<td>42</td>
</tr>
<tr>
<td>Including for Some regions</td>
<td>70</td>
<td>30</td>
</tr>
</tbody>
</table>
Table 2. Amount of Regions – Donors

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>20</td>
</tr>
<tr>
<td>1995</td>
<td>11</td>
</tr>
<tr>
<td>1996</td>
<td>14</td>
</tr>
<tr>
<td>1997</td>
<td>8</td>
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<td>1998</td>
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<tr>
<td>1999</td>
<td>13</td>
</tr>
<tr>
<td>2000</td>
<td>18</td>
</tr>
<tr>
<td>2001</td>
<td>12</td>
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</tbody>
</table>

Source: Regions: Economics and Sociology. Moscow, Russia, No.3, 2001

Table 3. Comparison of Methodics of Transfer Distribution

<table>
<thead>
<tr>
<th>Basic elements</th>
<th>The method used earlier</th>
<th>The new method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formation Principle of the Fund of Financial Support of the Regions (FFSR) (when the budget is approved)</td>
<td>14 % of the tax revenues of the federal budget (except for the customs duties)</td>
<td>The same principle with a possible formalization of calculation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The source of financing of FFSR (when the budget is executed)</th>
<th>14 % of the tax revenues of the federal budget (except for the customs duties)</th>
<th>Revenues of the federal budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>The constituents of FFSR</td>
<td>Not available</td>
<td>Two parts with different principles of allocation (80 by 20)</td>
</tr>
<tr>
<td>Estimation of the revenues of regions</td>
<td>Report data of Tax Service about the tax revenues of regions in the conditions of planned year</td>
<td>The same data, with elements of tax potential</td>
</tr>
<tr>
<td>Estimation of expenditure needs</td>
<td>Report data on budget expenditures in regions</td>
<td>Report data on expenditures by groups of regions</td>
</tr>
<tr>
<td>The grouping of regions</td>
<td>3 groups</td>
<td>3 groups, economic regions, mountain territories</td>
</tr>
<tr>
<td>Criteria of allocation of transfers</td>
<td>1) Average revenues for a group of regions 2) Proportion of the revenues and expenditure</td>
<td>The reduced revenues (up to the guaranteed minimum)</td>
</tr>
<tr>
<td>The form of numeration</td>
<td>In % from total volume of FFSR</td>
<td>In the absolute amounts</td>
</tr>
<tr>
<td>Target directivity of transfers</td>
<td>Not available</td>
<td>Funds for Northern territories and compensation to pay for electricity consumption (in 2000 the family allowance included)</td>
</tr>
<tr>
<td>Compensating mechanisms of shifts in allocation of transfers</td>
<td>Unformalized when preparing and approving calculations</td>
<td>Limitations (35 %) of the changes of shares in comparison with 1998, additional assistance</td>
</tr>
</tbody>
</table>

Source: *Finance*. Moscow, Russia, Vol. 7, 2001

### Table 4. Comparative Characteristics of Federal and Moscow System of Borrowings

<table>
<thead>
<tr>
<th>Distinctive features of a federal system of borrowings</th>
<th>Distinctive features of a LIS system of Moscow</th>
</tr>
</thead>
<tbody>
<tr>
<td>The borrowed funds are directed primarily to the deficit financing of the federal budget</td>
<td>Borrowed funds are directed to the urban investment projects financing</td>
</tr>
<tr>
<td>The volume of borrowings reaches 200 %</td>
<td>The volume of borrowings does not exceed</td>
</tr>
<tr>
<td>Description</td>
<td>Source: <em>Digest – Finance</em>. Moscow, Russia, Vol.6, 2001</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>-------------------------------------------------</td>
</tr>
<tr>
<td>The expenditures on clearing off and maintenance reach 49 % from the volume of the own revenues of the federal budget</td>
<td></td>
</tr>
<tr>
<td>The expenditures on clearing off and maintenance of the dept do not exceed 15 % of the own revenues volume of the urban budget</td>
<td></td>
</tr>
<tr>
<td>Only status, fixing of the limiting size of the record-keeping order and registration of exterior borrowings are determined statutorily</td>
<td></td>
</tr>
<tr>
<td>The status of the dept obligations and order of maintenance of the internal and exterior debt are statutorily determined. The uniform register of the dept obligations of city is carried out.</td>
<td></td>
</tr>
<tr>
<td>The profitability of borrowings is defined proceeding from a current situation in the market</td>
<td></td>
</tr>
<tr>
<td>The profitability of borrowings is defined proceeding from the necessity in the investments</td>
<td></td>
</tr>
<tr>
<td>Pyramid-shaped structure of state borrowings system of resulted in the default</td>
<td></td>
</tr>
<tr>
<td>Stability and balance of LIS system is confirmed by fulfillment the obligations on clearing off and maintenance of the bonds even in conditions of crisis</td>
<td></td>
</tr>
<tr>
<td>The solutions on spending of borrowed funds are taken by one agency, with the influence of lobbyists and Ministry of Finance of Russian Federation in its own interests.</td>
<td></td>
</tr>
<tr>
<td>The solutions on financing the urban projects are taken on a collective basis in the interests of the city by a special interdepartmental body – Investment and Economic Council</td>
<td></td>
</tr>
<tr>
<td>Absence of additional guaranties, apart from budget ones, to cover borrowings</td>
<td></td>
</tr>
<tr>
<td>The additional mechanisms of guaranties and covering of the loans are created, including competitive approach to the choice of the participants of placement process, circulation and clearing off of the bonds, and also to the choice of the investment projects, covering of bonds clearing off by urban property etc.</td>
<td></td>
</tr>
</tbody>
</table>
### Working Group 5

**INTERBUDGET RELATIONS IN RUSSIA: REALITIES AND PROBLEMS**  
(Danieliants T, Potanina Yu.)

**Appendix 1. The Financial Assistance to the Subjects of Russian Federation**  
(Provided in January - July 2001, in thousands rubles)

<table>
<thead>
<tr>
<th>Names of the subjects of Russian Federation</th>
<th>Donations to align budget covering</th>
<th>Compensation fund</th>
<th>Donations to cover losses in connection with size and order of Compensation Fund formation</th>
<th>Subsidies of state financial support of regions of Far North and territories equaled to them</th>
<th>Subventions to compensate the payments for electricity for the Far East territories and Arkhangelsk region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Federal District</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgorod region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bryansk region</td>
<td>1 376 569,0</td>
<td>228 664,0</td>
<td>154 500,0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vladimir region</td>
<td>683 330,0</td>
<td>171 874,0</td>
<td>132 220,0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Voronezh region</td>
<td>1 067 158,0</td>
<td>240 683,0</td>
<td>266 515,0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ivanovo region</td>
<td>1 117 333,7</td>
<td>136 169,0</td>
<td>150 792,0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kaluga region</td>
<td>532 731,0</td>
<td>133 705,0</td>
<td>63 449,0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kostroma region</td>
<td>378 898,0</td>
<td>85 148,0</td>
<td>34 984,0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kursk region</td>
<td>268 621,0</td>
<td>164 108,0</td>
<td>57 121,0</td>
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<td></td>
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<tr>
<td>Lipetsk region</td>
<td>127 041,0</td>
<td>572 12,0</td>
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<tr>
<td>Moscow region</td>
<td>451 022,0</td>
<td>679 275,0</td>
<td>252 431,0</td>
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<tr>
<td>Oryol region</td>
<td>380 885,0</td>
<td>116 825,0</td>
<td>19 107,0</td>
<td></td>
<td></td>
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<tr>
<td>Ryazan region</td>
<td>615 349,0</td>
<td>180 236,0</td>
<td>77 232,0</td>
<td></td>
<td></td>
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<tr>
<td>Smolensk region</td>
<td>407 787,0</td>
<td>116 030,0</td>
<td>44 583,0</td>
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<tr>
<td>Tambov region</td>
<td>923 476,0</td>
<td>146 699,0</td>
<td>115 106,0</td>
<td></td>
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<tr>
<td>Tver region</td>
<td>723 058,0</td>
<td>177 970,0</td>
<td>133 148,0</td>
<td></td>
<td></td>
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<tr>
<td>Tula region</td>
<td>660 132,0</td>
<td>189 940,0</td>
<td>104 220,0</td>
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<tr>
<td>Yaroslavl region</td>
<td>1 026 236,0</td>
<td>10 896,0</td>
<td>47 287,0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moscow</td>
<td>1 188 890,0</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>TOTAL</td>
<td>9 586 349,7</td>
<td>4 445 735,0</td>
<td>1 764 823,5</td>
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<tr>
<td>North-West Federal District</td>
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<tr>
<td>Republic of Kareliya</td>
<td>370 576,0</td>
<td>113 850,0</td>
<td>2 808,0</td>
<td>7 770,0</td>
<td></td>
</tr>
<tr>
<td>Republic of Komi</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Arkhangelsk region</td>
<td>148 090,0</td>
<td>248 885,0</td>
<td>81 380,0</td>
<td>122 974,0</td>
<td>890 33,0</td>
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<tr>
<td>Vologda region</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Kaliningrad region</td>
<td>444 894,0</td>
<td>85 720,0</td>
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<tr>
<td>Leningrad region</td>
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<td>155 776,0</td>
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<tr>
<td>Murmansk region</td>
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<td>132 634,0</td>
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<td>611,0</td>
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<tr>
<td>Novgorod region</td>
<td>212 971,9</td>
<td>892 31,0</td>
<td>19 562,0</td>
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<tr>
<td>Pskov region</td>
<td>1 026 236,0</td>
<td>10 896,0</td>
<td>47 287,0</td>
<td></td>
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<tr>
<td>St.-Petersburg</td>
<td>652 785,0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Names of the subjects of Russian Federation</td>
<td>Donations to align budget covering</td>
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<td>Subventions to compensate the payments for electricity for the Far East territories and Arkhangelsk region</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>----------------------------------</td>
<td>------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
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<tr>
<td>Nenets Autonomous Area</td>
<td>13606,0</td>
<td>2 973,0</td>
<td></td>
<td>89033,0</td>
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<tr>
<td>TOTAL</td>
<td>3 567 900,9</td>
<td>1 898 130,0</td>
<td>165 703,0</td>
<td>131 355,0</td>
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<tr>
<td><strong>Southern Federal District</strong></td>
<td></td>
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</tr>
<tr>
<td>Republic of Adygeia</td>
<td>481 681,0</td>
<td>58 520,0</td>
<td>43 434,0</td>
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<tr>
<td>Republic of Dagestan</td>
<td>4 846 967,7</td>
<td>425 266,4</td>
<td>116407,7</td>
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<tr>
<td>Republic of Ingushetia</td>
<td>841 446,0</td>
<td>135 347,0</td>
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<td>Kabardino-Balkar Republic</td>
<td>1 395 934,0</td>
<td>134295,0</td>
<td>24 876,0</td>
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<tr>
<td>Republic of Kalmykia</td>
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<td>60 092,0</td>
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<td></td>
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<td>Republic of Northern Osetia - Alania</td>
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<td>97 307,0</td>
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<td>Chechen Republic</td>
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<td>189 152,0</td>
<td>21 781,0</td>
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<td>Krasnodar krai</td>
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<td>552 704,0</td>
<td>155006,0</td>
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<td>Subsidies of state financial support of regions of Far North and territories equaled to them</td>
<td>Subventions to compensate the payments for electricity for the Far East territories and Arkhangelsk region</td>
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<td>1 090 054,0</td>
<td>52 512,0</td>
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</table>

**The Ural Federal District**

| Kurgan region                           | 936 390,0                         | 142238,0        | 83 062,0                                      |                                               |                                               |
| Sverdlovsk region                       | 548751,0                          | 44428,1         |                                               |                                               |                                               |
| Tyumen region                           | 209 207,0                         |                 |                                               |                                               |                                               |
| Chelyabinsk region                      | 125 810,0                         | 478 832,0       | 69 807,0                                      |                                               |                                               |
| Khanty-Mansi Autonomous Area            | 243516,0                          |                 |                                               |                                               |                                               |
| Yamalo-Nenets Autonomous Area           | 62 480,0                          |                 |                                               |                                               |                                               |
| TOTAL                                    | 1 062 200,0                       | 1 685 024,0     | 197297,1                                      |                                               |                                               |

**Siberian Federal District**

| Republic of Altai                        | 625 482,0                         | 59 430,0        | 11 519,0                                      | 152 904,0                                    |                                               |
| Republic of Buryatiya                    | 1 675 626,0                       | 174092,0        | 50815,0                                       | 195599,0                                    |                                               |
| Republic of Tyna                         | 1 353 549,0                       | 118 898,0       | 4 069,0                                       | 158 004,0                                    |                                               |
| Republic of Khakassiya                   | 259 420,5                         | 86 870,0        | 11 214,0                                      |                                               |                                               |
| Altay krai                               | 3 778 839,0                       | 367 694,0       | 257 110,0                                     |                                               |                                               |
| Krasnoyarsk region                       |                                   | 488773,0        |                                               |                                               |                                               |
| Irkutsk region                           | 101 733,0                         | 355 772,0       | 82750,0                                       | 8 520,0                                      |                                               |
| Kemerovo region                          | 682 302,0                         | 386 449,0       | 127451,0                                      |                                               |                                               |
| Novosibirsk region                       | 1 397717,0                        | 315756,0        | 10892,0                                       |                                               |                                               |
| Omsk region                              | 1 013 294,0                       | 318694,0        | 112803,0                                      |                                               |                                               |
| Tomsk region                             | 137 540,0                         | 153 821,0       | 47 680,0                                      | 20 000,0                                     |                                               |
| Chita region                             | 1 794 102,0                       | 179 172,0       | 58 268,0                                      | 96 006,0                                     |                                               |
| Aginsk- Buryat Autonomous Area           | 264 704,0                         | 21 758,0        | 3 101,0                                       |                                               |                                               |

35
<table>
<thead>
<tr>
<th>Names of the subjects of Russian Federation</th>
<th>Donations to align budget covering</th>
<th>Compensation fund</th>
<th>Donations to cover losses in connection with size and order of Compensation Fund formation</th>
<th>Subsidies of state financial support of regions of Far North and territories equaled to them</th>
<th>Subventions to compensate the payments for electricity for the Far East territories and Arkhangelsk region</th>
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<td>Taimyr (Dolgano-Nenets Autonomous Area)</td>
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<tr>
<td>Evenki Autonomous Area</td>
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<td>6 748,0</td>
<td>74 367,0</td>
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<tr>
<td>TOTAL</td>
<td>14 010 684,0</td>
<td>3 078 828,0</td>
<td>919 233,0</td>
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<td></td>
</tr>
</tbody>
</table>

**Far East Federal District**

| Republic of Sakha (Yakutia)              | 2 796 864,0                      | 315327,0        | 1 866 227,0                                                                                     |                                                                                  |                                                                                  |
| Primorye krai                            | 3419072,0                        | 312629,0        | 29 850,0                                                                                        | 200 000,0                                                                       |
| Khabarovsk krai                          | 1 624 558,0                      | 241 950,0       | 229 728,0                                                                                       | 200 000,0                                                                       |
| Amur region                              | 2090801,0                        | 168777,0        | 159685,0                                                                                       | 16667,0                                                                        |
| Kamchatka region                         | 682218,0                         | 43 806,0        | 53 642,0                                                                                        | 126733,0                                                                       |
| Magadan region                           | 693 679,0                        | 50 276,0        | 515795,0                                                                                       | 19300,0                                                                        |
| Sakhalin region                          | 766 406,0                        | 89 997,0        | 40 000,0                                                                                        | 114033,0                                                                       |
| Jewish Autonomous Area                   | 791 931,0                        | 32 823,0        | 36 874,0                                                                                       |                                                                                  |                                                                                  |
| Koryak Autonomous Area                   | 228 585,0                        | 12369,0         | 222 186,0                                                                                      | 6 600,0                                                                        |
| Chukotka Autonomous Area                 | 542821,0                         | 24 563,0        | 604271,0                                                                                       | 60 967,3                                                                       |
| TOTAL                                    | 13 636 935                       | 1 292 517       | 3 758 258                                                                                      | 744 300                                                                        |
| TOTAL for Russian Federation             | 64 546 064,1                     | 19481 021,4     | 4 861 358,0                                                                                     | 833 333,3                                                                       |

Source: *Finance, Vol.8, 2001*
### Appendix 2. Structure of Revenues and Outlays of Consolidated Budget in 2001

<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Milliards of rubles</td>
<td>In % to consolidated budget</td>
<td>Milliards of rubles</td>
<td>In % to consolidated budget</td>
</tr>
<tr>
<td><strong>Revenues</strong>&lt;sup&gt;1)&lt;/sup&gt;</td>
<td>1392,3</td>
<td>58,7</td>
<td>990,7</td>
<td>55,5</td>
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<tr>
<td>including: Tax revenues</td>
<td>1285,9</td>
<td>62,1</td>
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<td>From them: VAT</td>
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<td>Profit tax (income) paid by enterprises and organizations</td>
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<td>41,5</td>
<td>156,8</td>
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<td>Income tax paid by physical persons</td>
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<td>23,4</td>
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<tr>
<td>Excises</td>
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<td>83,4</td>
<td>112,3</td>
<td>78,5</td>
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<td>Payments for the usage of natural resources</td>
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<td>37,5</td>
<td>15,8</td>
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<tr>
<td>Non-tax revenues</td>
<td>92,7</td>
<td>55,4</td>
<td>56,7</td>
<td>52,6</td>
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<tr>
<td>From them: Received from Foreign Economic activities;</td>
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<td>100,0</td>
<td>28,2</td>
<td>100,0</td>
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<tr>
<td>Property, owned by state and municipal organizations</td>
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<td>45,6</td>
<td>23,8</td>
<td>42,5</td>
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<tr>
<td><strong>Outlays</strong>&lt;sup&gt;2)&lt;/sup&gt;</td>
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<td>45,1</td>
<td>713,3</td>
<td>46,4</td>
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<td>Including on:</td>
<td>Federal Budget</td>
<td>Budgets of the Subjects of Russian Federation</td>
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<td></td>
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<td>--------------</td>
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<td>---------------------------------------------</td>
<td></td>
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<tr>
<td></td>
<td>Milliards of rubles</td>
<td>In % to consolidated budget</td>
<td>Milliards of rubles</td>
<td>In % to consolidated budget</td>
</tr>
<tr>
<td>Public management and local government</td>
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<td>36,0</td>
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<td>33,2</td>
</tr>
<tr>
<td>National defense</td>
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<td>100,0</td>
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<td>Law enforcement and protection activities and provision of state security</td>
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<td>79,2</td>
<td>84,0</td>
<td>78,6</td>
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<td>Industry, power engineering</td>
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<td>18,0</td>
<td>50,6</td>
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<td>10,3</td>
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<td>3,5</td>
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1) Without taking into account of gratuitous payments from budgets of other levels.
2) Without taking into account of financial assistance to the budgets of other levels.

Source: *Socio-economic Conditions of RF in December 2001*. Moscow, Russia: Goskomstat

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<td>5,4</td>
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<td>Income tax</td>
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## Budgets of subjects of RF

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<tr>
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<td>13,7</td>
<td>36</td>
<td>23,9</td>
<td>25</td>
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<td>50</td>
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### Outlays - total

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<tr>
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Source: *Russian Statistical Year-Book, 2000*

### Appendix 4. Structure of Revenues and Outlays of Consolidated Budget of RF by the Levels of Budget System in 1996-1999

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</thead>
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<td>Revenues - total</td>
<td>Trillions of rubles</td>
<td>In % from consol. budget</td>
<td>Trillions of rubles</td>
<td>In % from consol. budget</td>
<td>Milliards of rubles</td>
<td>In % from consol. budget</td>
<td>Milliards of rubles</td>
<td>In % from consol. budget</td>
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<tr>
<td></td>
<td>281,9</td>
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<td>325,9</td>
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<tr>
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<td>Tax revenues</td>
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<td>262,6</td>
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<td>253,3</td>
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<td>509,7</td>
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<tr>
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<td>Non-tax revenues</td>
<td>32,5</td>
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<td>In % from consol. budget</td>
<td>Trillions of rubles</td>
<td>In % from consol. budget</td>
<td>Milliards of rubles</td>
<td>In % from consol. budget</td>
<td>Milliards of rubles</td>
<td>In % from consol. budget</td>
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<td>73,8</td>
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<td>60,2</td>
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<td>59,3</td>
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<td>Agriculture and fishing industry</td>
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<td>9,9</td>
<td>31,8</td>
<td>4,7</td>
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<td>24,9</td>
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<td>Socio-cultural activities</td>
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<td>22,8</td>
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**Budgets of subjects of RF**

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<td>Public administration and local self-government</td>
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<td>68,9</td>
<td>18,9</td>
<td>65,1</td>
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<tr>
<td>Legal activity and provision of state security</td>
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<td>27,2</td>
<td>13,8</td>
<td>23,4</td>
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<td>Industry, power engineering and construction</td>
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Source: *Russian Statistical Year-Book, 2000*

**Appendix 5. Budgets Indicators of the Subjects of Russian Federation as of March 1, 2001, Which Have Issued the Municipal Bonds Between 1998 and 2001 (In millions rubles):**

<table>
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<tr>
<th>Region</th>
<th>Revenues</th>
<th>Expenditures</th>
<th>Proficit / deficit</th>
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<td>St. Petersburg</td>
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<td>Orenburg region</td>
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<td>Sverdlovsk region</td>
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<td>2000</td>
<td>1999</td>
<td>Change</td>
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<td>Volgograd region</td>
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<td>Tomsk region</td>
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<td>Udmurtiya</td>
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<td>Tatarstan</td>
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<td>Sakha (Yakutia)</td>
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<td>Primorye Krai</td>
<td>2.652,1</td>
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Source: *Finance, Vol.8, 2001.*
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