Russia’s Local and Financial System

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Abstract: After the collapse of the Soviet Union, the Russian Federation has been building a new local structure and financial system, entirely different from the old regime. The objective of this study is to describe the general layout of Russia’s current regional structure and regional financial system.

Section 1 reviews Russia’s local system after the collapse of the Soviet Union. By establishng the Federal Treaty, the Russian Constitution and the Power-Sharing Treaties under the Yeltsin administration (1992–1999), Russia formed the basic framework of a federal state, extending much wider powers to the subjects of the federation compared to the former regime of the Soviet Union. However, Russia’s decentralization developed in a very complex and irregular pattern, as a result of strengthening regional powers and the central government’s faltering power. New Russian president Putin started the local reforms, striving for “strong state power,” using key phrases such as “dictatorship of law” and “vertical line of power.” He is currently promoting local system reforms with centralized measures (establishing Federal Districts, weakening regional powers).

Section 2 surveys the regional financial system in the Russian Federation. There are three levels of budgets in the Russian public finance system: federal budget, budgets of the subjects of the federation (regional budget) and local budgets. After the collapse of the Soviet Union, due to the fact that the most critical issues of distribution of tax revenues and fiscal aid between the federation and the subjects of the federation were not strictly stipulated in laws at any level, this issue was decided between the Federal Government and each subject of the federation by way of direct negotiation. Hence, the budget system became disorderly and decentralization advanced in an unregulated manner. The enactment of “the Russian Federal Budget Code” in August 1998 reorganized and clarified the relationship of the three-level budget system.

In addition, it has been difficult for most to grasp the entire picture of the Russian tax system, for such reasons as the abundance of tax categories, frequent introduction and abolition of taxes, repeated modification of tariffs and tax payment procedures, and introduction of individual tax by each subject of the federation and local self-governments. In order to ameliorate the present situation, Russia is still undergoing tax reform.

Key words: Power-sharing treaty, dictatorship of law, vertical line of power, three levels of budgets, Budget Code, fiscal aid.

Introduction

It is important to understand the local financial and government system when considering a participatory approach on Russia. Previously, there has been little analysis on the local system under the subjects of the federation, and studies on the financial system relationship between the central government and the subjects of the federation have only just begun. Under the Putin administration, incentive for local institutional reform geared towards centralization is promoted. The objective of this study is to depict a general layout of Russia’s current regional structure and regional financial system.

1 Russia’s Local System

1-1 Development of Russia’s Local System
1-1-1 From the Soviet Union to the Russian Federation

Following the collapse of the Soviet Union in 1991, Russia succeeded the former the Russia Soviet Federated Socialist Republic territory and became a federation that consists of eighty-nine subjects of the federation.

As is generally known, the Russian Federation is a multiethnic state, of which twenty-one republics, ten autonomous areas, and one autonomous region, are ethnically identified subjects of the federation, and mainly composed of non-Russians (non-Russians make up 18.5% of the total population in Russia). On the other hand, the Federation’s remaining forty-nine regions, six territories (krai), and the two cities of federal significance are geographically identified subjects of the federation, and mainly composed of Russians. The complexity of the subjects of the federation that range up to six types, and the coexistence of ethnical and geographical identified subjects of the federation is a unique Russian characteristic without parallel in any other federation state (Table 1).

The transition of Russia’s new administration is promoted on the basis of three pillars: 1) planned economy to market economy, 2) one-party dictatorship to democracy, and 3) centralization to decentralization. After the collapse of the Soviet Union, decentralization—power-sharing between the central government and the subjects of the federation became Russia’s most important policy. At the same time, it is hard to deny that Russia’s decentralization developed in the form of a landslide, as a result of strengthening regional powers and the central government’s faltering power, and lack of the cen-
Central government’s effective control, follows the collapse of the Soviet Union. The widening political and economic disparity within the subjects of the federation also had an effect on the power-sharing process with the central government. Consequently, Russia’s decentralization and the power-sharing process developed in a very complex and irregular pattern.

### Table 1  Breakdowns by Subnational Jurisdiction Category.

<table>
<thead>
<tr>
<th>Republics</th>
<th>Autonomous Areas</th>
<th>Geographically Identified Subnational Jurisdiction</th>
<th>Territories (Krai)</th>
<th>Cities of Federal Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Karelia</td>
<td>Nenets</td>
<td>Jewish</td>
<td>Arkhangelsk</td>
<td>Krasnodar</td>
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<tr>
<td>Komi</td>
<td>Komi-Permyak</td>
<td>Vologda</td>
<td>Stavropol</td>
<td>St. Petersburg</td>
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<tr>
<td>Marii-El</td>
<td>Khanty-Mansi</td>
<td>Murmansk</td>
<td>Altai</td>
<td>Moscow</td>
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<tr>
<td>Mordovia</td>
<td>Yamal-Nenets</td>
<td>Leningrad</td>
<td>Krasnoyarsk</td>
<td>Khabarovsk</td>
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<td>Chuvash</td>
<td>Taimyr</td>
<td>Novgorod</td>
<td>Primorsk</td>
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<td>Kalmykia</td>
<td>Evenk</td>
<td>Pskov</td>
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<td>Tatarstan</td>
<td>Ust-Ordinsky Buryat</td>
<td>Bryansk</td>
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<tr>
<td>Adygeya</td>
<td>Aginsky Buryat</td>
<td>Vladimir</td>
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<td>Dagestan</td>
<td>Chukchi</td>
<td>Ivanovo</td>
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<td>Ingush</td>
<td>Koryak</td>
<td>Kaluga</td>
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<td>Chechnya</td>
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<td>Kostroma</td>
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<td>Kabardin-Balkar</td>
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<td>Moscow</td>
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<td>Karachayev-Cherkess</td>
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<td>Oryol</td>
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<td>North Ossetia</td>
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<td>Ryazan</td>
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<td>Bashkortostan</td>
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<td>Smolensk</td>
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<td>Udmurtia</td>
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<td>Buryatia</td>
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<td>Tuva</td>
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<td>Khakasia</td>
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<td>Sakha (Yakutia)</td>
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<td>Belgorod</td>
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<td>Samara</td>
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<td>Saratov</td>
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<td>Ulyanovsk</td>
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<td>Sakhalin</td>
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<td>Kaliningrad</td>
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</tbody>
</table>

Source: Author
The Federal Treaty outlined power control into three levels of jurisdictions: 1) jurisdiction of the Russian Federation, 2) joint jurisdiction of the Russian Federation and the subjects of the Russian Federation, and 3) residual powers to be exercised primarily by the subjects of the federation. Issues under the jurisdiction of the Russian Federation (political and legislative) are exclusively enforced and imposed legal regulation solely at the federal level, and the subjects of the federation have no authority to adopt legal acts such as state laws or decisions of the state governor. On the other hand, powers to be exercised primarily by the subjects of the federation are the opposite, allowing the subjects of the federation to constitute their own legal acts such as state laws or decisions of the state governor. In the Federal Treaty, issues under control of the joint jurisdiction of the Federation and subunits include; 1) adoption and amendment of the Constitution of the Russian Federation and the Federal Constitutional Law; 2) establishment of federal executive, legislative, and judiciary power system; procedure for the organization and activities thereof; formation of federal bodies of state power; 3) determining the basic principles of federal policy and programs in the field of state structure, the economy, the social and cultural development of the Russian Federation; 4) federal and state property and management thereof; 5) financial, monetary, credit and customs regulation, and guidelines for price policy; 6) foreign policy, international relations and treaties of the Russian Federation; 7) defense and security; 8) nuclear energy and space activities; 9) judicial courts, Prosecutor's Office, and criminal and civil legislation.

Issues under control of the joint jurisdiction of the

<table>
<thead>
<tr>
<th>Description of the Subunits' Sovereignty</th>
<th>Republic</th>
<th>Regions (Oblasts), Territories (krai) and cities of federal significances</th>
<th>Autonomous Areas and Regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>General guidelines on the regional administrative and legislative agencies</td>
<td>Yes</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>administrative litigations, legislations on labor and family, and legal regulation of intellectual property rights</td>
<td>No policy</td>
<td>Powers reserved for the central government</td>
<td>Powers reserved for the central government</td>
</tr>
<tr>
<td>Government property classification</td>
<td>Joint-jurisdictions with the central government</td>
<td>Joint-jurisdictions with the subunits in the &quot;protocol&quot;</td>
<td>No policy</td>
</tr>
<tr>
<td>Establishing General Guidelines on Tax, commissions</td>
<td>Joint-jurisdictions with the central government</td>
<td>Joint-jurisdictions with the subunits in the &quot;protocol&quot;</td>
<td>Joint-jurisdictions with the central government</td>
</tr>
<tr>
<td>Land, sub-surface and water resources property</td>
<td>Property belonging to the republic and the people who live in the region</td>
<td>No Description</td>
<td>No Description</td>
</tr>
<tr>
<td>The central government's delegation of authority to the subunits</td>
<td>Mutual agreement by the respective republics</td>
<td>as long as it does not contradict the Russian Constitution or the Federal constitutional Law</td>
<td>by agreement of the autonomous regions</td>
</tr>
</tbody>
</table>

Source: Russian Federation Treaty

| Table 2 | Major Differences of Federal Treaties. |

1 For example, legislature on forests is stated as a joint jurisdiction issue of the Federation and subunits, under the Federal Constitutional Law and the new Russian constitution. Following this, the Khabarovsk territory was able to establish the Khabarovsk Territory Forest Law Code (December, 1998) and conduct its own legal regulation, within the framework of the Federal Forest Law Code (January, 1997).
Russian Federation and the subjects of the Russian Federation include: 1) ensuring compliance of the constitutions and laws of the republics, charters, laws, and other regulatory legal acts with the Constitution of the Russian Federation and the Federal Constitutional Law; 2) use and management of natural resources, environmental conservation, and security over ecological safety; 3) questions of education, science and culture; 4) social security; 5) legislation on administrative, land, water, forestry, mineral resources and environmental conservation; 6) establishment of general guidelines of the municipal organizations; 7) implementing measures to combat natural disasters. For any issues not included in the scope of control of the jurisdiction of the Russian Federation and the joint jurisdictions, the subjects of the federation shall exercise the entire spectrum of state power.

By signing the Federal Treaty, Russia formed the basic framework of a federal state, extending much wider powers to the subjects of the federation compared to the former Soviet Union regime, taking a big step towards decentralization. However the problem arose that the Federal Treaty outlined different powers between the republics, regions, territories, and autonomous areas, namely giving the republics much wider powers. The nationalism movement by the non-Russian population peaked around the end of the U.S.S.R regime, and the power disparity developed as a result of this movement. For example, the Federal Treaty gave the republics “sovereign power” thereby stipulating land, mineral and natural resources, and flora and fauna as “property of the republic and its people”, and gave them independent powers over taxation. On the other hand, the regions and the territories were denied such special privileges.

In short, there were unequal political and economic authorities outlined in the Federal Treaty between the republics, and the regions and territories, as a result of the central government giving special consideration to the delicate political situation and background of the ethnically identified republics. On April 10, 1992, at the then-Russian Congress of People’s Deputies, the Federal Treaty was ratified containing these problems, and incorporated as an appendix to the Russian Constitution (Old Constitution).

1-1-3 Establishing the New Russian Constitution
As a result of the power inequality defined in the Federal Treaty, frustration rose amongst the regions and territories towards the republics. This led to actions by the regions and territories demanding equal power with that of the republics. The movement peaked during the process of the establishment of the New Russian Constitution in 1993.

1993 saw increasing tension between President Yeltsin and the Russian Parliament (Congress of People’s Deputies and the Supreme Soviet); and debates over the “presidency model” and the “parliament model” needed to be settled, with the establishment of the new constitution. During this process, President Yeltsin attempted formulating the constitution by a special constitutional convention an organization outside of the traditional federal assembly, by bringing in the subjects of the federation (regional power) as a third power. However, new points of controversy surfaced, such as the power imbalance between the central government and the subjects of the federation, especially those discriminating powers between the republics, and the regions and territories (krai).

In the process of deliberation, there were conflicting interests between the republics, and the regions and territories. The republics insisted on conserving the Federal Treaty and stipulating “sovereign republic” in the new constitution, whereas the regions and the territories demanded abolishing discrimination of authority between republics, and regions and territories, as well as implementing equality within the subjects of the federation as formulated in the Federal Treaty. On July 12, 1993, the draft of the new constitution was passed by a majority vote. However, many of the republics declared themselves to be against the new constitution draft, such as the republic of Sakha, which cast a negative vote and the republic of Karelia, which abstained from voting. The constitutional convention included such irregularities. Preceding the vote on June 24, the republic of Tatarstan boycotted the convention, insisting its claims were ignored during the process of the discussion.

The violent events in October 1993 were the culmination of the long developing conflict between the President and the Parliament, and ended in Yeltsin’s victory. In November, Yeltsin reinforced presidential powers in addition to abolishing special privileges of the republics, declaring all subjects of the federation to have equal powers, in the final draft of the new constitution. The constitution was approved on by referendum vote by 55.2% of Russia’s registered voters in concurrence with the State Duma elections December 12, 1993. The constitution provided that in case of discrepancies between the new constitution and the Federal Treaty, all documents would defer to the constitution, and the Federal Treaty was demoted to the status of a subconstitutional document.

In the end, the new constitution corrects the unequal distortions that arose as a result of the Federal Treaty. For example, Article 5 stipulates that all subjects of the federation have equal powers; connoting that all six categories of the subjects of the federation; the republics, regions, territories, cities of federal significance, autonomous areas, and autonomous region, are held to be equal in their legal status, power, and relations with the federal agencies of state power.

1-1-4 Conclusion of the Power-Sharing Treaties
The republics that lost its sovereignty powers due to the establishment of the new constitution showed wide-
Table 3  Shared powers between the federation and the subunits by the Russian Constitution.

<table>
<thead>
<tr>
<th>Issues under the Jurisdiction of the Russian Federation (Article 71)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) the adoption and amendment of the Constitution of the Russian Federation and federal laws and supervision over compliance with them</td>
</tr>
<tr>
<td>2) the federal structure and territory of the Russian Federation</td>
</tr>
<tr>
<td>3) regulation and protection of the rights and liberties of the human being and citizen; citizenship of the Russian Federation; regulation and protection of the rights of national minorities</td>
</tr>
<tr>
<td>4) establishment of the system of federal bodies of legislative, executive and judiciary power, procedure for the organization and activities thereof; formation of federal bodies of state power</td>
</tr>
<tr>
<td>5) federal and state property and management thereof</td>
</tr>
<tr>
<td>6) determining the basic principles of federal policy and federal programs in the field of state structure, the economy, the environment, and the social, cultural and national development of the Russian Federation</td>
</tr>
<tr>
<td>7) establishment of the legal framework for a single market; financial, monetary, credit and customs regulation, emission of money and guidelines for price policy; federal economic services, including federal banks</td>
</tr>
<tr>
<td>8) the federal budget; federal taxes and levies; federal land for regional development</td>
</tr>
<tr>
<td>9) federal power grids, nuclear energy, fissionable materials; federal transport, railways, information and communications; space activities</td>
</tr>
<tr>
<td>10) foreign policy and international relations of the Russian Federation, international treaties of the Russian Federation and defense thereof</td>
</tr>
<tr>
<td>11) external economic relations of the Russian Federation</td>
</tr>
<tr>
<td>12) defense and security; defense production; determining procedures for the sale and purchase of arms, ammunition, military hardware and other equipment; production of fissionable materials, toxic substances, narcotics and procedure for the use thereof</td>
</tr>
<tr>
<td>13) defining the status and protection of the state border, territorial waters, the air space, the exclusive economic zone and the continental shelf of the Russian Federation</td>
</tr>
<tr>
<td>14) law courts; Prosecutor's Office; criminal, criminal-procedural and criminal-executive legislation; amnesty and pardon; civil, civil-procedural and arbitration-procedural legislation; legal regulation of intellectual property</td>
</tr>
<tr>
<td>15) federal conflict of laws</td>
</tr>
<tr>
<td>16) meteorological service; standards, models, the metric system and time measurement; geodesy and cartography; names of geographical objects; official statistics and accounting</td>
</tr>
<tr>
<td>17) state decorations and honorary titles of the Russian Federation</td>
</tr>
<tr>
<td>18) federal state service.</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Issues under the Joint Jurisdiction of the Russian Federation and the Subunits (Article 72)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) ensuring compliance of the constitutions and laws of the republics, charters, laws, and other regulatory legal acts of the territories, regions, federal cities, the autonomous region and autonomous areas with the Constitution of the Russian Federation and the federallaws</td>
</tr>
<tr>
<td>2) protection of the rights and freedoms of man and citizen, protection of the rights of ethnic minorities; ensuring legality, law and order, and public safety; border zone regime;</td>
</tr>
<tr>
<td>3) issues of the possession, use and management of the land, mineral resources, water and other natural resources</td>
</tr>
<tr>
<td>4) delimitation of state property</td>
</tr>
<tr>
<td>5) management of natural resources, protection of the environment and ecological safety; specially protected natural reserves; protection of historical and cultural monuments</td>
</tr>
<tr>
<td>6) general questions of upbringing, education, science, culture, physical culture and sports</td>
</tr>
<tr>
<td>7) coordination of health issues, protection of family, motherhood, fatherhood and childhood; social protection including social security</td>
</tr>
<tr>
<td>8) implementing measures to combat catastrophes, natural disasters, epidemics and eliminating consequences thereof</td>
</tr>
<tr>
<td>9) establishment of the general guidelines for taxation and levies in the Russian Federation</td>
</tr>
<tr>
<td>10) administrative, administrative-procedural, labor, family, housing, land, water and forestry legislation; legislation on the sub-surface and environmental protection</td>
</tr>
<tr>
<td>11) cadres of judiciary and law-enforcement agencies; the bar, notariate</td>
</tr>
<tr>
<td>12) protection of the original environment and traditional way of life of small ethnic communities</td>
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<tr>
<td>13) establishment of general guidelines of the organization of the system of bodies of state power and local self-government</td>
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<tr>
<td>14) coordination of the international and external economic relations of the subjects of the Russian Federation, compliance with the international treaties of the Russian Federation.</td>
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<thead>
<tr>
<th>Issues Under the Jurisdiction of the Subunits (Article 73)</th>
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<tbody>
<tr>
<td>Outside of the jurisdiction of the Russian Federation and the joint jurisdiction of the Russian Federation and the subjects of the Russian Federation, the subjects of the Russian Federation shall exercise the entire spectrum of state power.</td>
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</table>

Source: The Russian Constitution
spread discontent, and increasingly became a factor of instability. Re-stabilizing relationships with the Republic of Tatarstan, one of the subjects of the federation that refused to sign the 1992 Federal Treaty, as well as being the center of separatism together with Chechnya, became a source of urgent concern for Yeltsin. The “Power-Sharing Treaty” was signed as a solution to this problem between the president of Russia and Tatarstan in February 1994. Tatarstan gave up its claim to sovereignty and accepted Russia's taxing authority, in return for Russia's acceptance of Tatar control over land, natural resources and the republic's right to sign economic agreements with other countries. This enabled the central government to normalize its relationship with Tatarstan. Power-sharing treaties became a method applied to strongly nationalist republics, such as Bashkortostan and Kabardin-Balkar.

By 1996, many of the regions and territories had concluded power-sharing treaties, as shown in Table 4. Currently, forty-six of the subjects of the federation have concluded forty-two power-sharing treaties with the central government. May through June of 1996 was a particularly busy time for the conclusion of these treaties. There are three reasons behind the power-sharing treaty rush. First, the regions and territories showed discontent towards the republics that resumed special

<table>
<thead>
<tr>
<th>Concluded</th>
<th>Republics</th>
<th>Concluded Regions (Oblasts) / Territories (krai)</th>
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<tbody>
<tr>
<td>1994/2/15</td>
<td>Republic of Tatarstan</td>
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<td>1994/7/1</td>
<td>Republic of Kabardino-Balkaria</td>
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<td>1994/8/3</td>
<td>Republic of Bashkortostan</td>
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<td>1995/3/23</td>
<td>Republic of North Ossetia</td>
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<td>1995/6/29</td>
<td>Republic of Sakha (Yakutia)</td>
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<td>1995/8/29</td>
<td>Republic of Buryatia</td>
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Source: Author
powers by the power-sharing treaties. Second, with the gubernatorial elections by popular vote during 1995 to 1996, starting with the Sverdlovsk region in August 1995, the governors, previously appointed by the president, gained influence and independence from the central government. Finally, and probably the biggest reason was that Yeltsin was using this as a “carrot” for the “horse” for the June 1996 presidential election not too far away. As the presidential campaign developed, the Communist Party of the Russian Federation (Kommunisticheskaya Partiya Rossisiyskoy Federatsii: KPRF) candidate Zyuganov emerged as the prime competitor of Yeltsin, when his party acquired many seats in the December 1995 State Duma legislative election. As part of his campaign, Yeltsin asked the newly risen conglomerates for their cooperation in procuring funds, as well as asking the heads of the subjects of the federation for their cooperation in gathering votes. In return, he granted them shared powers through the power-sharing treaties.

When comparing the power-sharing treaties among the republics (especially Tatarstan, Bashkortostan, Kabardino-Balkar, and North Ossetia), and that between the regions or territories, the content vary a great deal. Specifically, in the power-sharing treaties concluded with the Republics of Tatarstan, Sakha, and Komi, several important matters such as issues under jurisdiction of the Russian Federation (Article 1) and the joint jurisdiction of the Russian Federation and the subjects of the Russian Federation (Article 1), prescribed by the constitution, had been replaced by the jurisdiction of the republics. Table 5 shows examples that should originally have been under the joint jurisdiction of the Russian Federation and the subjects of the Russian Federation. According to the constitution, powers under the jurisdiction of the subjects of the Federation are reserved solely to the subjects of the Federation (Article 73). In case of discrepancies in the legal acts of the federation and the subjects of the federation regarding jurisdiction issues, “the legal acts of the subjects of the federation would be held effective”. Thus, the subjects of the federation would not be constrained by the federal constitution regarding jurisdiction issues. In particular, the Republics of Tatarstan and Bashkortostan, received far more powers with the conclusion of the power-sharing treaty, than they had with the Federal Treaty.

For the regions and the territories, although there were differences in the extent of their powers stemming from the power-sharing treaties, it was possible to expand discretionary powers within the limits of the joint jurisdictions. The power-sharing treaty allowed the local governments of each region and territory to conclude direct agreements (power-sharing agreements) with the Russian government as well as with the federal ministries and agencies, on issues of joint jurisdiction prescribed in Article 72 of the Russian Constitution or in other treatises. This implicates that the powers are

Table 5  Jurisdiction Issues Delegated to the Republics as a Result of the Bilateral Treaties.

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Note: ○ refers to issues that were under the reserved jurisdiction of the republic
Δ refers to issues under jurisdiction unless inconsistent with the Russian Constitution or the Federal Constitutional Law
× no provisions. Republic of Marii El’s bilateral treaty has not been obtained yet thus unknown
Source: bilateral treaties of each republic

2 The following autonomous areas do not have their own bilateral agreements, but instead are included within the regions: 1) Ust-Ordynsky Buryat Autonomous Area is included in the Irkutsk Region, 2) Komi-Permysk Autonomous Area is included in the Perm Region, 3) Taimyr and Evenk Autonomous Areas are included in the Krasnoyarsk Region.

3 For example, in the Khabarovsk territory, the bilateral agreements were concluded for the following eleven areas with the central government on April 23, 1996 along with the bilateral treaties: 1) possession, use and disposal of land; 2) use and management of water facilities; 3) legal guarantees and the maintenance and security of general order; 4) developmental issues in the far northern region within the territory; 5) fiscal budget; 6) development and practical use of mineral resources within territorial waters; 7) agriculture; 8) tele-communication; 9) fuel energy; 10) arms industry; 11) public health and prevention of epidemics.
divided through direct negotiations with the central government and the federal ministries and agencies on issues of vital importance for the regions and territories such as natural resources, taxing authority, and the right to sign economic agreements with other countries. Political power of the local leader or the economic powers of the subunit are important factors in power sharing based on direct negotiations. Sometimes, a political situation such as the presidential or State Duma election also has influence. Using such factors, the subjects of the federation sought to procure more power by working with the president and the central government.

However, there is no doubt that the inequality of powers between certain republics, such as the Republics of Tatarstan, Bashkortostan, and Sakha, and the other regions and territories resurfaced in the power-sharing treaty conclusion process.

1-2 State of Reform Under the Putin Administration (Focusing on the Federation and the Subjects of the Federation)

1-2-1 From Yeltsin to Putin

As aforementioned, President Yeltsin used the power-sharing treaties to evade the nation’s crisis by transferring authority to the subjects of the federation and containing regional discontent. He gained support from the regional leaders and consequently succeeded in sustaining his own powers. Yet, the plethora of power-sharing treaties with the regions was costly. Firstly, the delegation of power in response to the subjects’ of the federation ethnic background, economy, and their leaders’ loyalty and ability to gather votes created disparity in power levels between the subjects of the federation. Hence, Russia’s isonomy principle within the subjects of the federation became a pie in the sky. Secondly, the subjects of the federation preceded their own legal system (republic law, regional law) to the Russian Constitution and the Federal Constitutional Law on issues where they gained more power through the power-sharing treaties than defined in the Russian Constitution. As a result, there were many discrepancies between the constitutional laws of the federal government and that of the subjects of the federation, thereby creating further chaos in Russia’s law and order. Thirdly, the central government was losing ability to control the subjects of the federation. This was the result of Yeltsin having avoided governmental intervention and relied on regional support to solve the abovementioned problems. By Yeltsin’s final days, the federal state itself descended into a state of chaos.

Putin was made Yeltsin’s successor in 1999. On December 30, 1999, Prime Minister Putin released a statement on the Internet named “Russia on the Brink of the Third Millennium” and presented policies as well as the outline of the nation’s views. In this statement, he is committed to the “long-established, traditional values of the people of Russia”, and wrote, “A robust state for Russians is not an anomaly, not something that must be fought against, but on the contrary is the source and guarantor of order, the initiator and main driving force of all change”, and therefore “Society needs the restoration of a strong state power”.

Following Yeltsin’s sudden resignation on the day after Putin released his statement (December 31, 1999), Putin was named acting president and gradually started the local reform, striving for “strong state power”, using key phrases such as “Dictatorship of Law” and “Vertical Line of Power”.

Behind the terminology “Dictatorship of Law” was Russia’s state. First, existing legal inconsistencies between the power-sharing treaties and the Russian Constitution on the delegation of authority led them to precede the power-sharing treaties to the constitution in a number of localities.

Secondly, constitutions (charters), legislatures, and other regulatory legal acts that have no basis on either of the Power-Sharing Treaty, the Russian Constitution, or the Federal Constitutional Law, were promulgated and applied. There are numerous examples of such cases, and about 25% to 30% of the regulatory legal acts applied within the subjects of the federation were inconsistent with the Federal Constitutional Law as of May 2000, according to the Russian Justice Department. Putin’s “Dictatorship of Law” refers to overcoming this state of legal disorder and building legal order with the Russian Constitution and the Federal Constitutional Law at the top of the hierarchy.

“Vertical Line of Power” refers to restoring powers in the state power agency’s chain of command, above all, to federal agencies (law enforcement agency, tax office, customs office, court of law, etc.). In order to implement the central government’s policy throughout Russia, it is vital that chain of command is established between the federal ministries and its regional branches. However, currently, not all governmental directives are enforced in the regions.

The main reason is that the regions control the cash flow. Take district courts for example, although the district court is a federal agency, the only payment that comes from the financially distressed federal budget is the judge’s salary. Most other running costs are paid out from the regional budget. Under such circumstances, it is difficult for the district court judge to hand down negative decisions to the local jurisdiction leaders. Situations were more or less the same for law enforcement agencies, tax offices and customs offices.

As stated above, restoring “strong state power” inevitably results in restructuring central and local relationships. After sworn in as president on May 7, 2000, Putin set forth to engage as his first domestic issue to solve the

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1 The Japanese translation of this article is Vladimir Putin “Russia on the Brink of the Third Millennium” Institute of Eurasian Studies “Russia Eurasian Economic Research Data” (No. 813 March, 2000)
"regional problem", that remained untouched by Yeltsin.

1-2-2 Establishing Federal Districts

On May 13, 2000, President Putin reorganized Russia into seven federal districts, each headed by a plenipotentiary presidential representative by issuing a federal decree (see Fig. 1 for boundaries).

According to the federal decree, the plenipotentiary presidential representative is appointed by and works directly for the President. The principal tasks include organizing activities in their respective federal districts to ensure that the regional branches of federal institutions implement domestic and foreign policies determined by the President; monitoring the local implementation of federal-level decisions; ensuring that the President’s personnel policy is respected; and reporting regularly to the President on ethnic security issues as well as the political and economic situation in the federal districts.

Within their respective federal districts, they are also responsible for: 1) coordinating activities of the federal agencies; 2) coordinating relationships between the federal and subunit agencies; 3) monitoring local enforcement of federal, presidential, and governmental decisions; 4) participating in activities with subjects of the federation and local government agencies; 5) mediating to resolve conflict between agencies of federal and subjects of the federation; and 6) recommending measures to be taken by the President concerning invalidating legal acts of the subjects of the federation which are in conflict with the Russian Constitution and the Federal Constitutional Law. In brief, they serve as monitoring and coordinating agencies to implement the above-mentioned "Dictatorship of Law" and "Vertical Line of Power".

One advantage of the presidential representative system in the federal districts is that it is unlikely that it is put under pressure by local self-governments in a particular region, given that the district is comprised of multiple subjects of the federation. For example, the power-sharing treaty calls for agreement from regional authorities to appoint local federal agency heads, whereas presidential representatives are not bound to such restrictions. Essentially, the President holds a freehand in appointing the representatives.

On May 18, 2000, seven plenipotentiary presidential representatives were appointed. Of the seven, former Prime Minister Kiriyenko (Privolzhsky Federal District) and former CIS affairs minister Drachevsky (Siberian Federal District) were the only civilians, and the remaining five had military or security backgrounds. As a measure to avoid unnecessary provoking, Kiriyenko was appointed as an alternative to the other military elites to be the representative in the Privolzhsky Federal District, which includes Tatarstan and Bashkortostan, both in delicate relationship with the central government.

There is a need to describe the system or structure within the federal districts by taking a close look at the Far East Federal District. Putin’s federal decree assigned Pulikovsky, a former military general, as the plenipotentiary presidential representative for the Far East Federal District in May 2000. In June, Pulikovsky settled in its headquarters, Khabarovsk. Also, from August to September 2000, two primary deputy presidential representatives were appointed under him, as well as two other deputy presidential representatives in September and December of the same year.

Federal Inspectors were appointed for each of the subjects of the federation within the federal district. A federal inspector and a senior inspector were appointed to supervise the Primorskii territory. In addition, senior federal inspectors were appointed for Khabarovsk territory, Sakhalin region, and Amursk regions, as well as a federal inspector for the Jewish Autonomous Region. Also, a senior federal inspector was appointed to oversee the Republic of Sakha and Magadan region, another to
oversee Kamchatka region, Chukotka Autonomous Area, and the Koryak Autonomous Area, and another without a specific responsible region. These federal inspectors worked directly under Pulikovsky.

In November 2000, the leader of the subjects of the federation of the Far East Federal District, the president of the district council, the federal judicial and security branch executives, and the presidential representative Pulikovsky, serving as chairman, established the District Coordinating Council. There are three interdepartmental commissions on security, military and frontier control instituted under the Council. This is not only an advisory council, but also holds enforcement power, according to Pulikovsky.

Many regional branches of federal institutions were set up per district in 2000. For example, the Prosecutor’s Office was set up in May, the Far East Federal District Tax Enforcement Agency in August, the Far East Federal District Use of Aquatic Resources Committee in November, and in December, the Far East Federal District Natural Resource Agency, Far East Federal District Energy Committee, Ministry of Internal Security Far East Federal District Department of Interior Inquest Agency, and the Ministry of Civil Defense and Emergencies for Far East District Center were set up to promote institutional framework within the federal district.

The presidential representatives were assigned to supervise whether the legal acts (regional charters, laws, and gubernatorial decisions) of each subunit were in compliance with the Russian Constitution or the Federal Constitutional Law. Presidential representative Pulikovsky announced that 207 legal acts in the Far East Federal District contained matters that deviated from the Federal Constitutional Law as of January 2001, and instructed amendment to each subjects of the federation. In May, he proclaimed that 80% had been amended to be in compliance with the Federal Constitutional Law.

1-2-3 Three Constitutional Laws on the Local System Reform

President Putin submitted a package of legislation including the following three bills to the State Duma, as second part of the regional system reform on May 19, 2000. 1) Alter the principles of the Federation Council and prohibit the leaders of the subjects of the federation and the regional district council to hold office in the Federation Council; 2) introduce a mechanism for dismissing the heads of regions and dissolving legislative assemblies; 3) give regional leaders the right to dismiss local (smaller than city and raion) authorities.

Regarding the laws on the federation council, since January 1996, the heads of regions and regional parliaments were automatically chosen as representatives for the Federation Council. In respect to this, Putin gave a speech on television on May 17 2000, “today, the governor and heads of the republics serve as heads of regional parliaments and concurrently act as legislator by serving as a representative of the Federation Council. This destroys the principle of the separation of power”. Putin said that he believes these people instead “should concentrate on the specific problems facing their territories”, and submitted a draft bill “the Fundamental reform of the Federation Council bill” (“laws on the federation council”) to the State Duma, two days later.

Once the law is enacted, the subunit leaders will be deprived of the opportunity to meet and participate in national politics, and special privileges guaranteed by the Russian Constitution offered to the members of the upper and lower houses that protect them from being arrested. For this reason, laws on the Federation Council encountered some resistance from the Federation Council itself.

On July 19, 2000, the State Duma approved overwhelmingly, the compromise bill amending the law on forming the Federation Council. The members of the Federation Council had no choice but to vote to pass the bill, judging that the State Duma would override the veto. On August 7, 2000, President Putin signed the draft bill into law, and determined that the current deputies yield their seats by the end of 2001.

The second draft bill in the package that President Putin submitted on May 19, 2000, along with the draft law on the Federation Council, and the draft law on dismissing regional authorities, were amendments and supplements to the “general principle of the state power legislative and executive branch of the subjects of the federation” (“draft law on dismissing governors”).

Under the draft law on dismissing governors, 1) in case the subunit leader or the regional assembly issues decrees or legal acts that contravene the Federal Constitutional Law, and the regional assembly fails to fix or annul the law within the given timeframe; 2) if the subunit leader or the regional assembly fails to issue an act stating to change or annul the law within the given timeframe of the presidential order; 3) in case the subunit leader or the regional assembly issues decrees or legal acts containing issues that the Russian Constitutional Court or the regional court of law finds to contradict the Russian Constitution; 4) in case the subunit leader or the regional assembly applies legal acts containing issues that the Russian Constitutional Court or the regional court of law finds as contradicting the constitution, the President can essentially impeach such regional authorities.

This reform reflects Putin’s intentions to create a mechanism to force regional authorities to comply with federal law, in view of the “Dictatorship of Law” and “Vertical Line of Power” and to dismiss the subunit leader who issues directives or decisions that contravene Federal Constitutional Laws. Since the executives and legislatures became elected there had been no clear mechanism for the Russian President to remove the regional authorities that refuse to comply with the federal law.

As predicted, many regional leaders showed concern
and strong opposition for the draft bill allowing the Russian President to dismiss regional leaders and disband local parliaments, but the bill passed the State Duma with overwhelming votes on June 30, 2000. Also on July 19, deputies overrode a July 7 veto by the upper house of this bill and hence enacted into law. With the establishment of this law, President Putin unquestionably has gained large power over regional relations.

The third bill of the package that Putin submitted to the State Duma on May 19, 2000 is an amendment and supplement to the “general principle of the regional administration in the Russian Federation” (“bill on dismissing regional authorities”). The enactment of this draft bill indicates that the federal assembly or the President has the authority to dismiss the regional assembly and suspend the local self-government heads (smaller than cities and raions) duty only after the courts have found two or more violations.

Conflicting situations between governors and mayors in these districts is depicted in the example of the former Maritime Territory governor Nazdratenko and former Cherepkov mayor Vladivostok. Previously, the subunit heads had no authorities to dismiss mayors or other local self-government figures. The enactment of the above bill will give the subunit leaders official authority to dismiss regional heads subordinate to them. The “bill on dismissing regional authorities” and “bill on dismissing governors” serves as carrot-and-stick. Surely enough, the subunit leaders showed little opposition on the “bill on dismissing regional authorities” compared to the two other bills. The bill passed the Federation Council on July 7, 2000 and was signed into law on August 4 by Putin.

The enactment of these bills reinforces Putin’s “Vertical Line of Power” policy in three levels for federal agencies, with the central government at the top (Russian President → regional subunit leaders → governors and other local self-government heads; Russian Government → regional subunit government bodies → municipal administrative bodies), as well as legislative agencies (Federation Council → regional subunit council → municipal council).

1-3 The Mechanisms and Functions of the Local Self-Governments in the Local Subjects of the Federation
1-3-1 The Development of the Local Self-Governments in Russia

In Russia, “local self-governments” refers to units smaller than cities and raions. Though often mistaken, the subjects of the federation directly constitute the Russian Federation, and their authority agencies (administrative and legislative) are positioned as “state power agencies” at the same level with the federal institutions (administrative and legislative) under the Russian Constitution. On the other hand, the local self-governments are excluded from the state power structure.

Even during the Soviet Union period, with an extremely powerful central government structure, the Soviet-city and Soviet-raion, municipal administrative and legislative agencies, existed. These institutions were “regional branches of state power” and were not “local self-governments” where citizens with certain personal rights participated directly. In that sense, instituting “local self-government structure” was one of the most important processes of decentralization and democratization in the new Russia’s transition process.

After the collapse of the Soviet Union, the reorganization of the federal and regional institutions took time. At the same time, the normalization of the relationship between the central government and the subjects of the federation took precedence. As a result, the reorganization was delayed, and in August 1995, the Federal Constitutional Law “General guideline on municipal organization” (“Federal Municipal law”) was established, and eventually the foundation of Russia’s regional authority system was formed. The Russian Constitution positions municipal issues as joint jurisdiction of the Russian Federation and the subjects of the Russian Federation. The federation established a law determining the general guidelines of the municipal organization, and each subunit bases its principle on the law, imposing legal regulation (regional laws) according to its socio-economic conditions appropriate to its region. For example, in the Khabarovsk region, a regional law “Municipal Organization in Khabarovsk” (“Khabarovsk Municipal Law”) was established in May 1996.

In any case, the constitution of the above “Federal Municipal Law” and the regional municipal laws formed a framework for the municipal system in Russia. However, it should be pointed out that it has only been six years since the establishment of the Russian municipal system, and the local self-governments are still weak and in the process of developing.

1-3-2 The Municipal Organization and Functions

Under the Federal Municipal Law, the municipal districts are defined as cities (gorod), towns (poselok), Cos sack villages (stanits), raions, rural region (sel’sky Okrug), volost (volost’), Soviet village (sel’sovet) and other various forms. Specifically, the regional law defines these districts with consideration on historical and other regional traditions. Thus, it depends on each subunit to determine whether the cities (gorod) and raions are local self-governments. The Khabarovsk Municipal Law divides the local self-government into three categories: 1) cities, 2) cities including raions and 3) raions. Currently, the 19 which are recognized as local self-governments in the Khabarovsk region are; 1) Amursk city including Amursk raion; 2) Ayano-Maisk raion; 3) Bikin city including Bikin raion; 4) Vanino raion; 5) Verkhnebureya raion; 6) Vyazemsky city including Vyazemsky raion; 7) Komsomolsk-na-Amure city; 8) Komsomorsk raion; 9) Imeni Razo raion; 10) Niko-
eral and regional property that were transferred to the

issues; includes as its authority of the local government; specific functions and authorities to be stipulated in the

ment head (mayor or raion leader) out of the two possi-

establishes the method of electing the local self-gover-

Khabarovsk Municipal Law, states that the respective municipal charter

council consists of the mayor and other members of

The Federal Municipal Law (and the Khabarovsk Mu-

3

The Federal Municipal Law outlines municipal juris-

municipal charter for the municipal
council’s specific number of seats and authorities

The Federal Municipal Law (and the Khabarovsk Mu-

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The Federal Municipal Law (and the Khabarovsk Mu-

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The Federal Municipal Law (and the Khabarovsk Mu-

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As previously stated, following the revision of the Federal Municipal Law in August 2000, if the municipal council or its leader adopts and implements a legal acts that contravenes the Federal Constitutional Law or regional law, the municipal council is disbanded in compliance with the same laws, and the municipal leaders could be dismissed from office by command of the leaders of the subjects of the federation.

The Federal Municipal Law states for the municipal
government (city or raion office) to be set up, but that its specific functions and authorities to be stipulated in the municipal charters. The Khabarovsk Municipal Law includes as its authority of the local government; 1) enforcement and supervision of municipal jurisdiction issues; 2) management of municipal properties, and federal and regional property that were transferred to the

local self-government; 3) formulating the local self-govern-

government’s socio-economic development plans; 4) preparation and implementation of the local budget; 5) organization and efficient implementation of municipal extra-budgetary funds. For Khabarovsk City, the city charter stipulates the city government’s function and authorities to be specified in its provisions.

1-3-3 Local Self-Governments and Relationship with the Central Government and the Subjects of the Federation

The Federal Municipal Law stipulates the authority of the municipal council, the local self-government leader and its government, as the following jurisdictional issues: 1) adoption, amendment, and compliance supervision of the municipal charter; 2) possession, use, and management of municipal property; 3) organization, approval, and implementation of the local budget and introduction of municipal taxes; 4) the local self-government’s comprehensive socio-economic development; 5) maintenance and use of local self-government housings; 6) organization and maintenance of municipal preschool, general education, and vocational school facilities; 7) organization and maintenance of municipal healthcare and public health facilities; 8) municipal land readjustment and architectural regulation; 9) creating housing and socio-cultural facility conditions; 10) supervising land use within the local self-government region; 11) regulating use of mineral resources for establishment of municipal water and valuable mineral resources underground buildings; 12) organization and maintenance of municipal electric, gas, heating, and water and sewerage projects; 13) organization of fuel supply to the citizens and municipal facilities; 14) municipal road construction and maintenance; 15) the local self-government’s environmental organization and greening project; 16) organizing and recycling of processing household waste; 17) support and promote job placements; 18) participating in the local self-government’s environmental protection; 19) organization of the local self-government’s fire protection and fire fighting agencies. The municipal agencies can issue and implement their respective regulations within their jurisdictions.

The Federal Municipal Law outlines municipal jurisdiction issues, but there are areas where the subunit and local self-governments overlap or are ambiguous in individual fields and functions. In such cases, the Khabarovsk Municipal Law stipulates that the Khabarovsk region and the local self-governments may conclude power-sharing agreements for their respective fields to identify their authorities.

Federal and regional governmental agencies do not have branches offices (sub-branches and semi-branches) in all regions. Therefore, it is essential to delegate certain functions, which would otherwise be under federal or subjects of the federation to the local self-governments. The Federal Municipal Law allows the transfer of federal or regional authority to the local self-govern-
ment in order to perform certain operations. In doing so, the necessary financial resources shall be borne by the central government or the government of the subjects of the federation.

The opposite can be said for cases where the local self-government cannot solve issues under its jurisdiction. The Khabarovsk Municipal Law stipulates that it is possible to transfer local self-government issues to the state power agencies.

For personnel and organizational issues, if the municipal councils or its leader adopts or enforces legal acts that contravene federal or regional constitutional laws, the municipal council will be disbanded on the basis of such laws and the local self-government leader will be dismissed by the head of the subjects of the federation.

2 Russia's Local Financial System

2-1 Financial relationship between the federation and the subjects of the federation, and the financial structure of the subjects of the federation

2-1-1 Transition of the Local Finance System in Russia

There are three levels of budgets in the Russian public finance system; namely, the federal budget, the budget of the subjects of the federation (regional budget) and the local budget.

This three-level system had not existed in the Soviet Union era. In the Soviet budget system, the regional budget was incorporated into the Soviet federal budget, thus the independency of budget was negligible. The local self-governments were not allocated power over their own budgets. The fiscal decentralization finally started after the emergence of "regional self-sufficiency" in the Perestroika period between 1988 and 1991. In 1991, during the Soviet era, the Federal Constitutional Law “the basis of the budget system and the budget process of the Union of Soviet Socialist Republics” and “the basis of the Tax system in the Russian Federation (Tax Fundamental Law)” were established, and the foundation of the financial relationship between the federation and the subjects of the federation was established. However, due to the fact that the most critical issue of distribution of tax revenues and fiscal aid between the federation and the subjects of the federation was not strictly stipulated in either law, this issue was decided between the Federal Government and each subjects of the federation by way of direct negotiation. Hence, the budget system became disorderly and unregulated decentralization advanced.

A standardized distribution method for tax revenues and fiscal aid was stipulated in the Russian presidential decree in December 1993, and applied to the subjects of the federation from the 1994 budget. Nevertheless, for reasons such as the increase of deficit in federal and budgets of the subjects of the federation as well as the instability of the relationship between the federation and the subjects of the federation, the standardized system on the tax revenues and fiscal aid was not employed strictly, and resulted in the federal government and the subjects of the federation holding direct negotiations to determine the distribution of tax revenues and fiscal aid. For this reason, the financial relationship between the federation and the subjects of the federation remained unstable and unclear. Also, the conclusion process of the power-sharing treaty and the agreements on budget and financial issues from 1994 through 1998, have furthermore promoted individualism on the distribution of tax revenues and fiscal aid. During this process, the nationalistic republics such as Tatarstan, Kabardin-Balkar and Sakha, and some subjects of the federation that had strong economic powers such as St. Petersburg and the Sverdlovsk region acquired favorable conditions such as reserving large amounts of tax revenues in their local regions (Table 6).


<table>
<thead>
<tr>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<td>Republic of Sakha (Yakutia)</td>
<td>Total</td>
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<td>1.2</td>
<td>0.0</td>
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<td>0.0</td>
<td>35.5</td>
<td>35.5</td>
<td>47.2</td>
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<tr>
<td>Russian average</td>
<td>Total</td>
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<td>51.7</td>
<td>30.2</td>
<td>40.9</td>
<td>43.7</td>
<td>43.7</td>
<td>37.1</td>
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<td>Profit Tax</td>
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<td>41.2</td>
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<td>68.4</td>
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<td>68.4</td>
<td>62.7</td>
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<td>47.5</td>
<td>60.0</td>
<td>73.0</td>
<td>84.4</td>
<td>84.4</td>
<td>74.8</td>
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Source: A.M. Ravlov (edited) "Federal Budget and the Regions - Analysis on the Financial Support-" (Moscow 1999)
Table 7 Types of Taxes in the Russian Federation.

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Federal Tax</strong></td>
<td><strong>Federal Tax</strong></td>
</tr>
<tr>
<td>1) Value-added Tax</td>
<td>1) Value-added Tax</td>
</tr>
<tr>
<td>2) Commodity Tax</td>
<td>2) Commodity Tax</td>
</tr>
<tr>
<td>3) Individual Income Tax</td>
<td>3) Company Profit Tax</td>
</tr>
<tr>
<td>4) Unified Social Tax</td>
<td>4) Capital Income Tax</td>
</tr>
<tr>
<td>5) Securities Transaction Tax</td>
<td>5) Individual Income Tax</td>
</tr>
<tr>
<td>6) Customs Duties</td>
<td>6) Unified Social Tax</td>
</tr>
<tr>
<td>7) Mineral Resources Base Reproduction Tax (outside of the special budget fund)</td>
<td>7) Federal Levies</td>
</tr>
<tr>
<td>8) Use of Natural Resources Tax</td>
<td>8) Customs Duty and Customs Fee</td>
</tr>
<tr>
<td>9) Corporate Profits Tax</td>
<td>9) Mineral Resources Mining Tax</td>
</tr>
<tr>
<td>10) Payments to the Road Fund</td>
<td>10) Mineral Resources Base Reproduction Tax</td>
</tr>
<tr>
<td></td>
<td>11) Carbon Hydride Collection Supplement Income Tax</td>
</tr>
<tr>
<td></td>
<td>12) Right to Use Animal and Water Creature Resources Tax</td>
</tr>
<tr>
<td></td>
<td>13) Forest Tax</td>
</tr>
<tr>
<td></td>
<td>14) Water Tax</td>
</tr>
<tr>
<td></td>
<td>15) Environment Tax</td>
</tr>
<tr>
<td></td>
<td>16) Federal License Tax</td>
</tr>
<tr>
<td></td>
<td><strong>Subnational Jurisdiction Tax</strong></td>
</tr>
<tr>
<td></td>
<td>1) Business Property Tax</td>
</tr>
<tr>
<td></td>
<td>2) Property Tax</td>
</tr>
<tr>
<td></td>
<td>3) Road Tax</td>
</tr>
<tr>
<td></td>
<td>4) Transportation Tax</td>
</tr>
<tr>
<td></td>
<td>5) Sales Tax</td>
</tr>
<tr>
<td></td>
<td>6) Gambling Business Tax</td>
</tr>
<tr>
<td></td>
<td>7) Municipal License Tax</td>
</tr>
<tr>
<td></td>
<td><strong>Municipal Tax</strong></td>
</tr>
<tr>
<td></td>
<td>1) Property Tax</td>
</tr>
<tr>
<td></td>
<td>2) Individual Asset Tax</td>
</tr>
<tr>
<td></td>
<td>3) Advertisement Tax</td>
</tr>
<tr>
<td></td>
<td>4) Inheritance Tax, Gift Tax</td>
</tr>
<tr>
<td></td>
<td>5) Municipal License Tax</td>
</tr>
<tr>
<td></td>
<td><strong>Subnational Jurisdiction Tax</strong></td>
</tr>
<tr>
<td></td>
<td>1) Business Property Tax</td>
</tr>
<tr>
<td></td>
<td>2) Property Tax</td>
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<tr>
<td></td>
<td>3) Road Tax</td>
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<td>4) Transportation Tax</td>
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<tr>
<td></td>
<td>5) Sales Tax</td>
</tr>
<tr>
<td></td>
<td>6) Gambling Business Tax</td>
</tr>
<tr>
<td></td>
<td>7) Municipal License Tax</td>
</tr>
</tbody>
</table>

Note: 1) to be abolished in December, 2002, 2) will not be collected after January 1, 2001, 3) collected only from regions with 4) can implement with the decision of the municipal representative agency, 5) no tax collected on regions that adopted sales tax 6) possibly continued, but not defined in the Tax Code, 7) Tax abolished in regions that introduced real estate tax

Source: A.V. Pelo "Russia's Taxes and International Treaties" (2000, Moscow)
thority of the federation, the subjects of the federation and the local self-government; the budget formation, approval, execution and settlement of each level; and the type of annual tax revenues, non-tax receipts and the annual expenditure powers for each level. The following are stipulated in the Russian Constitution's Federal Budget Code, based on the principle of isonomy of the subjects of the federation: 1) the budget authority uniformity of the subjects of the federation and the local self-government; 2) standardization of the minimum budget guarantee standards of the subjects of the federation and the local self-government; 3) equality of all budgets of the subjects of the federation in the inter-relationship with federal budget, equality of the local budget in the interrelationship with regional budget. This provision basically prohibits granting special conditions through individual negotiations between the federal government and the subjects of the federation, including the power-sharing treaties and agreements. The Federal Budget Code stipulates the extent of retaining federal taxes for the locals, and the scale of fiscal aid from the federal budget to the subjects of the federation under a single standard. In case of discrepancies between the code and agreements of the federation and the subjects of the federation, the agreements will be deemed invalid and will not be executed.

In the Khabarovsk territory, the Khabarovsk Local Budget Code was enacted in July 1999 and stipulated the following detailed regulations based on the principle of the Federal Budget Code; Khabarovsk territory's local and local budget, the formation, approval, execution and settlement procedures of the district and municipal debts, budgetary powers and relationship of the Khabarovsk territory and the local self-government.

### Table 8 Budget Allocation Ratio of Various Taxes (As of August, 2001.)

<table>
<thead>
<tr>
<th>Tax Category</th>
<th>Federal Budget</th>
<th>Subnational Jurisdiction Budget</th>
<th>Municipal Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value-Added Tax (Federal Tax)</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Business Profit Tax (Federal Tax)</td>
<td>31.25</td>
<td>60.42</td>
<td>3.3</td>
</tr>
<tr>
<td>Individual Income Tax (Federal Tax)</td>
<td>3</td>
<td>97</td>
<td>0</td>
</tr>
<tr>
<td>Excise Tax (Federal Tax)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil, Natural Gas, Gasoline, Passenger Cars</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Alcohol</td>
<td>50</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Mineral Resource Mining Tax (Federal Tax)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mineral Resource (excluding Oil, Natural Gas)</td>
<td>40</td>
<td>60</td>
<td>0</td>
</tr>
<tr>
<td>Oil, Natural Gas</td>
<td>80</td>
<td>20</td>
<td>0</td>
</tr>
<tr>
<td>Sales Tax (Subnational Jurisdiction Tax)</td>
<td>0</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>Business Property Tax (Subnational Jurisdiction Tax)</td>
<td>0</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Inheritance Tax, Gift Tax (Municipal Tax)</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Land Tax (Municipal Tax)</td>
<td>30</td>
<td>20</td>
<td>50</td>
</tr>
</tbody>
</table>

Note: 1) Effective starting in January, 2002.

1. At the peak period, there were over 100 types of taxes including federal, subnational jurisdiction and municipal taxes.

2. It is worth noting that following the complete implementation of the tax code Section 2, the forestry income tax was transferred from the subnational jurisdiction to the federal tax in Table 7.
corporate property tax, real estate tax, and land tax, etc.). Thus, the current tax scheme is in a transient phase, somewhere between the stage of the left column and right column in Table 7. The full implementation of the Tax Code Section 2 had been scheduled to start from January 2002. However, since the Federation Council has been dragging on the deliberations, full implementation (in other words, the transition to the right column in Table 7) will overlap into 2003.

The current scheme does not imply 100% incorporation of; the federal tax into the federal budget, the tax of the subjects of the federation tax into the regional budget, or the municipal tax into the local budget. The corporate profit tax - a federal tax is distributed to the

<table>
<thead>
<tr>
<th>Revenues</th>
<th>1,000 rubles</th>
<th>Composition Ratio (%)</th>
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<tr>
<td>Tax Revenues</td>
<td>3,168,595</td>
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<tr>
<td>Business Profit Tax (Federal Tax)</td>
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<td>Individual Income Tax (Federal Tax)</td>
<td>685,832</td>
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<td>Gambling Business Tax (Federal Tax)</td>
<td>1,392</td>
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<td>Value-Added Tax (Federal Tax)</td>
<td>261,729</td>
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<td>License, Registration Fee</td>
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<td>Use of Forestry Land Fee (Subnational Jurisdiction Tax)</td>
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<td>Use of Water Facilities Fee (Federal Tax)</td>
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<td>Other Taxes</td>
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<td>Non-Tax Revenues</td>
<td>122,286</td>
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<td>Dividends on Nationally Owned Shares</td>
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<td>Land, Other Property Rent</td>
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<td>Interest on Budget Loans</td>
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<td>Fines and Damage Deposit</td>
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<td>Other Non-tax Revenues</td>
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<tr>
<td>Total Self-Income</td>
<td>3,290,881</td>
<td>44.7</td>
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</table>

Fund Transfer from Federal Budgets
Funds from non-federal Budgets
Road Fund
Environmental Fund
Mineral Resources Reproduction Funds
Other
Total Revenues

Source: Russian Ministry of Finance Home Page (http://www.minfin.ru/)

Table 9 Revenue Structure of Khabarovsk Territory (2000).

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<td>▲ 2.5</td>
<td>11.1</td>
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<td>Sakha Republic</td>
<td>▲ 49.1</td>
<td>▲ 40.3</td>
<td>13.1</td>
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<td>Jewish Autonomous Region</td>
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<td>57.1</td>
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<td>Chukchi Autonomous Area</td>
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<td>▲ 2.8</td>
<td>52.7</td>
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<td>Primorsk Territory</td>
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<td>▲ 3.1</td>
<td>32.7</td>
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<tr>
<td>Khabarovsk Territory</td>
<td>▲ 17.9</td>
<td>0.8</td>
<td>16.7</td>
</tr>
<tr>
<td>Amur Region</td>
<td>▲ 39.3</td>
<td>7.8</td>
<td>41.0</td>
</tr>
<tr>
<td>Kamchatka Region</td>
<td>▲ 46.3</td>
<td>▲ 11.6</td>
<td>39.2</td>
</tr>
<tr>
<td>Koryak Autonomous Area</td>
<td>▲ 63.4</td>
<td>▲ 8.6</td>
<td>57.0</td>
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<td>Magadan Region</td>
<td>▲ 30.4</td>
<td>3.2</td>
<td>29.4</td>
</tr>
<tr>
<td>Sakhalin Region</td>
<td>▲ 22.7</td>
<td>3.0</td>
<td>25.2</td>
</tr>
</tbody>
</table>

Source: Andrei Belov and Sergei Diomine "Domestic Relations Between the Central and Region over Budget", Japan Association for Trade with Russia & Central-Eastern Europe "Russia's Regions – Central and Local" March 2
federal, subjects of the federation, and local budget by the ratio shown in Table 8 (distribution ratio from January, 2002). Likewise, tax revenues for federal taxes such as commodity tax (alcohol), personal income tax, and mineral resource mining tax, is distributed between the federal and subjects of the federation, and tax revenue

Table 11  Financial Support Structure form the Federation to the Subunits and Local Authority (%).

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<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Fund for Regional</td>
<td>0.0</td>
<td>9.6</td>
<td>49.8</td>
<td>44.8</td>
<td>46.7</td>
<td>74.7</td>
</tr>
<tr>
<td>Financial Support</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional Subsidy</td>
<td>14.9</td>
<td>0.0</td>
<td>1.7</td>
<td>1.7</td>
<td>2.9</td>
<td>5.3</td>
</tr>
<tr>
<td>Subsidy</td>
<td>5.8</td>
<td>11.2</td>
<td>6.8</td>
<td>4.4</td>
<td>3.1</td>
<td>1.4</td>
</tr>
<tr>
<td>Offsets</td>
<td>77.9</td>
<td>76.7</td>
<td>39.0</td>
<td>40.5</td>
<td>28.7</td>
<td>24.7</td>
</tr>
<tr>
<td>Financial Loans(*)</td>
<td>1.4</td>
<td>2.4</td>
<td>2.6</td>
<td>8.6</td>
<td>18.5</td>
<td>▲ 6.1</td>
</tr>
</tbody>
</table>

Note: The 1998 negative financial loan indicate larger repayment than amount received from the federal budget.
Source: A.M. Ravlev (edited) "Federal Budget and the regions - Analysis on the Financial Support" (Moscow 1999)

Table 12  Division of the Annual Expenditure Powers among Budget Levels Determined by the Federal Budget Code.

<table>
<thead>
<tr>
<th>Expenditure of the source limited to the subnational jurisdiction budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational guarantee of the subnational jurisdiction legislative (representative system) and administrative agencies</td>
</tr>
<tr>
<td>Interest payment and principal repayment of the subnational jurisdiction debts</td>
</tr>
<tr>
<td>Implementation of the subnational jurisdiction election and referendum</td>
</tr>
<tr>
<td>Guarantee of implementing of regional programs</td>
</tr>
<tr>
<td>Development of state-owned property of the subnational jurisdiction</td>
</tr>
<tr>
<td>Implementation of international and economic relations of the subnational jurisdiction</td>
</tr>
<tr>
<td>Development and management of subnational jurisdiction projects, facilities and organizations under state power agency jurisdiction</td>
</tr>
<tr>
<td>Guarantee of subnational jurisdiction mass media activities</td>
</tr>
<tr>
<td>Financial support to municipal budget</td>
</tr>
<tr>
<td>Individual national authority enforcement guarantee delegated to the local authority</td>
</tr>
<tr>
<td>Additional expenditure compensations according to decisions adopted by the subnational jurisdiction</td>
</tr>
<tr>
<td>state power agencies of municipal budgetary expenditure increases or revenue decreases</td>
</tr>
<tr>
<td>Other expenditures in conjunction with subnational jurisdiction enforcement of authority</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditure of the source limited to the municipal budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintenance of municipal agencies</td>
</tr>
<tr>
<td>Development and management of municipal property</td>
</tr>
<tr>
<td>Organization, maintenance and development of educational, healthcare, cultural and sport facilities, mass media, and facilities owned or controlled by municipal agencies</td>
</tr>
<tr>
<td>Maintenance of municipal social order conservation agencies</td>
</tr>
<tr>
<td>Organization, maintenance and development of municipal housing and public service</td>
</tr>
<tr>
<td>Maintenance of municipal road or of equal significance road construction</td>
</tr>
<tr>
<td>Improving living conditions and greenery in the municipal region</td>
</tr>
<tr>
<td>Organization of household waste use and process (excluding radioactive waste)</td>
</tr>
<tr>
<td>Maintenance of burial ground under municipal agency jurisdiction</td>
</tr>
<tr>
<td>Transportation services for citizens, and organization of transportation services for facilities owned or under jurisdiction of municipal agencies</td>
</tr>
<tr>
<td>Guarantee of fire safety</td>
</tr>
<tr>
<td>Natural environment conservation in municipal regions</td>
</tr>
<tr>
<td>Implementation of programs adopted by municipal agencies</td>
</tr>
<tr>
<td>Interest payment and principal repayment of municipal debt</td>
</tr>
<tr>
<td>Supplying residential subsidy</td>
</tr>
<tr>
<td>Maintenance of municipal archive</td>
</tr>
<tr>
<td>Implementation of municipal election and referendum</td>
</tr>
<tr>
<td>Financing municipal miscellaneous decisions and other expenditures categorized by regional issues determined by the municipal representative system agency subject to the classification of the federal budget</td>
</tr>
</tbody>
</table>

\(^7\) The "Russian Federation Budgetary System Development Program until 2005" ratified by the central government on August 15, 2001, states that the new structure will be designed to such that the federal, subnational jurisdiction, and municipal taxes will be paid to the respective budgets ("Russian Newspaper", August 21, 2001).
for sales tax (subjects of the federation tax), is distributed between the subjects of the federation and local budget (until 2000 year end, value added tax was distributed at a 85% to 15% ratio for the federal and subjects of the federation budget respectively).

The Federal Tax Code determines the policies for federal tax basis, tariff, tax collection procedures, and the tax revenue distribution of each budget level. In contrast, subjects of the federation taxes are implemented by the establishment of law of each subunit in accordance with the principles stipulated under the Federal Tax Code (including tax categories), and the tariff (within the range of the maximum tariff limits stipulated in the Federal Tax Code) is determined as well as various types of preferential tax treatments. For example, a local law “Tax and Levies in the Khabarovsk Territory” was established in December 1999, after the adoption of the Federal Tax Code. With the establishment and implementation of Section 2 of the Federal Tax Code, it appears that there will be amendments made to the local law “Tax and Levies in the Khabarovsk Territory” to comply with the Code.

Looking at the annual revenue structure of the Khabarovsk Territory in Table 9, tax revenues make up only 43% of the total revenue, deviating significantly from the Russian average at approximately 75%. In addition, when taking into consideration the high ratio of the fund transfer from the federal budget (29%), it is evident that the revenue basis for the Khabarovsk territory is weak compared to other subjects of the federation. Of the tax revenues, 81% is retained federal tax, and the subjects of the federation tax ratio standard are less than 20%.

2-1-3 Fiscal Aid from the Federal Budget

As shown in Table 10, a substantial portion of the subjects of the federation budget would be in deficit without fiscal aid from the federal budget. The average Russian subjects of the federation budget showed a deficit of 15.6% in 1998, without fiscal aid from the federal budget. The financial conditions of the Far East region are particularly weak; there are eight subjects of the federation with deficits exceeding 30% (the fiscal indicator of the Khabarovsk territory seems favorable compared to other territories in the same region, but is nevertheless below the Russian average). The only subunit that recorded a surplus in 1998 without fiscal aid

<table>
<thead>
<tr>
<th>Expenditure Items</th>
<th>Federal Budget</th>
<th>Subnational Jurisdiction Budget</th>
<th>Municipal Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining and Manufacturing, Energy, Construction</td>
<td>Subsidy to the Coal Division, Atomic Energy, Conversion of the Defence Industry, Federal Investment Program</td>
<td>Corporate subsidy</td>
<td>Food and Fuel Price Subsidy Provision</td>
</tr>
<tr>
<td>Agriculture and Fishery</td>
<td>Federal Provision Storage Maintenance, Seasonal Loans, Subsidy</td>
<td>Subsidy for maintaining the number of livestocks, Regional (Subnational Jurisdiction) Provision Storage Maintenance, Land Improvements</td>
<td>Veterinarian Services, Social Infrastructure of Agricultural Corporations</td>
</tr>
<tr>
<td>Environmental Conservation</td>
<td>Federal Programs relating to Weather, Surveys, Constructions</td>
<td>Regional (Subnational Jurisdictions) Programs</td>
<td>Individual Programs</td>
</tr>
<tr>
<td>Transportation and Communication</td>
<td>Federal and Interregional Roads, Transmission Facilities, Postal Services</td>
<td>Regional (Subnational Jurisdictions) and Municipal Roads</td>
<td>Metropolitan Transportations and City Roads, Metropolitan Transportation Fare Subsidy Provision</td>
</tr>
<tr>
<td>Public Housing Services</td>
<td>Mass Purchase of Fuel, Capital Investment</td>
<td>Housing Subsidy, Water Supply Facility, Sewerage, Heating, City Planning, Sanitation</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>Higher Education, Continuing Education</td>
<td>Universities, Specialized School, Continuing Education</td>
<td>General Education School, Kindergarten and Nursery</td>
</tr>
<tr>
<td>Healthcare and Sports</td>
<td>Federal Medical Center, Healthcare Services</td>
<td>Specialized Hospital and Clinic, Health Insurance Payment for the Unemployed</td>
<td>Municipal Hospital, Emergency Center, Disaster Surgery-Clinic, Medication Purchases for Orphanage, Sports Facility</td>
</tr>
</tbody>
</table>
from the federal budget was St. Petersburg, the remaining subjects of the federation showed deficits.

Therefore, fiscal aid from the federal budget is essential in balancing the fiscal budget for most subjects of the federation. In fact, when including fiscal aid from the federal budget, the total budget deficit of the subjects of the federation in $+332$ shrinks to $2,381$ billion, and the Khabarovsk territory shows a surplus of $2,981$ million.

Currently, there are three types of fiscal aid being applied from the federal budget to subjects of the federation budgets: 1) fund transfer from the federation (fund transfer, grants and local subsidy from the Fund for the Financial Support of Federation Subjects), 2) financing (loans from the ministry of finance, etc.), and 3) offsetting debts between the federal budget and the subjects of the federation budget.

The current and most predominant form of fiscal aid is providing fund transfer from the Fund for the Financial Support of Federation Subjects, and made up 74.7% of the total fiscal aid for the subjects of the federation in 1998. In 1994, the Fund for the Financial Support of Federation Subjects was included in the federal budget expenditure item in order to support the fiscal balance of the subjects of the federation budget. Also, the employment of the debt offset (write-off) fiscal aid method has decreased rapidly with the establishment of the Fund for the Financial Support of Federation Subjects. Debt offset (write-off) entail retaining a portion of the tax revenue that should originally have been implemented in the federal budget, or canceling loan repayment from the federation.

In Table 9, the fund transfer from the federal budget (29% of annual revenue) in the annual revenue of the 2000 Khabarovsk budget corresponds to the fiscal aid from the federal. Therefore, the 2000 Khabarovsk finance would have been in deficit by 44.2% without fiscal aid, but instead was reduced to 2.4% as a result of the fiscal aid.

### 2.1.4 Subjects of the Federation Annual Expenditure Power

Regarding the distribution of annual revenue between the federation, the subjects of the federation and the local self-government, the establishment of the Federal Tax Code and the Fund for the Financial Support of Federation Subjects promoted the reorganization of the tax revenues and fiscal aid respectively.

On the other hand, regarding the division of the authorization of budget at each level, many points were unclear until the establishment of Federal Budget Code in 1998. Many frictions arose among the federation, subjects of the federation and local self-government as a result of forcing annual expenditure obligations to each other. In order to keep the federal budget deficit within the targeted range agreed with IMF and to comply with the loan terms even superficially, there were many cases where the federal government shifted the annual expenditure obligation (namely budget deficit) with unsupported annual revenue to the subjects of the federation budget or the local budget.

With the enactment of the Federal Budget Law in 1998, as shown in Table 12, the fields of responsibility of respective budgetary levels were somewhat determined. However, as evident from Table 12, "the expenditure of the common source of the federal, subjects of the feder-

<table>
<thead>
<tr>
<th>Expenditure Items</th>
<th>Unit (1000 roubles)</th>
<th>Composition Ratio(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government administration and municipal fee</td>
<td>243,363</td>
<td>3.2</td>
</tr>
<tr>
<td>Judicial institution maintenance fee</td>
<td>425</td>
<td>0.0</td>
</tr>
<tr>
<td>Expenses for maintenance of law and order</td>
<td>311,674</td>
<td>4.1</td>
</tr>
<tr>
<td>Mining and manufacturing, electric utility</td>
<td>424,694</td>
<td>5.6</td>
</tr>
<tr>
<td>Agriculture</td>
<td>203,300</td>
<td>2.7</td>
</tr>
<tr>
<td>Environmental and natural resources conservation</td>
<td>2,454</td>
<td>0.0</td>
</tr>
<tr>
<td>Transportation, road, communication and information</td>
<td>136,169</td>
<td>1.8</td>
</tr>
<tr>
<td>Housing and public services</td>
<td>589,184</td>
<td>7.8</td>
</tr>
<tr>
<td>Anti-emergency and natural disaster measure fees</td>
<td>13,695</td>
<td>0.2</td>
</tr>
<tr>
<td>Educational fees</td>
<td>224,419</td>
<td>3.0</td>
</tr>
<tr>
<td>Culture and Art</td>
<td>64,113</td>
<td>0.9</td>
</tr>
<tr>
<td>Mass media and advertisement</td>
<td>8,451</td>
<td>0.1</td>
</tr>
<tr>
<td>Medical and healthcare</td>
<td>489,078</td>
<td>6.5</td>
</tr>
<tr>
<td>Public policy</td>
<td>238,028</td>
<td>3.2</td>
</tr>
<tr>
<td>Budget loans</td>
<td>800,698</td>
<td>10.6</td>
</tr>
<tr>
<td>Regional road fund</td>
<td>1,354,226</td>
<td>18.0</td>
</tr>
<tr>
<td>Municipal fund transfer</td>
<td>1,171,288</td>
<td>15.5</td>
</tr>
<tr>
<td>Mutual offset to local authority</td>
<td>395,346</td>
<td>5.2</td>
</tr>
<tr>
<td>Other expenditures</td>
<td>869,085</td>
<td>11.5</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td><strong>7,539,699</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Russian Ministry of Finance Homepage (http://www.minfin.ru/)
ation and local budgets" ranges widely amongst general economy such as mining and manufacturing, agricultural and transport, social security and environmental protection. Therefore, further detailed division of annual expenditure obligation is necessary for these individual fields. Although these detailed annual expenditure items of each level budget under such shared powers have gradually been determined among the administrative agencies of each level as shown in Table 13, a considerable amount of uncertainty remains.

Taking a look at the 1999 annual expenditure structure of Khabarovsk territory on Table 14, it is obvious that the largest expenditure item in Khabarovsk territory in that year was the "regional roads", which took up 18% of the total annual expenditure. The local budget was utilized in construction and repair of local roads. The second largest expenditure item was the "fund transfer to local self-governments", and when adding this to the "mutual settlements to local budget", approximately 21% makes up the fiscal aid to local self-governments. In addition, the corresponding portion of "budget loan" is presumed to be loans to local self-governments. This implies that the Khabarovsk local self-government is put in a serious financial situation. Conversely, fiscal aid and budget loans to the local self-governments oppression on Khabarovsk economy, public policy, and the fiscal expenditure of government employee allowances.

2-2 Fiscal Structure of the Local Self-Government

2-2-1 Legal Basis of the Local Finance

As stated above, budgetary powers were not allocated to cities and raions during the Soviet era. After the collapse of the Soviet Union, the new Russian constitution established in December 1993 officially recognized "the municipal agencies to form, approve and execute local budgets". At this time, the Russian municipal system had not been formed and this provision only demonstrated principles. The outline of the local autonomy system was formed in August 1995, as previously stated, with the enactment of the Federal Municipal Law. This law re-stated the independent budgetary powers of the local self-government and stipulated the general principle of the local budget, but refrained from

<table>
<thead>
<tr>
<th>Revenue Items</th>
<th>Unit (1000 roubles)</th>
<th>Composition Ratio(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Revenues</td>
<td>3,436,422</td>
<td>66.0</td>
</tr>
<tr>
<td>Business Profit Tax (Federal Tax)</td>
<td>526,422</td>
<td>10.1</td>
</tr>
<tr>
<td>Individual Income Tax (Federal Tax)</td>
<td>993,412</td>
<td>19.1</td>
</tr>
<tr>
<td>Value-Added Tax (Federal Tax)</td>
<td>130,712</td>
<td>2.5</td>
</tr>
<tr>
<td>Commodity Tax (Federal Tax)</td>
<td>21,328</td>
<td>0.4</td>
</tr>
<tr>
<td>License, Registration Fee</td>
<td>903</td>
<td>0.0</td>
</tr>
<tr>
<td>Sales Tax (Subnational Jurisdiction Tax)</td>
<td>148,508</td>
<td>2.9</td>
</tr>
<tr>
<td>Consolidated Income Tax (Subnational Jurisdiction Tax)</td>
<td>309,168</td>
<td>5.9</td>
</tr>
<tr>
<td>Individual Property Tax (Municipal tax)</td>
<td>11,584</td>
<td>0.2</td>
</tr>
<tr>
<td>Business Property Tax (Subnational Jurisdiction Tax)</td>
<td>398,046</td>
<td>7.6</td>
</tr>
<tr>
<td>Use of Underground Resources Fee (Federal Tax)</td>
<td>79,840</td>
<td>1.5</td>
</tr>
<tr>
<td>Use of Forestry Land Fee (Subnational Jurisdiction Tax)</td>
<td>49,006</td>
<td>0.9</td>
</tr>
<tr>
<td>Use of Water Facilities Fee (Federal Tax)</td>
<td>5,892</td>
<td>0.1</td>
</tr>
<tr>
<td>Land Tax (Municipal Tax)</td>
<td>87,282</td>
<td>1.7</td>
</tr>
<tr>
<td>Police unit maintenance, Welfare and other Taxes (Municipal Tax)</td>
<td>9,205</td>
<td>0.2</td>
</tr>
<tr>
<td>Advertisement Tax (Municipal Tax)</td>
<td>6,537</td>
<td>0.1</td>
</tr>
<tr>
<td>Public Housings and Social Facility Maintenance Tax (Municipal Tax)</td>
<td>633,393</td>
<td>12.2</td>
</tr>
<tr>
<td>Other Taxes and Levies</td>
<td>25,184</td>
<td>0.5</td>
</tr>
<tr>
<td>Non-Tax Revenues</td>
<td>194,908</td>
<td>3.7</td>
</tr>
<tr>
<td>Land and Other Property Rent</td>
<td>141,390</td>
<td>2.7</td>
</tr>
<tr>
<td>Interest on Bank Deposits</td>
<td>2,336</td>
<td>0.0</td>
</tr>
<tr>
<td>Interest on Budget Loans</td>
<td>1,978</td>
<td>0.0</td>
</tr>
<tr>
<td>Fines and Damage Deposit</td>
<td>28,649</td>
<td>0.5</td>
</tr>
<tr>
<td>Other Non-Tax Revenues</td>
<td>20,555</td>
<td>0.4</td>
</tr>
<tr>
<td>Total Self-Income</td>
<td>3,631,530</td>
<td>69.7</td>
</tr>
<tr>
<td>Funds from Non-Federal Budgetary Funds</td>
<td>1,468</td>
<td>0.0</td>
</tr>
<tr>
<td>Environmental Fund</td>
<td>11,103</td>
<td>0.2</td>
</tr>
<tr>
<td>Subnational Jurisdiction Budget Fund Transfer</td>
<td>1,171,288</td>
<td>22.5</td>
</tr>
<tr>
<td>Other</td>
<td>395,346</td>
<td>7.6</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>5,210,535</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Russian Ministry of Finance Homepage (http://www.minfin.ru/)
referring to budgetary powers such as specific revenue items or expenditure obligations. After the collapse of the Soviet Union, Russia continued to form and execute local budget without specific budgetary authority divisions between the federation, subjects of the federation, and the local self-government. The municipal finance disorder during this period is demonstrated by the multiple municipal tax system existing in each local self-government.

In September 1997, the Russian Constitutional Law "the financial basis of the local self-government in the Russian Federation," (the Federal Municipal Finance Law) referred to the specific budgetary powers, and the followings were determined: 1) the municipal agency authority in the local budgetary processes, 2) the obligation of the subjects of the federation in the local budgetary processes, 3) the listing of annual revenue items of the local budget, 4) arranging the fiscal aid to the Fund for the Financial Support of Local Self-Government and its functions in the subjects of the federation.

The Federal Budget Code enacted the following year stipulated a detailed division of budgetary powers between the federation, subjects of the federation and local self-government, determining the local self-government expenditure powers as shown above in Table.

The Federal Tax Code enactment continues from date, and the standardization of the municipal tax system in the Russian Federation is almost complete.

In regard to the Khabarovsk territory, the Khabarovsk Municipal Law was enacted in May 1996, and the Khabarovsk Local Budget Code in July 1999, determining the principle of the financial relationship between the Khabarovsk territory and the local self-governments within its region.

### 2.2-2 The Tax Revenue Structure in Municipal Finance

In 1997, tax revenues made up 63.4% of Russia’s total municipal revenue. As shown in Table 15, the tax revenue makes up 66% of the total revenue in the 2000 Khabarovsk total municipal annual revenue structure. The retained federal tax makes up 51.1% of the total Khabarovsk tax revenue, similarly, retained subjects of the federation tax makes up 26.2%, and municipal tax makes up 21.8% of the total local tax revenues. This is not much different from the situation of the Khabarovsk annual budget revenue structure where the top tax retaining makes up approximately 80% of the tax revenue as shown in Table 9.

The Federal Constitutional Law (the Federal Tax Fundamental Law under the current tax system, or the federal tax code after the complete implementation of the federal tax code section 2) determines municipal tax categories and tax basis, as well as the maximum tariff. The municipal council can introduce municipal tax in its region under the conditions set forth and within the ranges predetermined by the Federal Constitutional Law.

As shown in Table 7, the municipal tax will be re-organized, integrated and substantially simplified following the complete implementation of the Federal Tax Code Section 2 (the segment on the municipal tax in the Federal Tax Code Section 2 has not been established to date), and the existing twenty-two municipal taxes will be reduced to a maximum of five and a minimum of three. Although the taxpayers should welcome this reform, which simplifies the tax payment procedure and reduce taxes, it will most likely cause tax revenue reduction for the local self-government finance. At present,
most of the local self-governments in Russia are in deficit; and a further revenue reduction will provoke criticism from many of the local self-governments. In the future, it is necessary to compensate the local budget revenue reduction due to the simplification of municipal tax with measures such as increasing the federal and subjects of the federation tax-retaining ratio for the local budget and strengthening fiscal aid from the subjects of the federation to the local self-governments. Nevertheless, the prospect is not clear.

2-2-3 Fiscal Aid from the Regional Budget

It is said that current majority of the Russian municipal finance is in a state of deficit. In 2000, the municipal finance of the entire Khabarovsk territory recorded a 13.3% deficit. The Federal Municipal Finance Law and the Federal Budget Code clearly state that the federation and the subjects of the federation are obligated to subsidize the local self-governments to compensate the local budget deficit and balance municipal finance. Fund transfer from the “Municipal Finance Fund” consisting of the subjects of the federation budget, makes up the primary part of the fiscal aid to the self-governments. In effect, in Khabarovsk, 15.5% of the total annual expenditure was allocated for the “fund transfer to the local self-government” in 2000 (Table 14). On the other hand, “fund transfer from the subjects of the federation” made up 22.5% of the total annual revenue for the recipient local self-governments.

In 2000, the Khabarovsk local budget not including fiscal aid is in a state of deficit by 46.1%. However, due to the severe situation of the Khabarovsk local budget, sufficient fiscal aid to the local self-governments cannot be allocated. As mentioned above, the Khabarovsk local self-government would be in deficit by 13.3% even after fiscal aid provisions. It should be noted that municipal deficit persists even after the recovery of the Russian economy after the 1998 financial crisis and the federal finance shifted to surplus (2.5% surplus in 2000).

2-2-4 Municipal Annual Expenditure Powers

The distribution of the annual expenditure powers between the federation, the subjects of the federation and the local self-government and its issues is as stated above in the section; Subjects of the Federation Annual Expenditure Powers. As shown in Table 12, the local self-governments have exclusive powers for expense items such as; 1) maintenance and development of educational, healthcare, and cultural facilities; 2) housing and public services; 3) reorganizing living conditions and greening; 4) construction and restoration of city (raion) roads; 5) processing and management of house-

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*In the subnational jurisdiction, the business property tax (subnational jurisdiction tax), land tax (municipal tax) and individual property tax (municipal tax) will be consolidated to the real estate tax, thus there will only be three types of municipal taxes: advertisement tax, inheritance and gift tax, and license tax.

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Conclusion

After the collapse of the Soviet Union, the Russian...
Federation is building an entirely new local and financial system different from the old regime, through an extremely complicated process that is still incomplete. What makes it difficult to analyze the Russian local and financial systems are, the complexity, ambiguity and opacity of the authority division between the federation, the subjects of the federation and the local self-governments. This is due to the repeated deprivation and intrusion of authority between the federation, the subjects of the federation and the local self-governments in the circumstances of reinforcing regional powers and the faltering power of the federal government after the collapse of the Soviet Union.

Currently, President Putin is promoting local system reform with centralized measures. In a word, the aim of President Putin’s local reform can be expressed as clarifying the power relationship between the federation, the subjects of the federation and the local self-governments. On June 26, 2001, President Putin declared a presidential decree to establish the proposal formulation committee on authority divisions between the federation, the subjects of the federation and the local self-government. This committee will mainly work on the fundamental assessment of the power-sharing treaties between the federation and the subjects of the federation. As stated above, the power-sharing treaty was one of the sources that led to the chaos of the relationship between the federation and the subjects of the federation under the Yeltsin administration.

Currently, President Putin’s high public ratings support his solid political foundation. Under the Putin administration, the local and financial system reorganization will be promoted and the central and local relationships will converge to a decent level.

References