

**USAID Russian Federation Public Finance Program**  
**Fourth Quarterly Report**  
**For the period ended March 31, 2001**

**Contractor: Deloitte Touche Tohmatsu Emerging Markets, Ltd.**

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**Country: Russian Federation**

**Short Title of Task Order: Russian Federation Public Finance Program**

**Strategic Objectives: S.O. 1.4; S.O. 1.3; S.O. 3.2**



In the first quarter of 2001 (January 1 – March 31), the Fiscal Policy Center (FPC) expanded its scope of activities against those approved in the original Workplan and the Schedule of Planned Project Activities. The new activities are outlined in section F below. The points of the report correspond to the points of the Workplan.

## TECHNICAL COMPONENT 1

### **A. Assistance to the Federal Government with the Development of 2001 Federal Budget (the IGFR Component)**

This section of the Workplan was completed in December 2000, upon passage of the federal budget into law by the State Duma. FPC assistance in the federal budgetary process is planned to resume in year two of the project.

### **B. Assistance to the RF Government, State Duma and Federation Council on Furthering the IGFR reform**

#### **Participation in the Development of the National IGFR Strategy for 2002-2005**

The *National IGFR Strategy* is intended to replace the current *Strategy for IGFR Improvement in the Years 1998-2001* of the RF Government. The *Strategy* is a policy statement document of the RF Government that outlines the intended course of action in the area of IGFR for the next five years. The *Strategy* shall effectively cover all the individual items included in the original Workplan section covering *Assistance to the RF Government, State Duma and Federation Council on Furthering the IGFR Reform*.

More specifically, it is anticipated that the work on the Strategy shall include the following:

- Reform of the existing budgetary system which currently has three levels of government (federal, regional, and local single-tier governments) into a system where the regions will have the right to choose the number of subregional local government levels or types. It is expected that the current single-tier municipalities will eventually be replaced with a system where bottom level municipalities (small villages) will exist alongside bigger municipalities (raions or districts), and where each type of local government will have its own revenue sources and functions clearly assigned;
- Reform of expenditure assignment to address the current ambiguities in expenditure assignment pattern (using three criteria – who sets the standards, who provides funding, and who delivers the service) and to accommodate for a new tier of government should the regions choose to have it;
- Reduction and eventual elimination of unfunded mandates; setting up a separate fund at the federal level for funding those federal mandates that will remain in force;
- Reform of the revenue assignment so as to increase revenue autonomy of subnational government; eventually replace the system of tax sharing with a system where each government has its own set of taxes, ensure that the system is

vertically balanced, or that tax sources assigned to each level of government match its spending responsibilities; and

- Eventual transition to the matching grants approach to co-finance regional public improvement projects and phase out the current practice of allocating capital transfers from the federal budget on the basis on negotiations.

The FPC began the groundwork for the *Strategy* (estimations, projections, what-if analysis, historical data analysis, recommendations, etc.) and participated in the drafting of all the aforementioned sections of the *Strategy*. The final draft was distributed by the MoF to the regions and other interested parties for comments and discussion at the end of March. The approval of the State Duma is not required, however it is important that the draft gets the approval of all the parties involved, including the Duma deputies and regional officials, before the MoF approves the *Strategy* as its plan of action. The FPC continues to promote the ideas of the *Strategy* among Duma deputies and local officials and initiated an effort to bring together all interested parties (representatives of MoF, the President's Office, regional and local officials) to discuss the concept of the document and achieve consensus. The details of the FCP input are described below.

## **1. Reform of Expenditure Assignment**

### 1.1. Development of 3-dimensional criteria for expenditure assignment (responsibility for setting standards, financing and delivering public services)

In the new *Strategy* document the MoF selected a methodology of assigning responsibility for public service delivery that splits each government function into 3 components – setting the standards for service provision, providing funding, and delivering the service. This methodology was initially proposed by the FPC in the *Interim Recommendations on IGFR Reform in the Regions* (MoF, 2000) and developed in the course of drafting of the corresponding sections of the *Strategy*.

### 1.2. Development of recommendations on reallocating expenditures in accordance with the above criteria and principles of rational expenditure assignment

The FPC has proposed a method of assigning public government functions among government tiers whereby each function is broken down into three components – who sets the standards, who provides funding, who delivers the service. These proposals are included into the *Strategy* document in the form of a Table of Assignments, the format of which was also proposed by the FPC.

### 1.3. Estimation of shares of the 3 levels of government in total (consolidated) expenditures

To estimate the share of each tier of government in consolidated public expenditures, the FPC has built a financial model that allows the user to quickly assess the proposed expenditure assignment options. A similar model for federal-regional and local shares in total revenues resulting from alternative revenue assignment options makes it possible to test the proposed revenue/expenditure assignments from the point of view of vertical

balance of the budget system. The model also permits the user to distinguish the fourth tier of public government.

## ***2. Reduction and Elimination of Unfunded Federal Mandates***

The FPC prepared estimates of how much subnational governments spent on implementing unfunded federal mandates. The MoF in the Strategy document then used these estimates. The FPC at the request of the Congress of Municipalities also prepared a similar set of estimates. This organization is working on its own proposals for the IGFR Strategy and needs to know how much local governments spend on unfunded federal mandates.

## **3. Reform of Revenue Assignment**

The FPC was the principal contributor to the revenue assignment section of the *Strategy* document. Each type of tax was analyzed from the point of view of how evenly its tax base was distributed across the regions, how stable tax collections were over an economic cycle, whether it was possible to export tax burden, and relevant proposals were made as to the level of government to which each tax should be assigned. This work also involved an estimation of possible outcomes of the proposed reassignments performed with the help of a tax assignment model specifically developed for this purpose by the FPC.

For instance, the proposal to increase the centralization of the Subsoil User Tax in the federal budget was accompanied by detailed estimates of how much the regions would lose and how much the federal government would gain from the proposed change. The proposal to change the current arrangement with the Khanty-Mansi AO, Yamal-Nenets AO, Nenets AO, and Evenk AO under which half of the federal share of the subsoil (oil and gas) user tax collected in their jurisdictions accrues to the government of the region where those autonomous okrugs (AOs) were located instead of to the federal government, was accompanied by an estimate of the losses of the federal government caused by the current arrangement.

Some of the revenue reassignment proposals of the FPC, such as the two mentioned above, appear to have been accepted by the MoF. Other proposals, such as the proposal to increase the autonomy of the regions in determining the tax base and rate of the Sales Tax, were rejected.

### 3.3. Development of recommendations on redistribution of revenue assignments with an aim to increase regional and local revenues and strengthen the revenue autonomy of these levels of government.

And

### 3.4. Development of recommendations on replacing the existing system of revenue assignment based on tax sharing by the one where each level of government introduces and collects its own taxes

The FPC proposals on revenue reassignment include recommendations not only on tax sources assignment, but also on increasing the revenue autonomy of subnational governments. This includes strengthening subnational governments' discretion over tax

base definition and tax rate determination. The MoF proposes the gradual replacement of the current system of tax sharing with a system of divided taxing authority, where each government has the authority to introduce its own taxes that accrue 100% to the budget of that government. The FPC has forecasted the possible consequences of such changes for each tax and each phase of such replacement.

#### **Comments on the Draft Law on the Enterprise Profits Tax**

The draft Chapter of the Special Part of the RF Tax Code, Enterprise Profits Tax, was prepared and submitted to the State Duma by the RF Government in the context of further development of tax legislation. At the request of a counselor of First Vice-Prime Minister of RF Government Victor Christenko, the FPC prepared its comments on the draft law for the RF Government's session. The main remark of the FPC experts (A. Kovalevskaya, S. Matuzko and O. Amirov) concerned the draft's excessive regulations on expenditures of organizations to be excluded from the profits tax base calculations. The general recommendation of the FPC was to permit deduction of all substantiated and documented expenditures in connection with the production and realization of goods, works and services.

All the FPC's remarks were accepted and incorporated into draft law when it was discussed at the session of the Government.

#### **The FPC's Input to Drafting the Law on State Standards of Public Service Provision**

There are currently no mandatory standards for public service provision that should be observed, either in monetary terms or in kind, with the exception of wages of public employees. The regions generally insist that the central government establish such norms, in hopes that with such norms or standards in place they will be able to demand additional funding from the central government. Realizing the dangers of passing any funding standards into law, the federal government, however, is expected to establish qualitative standards or norms, since such norms are required by the current legislation. The RF government, therefore, faces a difficult task of drafting the law on social standards that would create as little additional financial burden on the federal government as possible. The FPC suggested a general approach to addressing the problem of social standards and federal mandates that the Ministry of Finance (represented by Alexei Lavrov) found promising and chose to incorporate in its draft. The first draft was distributed by the MoF to a select number of regions for discussion.

#### **The FPC's Input to Drafting Amendments to the RF Budget Code and the RF Law on Local Self-government in the Russian Federation**

The current federal legislation acknowledges the existence of three tiers of government in the RF - the federal, regional, and local - while in reality the local tier can include sub- or super tiers, depending on whether local governments are organized in densely populated areas such as cities/districts (raions) or in small villages. To address this gap in the legislation, the MoF proposed an amendment to the Budget Code to allow for four or more tiers of government, or alternatively to allow for the co-existence of governments of different type (e.g. special districts and traditional local governments) in the same territory. The MoF sent a copy of the proposed amendments it developed to the FPC for comments.

The root of the problems that the Stavropol Krai faces has to do with a similar gap in the legislation, i.e. uncontrollable fragmentation of local jurisdictions (the RF legislation allows any populated area, however small, to form its own local government) which leads to a concentration of local tax revenues in a small number of municipalities located around industrial plants. These entities do not necessarily have any public service facilities. The FPC proposed to bring these different interests, i.e. federal legislators, the MoF, and Stavropol Krai officials, together to reach consensus on the nature of the amendments to the legislation needed to make the organization of local governments more flexible and at the same time prevent excessive fragmentation. On March 16, 2001 the FPC held a Round Table on *Inter-governmental Relations in Russia: the Case of the Stavropol Krai*. The purpose of the Round Table was to increase the awareness by central government officials of the kind of problems that the regions are facing. It was important to hold a forum of different interests while the MoF was still drafting the *IGFR Strategy for 2002-2005* to provide inputs into that policy. The importance of the issues raised was such that the Round Table was followed by several other meetings of the FPC and the MoF to incorporate the ideas developed at the Round Table into the IGFR Strategy.

This first Round Table was followed by a series of other meetings of smaller scope to work out the proposals. It is expected that a new set of amendments for both the Budget Code and the Law on Local Self-government will be distributed by the MoF for discussion sometime in April. The State Duma (the Committee on Local Self-Governments) is working on its own set of amendments, but these are coordinated via the FPC with the ones drafted by the MoF.

#### **Development of a Draft Federal Law On Amendments and Changes to the Federal Law On 2001 Federal Budget**

O. Amirov prepared a draft entitled "On Amendments and Changes to the Federal Law On 2001 Federal Budget" at the request of the Chairman of the State Duma subcommittee. The main concept of the law is to distribute repayments on VAT arrears accrued before 2001, (i.e. before the time when all VAT began to be channeled to the federal budget) between the federal and regional budgets in proportion to the valid levels before 2001.

#### **Assistance to the State Duma**

##### **Assistance to the Duma Committee on Local Governments**

In January 2001 the Committee on Local Governments of the State Duma asked the Fiscal Policy Center to provide assistance in improving the existing assignment of tax sources to local governments. Two FPC experts (Dmitry Shishkin and Natalia Barbashova) met with the vice-chairman of the Committee (Sergey Mitrokhin), where they explained the main principles of selecting taxes that should be assigned to local governments: (1) the tax base should be evenly distributed across localities; (2) tax assignment should promote social and economic efficiency; (3) the tax base should be rigid to avoid relocation; and (4) the tax burden should not be easily exportable to other localities. The FPC also demonstrated a computer model that permits the simulation of various tax assignment options to illustrate the possible outcomes of different assignments. This model complements the one developed by the FPC as part of the *IGFR*

*Strategy* effort in that it shows the effects of various options on different localities within a region. In other words, it demonstrates the horizontal effects of changed tax assignment options, while the tax calculation model developed for the Strategy shows vertical effects. Sergey Mitrokhin found the presentation useful and invited both FPC experts to join the Duma working group that was working on improvements to IGFR legislation in the RF. At that time, the working group was drafting amendments to the Federal Law On the Foundations of the Tax System in the RF. Having joined the working group, the FPC experts were able to make new proposals on important amendments to the draft. These proposals concerned the reassignment of selected taxes (property tax, imputed income tax, and gambling tax) in line with the principles of tax assignment advocated by the FPC and international best practices. All the proposals were supported by estimates of the possible effects on the fiscal capacity of localities, intergovernmental flows, etc. The working group intends to include most (if not all) of the FPC's proposals into the final draft.

At the request of Sergey Mitrokhin's deputy, the FPC estimated the degree of fiscal inequality across localities within 76 regions using the 1999 data. Three measures of inequality were used: the Gini Coefficient, the highest to lowest per capita budget revenues, a revenue ratio across municipalities, and a ratio of the highest to average per capita budget revenue ratio.

At the request of Deputy Bondar (State Duma), the FPC has also estimated the possible effects of various reassignment options of PIT and property taxes to local governments.

#### **D. Assistance to Regional Governments in the Development of IGFR**

##### ***1. Long-term assistance to pilot regions (2 regions were selected for the first year of activity)***

###### ***Stavropol Krai***

Stavropol Krai was included into the FPC list of regions targeted for long-term assistance in January 2001. The Krai Administration expressed strong interest in having the FPC help them design a better system of local self-government in the region and improve their IGFR system. The main contact of the FPC in the Krai Administration is Tatiana A. Pogorelova, First Deputy Minister of Finance of Stavropol Krai, and it was she who initiated the contacts and the FPC involvement.

From February 26 to March 3, 2001, Galina Kourliandskaia, Elena Nikolayenko, Oleg Amirov, Dmitry Shishkin, Leonid Bogdanov, Natalia Barbashova (Center for Fiscal Policy) and Olga Selivanova (USAID) visited Stavropol Krai to establish contacts, collect information, and decide on the course of action.

The FPC team held a workshop for Stavropol Krai officials and heads of regional and local finance departments. The central topics of discussion at the workshop were the fiscal problems faced by Stavropol Krai and possible ways to improve their budgetary system and inter-governmental relations. The participants were asked to express their opinions on the following issues:

- changes in the federal legislation that are necessary to improve the system of local self-government in the Krai and
- what are the feasible improvements under the existing legislation.

The ideas expressed at the workshop will be used in drafting an action plan on reforming the local self-government system in the Krai.

During the visit, the FPC also made a presentation to the officials of the Krai Ministry of Finance on the recent changes in the federal equalization transfers formula and the impact those changes had on the size of the equalization transfer allocated to Stavropol Krai in FY2001. It was shown that in the case of Stavropol Krai, the main reason for the reduction in the size of the federal transfer in the year 2001 as compared with the previous year was the growing share of construction in the Gross Regional Product. Not only were the Krai officials unaware of this circumstance, but also according to their own sources the construction industry in the region was going through a difficult period and showed zero growth. While allocating federal equalization transfers to the regions, the RF MoF was using Goscomstat data that indicated a growth of construction industry in the Stavropol Krai. Tatiana Pogorelova (First Deputy Finance Minister) ordered the staff of her department to check the figures and find the source of this discrepancy. Galina Kurliandskaia had a meeting with the Governor of the Krai and discussed the prospects of the local government reform. The Governor pledged his full support to the reform process.

A number of the FPC experts remained another 3 days in the city of Stavropol to collect the necessary information and interview regional officials. Based on this information, the FPC will write a report outlining the suggested reform strategy for Stavropol Krai and prepare another workshop on the technical aspects of the issue using computer techniques.

#### *Astrakhan Oblast*

Galina Kurliandskaya and Oleg Amirov had a meeting in Moscow with First Deputy Head of Astrakhan Oblast Administration, A. Zhilkin, and the Head of Astrakhan Oblast Administrative Finance Department, N. Yevlashev, who confirmed their official interest in cooperation with the Fiscal Policy Center. According to them, an agreement will be signed soon with the FPC on consultative assistance with respect to IGFR matters and the budgetary process in Astrakhan Oblast. A Letter of Intention was signed by the FPC and the Astrakhan Oblast Administration regarding future cooperation. The Administration leadership expressed their readiness to co-finance the FPC's costs of consulting services.

## **2. Short-term Assistance to Other Regions**

#### *Moscow Oblast, Karachai-Circassian Republic, Leningrad Oblast*

The FPC provided hot-line support including projections, estimation, upon request.

#### *Novgorod Oblast*

Novgorod Oblast finance department requested the FPC's assistance and consultation in the year 2002 budget process. In particular, Vice Head of the Finance Department, Galina

Piterova, requested the FPC's assistance for calculating the year 2002 budget revenues on the basis of the FPC revenue forecast model.

#### *Volga River Federal District*

The Volga River Federal District jurisdiction covers 15 entities of the federation. The FPC was invited to hold a workshop for regional finance officials on April 1-2, 2001, to discuss the future of the IGFR reforms in Russia and gather new reform proposals that could be included into the IGFR Strategy for the years 2002-2005. It is expected that about 50 regional officials will attend the workshop. In March, a group of the FPC experts were busy with preparations for this workshop.

### **3. Training of Regional Officials**

Apart from the workshop in Stavropol Krai and the upcoming workshop in Kirov (Volga River Federal District), no formal training courses were conducted in the first quarter of 2001. This year's first training course for regional officials is scheduled for April 16-20, to be held at the RF Ministry of Finance. The FPC experts will train regional officials in the methods of fiscal capacity assessment, expenditure needs measurement, and fiscal equalization methods.

## **E. Database Development**

### **1. Data Collection**

The development of the social and economic database is an on-going activity. Also, a database version comprising regional budget execution data has been created and is currently being tested. Recent additions to the database include detailed data on industrial enterprises registered as taxpayers in the regions, an index of urban and rural settlements (cities, towns, villages), and demographic data broken down by city/raion.

### **2. Data Sharing**

The demand for the FPC data is high. The FPC shares its data resources with other USAID projects, government agencies, and other research centers, such as CEFIR. A recent request for data came from the Institute of Public Finance of the MoF. The Institute is doing an analysis of per capita fiscal disparities for several Russian regions. The Center for Municipal Information with the Ministry of Federation came forward with a suggestion to place all the data collected by the FPC on its Web site together with the extensive information on the FPC's activities.

### **3. Software Development**

The FPC began to master the SAS statistical package to conduct statistical analyses on the information contained in the Center's database.

## **F. New Additions to the Work Plan**

At the end of 2000, the RF Ministry of Finance requested additional USAID technical assistance for a federal government public expenditure review (PER). On behalf of USAID, the FPC assumed this task to carry out PER on transportation and road maintenance within the constraints of the original budget. The FPC is also planning to

perform a PER for the federal government on Science and R&D and on the Judicial and Penitentiary system using additional funds provided to the project by USAID. A separate, but related request deals with the analysis of extra-budgetary revenues of public institutions and their spending. This is also being undertaken by the FPC. In the future, the FPC is going to develop transparent criteria to assess expenditure needs of spending agencies in the RF.

### ***1. A Review of the Federal Government Expenditures on Transportation and Road Maintenance***

The general purpose of the review is to develop recommendations on furthering the expenditure efficiency of the federal budget in connection with federal roadways, inland waterways and the ice-breaker fleet. The first results are to be submitted in early April 2001. The short term of the activity is dictated by the MoF's desire to use some of the recommendations during its development of the federal budget for 2002. The project could be extended past April 1. An extended activity would focus on longer-term recommendations with regard to more effective federal spending on transportation. It is expected that the report will be prepared in early April and will be used by the MoF as a basis for the Terms of Reference for a more detailed analysis as part of the future federal budgeting process. The report is nearing its final draft and will be soon completed.

### ***2. A Review of Federal Government Expenditures on Science and R&D***

This activity is scheduled for a term of two and a half months commencing on March 15 to be completed on May 31, 2001. The review consists of three components: (1) estimation of the current situation and dynamics of federal spending on science and R&D; (2) further strengthening of the budgetary process in this sphere; and (3) provision of technical assistance to the RF Government, Ministry of Industry and Science, Ministry of Economic Development, Ministry of Finance and other ministries and government agencies in connection with further effectiveness and development of a program to reform financing of the sector expenditures from the federal budget.

During the first quarter of this year an analysis of the Russian economy in the period of transition was conducted focusing on organizational and functional changes in the science and technology sectors. Also, during the same period the role and responsibility of the government with regard to federal financing of R&D was studied. The aims and goals of public policy in the science and technology sectors were formulated as well as the goals of federal ministries and government agencies that are responsible for making decisions on budget spending in these areas. The FPC utilized outside advisors to perform the work described.

### ***3. A Review of Extra-budgetary Revenues of Public Institutions***

This activity is scheduled for a three month term from March 1 to May 31, 2001. Its purpose is to review the current legislation on accounting of extra-budgetary revenues of public institutions, to survey revenue sources and spending areas in connection with money received from extra-budgetary funds by institutions financed from the federal budget, and to review the federal government's expenditures on the Judiciary and Penitentiary Systems. The FPC will also develop and substantiate recommendations on

improving legislation dealing with accounting of extra-budgetary funds of public institutions.

During the first quarter, the Terms of Reference for this activity were developed and coordinated with the RF Ministry of Finance (A. Shadrin, counselor of First Deputy Minister). A review of the current legislation regulating the sources and use of extra-budgetary funds and financial resources of public institutions was conducted and collection of data on the sizes and structure of business activity receipts and expenses covered by off-budget resources of public institutions financed from the federal budget started. Contacts with the Sverdlovsk Oblast Federal Treasury Directorate were established. It is expected that information on the structure of receipts from business activity and expenses covered from off-budget financial resources of public institutions that are financed by the federal budget and located in Sverdlovsk Oblast will be obtained from the Directorate. (Antonina Kovalevskaya, L. Bogdanov, outside advisors)

#### ***4. A Review of Federal Government Expenditures on Judiciary and Penitentiary System***

This activity is scheduled to be carried out during two and a half months from March 15 to May 31, 2001. The review to be undertaken in this activity has three components: (1) performance evaluation of spending on the Judicial Branch and Federal Judicial System item in the federal budget functional expenditure classification; (2) further strengthening of the budgetary process under the Judicial System section; and (3) provision of technical assistance to the Ministry of Finance and the federal government in connection with further effectiveness and development of a program to reform expenditure financing from the federal budget under the Judicial System section. The outline of the Terms of Reference for the project were developed.

### **J. Other Activities**

#### **Cooperation with Other Projects and Organizations**

- At the request of USAID, the FPC had estimated per capita revenues, expenditures and deficit financing in Krasnodar Krai and Tyumen Oblast in 1999. These estimates were then used in other USAID projects that deal with these regions.
- Assistance was provided to the Swedish-Russian Cooperation Project in connection with editing the Russian version of the lectures on state budget procedures prepared by the said Project for training Russian government officials.
- A proposal was prepared for the future team-work with the Center for Economic and Financial Research, a newly founded Moscow-based Russian think-tank sponsored by the government of Sweden and other international donors, concerning Fiscal Inequality of Russian Cities and Raions.
- A set of tables was prepared for the Foundation for Enterprise Restructuring and Financial Institutions Development, a Moscow-based Russian research center. The data they requested had to do with the costs of public administration within a region.
- At the request of Ellen Hamilton (World Bank), the FPC provided to the World Bank data on the structure of the consolidated budget expenditures by RF subjects.

- E. Nikolayenko and A. Kovalevskaya (the FPC experts) had a meeting at the Open Society Institute (Soros Foundation) with Dr. Jose de Barros, Program Manager of Public Policy Centers Initiative, and Natalia A. Potapenko, Moscow Database Project coordinator for Local Government Initiative Program, to discuss options for future cooperation.

### **Internship**

One intern student from the Higher School of Economics is helping update the database of social indices.

## **TECHNICAL COMPONENT 2**

### **A. Establish Center Governance Structure**

The FPC has invited the most prominent Russian experts in public finance and IGFR to join its Advisory Board. The first meeting of the Advisory Board was held on March 16. It was devoted to discussion of issues of budgetary structure at the sub-national level. The members of the Advisory Board include:

- Alexei Lavrov, Ministry of Finance
- Andrei Zamotayev, President' Office
- Sergei Mitrokhin, State Duma
- Irina Podporina, Federation Council
- Albert Igudin, Research Institute with the RF MoF
- Vitaly Shipov, Congress of Municipalities
- Stepan Titov, WB Moscow Office
- Alexei Novikov, E-A Ratings
- Yekaterina Zhuravskaya, Center for Economic and Financial Research
- Vladislav Onishchenko, Foundation for Enterprise Restructuring

### **B. Develop and Establish Center Financial Sustainability Functions**

#### ***1. Establish Extramural Funding Function***

#### ***Development of the Federal and Regional Legislation on Inter-budgetary Relations and Sub-federal Finances Project. - Development of Technical and Financial Proposals***

The FPC in conjunction with the Institute for Economies in Transition and the Andrew Young School for Policy and Interbudgetary Studies, University of Georgia, delivered the Technical and Financial Proposal for the Tender on the Development of Federal and Regional Legislation on Inter-budgetary Relations and Sub-federal Finances project. The project is carried out by the Foundation for Enterprise Restructuring and financed by the World Bank. The Proposal includes the strategy for the Project, its organizational structure, the Project Schedule and methodological approaches to the main objectives of the Project (including proposals on the development of the budgetary system and inter-governmental relations in the Russian federation, further improvement of the administrative and territorial division and the budgetary system of the Russian Federation and its subjects, streamlining the assignment of expenditures, revenues and tax powers

among the different tiers of government, enhancement of the system of financial assistance rendered to lower governments).

## **2. Contract with Regions**

The Stavropol Krai Administration issued a request for bids to solicit the participation of all interested parties to provide technical assistance. Only one other competitor - a local university – responded. The contract was awarded to the FPC. For both the SK and the FPC this was the first experience of going through the public procurement process.

## **C. Public Outreach Activities to Support Center Reputation and Financial Sustainability**

### **1. Create and Maintain Center Web Site**

The English version of the FPC web site was re-designed and the information on working papers written by the Center's experts was updated (S. Matuzko).

## **D. Enhance FPC Capabilities**

### **1-2. Training Programs for FPC staff & Extramural Training**

The FPC sent one of its experts, Olga Vorontsova, on a training tour to attend a workshop on Local Budgeting held by the Swedish Association of Local Authorities for Novgorod Oblast financial officers, in Stockholm, Sweden, 11-18 February 2001. The training concentrated on the following topics:

- Swedish political and local self-government systems;
- regional public finance and budget systems in Sweden;
- hospital districts in Sweden;
- Swedish national public finance system;
- relations between the central government and municipalities.

During the trip Olga Vorontsova made several presentations on the RF budget and the IGFR system in Russia to the officials of Swedish Association of Local Authorities. Participants expressed their interest in the future cooperation with the Center in the sphere of fiscal reform in RF.

The FPC also held an internal workshop on the RF Treasury and the manner in which its regional offices operate. The presentation was made by Leonid Bogdanov, who joined the FPC in early 2001 after working for a number of years at the central office of the RF Treasury in Moscow.

### **3. Attendance at Professional Conferences**

In the first quarter of 2001 the FPC experts attended a number of conferences and workshops on various issues of the Russian economy:

1. Galina Kurliandskaya delivered a presentation at the OECD conference held in Moscow. The presentation was devoted to the issues of the budgetary system in the RF.

2. Galina Kurliandskaya delivered a presentation at the USAID workshop in Prague. The presentation described the activities of the FPC in the field of reforming the IGFR in the RF.
3. Dmitry Shishkin made a presentation at the Conference of Local Governments of the Ural District (held in the City of Glazov, Udmurt Republic) devoted to IGFR between regional and local governments.
4. Alexander Deriugin and Leonid Bordanov attended a WB seminar dedicated to international practices of conducting public expenditure reviews.
5. Galina Kurliandskaya and Dmitry Shishkin attended a conference held by Leontiev Center on federal mandates.
6. Antonina Kovalevskaya attended the Bureau of Economic Analysis Foundation workshop on *Measuring Governance Corruption and State Capture*.
7. Olga Vorontsova, Natalia Golovanova and Natalia Barbashova attended a workshop on the *Impact of Fiscal Decentralization on the Welfare and Growth of Russian Regions: Is It Always Positive?* held by the Center for Economic and Financial Research, a newly founded Russian think-tank.
8. Galina Kurliandskaya and Olga Vorontsova attended a Canadian- Russian joint workshop devoted to the problems of local governments in northern territories.

#### **4. Center's Local Computer Network**

The configuration of the Center's local network was improved (a new data transmission protocol was changed and refined, a Cisco switchboard was purchased and reprogrammed, and measures were taken to provide for network management).

The available workspace was enlarged due to the Center's expanded activity.

The Konsultant Plus Russian legislation database was installed and will be updated on a daily basis. It contains over 120,000 laws and other regulatory documents covering the period from 1911 to the present.

Regular security activities were carried out on the Center's computer network (S. Matuzko).

#### **E. Establish a Contractual Arrangement**

A Deloitte subcontract to be issued to the FPC has been drafted, negotiated, and agreed to by all parties. The documents should be signed and the subcontract executed at the beginning of the next quarter.

#### **F. Establish an Extramural Funding Function**

Due to the current unexpected increase in the Center's workload in the next few months, FPC management requested that a workshop on new business development to be delivered by Deloitte personnel be postponed until the summer. A number of materials for use in this workshop have been created and will be updated as needed to address new targeted issues as they arise between the present time and the delivery of the workshop.

### **G. Enhancing Center Capabilities**

1. A Financial Planning and Management workshop to be held in the U.S. for selected FPC staff is currently being designed. Issues to be covered include: budgeting roles and responsibilities, detailed budget stages, advanced accounting for non-profits, budget monitoring, internal controls, and strategic planning.

2. An activity in which selected FPC staff will visit various U.S. federal, state and local institutions, as well as related non-governmental and policy institutions in the Washington, DC metropolitan area is currently being designed and scheduled. A representative sampling of the institutions with which the PFC staff would meet to exchange ideas on fiscal policy include: the U.S. Treasury, the Congressional Budget Office, the Center on Budget and Policy Priorities, the Government Finance Officers Association, and various budget offices at the state, county and local levels in Maryland and Virginia.