



**Center for Fiscal Policy**  
Consulting Group



**Deloitte  
Touche  
Tohmatsu**

## **USAID Russian Federation Public Finance Program**

### **Fourth Quarterly Report**

**For the period ended December 31, 2001**

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

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**Reporting Period: Quarter ending December 31, 2000**

**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**

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## - TECHNICAL COMPONENT 1 -

### A. Development of the IGFR Reform

#### 1. ASSISTANCE TO FEDERAL GOVERNMENT: MOF, STATE DUMA, FEDERAL ASSEMBLY, OFFICE OF THE PRESIDENT

This assistance is being carried out by the CFP within the framework of the World Bank project, Development of the Federal and Regional Legislation on the Interbudgetary Relations and Sub-federal Finances.

#### 2. LONG-TERM ASSISTANCE TO PILOT REGIONS

##### 2.1. STAVROPOL KRAI

##### 1. Analysis of the existing arrangement of tiers of government, local self-government, the budgetary system, and the system of intergovernmental fiscal relations in the region

The CFP continued providing consultative services in the field of Intergovernmental Fiscal Reform (IGFR) and the budgetary system reform under the contract with the administration of Stavropol Krai. It also conducted research and analysis of the current system of assigning expenditure responsibilities between municipalities and raion governments. The current arrangement in Stavropol Krai is that raions fulfill the functions of local governments, have a share in local taxes that they redistribute back to localities for equalization purposes, and have an indirect share in proceeds from regional taxes collected in their jurisdiction. This arrangement is extremely complicated and breaches quite a few federal laws. Even though no action against the Krai government was taken so far, the risks are high. Stavropol Krai has initiated a process of amending federal laws that prevent the Krai from streamlining its internal public governance arrangements, and at the same time is looking for ways to re-arrange its government tiers to improve upon the existing situation. Under the contract that the CFP has with the Stavropol Krai, the CFP is involved in both of these initiatives.

To obtain a comprehensive picture of intergovernmental relations in the Krai, the CFP requested information from the Stavropol Krai Ministry of Finance concerning all spending agencies of any form of ownership that are financed from local or raion budgets. Using this data, the IGR team together with the IT & Database Team developed a database enabling them to evaluate expenditure needs of all 290 municipalities of Stavropol Krai, analyze the cash flows between tiers, and try to develop proposals for improvement. The preliminary analysis showed that there are different patterns of expenditure responsibilities assignment between raions and municipalities in the Krai. As part of the project realization, two raions were selected, Izobilnensky and Novoalexandrovsky, where pilot analysis will be carried out. These two raions will also serve as a pilot site for developing recommendations on expenditure responsibilities assignment in Stavropol Krai.

## **2. Monitoring changes in the federal formula for allocating equalization transfers across region and estimation of changes in size of transfer for the region in question that result from changes in formula parameters**

During the quarter, the CFP continued monitoring changes in the federal methodology of allocating resources from the Federal Fund for Financial Support of Regions (FFFSR), the Compensations Fund (CF), and the Federal Fund for Co-financing Welfare Grants (FFCWG). The Center estimated the amount of transfers to Stavropol Krai from those funds. We analyzed the influence of Krai-specific variables on the size of federal transfer to Stavropol Krai, and analyzed the internal consistency of the federal formula. The estimations produced by the CFP that were presented to the Stavropol Krai Ministry of Finance in a tabular form and included an explanatory note analyzing the main factors that had an impact on the size of transfers. That work continued up to the moment when the final amounts of transfers were approved by the Law on the Federal Budget of 2002 (and of December 2001).

## **3. Development of a region-specific model for allocation of transfers across localities, a model for forecasting revenues, and a model for estimating relative expenditure needs for localities**

The CFP delivered to the Stavropol Krai Ministry of Finance updated models for evaluating revenue capacity and expenditure needs of territories, and a model for funds allocation across cities and raions. The models had to be improved following the amendments in tax legislation. The parameters of the forecasting model received final approval.

The new database that included information on all enterprises and institutions receiving funds from the governments of all levels (which apart from general information, also contained such data as the number of staff and the number of all recipients of appropriate public services) made it possible to build calculators for the computation of Budget Expenditure Needs Index for localities within all raions, and calculators for the allocation of transfers across raions and across localities within raions. Thus, a two-stage system of transfer assessment in Stavropol Krai had been completed (the revenue capacity calculator was completed in the previous reporting period). The hierarchic complexity of the model is explained exclusively by actual arrangement of public government tiers in the Krai. Also, a detailed user manual had been developed for Stavropol Krai to assist the users in calculating the Budget Expenditure Index for cities and raions.

## **2.2. ASTRAKHAN OBLAST**

### **1. Analysis of the existing arrangement of public government tiers, local self-governance, the budgetary system and the system of intergovernmental fiscal relations for Astrakhan Oblast**

In the reporting quarter, the CFP's experts had several meetings with the representatives of the Astrakhan Oblast administration: Head of Finance Department N.D. Yevlashev, Deputy Head of Finance Department V.S. Sinchenko, and some members of the Budget Office. They discussed the parameters of intergovernmental regulation that are expected to be passed by Oblast in 2002. It was decided that the IGFR regulation system in Oblast would be largely based on the federal methodology and recommendations of the CFP.

## **2. Monitoring changes in the federal formula for allocating equalization transfers across all regions and estimation of changes in size of transfer for Astrakhan Oblast that result from changes in formula parameters**

Several sets of federal transfer estimates were prepared for the Finance Department of the Astrakhan Oblast administration. Each was delivered together with an explanatory note presenting the assumptions and the parameters used, and comparing the weights of different factors. The main finding was that the reduction in the size of federal equalization transfer due to the Astrakhan Oblast in 2002 was mainly due to improvements in Oblast business performance indicators. Changes of those variables and their effects on the size of federal transfer were discussed at the meetings with the representatives of the Oblast Finance Department.

## **3. Development of a region-specific model for allocation of transfers across localities, a model for forecasting revenues, and a model for estimating relative expenditure needs for localities of the Astrakhan Oblast**

During the reporting period, the preliminary versions of the models for revenue capacity estimation and expenditure needs of the localities were developed and delivered to the Astrakhan Oblast administration. Also, a model for allocating funds across Oblast localities was updated to take into account the recent changes in the tax legislation. Attached to the above models were detailed descriptions of their functional uses and a user manual.

### **2.3. FINDING A NEW PILOT REGION**

In order to attract new regions into the IGFR reform, the CFP sent out solicitations for the regions to take part in the selection process. The winning regions would become new pilot sites for the CFP. The regions were asked to point out those fields of the IGFR reform in which they would like to collaborate with the Center. More than 30 regions responded, of which the CFP chose Arkhangelsk, Ivanovo and Orenburg oblasts, and Khakassia Republic to include in its short-list for further screening. Visits to these regions are planned in order to get familiarized with their respective situations and to conduct an express-analysis of their needs for improvements.

## **3. SHORT-TERM ASSISTANCE TO REGIONS**

### **3.1. PROVIDING TECHNICAL ASSISTANCE TO REGIONS IN MATTERS RELATED TO THE WAY THE FEDERAL GOVERNMENT ALLOCATES EQUALIZATION TRANSFERS ACROSS REGIONS**

#### **Republic of Karelia**

Acting under the contract with the Ministry of Finance of the Republic of Karelia, the CFP analyzed problems arising in connection with the changes in the federal formulae for allocation of funds from the Federal Fund for Financial Support of Regions that had an impact on the size of the transfer to the Republic. As part of the contract, the experts assisted the Republic in developing and substantiating its proposals to improve the federal formulae. One of the proposals had to do with including some additional factors that have an influence on the fiscal capacity of regions into the equalization formula. The CFP's experts evaluated the impact of the factors used in the federal transfer allocation formula on the estimate of fiscal capacity of the region and the estimated transfer to the Republic. Based on this analysis, some recommendations were developed to monitor the indices that have the greatest influence on the size of the federal transfer.

Under the above contract, the changes in export and export duties payable by local businesses and the impact of those changes on the fiscal capacity of the region and the size of the federal transfer were estimated.

### **Chukotka Autonomous Okrug**

The following assignments were performed by the CFP under the contract with the Chukotka AO administration: analysis of the fiscal capacity of the AO, identification of factors having the greatest impact on the size of federal transfer to AO, and tax performance evaluation (tax collections compared to the size of the regional tax base) in Chukotka AO as compared with the other regions.

### **Volgograd Oblast**

While performing its contractual obligations vis-à-vis the Finance Department of the Volgograd Oblast administration, the CFP analyzed the factors that led to the cut in the size of federal transfer due to Volgograd Oblast in 2002 as compared with the previous year. The analysis revealed a number of factors that were responsible for that change. The change in the size of federal transfer due to the Volgograd Oblast was compared with that of other regions (Saratov Oblast, Republic of Kalmykia, Astrakhan Oblast, Krasnodar Krai, Rostov Oblast, Stavropol Krai, Penza Oblast and Altai Krai) in 2000-2002. The reasons for difference in transfer changes in those regions were revealed and analyzed.

The CFP's experts expressed their opinion regarding the effectiveness and equity of the current formula used by the federal government for transfer allocation across the regions; they also analyzed possible consequences of implementing Volgograd Oblast proposals on improving the federal formula.

### **Republic of Adygeya**

Under the contract with the Ministry of Finance of the Republic of Adygeya, the CFP's experts examined the reasons of a comparatively small increase in the size of federal equalization transfer due to the Republic in 2002, as compared with the overall growth in the size of the federal equalization fund from the previous year. Also, these results were compared with similar changes in the case of the Karachai-Circassian Republic.

## **B. Improvement of the Budgetary System and Federal/Regional Expenditure Reviews**

### **1. FEDERAL**

#### **1.1. REVIEW OF FEDERAL GOVERNMENT EXPENDITURES ON CRIMINAL JUSTICE (COURTS AND PENITENTIARY SYSTEM)**

During this quarter, the draft Expenditures of the Federal Government of the Russian Federation on the Judiciary and Penal System was completed. The CFP's consultants proposed a number of recommendations aimed at improving the budgetary process in Law and Order and expressed their opinion concerning the reform of the judiciary and penitentiary system from the point of

view of funding mechanisms. They prepared proposals to make the financing of the reform more effective and efficient.

The report describing the findings and recommendations was distributed to as many interested parties as possible. Copies of the report were forwarded to the Duma Committee on State Development, Ministry of Finance, Office of the Prosecutor-General, Ministry of Justice, Head of Directorate for Execution of Sentences, Court Department under the RF Supreme Court, the Center for Assistance to Criminal Justice Reform and to Presidential A.N. Illarionov, and to numerous NGOs active in this field.

Favorable feedback was received from Deputy Chairman of the Committee on State Development B.B. Nadezhdin, Director of the Center for Assistance to Criminal Justice Reform V.A. Abramkin and Head of Court Department under the RF Supreme Court A.A. Obarchuk.

#### **1.2. MULTI-YEAR BUDGETING: WHAT CAN BE GAINED BY USING THE MULTI-YEAR APPROACH**

This new project is a part of a series of Public Expenditure Reviews that the CFP is doing at the request of the Ministry of Finance. The project started in Q4 2001. The first steps included:

- An interview with an appointed representative of the client (MoF) was held to outline the size and contents of the task; we are also planning to have a series of additional interviews with other MoF officials and staff;
- International multi-year regional budgeting practices were reviewed;
- Current Russian Federation regulations on multi-year budgeting, the Budget Code included, were examined.

The outcome of the process of collecting and reviewing information on multi-year budgeting practices in other countries is nearing completion. It will be included in the final report dedicated to best international practices and lessons learned.

#### **1.3. OVERVIEW OF THE THEORY AND INTERNATIONAL PRACTICE OF PERFORMANCE-BASED BUDGETING. TRANSITION TO PERFORMANCE BUDGETING: A STRATEGY FOR RUSSIA**

The work on the Performance-based Budgeting, also a part of a series of Public Expenditure Review the CFP is conducting for the MoF, started in the reporting period. The components completed in the reporting period include:

- Performance-based budgeting methods used by industrially developed countries (New Zealand, Australia, Great Britain, USA, Canada and others) were reviewed and generalized;
- During the visit to Poland, possible use in transition countries (Poland in particular) of performance-based budgeting methods and obstacles hampering this process were discussed with members of the Gdansk Institute for Market Economies (GIME);
- Information on prospective performance-based budgeting as part of the budgetary process reform in Poland was collected.

#### **1.4. USING TRANSPARENT METHODS FOR ESTIMATING EXPENDITURE NEEDS OF SPENDING AGENCIES**

Another one in a series of Public Expenditure Reviews that the CFP is doing at the request of the RF Ministry of Finance, the Transparent Methods of Estimating Expenditure Needs of Spending

Agencies is a project aimed at developing proposals on improving the budgeting methods and procedures used by the MoF. This project is still at its early stages. We have completed a preliminary review of international practices pertaining to planning appropriations and estimating requests for funding coming from the line ministries (Australia, New Zealand and USA). On the whole, the international practice demonstrates that even in those countries where the process of budget planning has been formalized, appropriations to the main spending agencies and units are determined by political factors rather than by spending needs measures. Nevertheless, various procedures making the amount of budgetary financing dependable on quantitative and qualitative criteria (performance evaluation, output budgeting etc.), while not substituting the political choice, do make decision-making more rational and transparent. As part of the work, the concept of a 'spending agency' as used in the current legislation and in more general socio-political context was explained.

## 2. REGIONAL

### 2.2. STAVROPOL KRAI

In the reporting period, the necessary Proposal documents were prepared for taking part in the bid for a Contract for Services announced by the Stavropol Krai administration. The contract is for analyzing the fiscal potential of resort cities in Caucasian Mineral Springs area. Most of the resorts in this area are owned by various federal ministries and are therefore tax-exempt (including local taxes), which creates serious problems for the city governments as public utilities, including water and sewer systems, are underfunded and deteriorate, and local resort homes lose their appeal as treatment centers.

The expected assignment will have the following deliverables:

- A review of public expenditures of the federal, regional, and local governments to the maintenance of resorts in the Caucasian Mineral Springs area;
- Development of recommendations for more effective public spending on health resorts;
- Proposals on changing the tax-exempt status of federally-owned resorts, estimation of federal appropriations needed to fill the tax gap.

### 2.3 A NEW REGION

1. In the reporting period, the CFP sent out letters to regional administrations and legislative assemblies soliciting requests for technical assistance in the field of improving the efficiency of public spending (see above 2.3). The next step in the screening process will be to conduct site visits to the regions to determine their needs and priorities, and commitment to reforms. It is expected that the new pilot regions will co-finance the TA sponsored by USAID. Their willingness to pay part of the costs and the size of their contribution will be determined during field visits.

The Center also has plans to create a network of regional on-site experts (regional inhabitants) who could be trained by CFP staff and stay at regions providing day-to-day assistance to regional governments in pilot regions.

2. Evaluation of effectiveness of public spending on subsidizing housing and utilities in medium-size Russian cities. We are currently planning to conduct this study in two pilot cities. The cities have not yet been selected. It is expected that the project will include three components:

- A comparative study of the housing and utilities sector in two cities, the composition of costs and services, their pricing systems;
- Evaluation of effectiveness of municipal spending on subsidizing housing and utilities services;
- Development of recommendations on streamlining expenditure planning on housing subsidies, including measures aimed at creating quality standards for housing services, quality control over the provision of housing services funded from municipal budgets, and curtailing the monopolistic position of agencies providing housing and utility services.

### 3. WORKSHOPS AND ROUND-TABLE DISCUSSIONS ON WAYS TO REFORM THE BUDGETARY SYSTEM IN RUSSIA

#### 1. USAID BRIEFING

The results of PER projects regarding the road sector, R&D and extra-budgetary incomes of public institutions were presented at a briefing for USAID officials held in the USAID headquarters. During the discussion that followed, the main findings of other PER projects (government support of northern airports, fundamental research, icebreaker fleet and inner waterways) were also presented.

#### 2. A WORKSHOP ON THE METHODOLOGY OF CONDUCTING PUBLIC EXPENDITURE REVIEWS: A ROUND-TABLE DISCUSSION WITH OTHER RUSSIAN THINK-TANKS

In view of the undoubted importance of public expenditure reviews and the necessity of more effective public spending, the CFP conducted a workshop where the methodology used for PERs preparation was discussed with experts from other Russian think-tank and representatives of international donors. The participants agreed that public expenditure reviews should become a permanent component of the budget process in Russia, and exchanged their views on ways of improving the methodology and providing broader access of the general public to the findings.

The workshop was attended by the other think-tanks involved in working on public expenditure reviews for the MoF, public finance and public sector experts and representatives of international donors (USAID, World Bank, IMF, DFID, CIDA, etc.) experienced in PER drafting, representatives of the Ministry of Finance, and mass media.

The addenda was as follows:

- The need (or absence thereof) for Government intervention in individual sectors;
- Assignment of expenditure responsibilities to the different tiers of government (federal, regional and local);
- To what extent PER results should be made public. What is the best way to work with mass media.

The issues presented for discussion were met with great interest by the workshop participants. Their comments and remarks will be very helpful for refining the PER methodology and taking into account the Russian specifics and lessons learned by other contributors .

An interactive workshop was organized for the staff of the finance and economic departments of the Tomsk Oblast administration on November 11. The participants discussed the consolidated budget of Tomsk Oblast revenues and expenditures. Participants were organized into smaller groups and developed plans of measures to be taken to increase the Oblast tax capacity.

## **C. Development of New Information Technologies and Database Applications**

### **1. Transformation of all collected data into MS Excel\Access format**

All raion budget execution reports available to the CFP (1996-2000) were presented in MS Access format.

### **2. Organization of data storage of the data collected and transformed**

The Oracle 8i database management system has been installed, tuned and is being tested at present.

### **3. Integration of the regional\ Local Budgets Database with Russian Enterprise Registry Dataset (1999-2000)**

The statistical database including enterprise data is being pre-processed for transforming it into the Oracle format. Currently, an index is being developed in order to integrate this database with the budget execution reports.

### **4. Implementation of new methods of data organization and presentation (mapping)**

MapInfo Professional 6.5 geographic information system has been mastered and is now being put to practical uses.

### **5. Integration of Local Budget Execution Reports Database with Goskomstat DB on social indicators of cities and raions**

The Goskomstat database has been transformed into MS Access format and is presently being integrated with the geographic information system MapInfo. A common database index has been developed to enable its integration with the budget execution report. The database is ready to be transformed into Oracle 8i. Database management system.

### **6. Development of a detailed data subset for Stavropol Krai with geographic placement of objects of expenditure and revenue sources for budget data analysis and presentation**

All data on the composition and location of facilities funded by the Stavropol Krai government that are available to the CFP have been put onto the map. A new map of Stavropol Krai has been created (showing all settlements and their public spending agencies and institutions).

### **7. Placing data examples on Internet site of the Center for Fiscal Policy for public access.**

All information available to general public is placed on the CFP's Internet site.

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### **3. SOFTWARE DEVELOPMENT**

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#### **3.1. Development of user-friendly interface for DB access and standard queries**

A WEB interface is under development to provide users access to the database stored in Oracle.

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### **4. RESEARCH PROJECTS BASED ON AVAILABLE DATASETS**

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#### **4.1. Analysis of regional fiscal disparities (year 2000)**

Per capita expenditure tables covering all RF regions were built. These tables allow to identify the main spending items in regional and local budgets.

#### **4.2. Analysis of dependencies between per capita expenditures on basic public services and economic/demographic characteristics of respective sub-national jurisdictions (regions, cities and raions, localities)**

The dependency of per capita expenditures on education on social and demographic characteristics was carried out for Stavropol Krai cities and raions.

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### **5. UPDATING THE MODELS OF TRANSFER ALLOCATION, FISCAL CAPACITY ESTIMATION, EXPENDITURE NEEDS ESTIMATION**

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On-going activity. See sections on Stavropol Krai and Astrakhan Oblast.

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### **6. DEVELOP A COMPUTER-ASSISTED PRESENTATION OF FEDERAL TRANSFERS ALLOCATION FORMULA WITH MAPPING CAPABILITIES**

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The preliminary version is complete. The final version will be ready by the end of Q1 2002.

## - TECHNICAL COMPONENT 2 -

### A. Establish and Strengthen the CFP Governance and Management structures

#### 4. DEVELOP HUMAN RESOURCE POLICIES

Deloitte held a workshop on Performance Management from November 12 to November 23, 2001. The purpose of the assignment was to develop a comprehensive set of Human Resources (HR) policies for the Center for Fiscal Policy in Russia, including a:

- Job Classification System
- Performance Management System
- Recruitment Policies
- Personnel Handbook

Following recommendations provided by Deloitte consultants, CFP's Management developed and implemented the procedure of the annual performance evaluation. The objectives of the evaluations are to facilitate a closer understanding between supervisor and employee of what the job entails and to assess an employee's performance based upon job description.

#### 4.1 CREATE JOB CLASSIFICATION AND SCOPES OF WORK

A framework for job classification was recommended to CFP's Directors. The most appropriate system for the Center for Fiscal Policy is recommended as a broad classification by benchmark jobs (benchmarking). The benchmarking scheme consists of 5 job levels with specific characteristics to each level.

#### 4.2 DEVELOP COMPENSATION AND PROMOTION POLICIES

The compensation and promotion schemes were introduced according to the Job classification.

#### 4.3 DEVELOP RECRUITMENT POLICIES

This workshop attempted to briefly outline current options in recruitment and selection. In respect of the Center for Fiscal Policy (CFP), many of these techniques may not be practical because of the time demands associated with them. The selection process was described and the necessary forms were introduced to the staff members.

#### 4.4 CREATE PERSONNEL POLICIES AND HANDBOOK

Deloitte consultants presented the contents of the handbook and the personnel policies. The CFP Office Manager and Financial Director have already prepared most of the items. However, CFP management will continue working on the Handbook with Deloitte consultants. The Handbook should be completed by February 2002.

#### 4.5 ESTABLISH AFFILIATE DATABASE

CFP continues to work on the affiliate database. The Database consists of CVs of potential consultants who have experience in the field of public finance, budgetary process, and intergovernmental relations. At present it consists of approximately fifty candidates. The CFP will work with Deloitte Consultants on developing an affiliate program.

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

### **1. DEVELOP AND IMPLEMENT A MARKETING STRATEGY**

While planning to conduct public expenditure reviews in Russian regions, the CFP forwarded informational letters inviting regions to take part in the Improvement of Budgetary Process and IGFR in Russian Regions project. In response, over 30 regions sent their letters of interest claiming they were going to collaborate with the CFP in the IGFR and public finance issues, among which were Arkhangelsk, Kamchatka, Volgograd, Voronezh, Novgorod, Orenburg, Perm, Astrakhan oblasts, Krasnoyarsk Krai, ministries of finance of Udmurt Republic and the Republic of Khakassia, legislative assemblies of Vologda and Kursk oblasts, the City of Moscow, President of the Republic of Komi and others.

The regions expressed the most interest in optimization of public expenditures, improvement of the budgetary process, assignment of expenditure responsibilities and revenue sources between the regional and local governments, more effective spending on the maintenance of existing public institutions, analysis of the regional budgetary system, examination of public spending with regard to individual items of the budgetary classification and improvement of intergovernmental relations.

In its response, the Moscow City Duma invited the CFP to take part in the sitting of its Fiscal Committee to discuss the issue of Further Improvement of Moscow City Legislation on Budgetary Process and Budget Structure. The Committee also discussed the draft law of the City of Moscow On the Budgetary Process and Budget Structure prepared by the Finance Department of the Moscow City Government. G. Kurlyandskaya and A. Kovalevskaya offered some proposals in connection with the development of intergovernmental relations and the budgetary process in the Moscow City region.

In the next quarter (January – March 2002), CFP consultants are planning to visit a number of Russian regions (Arkhangelsk, Voronezh and Orenburg oblasts and the Republic of Khakassia) to conduct an express analysis of the regions' needs in public expenditure reviews and, possibly, to sign contracts on provision of consultative services.

In December 2001, following the invitation of PE International (GB Consulting Company in the field of public finance), Galina Kurlyandskaya visited London to test the chances of the CFP to participate in the upcoming DFID project on improvement of regional finance in Russia. Galina communicated with a number of British companies who were bidding for the right to undertake the role of the resource center for the project (including Institute of Public Finance). She also talked to the manager of DFID project in Russia to discuss the pros and contras of the CFP alternatives: to become a resource center (in the consortium with one of the British companies) or to wait and bid on an upcoming DFID grant to do the substance work in Russian regions. The CFP decided to bid on the upcoming grant. Contacts with the bidders and DFID made several contacts for the CFP, and increase chances to be selected later as a grantee for the future project. The project will be launched in May 2002.

## 2. ASSURE COMPLIANCE WITH USAID REGULATIONS

### 5. DEVELOP PROCEDURES FOR PRICING AND UNDERTAKING CONSULTING ASSIGNMENTS

Most regions that agree to participate in the Improvement of Budgetary Process and IGFR in Russian Regions project want to learn more about co-financing terms. The Center has developed and forwarded its proposals on the project realization with a detailed exposition of its goals and objectives, forms and consecutive realization steps; it also included the costs of consultation services (6 man-months per region) to be provided under the project.

### C. Public Outreach activities to support Center reputation and financial sustainability

### 2. IMPROVE VISIBILITY THROUGH HIGHER PROFILE PUBLICATIONS

During the quarter, a symposium of presentations made at the conference devoted to the Prospects of Fiscal Federalism in Russia and Other CIS Countries (June 18-19, 2001) was prepared for the press. The information on this publication and presentations of the participants can be found on the CFP's website.

A symposium based on the materials of the conference that discussed Fiscal Federalism in Russia: Its Formation and Development, will be the first in the series of analytical papers devoted to the IGFR and public finance issues that the center is planning to publish in 2002-2003. It included presentations of the conference participants: the CFP's experts, representatives of federal and regional governments, scholars and experts in IGFR and regional public finance.

As part of the preparation of an electronic news report on the CFP's activities in the field of fiscal federalism in Russia, a plan of future publications of the Center's experts in 2002 has been developed.

### D. Enhance CFP capabilities

### 1. ADDITIONAL EXTRAMURAL TRAINING

CEU Summer University (Budapest) is offering a summer course (July 2002) dedicated to the Intergovernmental Fiscal Relations and Local Financial Management (in co-operation with the Local Government and Public Service Reform Initiative of the Open Society Institute, Budapest and the World Bank Institute, Washington). The course is designed for the practitioners, researchers/academics and trainers in the area of public finance related to local government issues and intergovernmental fiscal relations.

The objectives of the course are:

- (i) provide participants with the analytical framework for understanding intergovernmental fiscal economics and various modules of the central-subnational (e.g., local) relationship
- (ii) enhance participants' capacity for successful implementation of public sector resource management reform by analyzing mechanisms for the transfer of resources

- among governments and identifying ways to address the issue of regional disparities and local resource mobilization
- (iii) and increase participants' understanding in the issues of fast restructuring public economy in countries of transition, (iv) enhance the participants' capacity to understand and use the practical simulation methods on public finance issues (transfers, local taxes).

The CFP is planning to send two consultants: N. Golovanova and D. Fomin.

In December 2001, experts of the CFP had a meeting with Dr. Jenkins, a Professor of Economics at Queens University in Canada with over 25 years of experience specializing in public finance, investment appraisal, taxation, and economic development. He worked as an advisor to numerous governments and international institutions on cost-benefit analysis, investment appraisal, tax administration and reform.

### 3. ATTENDANCE AT PROFESSIONAL CONFERENCES

On October 18-19, 2001, the Samara Oblast administration, the Center for Strategic Research of the Volga Federal District, and the Commission on Territorial Development of the Volga Federal District organized a seminar in Samara to discuss the Strategy of Regional Development. The main purpose of the seminar was to examine the priorities and effective strategies for sustainable regional development in the 21<sup>st</sup> century and to work out a strategy for the development of the Volga Federal District. A. Kovalevskaya presented the CFP project to the participants of the Role of Not-profit Organizations in Budgetary Policy Formulation section.

A conference devoted to Assignment of Expenditure Responsibilities and Financial Resources between regional governments and local self-governments took place in Nizhny Novgorod on October 16-17, 2001. It was attended by two CFP consultants, Natalia Golovanova and Yury Kuznetsov. Speakers at the conference more than once referred to the input of the CFP into the formation of local self-governance in the Russian Federation. Thus, Deputy Chairman of the Committee on Local Self-government of the State Duma and Federal Assembly S.S. Mitrokhin pointed out that the Committee was working on amendments to the law on local self-government jointly with the CFP. Secretary of the Congress of Municipalities V.V. Shipov also spoke about effective work of the Congress and the Center. Professor of Paris University I Gerard Marcou in his report on the IGFR between the regional governments and municipalities referred to the information provided by the CFP. N. Golovanova, one of the CFP's consultants, discussed local self-government issues at the conference round table.

CFP was invited to make a presentation at a conference devoted to issues of federalism and IGR in Russia, which was held by the Union of Right-Wing Forces on October 12, 2001, in Saint-Petersburg. The purpose of the conference was to receive inputs and share opinions as part of the process of elaboration of the Union's political program, specifically the section of it that dealt with local self-government and intergovernmental relations. The conference was attended by representatives of government authorities and local self-governments of Leningrad Oblast, and by research organizations from various Russian cities.

Yu. Kuznetsov (CFP consultant) took part in debates that followed the presentations and in the press conference. He spoke as a representative of the CFP and offered the opinion of the latter on the reform of the federative relations in Russia and assignment of responsibilities between raions and sub-raion settlements.

Specifically for the conference-workshop that was organized on November 15-17 in Samara to discuss the practices of reforming financial relations in the sphere of education, G. Kurlyandskaya and N. Golovanova prepared a presentation, Education: An Analysis of Legislation on Expenditure Responsibilities Assignment. Deputy Head of the MoF Intergovernmental Relations Department A.M. Lavrov also used materials provided by the Center for his presentation at the conference.

A conference on tax reform and its preliminary results and prospects was organized on November 28 in Moscow by the Russian Union of Entrepreneurs and Industrialists. It was attended by CFP consultant Yury Kuznetsov, who was one of the speakers at this conference.

On December 7, a workshop devoted to the issues of better management of state-owned and municipal unitary enterprises was held by ER Ratings. It was attended by several CFP representatives.

A round table held under the slogan: Let's Return Prisons to People, was organized by the Center for Assistance to the Criminal Justice Reform on December 14 in Moscow. CFP consultants introduced the main conclusions and recommendations of the PER project regarding the judiciary and penal system. Part of the review dealing with GUIN was included by *Nezavisimaya gazeta* in its publication, The Prison Reform Postponed Once Again, on December 27, 2001.

On December 13-15, a workshop, Public Sector in Poland, 1989 – 2001. A study of Transformation, took place in Zakopane (Poland) attended by two CFP consultants: A Kovalevskaya and L. Bogdanov. The workshop was organized by the Gdansk Institute for Market Economics (GIME) for representatives of non-governmental organizations of Eastern Europe and CIS countries.

The CFP had a special staff meeting to discuss the results of the workshop and the questions raised, in particular those concerning transformation of the Polish political and economic system; transformation of the public sector in Poland; public sector institutions; organization of the Polish public sector; tax system; state budget; local government and the decentralization of public services; privatisation of public services; social transfers. An opinion was expressed about possible use in Russia of the Polish experience in reforming the public finance system.

The Russian Academy of Law and the Russian Union of Lawyers (Finance and Legal Section) held an all-Russia conference on the results and prospects of the legal reform in Russia on December 18-19 in Moscow.

A conference on public expenditures and a possible reform thereof was organized by Freedom House on December 20-21 in Samara. The speakers included L. Bogdanov and Yu. Kuznetsov (both from CFP). The latter spoke about the interim results of the IGFR analysis and about the

assignment of expenditure responsibilities between the federal and regional governments. L. Bogdanov' report was devoted to the results of a research on extra budgetary incomes of public institutions conducted as part of a PER project. The report caused a lively discussion among the participants. A. Lavrov and A. Shadrin from the Ministry of Finance more than once referred in their speeches to the results obtained by the CFP while implementing various projects. The participants showed great interest in CD collection of PERs developed by CFP consultants.

#### 4. NETWORKING AND EXCHANGING INFORMATION WITH RUSSIAN AND FOREIGN ORGANIZATIONS

At the request of S. Titov (World Bank), the CFP provided information on revenue arrears.

G. Kurlyandskaya, E. Nikolaenko and N. Golovanova had a meeting with I. Abankina, a representative of the Center for Promotion of Education (Higher School of Economics), and discussed the assignment of expenditure responsibilities in the sphere of education.

N. Tipenko and E. Nikitina from the Urban Institute received from the CFP reports on budget execution, numbers of public employees and population in several regions. N. Golovanova consulted them on the structure of the budget classification.

At the request of Badri Narayan (NES visiting professor), CFP shared its data on the Fund for Financial Support of Regions with him (budgeted and executed equalization transfers to regions from the federal budget).

USAID announced a tender on receiving grants under the Program for Support of Economic Think Tanks in the RF. The Program's objective is to provide support to independent professional analysis of the economic policy pursued by Russia. At the request of Prof. Leo I. Jacobson, Director of the Program, CFP experts reviewed the bids for analytical projects submitted at the 3<sup>rd</sup> stage of the tender.

#### 5. ESTABLISH EXTRAMURAL FUNDING FUNCTION

The CFP has concluded contracts with four new regions (Republic of Adygeya, Republic of Karelia, Chukotka AO and Volgograd Oblast) to provide short-term consultations concerning the reasons behind the changed amounts of FFSR transfers and identification of possible mistakes made when the federal transfers were calculated, the reason for which might be an imperfect federal formula or inaccurate initial data.

The CFP is carrying out its obligations under the contract concluded with the Stavropol Krai Government in the previous reporting period.

The CFP in consortium with Duke Center for International Development, the Centre for Economic and Financial Research, Deloitte Touche Tohmatsu Emerging Markets and Research Triangle Institute forwarded a Statement of Interest in bidding on the World Bank Regional Fiscal Technical Assistance Project, Assistance to Sub-National Governments in Accounting and Budgeting (Loan/Credit Number: Loan No. 4528-RU. Contract/Bid Number: Contract No. RFTAP/QCBS/3.2). The CFP schedules to participate in the Project on the component:

**Development of Sub-national Government Best Budgeting and Financial Reporting Standards, Standards of Public Sector Audit.**

The CFP forwarded an Expression of Interest to the Budget Department of Administration for Analysis of the Budget Execution in Ukraine in bidding on the World Bank Project: Inter-governmental Relations: Strengthening Ukraine's System of Transfers.

An offer was prepared for the Ford Foundation for the project: Efficiency Analysis of Municipal Public Spending on Subsidizing Housing and Utilities Services. In accordance with the Terms of Reference, the following areas are to be reviewed: the structure of actual spending on housing and utilities by the population (depending on the legal status of housing); sizes and structure of municipal subsidies (grants) on housing and utilities; the forms and procedure of expenditure planning on housing and utilities; quality control procedures regarding housing and utilities services provided at municipal expense.