



Local Government
and Public Service
Reform Initiative

FISCAL AUTONOMY AND EFFICIENCY

Reforms in the Former Soviet Union

Edited by

KENNETH DAVEY

OPEN SOCIETY INSTITUTE
LOCAL GOVERNMENT AND PUBLIC SERVICE REFORM INITIATIVE

Address

Nádor utca 11.
H-1051 Budapest, Hungary

Mailing Address

P.O. Box 519
H-1357 Budapest, Hungary

Telephone

(36-1) 327-3104

Fax

(36-1) 327-3105

E-mail

lgprog@osi.hu

Web Site

<http://lgi.osi.hu/>

First published in 2002
by Local Government and Public Service Reform Initiative, Open Society Institute Budapest

© OSI/LGI, 2002



TM and Copyright © 2002 Open Society Institute



Local Government
and Public Service
Reform Initiative

ISSN: 1586 4499

ISBN: 963 9419 35 4

All rights reserved. No part of this book may be reprinted or reproduced or utilized in any form or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in writing from the publishers.

Copies of the book can be ordered by e-mail or post from OSI.

Printed in Budapest, Hungary, May 2002.
Design & Layout by Createch Ltd.

Contents

Kenneth Davey

Fiscal Autonomy and Efficiency	9
1. Introduction	11
2. Fiscal Decentralization	11
3. The Common Legacy	11
4. Spending Responsibilities	11
4.1 International Comparison	11
4.2 The Four States	12
5. Local Taxation	12
6. Tax Sharing	13
7. Consumer Charges	14
8. Equalization	15
8.1 The Role of Formulae	15
8.2 Revenue Potential	15
8.3 Spending Need	15
8.4 Degrees of Equalization	15
9. Overall Issues: Fiscal Decentralization and Accountability	16

Lusine Ghevondyan

Impact of Unfunded Mandates on Armenian Local Governments	19
1. Introduction	21
2. Research Methodology	21
3. Functional Responsibilities of Local Governments in Armenia	22
4. Revenue and Expenditure assignments	24
4.1 Expenditure Assignment	24
4.2 Revenue Assignment	24
5. Budgeting System	25
6. Local Revenue Sources	25
6.1 Property Tax as the Main Source of Local Revenue	27
6.2 Local Fees, Local Charges, Local Duties	28
6.3 Utility Services	29
6.4 Property Management	29
7. Subsidies and Subventions	30
8. Loans and Borrowings	31
9. Non-professional governing of communities	31
10. Conclusion and Recommendations	32
Notes	32

David Tumanyan

The Provision of Local Fiscal Autonomy in Armenia	35
1. Introduction	37
2. Local Self-Government in the Public Administration System	37
3. Local Government Power: The Possibilities for Expansion	40
3.1 Local Governments' Powers	40
3.2 Why the Need to Expand?	42
3.3 Education	42
3.4 Tax Collection	44
3.5 Police	44
3.6 Social Security	44
4. Local Budget Expenditure	45
5. Local Budget Revenue	46
6. Introduction of Tax-Sharing Models	48
7. Role of Local Duties and Fees in the Provision of Fiscal Autonomy	49
8. Local Government Property Management as a Source of Local Revenue	50
9. State Budget Transfer Mechanism	52
10. The Financial Equalization System	53
11. Conclusion and Recommendations	57
Notes	57

Paata Bolashvili

Fiscal Autonomy Problems of Local Government in Georgia	59
1. Introduction	61
1.1 Post-Soviet Era Georgia	61
1.1.1 General	61
1.1.2 Urban Demographics	61
1.1.3 Reformation of Management System	62
2. The State of Georgia's Fiscal Decentralization	64
2.1 Legislative Base. Financial-Budgetary Authority and Responsibility of Government Levels	64
2.1.1 Legislative Reform	64
2.1.2 Constitution	64
2.1.3 Organic Law of Georgia "On Local Self-Government and Government"	65
2.1.4 Law on Election of Sakrebulo —Local Self-Government Bodies and Law on Status of Member of Sakrebulo —Local Self-Government Bodies	65
2.1.5 Tax Code of Georgia	65
2.1.6 Law on Local Fees	65
2.1.7 Law on Budget System and Budgetary Regulations	66
2.2 Municipal Budgetary and Financial Management	66
2.2.1 Expenditure Responsibility	66
2.2.2 Revenue Sources	69
2.2.3 Summary Analysis of Revenues and Expenditures	71
2.2.4 Transfers	73

2.3	Process of Municipal Budgeting	74
2.3.1	Budgetary Process	74
2.3.2	Budget Structure	75
2.3.3	Budget Control	77
2.3.4	Municipal Loans	77
2.3.5	Budget Loans	77
2.3.6	Loans from the Municipal Development Fund	77
2.3.7	Municipal Financial Management	77
2.3.8	Non-budgetary Accounts	78
3.	Evaluation of Fiscal Decentralization in Georgia	78
3.1	Evaluation Rules	78
3.2	Key Problems and Recommendations	80
3.3	Future Plans and Perspectives	81
	List of Abbreviations	81
	Annex 1: Georgian Consolidated Budget Structure, 2000	82
	Annex 2: List of Georgian Revenues and Expenditures.....	83

Armen Danielian

	Local Government in Russia: Reinforcing Fiscal Autonomy	87
1.	Introduction	89
2.	Local Government in Post-Socialist Russia: General Review	89
2.1	Functions and Role of Local Government in the System of Public Administration in the Russian Federation	89
2.2	Major Problems and Challenges of Local Government in Russia	95
3.	Fiscal Basis of Local Government in Russia	96
3.1	Local Budgets: Legislation Review	96
3.2	Local Budget Expenditures: A Call for Optimization	99
3.3	Local Budget Revenues: Sources Survey	103
3.4	Local Government as a Recipient of Transfers	107
4.	Local Government in Russia: Towards True Fiscal Autonomy	108
4.1	Reassessment of Tax Allocation and Tax-Sharing Patterns Across Government Levels	108
4.2	Improving Transfer and Equalization Policy	110
4.3	Municipal Property: Options for Greater Cost-Efficiency	111
4.4	Summary	111
	Notes	112

Alexey Kononets

	The Reform of Intergovernmental Fiscal Relations in Ukraine: New Approaches and Emerging Problems	113
1.	Introduction	115
2.	Institutional Framework of Intergovernmental Relations in Ukraine	115
2.1	Brief Overview of Intergovernmental Relations in Ukraine	115
2.2	Administrative and Territorial Structure of Ukraine	116

2.3	Legislative Underpinnings of Intergovernmental Relations	117
2.4	The Budget System in Ukraine	118
3.	The Development of Interbudget Relations in Ukraine: the Period before the 2001 Reforms	119
3.1	Regulation of Intergovernmental Fiscal Relations	119
3.2	Budgeting	119
3.3	Local Budget Expenditures and Revenues	120
3.3.1	Local Budget Expenditures	120
3.3.2	Local Budget Revenues	120
3.4	Intergovernmental Transfers	122
4.	Reforms to Interbudget Fiscal Relations in 2001	123
4.1	The 2001 State Budget Law: Specifics and Key Innovations	124
4.2	Main Indicators of the 2001 Local Budgets	125
4.3	New Developments in Intergovernmental Transfers	126
4.4	Transfer Calculation Approach	127
5.	Budget Code	130
5.1	The Main Provisions of the Budget Code	130
5.2	Distribution of Expenditure Responsibilities and Revenue	130
5.3	Incentives for Local Budgets in Revenue Collection and Spending	131
5.4	Equalization Mechanisms in Intergovernmental Fiscal Relations	132
6.	Conclusion	133
	Note	134
	Index	135
	List of Contributors	137
	LGI Policy Fellowship	139