

Financial Results of the Local Self-Government Reform. Experience of the Regions of the Far East



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Abstract. The article examines the problems and main results of the 30-year reform of local self-government, concerning the positioning of the institution of LSG in the “vertical of power”, the definition of the structure of powers and rights, and the formation of the financial base of LSG. The purpose of the work is to determine the basic principles and features of the development of the LSG institute and its financial interaction with the state on the example of municipalities of a large macro-region, which is the Russian Far East. In order to identify statistical patterns, general scientific methods were used based on official data from the Federal Treasury of the Russian Federation, the Ministry of Finance, Rosstat, regional authorities and local authorities of the Far Eastern constituent entities of the Russian Federation. The analysis of the dynamics of changes in the spatial classification of municipalities of the Far East over the years of reform, as well as the state and conditions for the formation of budgets of municipal districts and urban districts of the Far Eastern constituent entities of the Federation for 2011-2019 is carried out. It is shown that in the Far East the situation with the financial security of local self-government is determined not so much by local or Far Eastern, as by all-Russian tendencies. Revealed the presence of a serious stagnation of revenues and expenditure of the municipalities of the Far East; the prevalence of low financial independence of the budgets of the civil society and, especially, of the municipal districts; a decrease in the possibility of free disposal of budgetary resources for municipalities of the Far East, since during the analyzed period the share of grants-in-aid in the revenues of the budgets of municipal districts decreased by 8.6 percentage points, up to 15.9%, and in the revenues of urban districts – to 1.8%, with an increasing share of subventions and subsidies in budget revenues. In general, over the years of reform, the legislative strengthening of the powers and rights of LSG, declared at the federal level, has

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not received adequate financial support in the region. Proposals for improving the financial component of the LSG reform in the framework of the evolutionary approach have been substantiated. It is shown that constitutional changes, while remaining formally neutral to LSGs, will require clarification of federal legislation for their implementation, which can give rise to a number of latent threats and undermine the principle of organizational isolation and financial independence of LSG bodies. The novelty of the research task is actualized by considering the aforementioned range of issues in comparison of federal trends and the situation in the macroregion under the conditions of changes in the Constitution of the Russian Federation and an increasing understanding of the need to strengthen the financial base of LSG. The materials of the article can be used in the educational sphere and in the activities of public authorities and LSG.

Key words: local self-government reform, municipal budgets, Far East of Russia.

Introduction

The reform of local self-government (LSG), which began 30 years ago with the adoption of the Law of the Russian Federation “On local self-government in the Russian Federation”¹ in 1991, was conceived with the aim of forming a real institution of LSG in Russia. It was assumed that the new institution, implementing the ideas of the European Charter of Local Self-Government², would be able to function in a market economy [1–4] and provide solutions to the financial problems of municipal formations (MFs) through their “self-sufficiency” [5–9].

The experience of developed countries shows that in a steadily developing market economy, the level of development of the tax system and intergovernmental budgetary relations contributes to the formation of generally independent regional and local budgets focused on satisfying people’s needs [10–13]. In this regard, it is important to understand the reasons for a number of organizational and financial issues that have arisen during the LSG reform in the Russian Federation.

In Russia, the reform of local self-government received a modern legislative framework when

Federal Law 131-FZ, which became the basic law of LSG³, was adopted in October 2003.

During the years of the reform, the main post-reform law, which became one of the most volatile federal laws⁴, has been repeatedly changed, the variety of types of municipalities has increased with a general reduction in their number, the boundaries and powers of regional authorities have been clarified. In these circumstances, it is necessary to talk about the results of the local self-government reform, taking into account a number of points.

First, regional features of the progress of the LSG reform should be considered after the analysis of trends in the development of these processes at the national level, considering the development of regional LSG processes against the background of national patterns.

Second, the work covers the practice of the formation of LSG since 2003, and the issues related to the development of financial and budgetary mechanisms for the functioning of the local self-government system (it is in this area that the main problems of the reform implementation practice are currently concentrated) are considered in detail for the period from 2011 to 2019.

¹ On local self-government in the Russian Federation: Law of the Russian Federation no. 1550-1, dated July 7, 1991. Available at: <https://base.garant.ru/3961383/>

² European Charter of Local Self-Government. Available at: <http://www.coe.int/en/web/conventions/full-list/-/conventions/rms/090000168007a105>

³ On the general principles of organization of local self-government in the Russian Federation: Federal Law no. 131-FZ, dated October 6, 2003. Available at: <http://base.garant.ru/186367/>

⁴ From October 2003 to July 2021, various amendments to Federal Law 131-FZ were made by 136 regulatory and legislative acts.

Third, we analyze the effectiveness of the regional cross-section of the LSG reform on the example of assessing the current state of municipalities of the Far Eastern constituent entities of Russia. We chose municipal formations of the Far East as the object of research due to the fact that this macro-region is traditionally an “experimental” area, it is developing under federal patronage and acts as a kind of economic laboratory for verifying the effectiveness of various methods of regional policy. At the same time, we take into account that during the years of the reform, the borders of the Far East have changed. Since the end of 2018, the Far Eastern Federal District officially includes the Republic of Buryatia and Zabaykalsky Krai, which are “multi-municipal” subjects⁵ that are difficult from the socio-economic perspective. In the article, we recalculate statistical data in retrospective analysis and include the “new”, expanded composition of the regions – Far Eastern entities.

An adequate assessment of the features of the reform of the LSG in terms of the dynamics of the territorial structure, the formation of the powers of municipalities, revenues and expenditures of

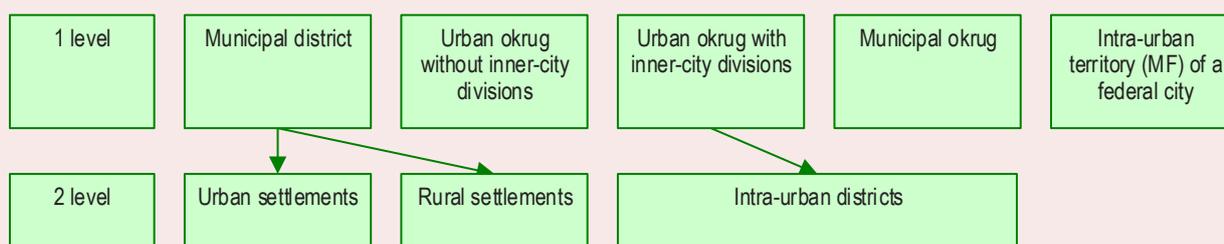
municipal budgets is possible in the process of comparative analysis with national trends related to the reform.

National trends in the implementation of the local self-government reform

Let us consider national trends in the course of the LSG reform in terms of its structural and quantitative results, as well as the degree of provision of financial and budgetary resources to the powers of municipalities.

The structural result of the reform. During the years of the reform, the specific composition of municipal formations has changed. If the first edition of Federal Law 131-FZ⁶ contained five types of municipalities of two levels, then the modern version of the law speaks about eight types of municipalities of two levels (*Fig. 1*). We are talking about municipal districts, urban and rural settlements, urban okrugs without inner-city divisions, intra-urban territories (intra-urban municipal formations) of federal cities approved in the first version of the law; as well as the following division introduced in later editions of the law: urban okrugs with inner-city divisions (since 2014),

Figure 1. Modern two-level structure of LSG and types of municipal formations in Russia



Source: Federal Law 131-FZ.

⁵ In accordance with the Decree of the President of the Russian Federation dated November 3, 2018, no. 632 “On amendments to the list of federal districts approved by the Decree of the President of the Russian Federation dated May 13, 2000, no. 849”, the territorial composition of the Far Eastern Federal District was expanded to include two regions that were previously part of the Siberian Federal District: Zabaykalsky Krai and the Republic of Buryatia. In our article, the composition of the Far Eastern Federal District is considered within the boundaries of the said decree and includes 11 RF constituent entities: the republics of Sakha (Yakutia) and Buryatia, Khabarovsk, Primorsky, Kamchatka and Zabaykalsky krajs, the Amur, Magadan and Sakhalin oblasts, the Jewish Autonomous Oblast (JAO) and Chukotka Autonomous Okrug (ChAO).

⁶ On the general principles of organization of local self-government in the Russian Federation: Federal Law 131-FZ, dated October 6, 2003. *Rossiyskaya gazeta*, 2003, October 8. Available at: <https://rg.ru/2003/10/08/zakonsamouprav.html>

intra-urban districts (raions) of an urban okrug with inner-city divisions (since 2014), and municipal okrugs (since 2019).

According to Federal Law 131-FZ, the second-level municipal formations are part of the first-level municipal formations (urban and rural settlements are part of composite municipal formations – municipal districts; and intra-urban districts (raions) are part of urban okrugs with inner-city divisions⁷).

Three types of municipalities are classified as single-level municipal entities.

Urban okrugs include one or more settlements united by a common territory that are not municipal formations and in which residents carry out LSG directly or through elected bodies.

Intra-urban territories (municipal formations) of federal cities are included in federal cities in the form of independent municipalities (municipal okrugs or settlements)⁸.

In the process of their creation, municipal okrugs that were possible to be established in 2019⁹ combine several settlements into a larger municipal formation in terms of the number of inhabitants and area. It is also important that the merged settlements lose their municipal functions, their own authorities and, most importantly, budgets. As a result, the situation with intergovernmental transfers to level budget security is greatly simplified.

⁷ Three urban okrugs with inner-city divisions (Makhachkala, Samara and Chelyabinsk) contain a total of 19 intra-urban districts and have obtained their status in 2014–2016. Since then, their number has been unchanged, and new projects for the formation of such MFs are not considered [14, p. 12].

⁸ Created in Moscow and Saint Petersburg in 2006, in Sevastopol – in 2014. As of January 1, 2021, the number of intra-urban territories was 146 in Moscow, 111 in Saint Petersburg, and 10 in Sevastopol. At the time of the formation of intra-urban territories of federal cities, existing mainly in the form of municipal districts, the term “municipal district” as an independent municipal entity was not contained in Federal Law 131-FZ.

⁹ On amendments to the federal law “On the general principles of organization of local self-government in the Russian Federation: Federal Law no. 87-FZ, dated May 1, 2019.

We should expect a further increase in the number of municipal okrugs, because according to the Resolution of the Government of the Russian Federation no. 445, dated May 18, 2016¹⁰, by January 1, 2025, urban okrugs where less than two thirds of the population lives in cities or other urban settlements should be transformed into municipal okrugs. Moreover, on the territory of an urban okrug, population density should be five or more times higher than the average population density in the Russian Federation.

The changes, along with the procedure for converting a municipal district into an urban okrug introduced in April 2017¹¹, show that it is premature to talk about a full-fledged structure of LSG in the Russian Federation. The complexity of the functioning of a two-level system of local self-government is associated with the need to organize significant intergovernmental budgetary flows to bridge the gaps in the budgetary provision of municipalities¹². The focus on urban and municipal okrugs allows regional authorities to form a single-level system of LSG, which is already functioning in eight RF constituent entities (Moscow, Saint Petersburg, Sevastopol, the Magadan, Sakhalin, Kaliningrad and Moscow oblasts, Stavropol Krai). Two of these regions with a single-level system of LSG (the Magadan and Sakhalin oblasts) have been formed in the Far East.

¹⁰ On approval of the state program of the Russian Federation “Development of federal relations and creation of conditions for effective and responsible management of regional and municipal finances”: Resolution of the Government of the Russian Federation no. 445, dated May 18, 2016. Available at: <http://base.garant.ru/71405474/>

¹¹ On amendments to the federal law “On the general principles of organization of local self-government in the Russian Federation”: Federal Law no. 62-FZ, dated April 3, 2017. Available at: <https://rg.ru/2017/04/05/fz62-dok.html>

¹² For example, the budget system of Khabarovsk Krai currently includes 233 budgets, including the Krai budget, two budgets of urban okrugs, 17 budgets of municipal districts, 22 budgets of urban settlements and 191 budgets of rural settlements. In the region in 2021, the gap in the provision of own revenue for 232 municipal formations of the Krai (the share of tax and non-tax revenues in the volume of own revenues) was 45 times (from 2.1 to 94.5%). At the same time, almost 60% of the Krai’s MFs (137 municipalities out of 232) were provided with own revenues by only 30% [15].

The quantitative result of the reform is related to the dynamics of the number of municipalities in the post-reform period. Adopted in 2003, Federal Law 131-FZ officially entered into force in 2006, after a transitional period. According to Paragraph 3 of Article 85 of Federal Law 131-FZ, the borders of a municipal formation were subject to description and approval in accordance with the requirements of urban planning and land legislation until January 1, 2007. Since that time, Rosstat has been publishing detailed statistics on the state of municipal formations¹³.

Previously, the monitoring of the number of municipal formations was carried out by the Ministry of Finance of the Russian Federation. At the start of the reform, the Ministry of Finance of Russia included 5.5 thousand local budgets in the country [16, p. 18].

Trying, albeit formally, to bring LSG closer to the population, the government contributed to a sharp increase in the number of municipalities at the beginning of the reforms. According to the results

of a monitoring conducted by the RF Ministry of Finance, there were 11,733 MFs in Russia in 2005. In 2006, their number increased to 24,210 (by 12,251 MFs)¹⁴. In 2005–2006, the structure of Russia’s MFs by type underwent major changes. The number of urban okrugs decreased threefold (from 1,601 in 2005 to 522 in 2006), while the number of municipal okrugs increased from 902 to 1,802 units, the number of rural settlements – from 8,789 to 19,894, and the number of urban settlements for 2005–2006 increased fourfold (from 443 to 1,756).

In general, over the period from the beginning of the reforms until 2007, the total number of MFs increased in 4.5 times. However, at the same time, it was realized that such a course to increase the number of MFs contradicts the world practice of enlarging municipalities [17], since in modern conditions the term “accessibility” of local self-government for citizens is guided by other criteria besides “pedestrian accessibility”. Consolidation of municipalities has virtually begun since 2007, and by 2021 their number has decreased to 20.3 thousand units (*Tab. 1*).

Table 1. Dynamics of the number of municipal formations by type (as of January 1 of the current year), units

Type of MF		2007	2010	2015	2020	2021	2021/2007, %
TOTAL,	RF	24200	23907	22923	20846	20303	83.9
	FEFD	2129	2118	2056	1961	1895	89.0
including							
municipal districts	RF	1793	1829	1823	1673	1606	89.6
	FEFD	179	177	175	161	151	84.4
urban settlements	RF	1732	1739	1644	1398	1346	77.7
	FEFD	237	233	214	182	173	73.0
rural settlements	RF	19919	19591	18654	16821	16332	82.0
	FEFD	1659	1654	1611	1549	1492	90.0
urban okrugs	RF	520	512	535	632	630	121.2
	FEFD	54	54	56	66	66	122.2
urban okrugs with inner-city divisions	RF	-	-	-	3	3	...
	FEFD	-	-	-	-	-	-
intra-urban districts	RF	-	-	-	19	19	...
	FEFD	-	-	-	-	-	-
intra-urban territories of a federal city	RF	236	236	267	267	267	113.1
	FEFD	-	-	-	-	-	-
municipal okrugs	RF	-	-	-	33	100	...
	FEFD	-	-	-	3	13	...

Compiled with the use of the data from the website of the Federal State Statistics Service. Available at: <https://rosstat.gov.ru/folder/11110/document/13263>

¹³ See for example: <https://rosstat.gov.ru/folder/11110/document/13263>

¹⁴ Calculated according to: Information on the results of the monitoring of local budgets of the Russian Federation as of October 1, 2006 (monitoring period – 9 months of 2006). Available at: <https://minfin.gov.ru/common/img/uploaded/library/2007/09/monitoring011006.pdf>

The recorded change in the structure of municipalities differed by region. In the Far East, for example, the dynamics were smoother. During the period from 2007 to 2021, the total number of MFs in Russia decreased by 16.1%, while in the Far East the “reduction rate” was one and a half times less (11%), and the number of rural settlements decreased only by 10%, with the national average of 18%. Such specifics have their own reasons, which will be discussed below.

The managerial result of the reform is connected with clarification of the mechanisms for regulating the powers and rights of LSG bodies, and it sets the structure of powers assigned by federal laws to a specific level of government (regional or municipal), predetermining the formation of budget expenditures of this level of government.

By 2003, there emerged a need to resolve the contradiction, which consisted in the duplication

of basic powers of municipalities and constituent entities of the Russian Federation, which led to acute conflicts, especially in the relationship of regions with their “capital cities”. Federal Law 131-FZ assigned main issues of local importance¹⁵ to LSG bodies, and the line between the “own” and “delegated” powers (expenditure obligations) of local authorities was determined, respectively, between the sources of their financing. It is recognized that delegated powers should be financed only by subventions.

In the future, a number of amendments were made to Federal Law 131-FZ so as to expand the list of issues of local importance for municipal formations. In addition to the powers to address issues of local self-government, Articles 14-1, 15-1 and 16-1 endowed LSG bodies with several rights, that is, they gave MFs the opportunity to participate in matters not directly related to the issues of local significance (*Tab. 2*).

Table 2. Spatial structure of the powers and rights of local self-government bodies set out in Federal Law 131-FZ and in laws of the federal cities

Type of MF	Contained in Federal Law 131-FZ (number)		
	Powers of MFs		Rights of MFs
	in the original version of the law	in the version of the law as amended on July 1, 2021	
Urban settlement	22	39	15
Rural settlement	22	13 (the remaining 26 issues of local importance are resolved by the local self-government bodies of municipal districts)	15
Municipal district	20	39	14
Urban okrug	27	44	18
Intra-urban district (since 2014)	-	13	6
Municipal okrug (since 2019)	-	44	18
Urban okrug with inner-city divisions (since 2014)	-	44	18
Powers set out in the laws of federal cities			
Intra-urban territories in federal cities	Moscow – 24; Saint Petersburg – 44; Sevastopol – 12		
Compiled according to: Federal Law 131-FZ; On the organization of local self-government in Moscow: The Law of the City of Moscow, dated November 6, 2002, no. 56. Available at: https://basman.mos.ru/about/normativno-pravovye-akty/zakon-g-moskvy-ob-organizatsii-mestnogo-samoupravleniya-v-g-moskve.php); On the organization of local self-government in Saint Petersburg: The law was adopted by the Legislative Assembly of Saint Petersburg on September 23, 2009. Available at: https://docs.cntd.ru/document/891818221 ; On local self-government in Sevastopol: The Law of Sevastopol dated December 30, 2014, no. 102-ZS. Available at: https://sevizakon.ru/view/laws/bank/dekabr_20141/o_mestnom_samoupravlenii_v_gorode_sevastopole1/tekst_zakona/			

¹³ We are talking about electricity, heat, gas and water supply to the population, sanitation, fuel supply to the population, education, healthcare, roads, transport services, primary fire safety measures, creating conditions for providing the population with communication services, catering, trade, consumer services, libraries, protection of local cultural heritage, physical education, sports, work with youth.

The dynamics of expansion of the powers and rights of LSG bodies show that their legislative status has formally increased over the years of the reform; and the emphasis in regulating the activities of LSG bodies is shifting from the principle of “only what is allowed is allowed” toward the principle of “what is not prohibited is allowed”¹⁶.

It is important to understand how this “power status” of local authorities, which is proclaimed to have been increased, actually correlates with the provisions of budget legislation on financing the powers of municipalities, in order to further understand whether Far Eastern municipalities have their own specifics in this matter.

Financial results of the reform. It is implied that there is a need to form stable and manageable financial and budget foundations for local self-government. We should note that at present such an approach in the development of LSG, with certain variations, corresponds to the aspirations of the majority of federal and unitary states [4; 12; 19; 20].

During the years of the reform, Russia did not manage to overcome the problems in the financing of LSG bodies, which were noted at the start of the reform. In 2007, the share of LSG in the consolidated budget revenues was 10.7%, and

in expenditures – 13%¹⁷, while at present, due to methodological flaws in the financial component of the reform concept, significant underfunding of LSG in Russia remains the norm. Thus, according to the results of 2016–2018, the shares of revenues and expenditures of municipal budgets in the state consolidated budget of the Russian Federation averaged 11.4 and 12.3%, respectively, which, although it is better than the national indicators for 2007, is significantly lower than the world indicators for federal states (*Tab. 3*). Moreover, the gap in the level of expenditures and revenues of LSG bodies is especially noticeable when comparing Russian indicators with those of high-income countries.

Even among countries with above-average revenues, including the Russian Federation [22], we observe that the share of Russian LSG bodies in terms of expenditures and revenues in the consolidated budget of the country is 40–60% lower than the world “average group” data. The situation when the balance of the shares of expenditures and revenues of municipal budgets is in favor of expenditures (they exceed the revenues of LSG by 0.9 p.p.) means that the Russian municipal level of government is “overloaded” with obligations when the powers performed are underfunded.

Table 3. Shares of revenues and expenditures of the budgets of LSG bodies in different countries, % of the consolidated budget on average for 2016–2018

Indicator	Russia	Federal countries	Countries with high incomes	Countries with incomes above average
Revenues	11.4	14.5	21.8	18.2
Expenditures	12.3	13.5	20.9	17.3
Compiled according to: [21, p. 25].				

¹⁶ Recently, according to the participants of the 20th Russian Municipal Forum, the *rights* of local self-government bodies to resolve issues not related to issues of local importance are often interpreted as *duties* by prosecutors and courts. As a result, local self-government bodies fall into a legal trap: compulsory, court-imposed implementation of the rights of local self-government bodies to resolve issues outside their competence entails additional costs not supported by local budget revenues, and failure to comply with the requirements of the courts may entail the imposition of fines [18, p. 76].

¹⁷ Calculated according to: The formation of local self-government in the Russian Federation 2007. Available at: <https://rosstat.gov.ru/compendium/document/13263>; Annual information on the execution of the consolidated budget of the Russian Federation. Available at: https://minfin.gov.ru/ru/statistics/conbud/execute/?id_65=93449-yezhegodnaya_informatsiya_ob_isspolnenii_konsolidirovannogo_byudzhet_rossiiskoi_federatsiidannye_s_1_yanvarya_2006_g.

Features of a regional cross-section of the local self-government reform

For an adequate assessment of financial results of the reform in relation to the municipalities of the Far East, it is necessary to understand how the territorial structure of local self-government that developed in the macroregion has changed and what it currently represents; how the powers of municipalities, revenues and expenditures of municipal budgets of Far Eastern constituent entities of Russia are formed against the background of the identified nationwide trends in the implementation of the reform.

Specifics of the territorial organization of Far Eastern municipalities are largely determined by the specifics of Russia's Far Eastern constituent entities, which, in general, stand out markedly in terms of area and population density among Russian regions. Of the ten largest RF constituent entities by area, six are within the Far Eastern Federal District (Yakutia, Khabarovsk Krai, Chukotka Autonomous Okrug, the Magadan Oblast, Kamchatka and Zabaykalsky krais); among the five constituent entities with the minimum population density, there are four regions of the Far East (Chukotka Autonomous Okrug, the Magadan Oblast, Yakutia, and Kamchatka Krai). The "average" Far Eastern MF is 6.6 times larger than the "average" Russian MF in area, and 11.2 times smaller in population density. Besides, the more northerly the MF is, the more clearly this pattern is manifested.

The specifics of municipalities within the Far Eastern Federal District predetermine a need for more budget expenditures per capita, in comparison with the Russian average. Local and regional Far Eastern authorities have no other option, because they need to provide food and heat to remote territories, ensuring a decent level of education and the provision of medical services to the population dispersed over a vast territory.

In the Far Eastern Federal District, the largest number of MFs is registered in the Sakha Republic (455) and Zabaykalsky Krai (392), the smallest –

in the Magadan (9) and Sakhalin (18) oblasts. The average number of municipal formations in the region maintains a long-term downward trend, having decreased from 194 in 2007 to 172 in 2021. In Russia in 2021, the density of municipal formations was almost one and a half times higher (239 units per RF constituent entity).

The dynamics of changes in the number and structure of municipalities of the Far Eastern Federal District by type and level are given in *Table 4*.

During the period under consideration, the number of municipal districts decreased by 28 units, mainly due to the transformation of municipal districts into single-level municipal okrugs¹⁸. As a result, during the analyzed period, the number of first-level MFs decreased by only three units. The overall reduction in the number of MFs in the Far East was at the expense of second-level municipalities: the number of urban settlements decreased by 64, rural – by 167 units. At the same time, the process of optimizing the number of MFs in specific regions of the Far East is carried out under the influence of various factors.

The prevailing mentality of the local population in regions of the Far North forms a type of closed community, which makes it difficult to make decisions on the consolidation of municipalities¹⁹. As a result, for example, 455 municipal formations have been preserved in the Republic of Sakha (Yakutia) throughout the entire period under review, although 2/3 of them have fewer than 1 thousand inhabitants and are located in hard-to-reach and remote places [23].

Another trend that has manifested itself in the Far East is the growth in the number of urban and municipal okrugs over the analyzed period and the

¹⁸ Aleutsky District in Kamchatka, two districts in the Amur Oblast (Belogorsky and Romnensky districts), and five districts in Primorsky Krai (Lazovsky, Oktyabrsky, Terneysky, Khorolsky and Khankaysky districts) were transformed into municipal okrugs in the Far East in the first half of 2020 alone [14].

¹⁹ According to Federal Law 131-FZ, such reorganizations must take into account the opinion of the population.

Table 4. Dynamics of the number and structure of municipal formations of the Far Eastern Federal District (as of January 1 of the current year)

Type of municipal formation (MF)	Level of MF	Number of MFs, units			Structure of MFs by type (%)	
		2007	2021	(2021–2007)	2007	2021
Municipal district	I	179	151	-28	8.4	8.0
Municipal okrug	I	0	13	13	-	0.7
Urban okrug without inner-city divisions	I	54	66	12	2.5	3.5
Urban settlement	II	237	173	-64	11.2	9.1
Rural settlement	II	1659	1492	-167	77.9	78.7
Total		2129	1895	-234	100	100

Calculated according to the data from the website of the Federal State Statistics Service. Available at: <https://rosstat.gov.ru/storage/mediabank/ykmb3eKg/munst.htm>

transition to a single-level system of LSG. The abandonment of the two-level system of LSG in the Russian Federation began in 2017²⁰, when compactness, walking distance and the predominance of the urban population ceased to be considered as the criteria that an urban okrug should meet. This made it possible to launch the process of transforming territories into urban okrugs, and the appearance of municipal okrugs in 2019 proves that Russia has formalized the abandonment of the two-level system of LSG. Since 2017, the entire territory of the Magadan and Sakhalin oblasts has been distributed between nine and 18 urban okrugs, respectively. At the same time, a two-level system of LSG is maintained in nine Russia's Far Eastern constituent entities.

The specifics of financial support for the development of LSG in the Far East are largely predetermined by the territorial organization of Far Eastern municipalities. By 2020, there were 164 municipal districts and 66 urban okrugs in 11 RF constituent entities in the Far East (*Tab. 5*).

The analysis of the dynamics of changes in per capita revenues and expenses, the share of own revenues and intergovernmental budget transfers (grants, subsidies and subventions) in the revenues of the budgets of municipal districts and urban okrugs for 2011, 2015 and 2019 allows us to draw a number of conclusions about the features of the budgets of Far Eastern municipalities.

First, the change in the value of real per capita revenues and expenditures of the budgets of MFs for 2011–2019 shows that in the Far East, the volumes of revenues and expenditures of the budgets of municipal districts (MDs) and urban okrugs (UOs) during the analyzed period are in serious stagnation. This conclusion is based on the assessment of real per capita budget revenues and expenditures of municipal districts and urban okrugs for each of the Russia's Far Eastern constituent entities in 2019 prices and the calculation of median real per capita expenditures and revenues of municipalities of the Far East for 2011–2019 (*Tab. 6*).

Table 5. Number of first-level municipal formations in the Far Eastern entities of the Russian Federation

First-level MFs	2011	2015	2019
Municipal district	176	175	164
Urban okrug	55	56	66

Calculated according to: <https://www.gks.ru/dbscripts/munst/>

²⁰ Vyzhutovich V. To enlarge so as to form an okrug. *Rossiyskaya gazeta – Federal Issue*, 2019, no. 57(7815). Available at: <https://rg.ru/2019/03/14/vyzhutovich-municipalnyj-okrug-eto-ekonomiia-biudzhethnyh-sredstv.html>

Table 6. Median revenues and expenditures of municipal districts (MD) and urban okrugs (UO) of Far Eastern constituent entities of the Russian Federation per capita (in 2019 prices), thousand rubles/person

Indicator	2011	2015	2019	2019/2011, %
MD and UO budget revenues per capita	44.7	36.2	42.9	96.0
MD and UO budget expenditures per capita	49.6	36.7	42.2	85.1

Calculated according to: Consolidated budgets of constituent entities of the Russian Federation and budgets of territorial state extra-budgetary funds. Official website of the Federal Treasury. Available at: <https://roskazna.gov.ru/ispolnenie-byudzhetrov/konsolidirovannyye-byudzhety-subektov>; <http://base.garant.ru/149900/>

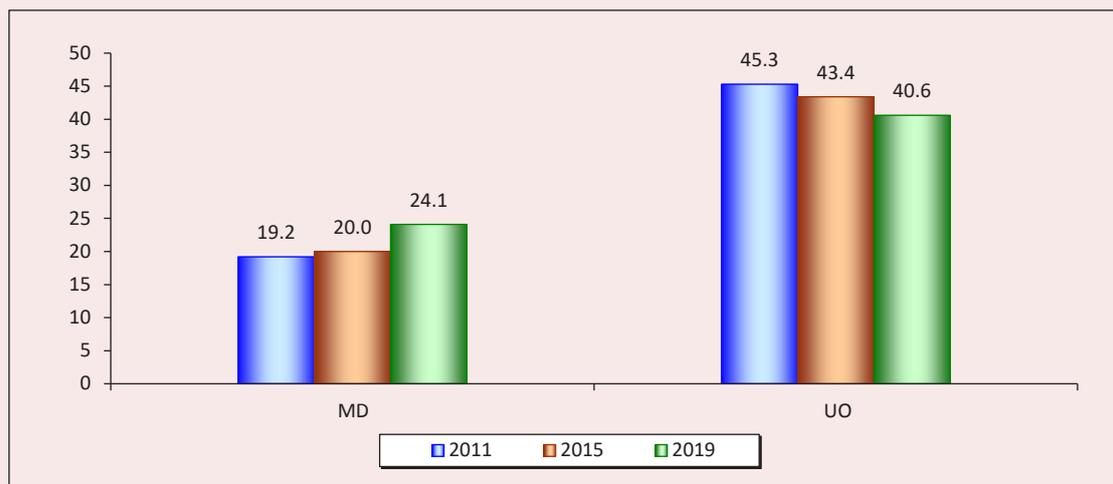
The data in Table 6 show that the median real per capita revenues and expenditures of Far Eastern municipalities for 2011–2019 decreased by 4 percentage points in terms of revenue and by 14.9 percentage points in terms of expenditures.

Since per capita expenditures (in 2019 prices) of the entire consolidated budget of the Russian Federation for the same period increased by 11.5 percentage points, we can assume that since 2011, Far Eastern municipal formations have not received additional funds in comparison with budgets of other levels of government and other Russian regions; moreover, the situation with local budgets in the macroregion has worsened in comparison with the average Russian data.

Second, in the Far East, there is a low financial independence of local budgets on the part of urban okrugs and, in particular, municipal districts.

Municipal formations of the Far East receive most of budget funds from RF constituent entities or from the federal budget. Currently, in the Far East, the share of own revenues in the budgets of urban okrugs (that is, the amount of revenue minus subsidies, subventions and grants-in-aid) averages 45–40% with a downward trend. The median share of own revenues in the budgets of municipal districts, although growing, remains at an extremely low level (19.2–24.1%) (Fig. 2). For comparison, we should note that in other federal states, the share of own revenues in the budgets of municipalities is 60% on average [12].

Figure 2. Median share of own revenue in the budgets of municipal districts and urban okrugs of the Far East, %



Calculated according to: Consolidated budgets of constituent entities of the Russian Federation and budgets of territorial state extra-budgetary funds. Official website of the Federal Treasury. Available at: <https://roskazna.gov.ru/ispolnenie-byudzhetrov/konsolidirovannyye-byudzhety-subektov>

In practice, the present-day situation means that the current financial situation of municipal districts, as well as urban okrugs, in the Far East depends not so much on their own efforts as on the financial capabilities of the RF constituent entity and the amount of intergovernmental transfers. In most cases, subsidies are required by municipal districts, although in recent years, the financial independence of urban okrugs has reduced, as well as the share of their own revenues in the budget.

The third feature of Far Eastern municipal formations is a direct consequence of the decline in financial independence, and it concerns the gradual reduction of the possibility for Far Eastern municipalities to freely dispose of budgetary resources. Subsidies and subventions, which have been increasing in recent years, already account for the majority of all the transfers received by local budgets and are approaching half of the budget revenues of urban okrugs; in municipal districts, they form almost 60% of budget revenues (*Tab. 7*). The problem is that subsidies and subventions are to be used only for the powers specifically imputed to the municipality.

According to the data in Table 7, the share of subsidies that give the municipality relative freedom to dispose of financial resources²¹ decreased by more than 8.6 percentage points for Far Eastern municipal districts during the analyzed period

(from 24.5% in 2011 to 15.9% in 2019), and for urban okrugs it decreased to an inconspicuous 1.8% of all their budget revenues.

As a result, it turns out that the practical ability to freely dispose of the available budgetary resources, which was already low in Far Eastern municipalities, is gradually decreasing even more. This suggests an increasing limitation of the ability of municipalities to meet the needs of the population in municipal services, both in terms of their effectiveness and overall performance results.

In fact, based on the analysis of the situation with the budgets of Far Eastern MFs, we can say that the situation with the budget legislation in terms of LSG over the years of reform in the region is becoming more conservative: “It is allowed to spend budget funds under control and only on what subsidies and subventions are allocated for”. As a result, the political “indulgences” declared by Federal Law 131-FZ in terms of expanding the powers and rights of MFs remain unsupported by financial revenues at the regional level, which forms a strong dissonance between pre-reform expectations and reality in terms of reforming local self-government. The main result of the reform is formal inefficiency of the local self-government system. In fact, we can say that in the Russian Federation there is a process of “inflation” of local

Table 7. Structure of intergovernmental transfers as a share of all budget revenues of municipalities of the Far East (median values), %

Median shares of the indicator in budget revenues	2011		2015		2019	
	MD	UO	MD	UO	MD	UO
Transfers, total	81.5	53.0	79.6	57.8	76.0	59
Grants	24.5	6.3	20.2	3.4	15.9	1.8
Subsidies and subventions	43.4	37.2	47.8	48.6	57.0	44.8
Other transfers	6.9	5.8	3.6	1.2	3.9	10.9

Calculated according to: Consolidated budgets of constituent entities of the Russian Federation and budgets of territorial state extra-budgetary funds. Official website of the Federal Treasury. Available at: <https://roskazna.gov.ru/ispolnenie-byudzhetrov/konsolidirovannyye-byudzhety-subektov>

²¹ Subsidies, being an unrelated, non-targeted transfer, actually simply increase the budgetary security of the regional budget, which encourages flexibility in the use of funds, that is, regions can independently direct the funds received to fulfill their spending obligations and solve the most important problems for the region.

self-government as a system of public relations, when the bloated powers of municipalities do not have the appropriate financial coverage for their implementation both in the national and regional context.

Discussion

1. *The reform of LSG has not been completed*, so we would like to attribute many problems in the formation of local self-government in Russia to “growth problems”. However, it seems that practical measures and legislative initiatives implemented under the slogan of improving the effectiveness of LSG functioning, in reality lead to the weakening of this institution and the strengthening of the power vertical²². In fact, the institute of LSG has been undergoing “creeping unitarization” over the last decade. In the context of financial problems inherent in the municipalities of the Far East, the transition to a single-level system of local self-government in the Magadan and Sakhalin oblasts can be not only an example of simplification of intergovernmental relations, but also a step toward the integration of local self-government into the vertical of state power [24]. Such an assumption requires further study and substantiation, but it cannot be completely excluded, because in the key amendment of the new version of the Constitution²³ (Article 131) in terms of the territorial foundations of LSG, the priority of the settlement level has disappeared, and the possibility of its complete abolition has appeared. And the fact that now the Constitution contains the provision on the right of public authorities to directly participate in the formation of LSG bodies and to appoint and dismiss LSG officials (Article 131, Paragraph 1.1) undermines

²² Petukhov R. What do the amendments to the Constitution change in the fate of local self-government? Available at: <https://www.vedomosti.ru/opinion/articles/2020/01/24/821369-popravki-v-konstitutsiyu> (accessed: March 30, 2021).

²³ Constitution of the Russian Federation. Official website “Constitution of Russia. All editions”. Available at: <http://konstitucija.ru/> (accessed: August 30, 2021).

the very principle of organizational isolation and independence of LSG bodies, postulated in Article 12 of the Constitution²⁴.

In September 2021, the draft law “On general principles of organization of public power in constituent entities of the Russian Federation”²⁵ was introduced to the State Duma by Senator A.A. Klishas and State Duma deputy P.V. Krashe-ninnikov, and, if adopted, it will promote the unitarization of the Russian Federation. The draft law proposes to consolidate the possibility for governors to be elected to their posts an unlimited number of times. They can be dismissed only if they become objectionable to the President. In practice, this legislative norm, if adopted, will reduce the subjectivity of governors and expand the possibilities of influence of the presidential administration.

An analysis of the progress of the reform of local self-government and legislative initiatives suggests that local self-government in the country as an institution of public authority is gradually mutating into local public administration known since Soviet times, in practice turning into “municipal administration”, under which the contours of “public administration within municipal borders” are visible.

2. *Strengthening the financial and economic foundations of LSG and inter-municipal cooperation.*

The actual results of the reform are very different from the declared goals. The situation with local self-government in the country remains difficult, and in Far Eastern municipal districts and urban okrugs – critical, which is especially clearly observed in the field of finance, where the slogan “There is no money, but you gotta hold on!”

²⁴ We should note that, although Article 12 of the Constitution of the Russian Federation actually prohibits the subordination of municipal authorities to state bodies, the real practice of their relationship indicates the presence of a strong political and economic influence of the state on local self-government (for more details, see [25]).

²⁵ Draft law no. 1256381-7 “On general principles of organization of public power in constituent entities of the Russian Federation. Available at: <https://sozd.duma.gov.ru/bill/1256381-7> (accessed: September 28, 2021).

becomes relevant. In these conditions, an important issue of the functioning of local government is the search for sources of additional funding for local self-government.

We should note that in the process of formation and development of local self-government, most countries face financial problems [12]. The issue is often solved by improving the tax sphere and actively using inter-municipal cooperation.

The target areas and prospects for strengthening the financial foundations of MFs functioning can be found in improving the tools for developing the revenue base of local budgets (in relation to individual income tax, property-related tax revenues, taxation of small businesses) [5, p. 80]. We are talking about the problem that has been solved by a significant number of foreign countries and that deals with redistribution of individual income tax from the place of work to the place of residence of the taxpayer, after the initial payment of tax at the place of work [26]. It is necessary to pay attention to the proposals made by the scientific community on giving the status of “local” to the entire group of property taxes, since it is LSG bodies that can effectively influence their administration.

As for the institute of inter-municipal interaction, it has proven to be a tool that helps to satisfy people’s needs more effectively, as well as ensure the achievement of postulated economic and social tasks by saving resources of local budgets [27; 28; 29].

For Russia, the study and use of domestic and foreign experience in the application of various forms of inter-municipal interaction is especially important, since it can not only help to find solutions to issues of local importance in ensuring socio-economic interests of the population, but also act as an alternative to a series of separative and unifying processes in the system of municipalities. It can be expected that the expansion of the practice of using various forms of inter-municipal interaction will make it possible to find solutions to issues of

local importance in ensuring the socio-economic interests of the population within the emerging system of municipalities, while maintaining the formal independence of the latter [9, pp. 69–70].

We should note that at present, inter-municipal cooperation in Russia is largely reduced to formal moments, since out of its three main forms (associative, contractual and organizational-economic), the greatest attention is paid only to associative forms of cooperation²⁶.

It would be wrong to say that the RF Government is not doing anything to resolve this situation. In September 2020, the Ministry of Economic Development prepared a package of draft laws aimed at legal regulation of development of urban agglomerations and improving the legal mechanisms of inter-municipal cooperation²⁷ and posted it on the federal portal of draft normative legal acts. The package includes a draft federal law “On urban agglomerations”²⁸ and two draft laws that adjust related laws and amend the Civil Code of the Russian Federation in connection with the development of inter-municipal cooperation in agglomerations²⁹. The draft basic law is aimed at creating legal and economic conditions for the development of urban agglomerations, and the model of management of urban agglomerations provided for in the draft law is based on the creation of mechanisms for inter-municipal cooperation.

²⁶ The most significant examples are the Association of Siberian and Far Eastern Cities; the Union of Russian Cities; the Union of Cities in the Center and North-West of Russia, etc.

²⁷ https://www.economy.gov.ru/material/news/minekonomrazvitiya_razrabotalo_paket_zakonoproektov_o_razviti_i_gorodskih_aglomeraciy_i_mezhmunicipalnogo_sotrudnichestva.html

²⁸ <https://regulation.gov.ru/projects#npa=107906>

²⁹ “On amendments to certain legislative acts of the Russian Federation regarding the development of urban agglomerations and inter-municipal cooperation”, “On amendments to the Civil Code of the Russian Federation regarding the development of urban agglomerations and inter-municipal cooperation”.

Although many of the issues raised in the draft laws require further elaboration and clarification³⁰, it seems that the discussion and adoption of this package of draft laws can remove a significant number of problems in the development of inter-municipal economic cooperation.

3. **Detailed monitoring of the progress of the LSG reform.** In order to achieve the declared goals of the reform, to establish and clarify specific contours of the “regulated diversity” of local self-government models or to use specific forms of inter-municipal interaction, it is necessary to organize extensive monitoring that would record positive achievements of the reform and its shortcomings. A detailed monitoring of the progress of the reform can be a tool that will identify the problems and prevent the dismantling of local self-government as a real institution of public power or embedding it in the system of public administration.

Conclusions

Summarizing, we note that in the Far East, the situation with the financial provision of LSG is determined not so much by local or Far Eastern trends, as by all-Russian trends. Over the years of reforms, the legislative strengthening of the powers and rights of LSG, declared at the federal level, has not found appropriate financial support in the region. In the last decade, the state and conditions for the formation of budgets of municipal districts and urban okrugs in Russia's Far Eastern constituent entities show the presence of serious stagnation of revenues and expenditure of municipal formations.

In addition to the underfunding, centralization of budget-forming taxes at the federal and regional

levels and a steady increase in the share of targeted transfers in the allocation of financial assistance from budgets of other levels have formed a low financial independence of municipal budgets in the Far East. A decrease in the financial autonomy of local self-government means a decrease in the possibility of free disposal of budgetary resources for municipalities of the region; this indicates the possibility of turning the institution of public authority of LSG into “public administration within municipal borders” or, in other words, gradual transformation of modern LSG into the lower level of state power.

Clarifications and amendments to the Constitution of the Russian Federation in 2020 contain certain prerequisites for reducing the role and importance of LSG. Being de jure neutral to local self-government, they will require clarification of federal legislation for their implementation. The de facto result may be an even greater financial and political dependence of LSG on state authorities, which will finally undermine the principles of organizational isolation and independence, still imposed on LSG bodies by the Russian Constitution and Russian legislation.

The results of the study help to identify theoretical aspects of the formation of LSG in the Far Eastern macroregion, reveal urgent problems caused by the course of the reform and identify risks associated with the possible loss of financial and political independence of LSG in the new constitutional environment. The obtained research results allowed us to substantiate proposals for improving approaches to the management of the institute of LSG, among other things, in terms of financial and budgetary relations. The practical significance of the study is due to the possibility of using the aforementioned provision in the work of authorities at all levels in solving problems in the development of LSG in the Far Eastern region of Russia.

³⁰ Conclusion on the draft federal law “On amendments to certain legislative acts of the Russian Federation regarding the development of urban agglomerations and inter-municipal cooperation”. Available at: <https://opcrimea.ru/ekspertizazakonoproektov/zaklyuchenie-na-proekt-federalnogo-zakona-o-vnesenii-izmenenij-v-otdelnyezakonodatelnye-akty-rossijskoj-federacii-v-chasti-razvitiya-gorodskih-aglomeracij-i-mezhmunicipalnogo-sotrudnichestva.html>

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