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**STRENGTHENING INSTITUTIONAL FRAMEWORKS FOR LOCAL GOVERNANCE PROGRAMME
2015-2017**

STUDY
**Finance Benchmarks: areas and options for assessing
local financial resources and financial management
in Belarus**

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Political and administrative structure

Forms and types of elected local governments

In Belarus there is one form/type of the elected local authority only. It is the Local Council as representative body of the power. The Executive Committee or executive local power is not elected. The Chairman of Executive Committee is appointed by the President of Belarus. However, local executive committees have supremacy in local government and overwrite the elected councils' powers. Belarus accounts 118 rayons, 113 cities, 90 urban settlements, 1159 rural settlements, 23251 villages. It is illustrated in the table 1.

Table 1
Administrative and territorial unit's structure

Regions/Oblasts	Administrative and territorial units						
	Rayons	Cities	incl. oblasts submission	districts in cities	urban settlements	rural settlements	villages
Brestskaya oblast	16	21	3	2	8	190	2161
Vitebskaya oblast	21	19	2	3	24	191	6262
Gomelskaya oblast	21	18	1	4	16	240	2296
Grodnenskaya oblast	17	15	1	2	16	163	2296
Minskaya oblast	22	24	1	-	18	219	5203
Mogilevskaya oblast	21	15	2	4	8	156	3015
Minsk city (capital)	-	1	-	9	-	-	-
Total:	118	113	10	24	90	1159	23251

Source: Compiled by expert on the base of State Committee of property of the Republic of Belarus as of 1 January 2014

In recent years the quantity of administrative and territorial units is reduced due to reduction of rural settlements which are integrated with other municipalities of this level. Since 2008 to present the number of rural settlements is reduced on 452 units.

The Belarus subnational government is structuring on three governmental tiers. On the first tier is six oblast governments (Brestskaya, Vitebskaya, Gomelskaya, Grodnenskaya, Minskaya, Mogilevskaya) and Minsk (capital of Belarus) city government. The second tier comprises 118 rayons and ten cities with oblast submission and finally, the third level consists of 1,351 units, including cities with rayon submission, as well as urban and rural settlements.

Table 2
Population size of elected local government units (fragmentation)

Belarus regions (oblasts)	Population size in local government units (number of local government units)
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	less 499	500- 999	1000- 4999	5000- 19999	20000- 49999	more 50000	Total
Brestskaya	1	11	208	4	12	3	239
Vitebskaya	2	17	180	20	3	5	227
Gomelskaya	4	53	204	6	10	5	282
Grodnenskaya	-	7	183	6	9	3	208
Minskaya	2	28	263	15	3	4	315
Mogilevskaya	1	24	162	10	9	2	208
Minsk city (capital)	-	-	-	-	-	1	1
Total:	10	140	1200	61	46	23	1480
The share in total units (per cent)	0.7	9.5	81.1	41.1	3.1	1.6	100.0

Source: Compiled by authors on the base of oblasts executive committees by the data of population census in 2009

Central government agencies, responsible for local governments are: Ministry of economics, Ministry of Finance, Ministry of industry, Ministry of agriculture and forestry.

Line and branch ministries are actively participate in local government development. For example,

budgetary process for local budgets begins with Ministry of economics (MoE) and the Ministry of Finance (MoF). MoE develops macroeconomic indicators for regions and then transfers them to MoF for the total subnational budget planning or the combined local budgets. The MoF transfers target figures to regional finance departments which are subordinated to MoF for oblasts budget planning. After that oblast financial departments establish target figures for rayon local budgets planning and the cities of oblast status. In turn, rayon executive committees together rayon financial department establish parameters for local budgets of rural and urban settlements.

MoF also participates in municipalities' control. In its structure the control - auditing divisions exists which provide audits and inspections of budgetary funds using by municipalities.

Besides, oblast's financial departments can checks on different local finance issues and local financial management. Besides MoF and its division's inspections regarding local government finance, the inspections and audits can be made by the Committee of state control. It generally is performed on all issues connected with the local government development. Ministry of housing, utilities and communal services establishes the indicators for local budgets expenditures in sphere of housing, utilities and communal services and them transfers it to oblast associations of housing and communal services. In turn, oblast associations of housing and communal services together with oblast financial departments are planning expenditures on housing, utilities and communal services. The Ministry of industry, Ministry of agriculture and forestry are similar planning expenditures on industry and agriculture purposes with oblast financial department.

Local government functions

Local government functions and responsibilities are presented by the following table 3

Table 3
Local government functions/ responsibilities in Belarus:

Local government levels: Cities with rayon status,	Functions: State and local administration in settlements and cities;
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rural and urban settlement municipalities (local governments of primary level)	<p><i>Accomplishments (Improvement in settlements and villages);</i></p> <p>Social protection: <i>social assistance</i></p> <p>State and local administration in rayons;</p> <p>Transport (in rayon borders)</p> <p>Agricultural production, fishing, and processing of agricultural production development: <i>maintenance of interdistrict veterinary laboratories; maintenance regional veterinary stations; maintenance of technical supervision bodies.</i></p> <p>Maintenance of fuel and energy in the rayon;</p> <p>Maintenance of other economic branches and sectors;</p> <p>Housing, utilities and communal services: <i>street lighting; water supply; sewerage; waste removal; garbage collection; maintenance of treatment facilities; gasification (maintenance of gas pipeline networks within rayon); cleaning of streets, accomplishment in the rayon cities; maintenance and repair of housing stock; service of heating networks, capital repairs of infrastructure objects.</i></p>
Rayons and cities with oblast status (local governments of base territorial level)	<p>Heals care: <i>out-patient clinics; polyclinics in rayon centres (rayon cities); inter district hospitals.</i></p> <p>Physical culture, sport, culture and mass media: <i>physical culture and sport development; cultural and art development; mass media; cinematograph.</i></p> <p>Education: <i>pre- school education (kindergartens); elementary (basic) schools; secondary schools; secondary schools for children needed in social assistance; boarding schools</i></p> <p>Social policy: <i>social protection; youth policy;</i></p> <p>Protection against emergency situations (fire protection);</p> <p>Public safety (in frame of rayon);</p> <p>National defense (functioning of military commissariats in rayons for recruiting)</p> <p>State and local administration in oblasts;</p> <p>Transport (all types in frame of oblast borders);</p> <p>Roads maintaining of oblast submission;</p> <p>Agricultural production , fishing, and processing of agricultural production development; <i>melioration; processing of agricultural production.</i></p> <p>Industry, energy, construction, architecture: <i>development of fuel and energy in the oblast; maintenance of other economic branches and sectors national economy</i></p>
Oblast Government (Local governments of oblast level)	<p>Housing, utilities and communal services (inter oblast utilities): <i>construction of new objects for utilities and communal services (equipment</i></p>

procurement); construction of treatment facilities; gasification (main gas pipelines within oblast); electrification (main power supply networks within oblast)

Heals care: *oblasts hospitals; medical centres*

Physical culture and sport development in oblasts;

Cultural and art development in oblasts;

Mass media;

Accomplishment in cities;

Environmental

Education: *professional education (professional colleges); medium vocational education (colleges); production - technical schools; special educational institutions; cadet schools; lyceums; hospices; out-of-school education;*

Social protection: *employment assistance; assistance in provision of housing*

Protection against emergency situations (fire protection);

Public safety;

National defense (functioning of military commissariats in oblasts for recruiting);

Environmental

Source: Expert's list produced from the Law on Local Government and Self-Government and Minsk oblast financial department.

All Local government functions indicated here correspond to local budget expenditures. Delegation of public functions from Central government to local authorities isn't fixed in the Belarusian legislation. So, in Local government legislation there no concept delegated functions in local government practice.

All local service management belongs to the State ownership and regulated by organizations of the Ministry of housing, utilities and communal services. In Belarus, there are no any contract forms, leasing, and concession ones. Exceptions are some condominiums in houses as the nongovernmental activity for communal services providing for. Services devolved to elected municipalities are absent.

The belarusian public sector is demonstrating high indicators quite comparable with ones in the EU countries. For example, in 2014 the share of local government expenditures in GDP reached 18.2 % and in total (consolidated) public expenditures – 62.0%. The share of local government revenues in total (consolidated) budget revenues reached 63.2%. In comparison with some Central and Eastern European and Baltic countries these indicators look higher in Belarus.

Local government own and shared revenues

Scope and types of local own source revenues: taxes, user charges, fees.

In accordance with the Budget Code local revenues are divided on two parts: tax revenues and non tax revenues which contain own and ceded revenues, as well. It characterised by the table 3.

Table 3

Types of own and ceded revenues of local governments¹

Own and ceded revenues:				Own non- tax revenues:			
Types of taxes and fees	Local budgets			Types of taxes and fees	Local budgets		
	OLB	RLB	SLB		OLB	RLB	SLB
Personal income tax (PIT);		X	X	Bank deposit interests;	X	X	X
Land tax;		X	X	Dividends;		X	X
Real estate tax;		X	X	Revenues from the land selling;		X	X
Real estate tax on incomplete construction objects		X		Revenues from land renting;		X	X
Taxes on revenues:				Revenues from other property selling and renting;		X	X
-tax on lottery activity;		X	X				
-tax on revenues of foreign organisations		X					
Other taxes from sales (except VAT) :				Expenditure compensations from State;	X	X	X
-uniform tax from entrepreneurs and other individuals;	X	X	X				
-uniform tax from agricultural producers;	X	X	X				
-tax on simplified system of taxation for businessmen;	X	X	X				
Taxes and fees from separate activity:				User charges;	X	X	X
- tax on royalty;		X					
- collecting from suppliers;		X	X				
- uniform trade collecting ;		X					
- unify imputed income tax;		X					
- charges for use of goods	X	X	X				
Tax for possession of dogs;		X	X	Revenues from property selling;		X	X
Ecological tax;	X			Advertising fee;		X	X
Tax on production of natural resources;	X	X		Penalties;	X	X	X
Fees from suppliers;		X	X	Voluntary contributions		X	X
Resort duty;			X				
State fee;	X	X	X				

¹ The table shows taxes and fees are directed in local budgets: OLB – oblast budget; RLB – rayon budgets+ budgets of cities with oblast submission; SLB – rural budgets + urban budgets + budgets of cities with rayon submission.

Contributions to X
innovative funds

Source: Compiled by expert on the base of Budget Code

By the assessment of local budgets in 2014 the main part of own revenues represents tax revenues – 90 per cent, non tax revenues is 10 per cent. An essential part of own tax revenues occupies PIT – about 70 per cent, taxes from sales 11.3 per cent, real estate tax and land one – about 6.5 per cent . The share of other own taxes occupies 12.2 per cent from own tax revenues.

Among the own non- tax revenues an essential ones are interests and dividends – 41 per cent, revenues from land selling and renting, property selling and renting – 22.8 per cent, and from expenditure compensations made by State – 19.5 per cent;

The share of own revenues in subnational budget and oblasts consolidated local budgets for 2011-2013 is characterized by the following table 4.

Table 4
Local budget financial sources' structure (in percentage)

Subnational government budget/ oblasts budgets	Own and ceded taxes and fees	2011			2012			2013		
		Shared taxes	Transfers, grants	Own and ceded taxes and fees	Shared taxes	Transfers, grants	Own and ceded taxes and fees	Shared taxes	Transfers, grants	
Total Sub-national government budget	29.39	35.19	35.42	30.89	37.61	31.50	40.54	29.02	30.45	
<i>from which budgets of:</i>										
Brestskaya oblast	29.07	24.86	46.07	31.62	25.32	43.06	34.46	22.55	42.99	
Vitebskaya oblast	23.12	29.49	47.39	31.71	28.15	41.14	35.52	24.59	39.89	
Gomelskaya oblast	32.29	27.61	40.10	32.62	25.99	41.39	32.88	25.12	41.99	
Grodnenskaya oblast	28.17	22.45	49.38	31.95	22.49	45.56	34.05	21.47	44.48	
Minskaya oblast	30.16	33.20	36.64	38.66	33.88	27.46	45.47	30.22	24.30	
Mogilevskaya oblast	28.45	21.32	50.23	32.40	21.51	47.09	32.97	20.15	46.88	
Minsk capital	52.52	44.97	1.51	52.40	46.18	1.42	54.84	43.92	1.25	

Source: Own expert's calculations based on the Ministry of Finance of the Republic of Belarus reports.

As table 4 shows, the share of own and ceded taxes and fees from analyzed period have risen from 29.39% to 40.54 and the share of transfers and shared taxes has totally different decreased from 70.61% to 59.47%. Among oblast budgets the same tendency was observed as well.

Local autonomy in tax policy design: setting base, rate, exemptions

Our researches of decentralization development in Belarus allowed making a conclusion about absence of local financial autonomy and existence of essential restriction in fiscal capacity of local authorities.

As an example it may be the situation in the Minsk oblast where the regional authorities use restriction practice of some own revenues for subordinate budgets of rayons and budgets of cities with oblast status). For example, in 2013 of assignment for personal income tax in budgets of oblast and the cities of regional status were limited by the regional authorities for local budgets of the Minski rayon, the Soligorski rayon, Soligorsk city in size of 50 per cent from their collecting in the respective territory while for other rayon budgets and city budgets with the oblast status this normative remained at a rate of 100 per cent, i.e. this tax was completely included in the local budget. Fiscal capacities of local authorities regarding a tax on real estate which should remain for local budgets (rayons and the cities of oblast status) were similarly limited. So, assignments from tax on real estate in the budget of the Minski rayon, of Zhodino city and Soligorsk city were assigned at a rate of 40 per cent, and in budgets of Borisov city, Zaslavl city, Molodechno city, Slutsky rayon, Soligorski rayon - at rate of 50 per cent.

Restrictions of fiscal capacities took place on target charges, which should completely (100 per cent) to be enlisted in local budgets of rayons and budgets of the cities with oblast status. In fact, assignments to local budgets of rayons and budgets of the cities with oblast status were limited up to 40 per cent for Soligorsk city and Zhodino city, 50 per cent for Minski rayon and Nesvizhsky rayon, 75 per cent for Borisov city.

Capital revenues (asset sale, rent, profits, etc.)

In belarusian local budgeting practice there are no dividing on current budget and capital one. Capital revenues and expenditures and current ones are reflected in one budget. However, sale land and land lease, property sales, sale of the rights for rent and other capital operations takes place in one budget. The capital revenues are illustrated in table 5.

Table 5.

Indicators:	2013
Revenues from leasing of the land plots	0.21%
Revenues from leasing of other property	0.06%
Revenues from property selling, property rights on objects of intellectual property	0.37%
Revenues from sale of the land plots in a private ownership, nongovernmental legal entities and in ownership of foreign international organisations	0.07%
The share of capital revenues in Belarusian sub-national budgets	0.71%

Revenues of Belarus sub-national budgets from land selling, land renting and selling of other property in 2013 (in percentages)

Source: Own expert calculations based on the Ministry of Finance of the Republic of Belarus reports.

As table 5 shows, the share of capital revenues makes less than 1 percent into belarusian sub-national budgets.

Tax sharing: origin or formula based; set ratio or arbitrary allocation rules:

In structure of local budgets financial sources the shared taxes take place. Existence of the shared taxes in local financial management inherited from the former Soviet financial system.

Existence of the shared taxes is connected with dependence of local taxes from economic conjuncture and degrees of unevenness of tax base placement of local own taxes on territories. Now, the shared taxes are used for regulating vertical and horizontal imbalances.

The shared taxes are national taxes which share in portion determined by the Law on the Republican budget between Central budget and subnational ones. According to the Budget Code shared taxes are: value added tax (VAT) and income tax (PT). Standards of contributions from these taxes to subnational budgets are determined by the annual Laws on the Republican budget. So, for 2013 the following standards of assignments from PT and VAT were established:

PT: 50% go to subnational budgets (the budget of the Brestskaya oblast region, the budget of Vitebskaya oblast, the budget of the Gomelskaya oblast, the budget of the Grodnenskaya oblast, the budget of the Minskaya oblast, the budget of the Mogilevskaya oblast). Other 50% go to the Central (Republican) budget.

VAT: 30% go to subnational budgets from which in the budget of Brestskaya oblast – 4.41%, in the budget of Vitebskaya oblast – 3.84%, in the budget of Gomelskaya oblast – 4.53%, in the budget of Grodnenskaya oblast – 3.36%, in the budget of Minskaya oblast – 4.47%, in the budget of Mogilevskaya oblast – 3.42%). Other 70% go to the Central (Republican) budget. The portions / normatives of sharing are established stable on the long term period. The shared taxes (PT and VAT) received from central budget to the oblast budgets may be distributed on the lower local budgets (rayon budgets and budgets of cities oblast submission).

In Belarus tax sharing is determined by the Budget Law annually. The sharing normatives for PT and VAT prescribed by the budget law are using by the oblast government in local budget process. The shared taxes concentrate in oblast budgets and then they are going to the rayon budgets as transfers from oblast government.

Local tariffs, user charges:

All local tariffs are established by the Central government. Communal tariffs for the local governments are developed and established by the Ministry of housing, utilities communal services and Ministry of economics. Local authorities have no independent rights in establishment and regulation of communal / municipal tariffs.

Local property management

An important underlying notion, which is a basic in process of assets management, is that a communal ownership is fixed in Belarus legislation. However, it is only a type of State ownership. In Belarus, therefore, municipalities are functioning within the framework of a State ownership. For the local government it means, that municipalities are subordinated to a so-called rigid "presidential" vertical hierarchy and function far from being within the framework of fiscal decentralization. So, it is worth to imagine that municipalities have no their own assets and the State has transferred to municipalities their property in operative management and economic conducting.

The Belarusian Constitution (article 13) determines that the ownership can be both state and private (Konstitutsia Respubliki Belarus, 2004). On another hand, the Constitution (article 121) also determines that the competence of Local Council deputies is to manage and conduct the communal ownership in limits defined by the Law (Konstitutsia Respubliki Belarus, 2004). So the concepts of state, private and communal ownership in the Constitution take place. The Belarus Civil Code (article 215), however, classifies communal ownership as a state one (Grazhdanski Kodeks Respubliki Belarus, 1998). It very seriously confuses the situation in regulation of fundamental relations. However, the aspiration to reduce the

number of independent patterns of ownership up to the state and private ones into the Belarus Civil Code can be recognized as a contradiction of common sense. Thus the local governments have no their municipal/communal ownership by the nature and use the state ownership transferred to it into operative management [*operativnoe upravlenie*]².

In Belarus the so-called municipal ownership or state ownership transferred into operative management to municipalities may includes: state property structures of a corresponding administrative and territorial unit, local budget's financial sources, available housing and communal services of subordinated territory, and also the industrial, building, agricultural enterprises, trading enterprises, transport and public consumer services, other enterprises, organisations, establishments of public health services, culture, physical training and sports, social protection and other property which necessary for functioning and developing of the territory. Besides, the property transferred to the municipal ownership by gratuitously state, other proprietors, and also the property created by Local Councils, other local governments, executive committees and local administrations, can be attached to the municipal ownership.

Information sources, public and available databases on collected local and shared taxes

Information resources and public available database on collected local and shared taxes are very poor, limited and it demands special permission for their receiving from officials. The existing statistical year-books give very brief information about dynamics of revenues and expenditures of the consolidated local budget (subnational budget.) Financial reports on the governmental tiers aren't published; there are no suitable information bases on local finance in Internet. For receiving information sources according to local budget revenues it is necessary to get a special office access to the Ministry of Finance and its structures. Information sources received aren't transparent.

Intergovernmental transfers, fiscal equalization

The transfer and grant system in Belarus is designed to equalize financial conditions for local governments and additionally to fund public sector expenditures. In other words, it is designed to equalize budgetary security (expenditures on welfare sphere) and balance local budget revenues and expenditures. The full set of transfers used in the local government financial system of Belarus is presented below in table 6.

Table 6.

Central government transfers for subnational governments in Belarus, fiscal year 2009-2013

Types of transfers assigned from the Central (Republican) budget	Years				
	2009	2010	2011	2012	2013
Donations to the welfare branches (donations to the [<i>neptoizvodstvennaya sfera</i>] for equalization)	59.8	72.65	75.7	82.53	83.5
Subventions for funding of agricultural and fishing expenditures	8.6	5.8	4.2	1.56	2.66
Subventions for funding of expenditures to overcome of Chernobyl catastrophe	13.1	6.65	6.2	7.7	8.3

² Operative management means that the state assets or property are ceded by the Central government to local governments for using on the free of charge base. Operative management or administration is the way of management (legal regime of using) of municipal ownership. It should be understood, however, that transferred property isn't fixed to municipal ownership by Law.

Funds received from the State off-budget fund of social protection of the population to provide the funding of employment	1.9	1.1	0.7	0.7	0.77
Subventions for covering housing construction cheques [<i>zhil'e</i>]	1.9	1.7	1.1	0.9	0.57
Other interbudgetary transfers	4.3	0.8	0.6	0.01	-
Capital transfers from other budgets of the fiscal system of the Republic of Belarus	10.4	11.3	11.5	6.6	4.2
Total:	100.0	100.0	100.0	100.0	100.0

Source: Author's own calculations based on the Ministry of Finance reports

The share of central government transfers and grants in subnational government budgets fluctuated from 30.45% to 35.5% for 2011-2013. In some oblast budgets this indicator has fluctuated 39.89% to 50.23% (see table 3). It is explained by shortages of own taxes and fees collecting and subsidized nature of these regions.

All central government transfers and grants are strictly programmed as established in the annual Budget Law adopted by the Belarus parliament. It is worth mentioning that the grants and transfers of the medium level (oblasts) governments are not applied. Instead, the method of shared taxation is used. The shared and ceded taxes – including the value added tax, profit tax, the shared portion of the personal income tax and the real estate tax – are balanced in the budgets of the rayons, cities with oblast status, cities with rayon status and the urban and rural settlements.

The most important Central government transfers targeted at the welfare [*neproizvodstvennyh*] sectors include expenditures for education, public health, culture, fitness and sport, mass media and social care, payments of communal services, and purchases of stock and equipment. Such transfers may be granted in the event of shortfalls of own taxes, shared taxes, and of local taxes, fees and duties which lead to the inability to meet planned expenditures. These transfers are implemented from the *special fund for financial support of administrative-territorial units* (FFSATU) into the Central (Republican) budget. This size fluctuates within 23-25% of the Central budget expenditures. The equalization of local government budgets is made on the expenditure side of local budgets through the simple method of vertical equalization. Other words, transfers based on equalizing according to the expenditure needs and not taking into account revenue possibilities.

In Belarus the equalization scheme is based on discretion approach or calculations, which include the following components: a normative of per capita budgetary security as specified in the annual Republican Budget Law; the number of inhabitants in the oblast or city; a correction coefficient taking into account the non-uniformity of welfare sector [*neproizvodstvennyh*] organisations and units located in the regions. They are established for each social-cultural / welfare sphere. For example, in the capital, Minsk city, and in regional cities it is higher than in the countryside. By multiplying these components, the size of expenditure needs on welfare [*neproizvodstvennyye*] programs are determined. If revenue shortages occur with respect to the size of expenditures calculated, the central government is to draw from the fund for financial support of the administrative-territorial units for that purpose. Since 2002 the Belarus Ministry of Finance has introduced some corrective elements into the equalization procedure which are now incorporated into the Budget Laws. Now for calculation of expenditure needs both separate normatives / norms and social standards in welfare sphere are used. There are two separate normatives / norms in health care and in education are used in calculations: the normative per inhabitant for health care and normative per inhabitant for education. Both normatives and norms are differentiated for the oblasts and Minsk city. Social standards for

expenditure needs' calculation in other welfare sectors: for culture, fitness, sport, mass media are used as well.

Rayon and cities with oblast status budgets as a base local budgets are balanced after the equalization procedure is finished with grants (subventions) provided from the Central budget for funding of expenditures to overcome of Chernobyl catastrophe, covering housing construction cheques [*zhil'e*], funding of agricultural and fishing expenditures in regions, capital expenditures.

It should be mentioned that in practice the methods of equalizing and balancing local budgets create unequal conditions for rayons and cities which use their own revenues to help fund their own needs and those which do not, but which receive significant grants from the central budget. It should be apparent that this allocation of Central budget funds does not motivate subnational governments to perform the necessary tasks to increase their own financial sources and reserves. The main failing is that the bulk of grants allocated do not take into account the tax efforts of local authorities. As a result, the tax efforts of local authorities do not correlate with the level of social and economic development of their communities. The following principle of transfer allocations should, therefore, be realized: more effective local tax efforts should result in greater financial support from the Center.

The size of transfer allocation is performed by the old Soviet approaches based on funding of protected expenditure items of municipal enterprises, only what under the Budget Law are: expenditures on salary, charges on salary, food, medicines, various transfers to the population, reimbursement of housing and communal services' costs [*zatrat zhilishchno – communalnyh uslug*] to the population. It would be important to note the process of transfer passing is performed not directly to the concrete local (rayon) budget and through the higher regional (Oblast) budgets that doesn't provide efficiency and creates opportunities for further redistribution of funds based on subjective approaches.

Equalization of revenues and spending needs

In Belarus equalisation process is performed on expenditure needs of rayon municipalities and cities with oblast status municipalities only. Expenditure needs are determined by standards or normatives of the budgetary security per inhabitant by the articles: health care, education and culture. By multiplication of these standards or normatives on number of inhabitants in rayon and cities the sum of expenditure needs is defined. It should be noted that budgets of lower municipalities (rural, urban, cities with rayon status municipalities) is not participate in equalisation process. Equalizing of revenues possibilities isn't applied. Instead of revenues possibilities the revenue basket³ is used.

The revenue basket for equalization is defined proceeding from taxes which are administered by municipality. It as a rule all planned taxes which can collected by the municipality except for the shared and ceded taxes and fees. So, the revenue basket should be equal to own taxes, fees and shared taxes to be collected in rayon municipality budget.

So, transfer = expenditure needs - revenue basket.

It should be noted that all equalization procedures are not transparent also any of them isn't registered the Budget Code and in other legislative acts.

Capital investment

Capital expenditures occupy more than 20 per cent of total consolidated local budget expenditures which are distributed: on capital investments in fixed assets; land purchases and intangible assets and capital transfers. It illustrated in the table 6.

³ Revenue basket saves as a alternative of revenue capacity

Table 7
Capital expenditures in consolidated subnational government budgets in 2014
(in percentage)

Subnational budgets (consolidated oblast budgets)	Total capital expenditures	Expenditures on					Land purchases	Capital transfers
		Capital investments in fixed assets		of which:				
				<i>Purchases of equipment</i>	<i>Capital construction</i>	<i>Capital repairing</i>		
Brestskaya	22.85	20.75	1.37	17.16	2.22	-	2.1	
Vitebskaya	15.02	13.19	0.55	9.93	2.71	-	1.83	
Gomelskaya	20.24	18.2	0.62	14.43	3.15	-	2.04	
Grodnenskaya	21.21	18.95	1.35	13.95	3.65	-	2.16	
Minskaya	20.3	17.85	1.04	14.42	2.39	-	2.44	
Mogilevskaya	17.54	15.84	0.86	11.26	3.72	-	1.7	
Minsk city	29.35	25.44	0.49	22.86	2.10	0.002	2.51	
Total consolidated local budgets	21.94	19.43	0.84	15.85	2.74	0.002	2.51	

Source: Author's own calculations based on the Ministry of Finance reports

Capital investments are funded by the oblasts budgets and covering mainly by the shared taxes and central government transfers. Capital investments in local governments planning on the base general plans of social and economic development of regions and should be coordinated with the Center government. The line ministries might play an important role, as well.

Local borrowing

The significance of debt rising is connected with global financial crisis of 2008 -2010 which touched the Belarus as the other European countries. In the conditions of financial crisis municipal borrowings as the new form of the local governments' financial support has been found in Belarus. Since July, 2009 local executive bodies and administrative ones have acquired the right to issue their bonds. Thereby local authorities had a tool to attract additional financial resources. By this time some local executive bodies and administrative ones have already taken advantage of this tool and had been issued the bonds. The State bank of SB "Belarusbank" has become buyer of these bonds. Local executive committees were authorized to issue their bonds without security as the borrower has been the State in this case. Bond issues of the local executive bodies and administrative ones were carried out within the size of a debt defined in the local budgets for the next fiscal year. Thus for the purpose of attractiveness of these bonds the income received at bond repayment of local authorities was released from profit taxation. By data on the beginning of August, 2009, a portfolio of redeemed SB "Belarusbank" of bonds of legal bodies has reached 327 bn. Belarus rubles, or 0.24% to GDP and 1.42% to total subnational expenditures. 90 % of portfolio (more than 290 bn. Belarus rubles) was belonged to the local authority securities.

The time of bond circulation has not exceeded one year, i.e. debt repayment was made no later than one year after the bond circulation. The first bonds emitters of local authorities were the Brest and Minsk regional executive committees, Pruzhansky and Kamenetsky rayon executive

committees, the Brest city executive committee. By this time the local authorities listed above had been issued their own bonds by their closed sale to SB "Belarusbank".

For regulation of borrowing process for the first time a debt limit indicator of the guarantees and guarantees provided by local authorities on loans issued by banks to legal entities of Belarus⁴ have been introduced by the Budget Law on 2006 and later it entered into the Budget Code. Now this indicator can't exceed *20% of the total amount of expenditures* of oblast budgets, rayon ones and city budgets except for the credits issued for development of housing construction in the village and of the investment projects implementation which passed the state complex examination⁵.

Another restriction for local governments is the limit of *debt services which should not exceed 15%* from local budget revenues. Other words, local government borrowings aren't allowed if the sum of the planned payments on debt services in the current year exceeds 15% of the budget revenues gained without taking into account of transfers and grants.

Local financial management

Separation of current and capital budget, balancing local budgets

In belarusian local budgeting practice there are no dividing local budget on current budget and capital one. Capital revenues and expenditures and current ones are reflected in one budget.

Strategic planning, multiyear budgeting

Strategic planning of local budgets by local authorities in Belarus isn't applied. Multiyear budgeting is also not formed due to economic instability and high inflation in the country. In best case the planning of sub-national budgets is made only for one year ahead.

Annual fiscal planning, budgeting

Annual fiscal planning and budgeting is carried out of finance departments in municipalities. Responsibility for fiscal planning and budgeting is born by the head of finance department and the Chairman executive power of municipality. Planning methods are based on old Soviet techniques which are forming local budget i.e. a method based on summation of all budget expenditures. Program budgeting isn't applied.

A prominent feature of the budget process in local financial administration is that the formation of local budgets occurs within the framework of a uniform State budget process. It imposes certain specificity in local budget formation. First, local budgets are includes in the system of State budget. Second, local budgets should be corrected on the basis of the macroeconomic parameters and indicators of Belarus economy by the Ministry of Economics and the Ministry of Finance.

Budget planning example: The local budget planning procedures are starting in September and finishing in the mid of December. A starting point in rayon local budget planning is GRP growth indicator (Growth Regional Product, is analogy of GDP indicator for regions), which oblast committee of economy brings to rayon finance department for budget planning. This indicator then is used for determination of the local budget size on next year. By multiplication of the total budget sum on current year on GRP growth coefficient / indicator on next year, the size of planning local budget on next year is defined.

After that the expenditure side of budget is defined. The local government executive committee gives an assignment for all organisations funded by the local budget to present all calculations

⁴ Local authorities can issue guarantees for legal entities which are being in boundaries of their jurisdiction. But in fact it isn't used in practice.

⁵ Guarantees on housing construction in rural areas aren't taken into account of this indicator

for expenditure side projection. Allocations on expenditure articles should be calculated from network and volume indicators and calculations for the forms enclosed for formation of the budget draft. Allocations should take into account the planned growth or reduction in next year, as well. Calculation for all other indicators should be made from real requirements and concrete expenditure features, namely: equipment of establishments by stock and equipment, need of current and capital repairs, number of vehicles, telephone numbers, plans of the direction for advanced training courses and other. Calculations are formed on separate funded organisation with granting the arch according to the paragraph, subsection, the section of the budgetary classification. Together with expenditure written explanations are submitted.

After that the revenue side budget is defined. Revenue articles of the budget are generally defined in proportion to coefficient / indicator of GDP growth. The financial department is defining opportunities to collect own revenues to supplement shared taxes. Then the expenditure side of the budget for standard articles is defined. Priority approach to determination of expenditure sums on concrete articles can be used.

The planned revenues and expenditures are submitted to the higher financial body - the Oblast financial department. At this stage, the amounts of central transfers and grants (donations, subventions and subsidies) to be included to the local budget are clarified and updated. Later oblast financial department determines the sums of shared taxes to be directed for local budget balancing.

The planned local budget is adopted and approved of by the Local deputies at the plenary session. Then the budget approved by local deputies is transferred to oblast financial department for consolidation and reporting. After that the central and subnational budgets are considered by the National government and the President of Belarus in preparation process for adaption of the State budget.

The local budget approved on the next year is published in rayon newspapers and mass media without any comments. The local population isn't allowed participate into discussion of budget articles on the plenary session. To hearings of the budget on a session local citizens as a rule are not accepted. Inhabitants aren't interested in drawing up the local budget as their opinion not to be considered.

Allocations according to items of expenditure have to pay off proceeding from network, volume indicators and to calculations for the enclosed forms for formation of the draft budget. Allocations according to items of expenditure calculate proceeding from the existing network indicators taking into account the planned gain (reduction) in 2003.

Budget implementation

Budget implementation of local budgets is carried out by the following bodies: Executive committees, local financial departments, tax collections departments. Local budget implementation is made through the automated state system of treasury within the actual existence of budgetary funds. The report on budget implementation is formed in accordance with the budgetary classification. The report is discussed at the Local Council session by the local deputies.

Budget implementation is monitoring by the head of executive committee of municipality and the financial department of municipality quarterly. Monitoring is also exercised by local tax administration which supplies reports on taxes and fees collected quarterly. As a rule, the sums on revenue side and expenditure one are equal in local budging and deficit or surplus doesn't happen. In case of budget revenue decrease to the level which can lead to reduction of expenditure funding of the budget in comparison with the planned volume for a year more than for 10 %, local financial department should urgently inform about it local executive bodies. Local executive bodies should present the draft decision on reduction or blocking of budget

expenditures on the current fiscal year in Local Councils of deputies for its consideration in urgent order.

Intervention rules in emergency cases may apply by the following bodies: Committee of the State control of Republic of Belarus, Ministry of Finance, and Ministry on taxes and fee collection, Local Councils of deputies. They can apply the following measures: stopping or restriction of expenditure funding from budgetary funds; collecting budgetary funds; stopping bank transactions for treasury; imposing a fine, charge and collecting penalty fees.

Agreements with service organizations are signed by the local executive committee. All service organisations are the state – owned enterprises of housing, utility and communal services. The private public utilities aren't applied in practice. Contracts, leasing and concessions aren't applied, as well. All public utilities with contracts signing are strong subordinated to the center - the Ministry of housing and public utilities. All utilities are located in rayons, but they belong to Ministry of housing, utility and communal services which have representative body in oblasts – Oblast association of housing, utility and communal services.

Fiscal information, accounting and audit

The fiscal information system is presented very poor. The general information on fiscal system can be received from the year statistical book published by Committee on Statistics and from the website of the Ministry of Taxes and Tax Collection. For obtaining of fiscal information on local budgets the special permission from the Ministry of Finance and the Ministry of Taxes or / and Tax Collection is required.

In Belarus there are no specific rules of book-keeping for sub-national governments. Local authorities use the common rules of accounting applied in all government tiers. Local authorities do not draw up and publish accounting balances (reports) by these standards. It should be noted however, that there is a special plan of accounts for organisations funding from budgets.

The bodies exercising control over the local budgets: Committee of the State control of Republic of Belarus, Ministry of Finance, Ministry on taxes and fee collection, Local Councils of deputies. The supervision and control system over the activity of sub-national governments is basically implemented by external and internal control bodies. The external control bodies are implemented by the Committee of State Control bodies, the Ministry of Finance's control bodies, the tax administrations of all levels, and the Committee of Economic Control in the regions. The basic internal body for controlling and supervising local government is the commission on budget and finance of the local council, which oversees the implementation of the local budget for a fiscal year. Independent audit organisations are not admitted to the process of control and supervision of the financial activities of local governments. Because state power is omnipresent in local governments, external State control is dominating in the Belarus system of local financial management.

The process of local government financial management is very complicated and non transparent.

The complexity of local financial management is connected with that local finance is subordinated to state finances, and local budgets are branches of the Central budget in localities. The central power, however, wishes to show that in Belarus there is a fiscal decentralization, but actually provide a fiscal centralization policy, submission of local finance to State finances. In reality, the Central Government wishes to keep all financial flows on subnational level under the State control.

That's why, many topics of local financial management: expenditure functions and responsibilities, formation of own revenue base, tax sharing, equalization procedures remain the non transparent and closed subjects for discussion by the population.

Local management capacities

In Belarus there is a good potential for local financial management. First of all, it is the financial experts and specialists having the higher education, practical experience and skills in local finance departments. An experience of local financial management legislation is saved up as well. In Belarus the high degree of tax collecting and high tax culture is formed. There is an experience of many methodical documents development in according with standards of taxes sharing, borrowing, and tax administration. The Belarusian local financial management is characterized by the high organization of control over the financial processes at all levels.

An essential part of experts and specialists is capable to be retrained in the direction of fiscal decentralisation. Thus, Belarus has big abilities in local financial management. Only the political will of the top management of Belarus is necessary.

Financial administration staff, especially young financial specialists and experts is ready to perceive new in local financial management, get trainings and have abilities in financial development.

The Belarusian financial experts will be able quickly to be integrated into the demanded standards of local financial management if the political decision on transition to real local government and decentralization at the highest level of the power will be accepted.

Implementation of LFB

Information, datasets for comparison

Database of the Ministry of Finance and regional finance departments:

- Dynamics of local budgets by the subnational governmental tiers (levels); local budget's revenue sources by the subnational governmental tiers (levels); local budget's expenditures by the subnational governmental tiers (levels); expenditures by the functional and economic classification;
- Intergovernmental transfers (structure of transfers); funds allocated for equalization (the equalizing transfers); dynamics and sizes of municipal loans by the subnational governmental tiers (levels);

Database of the Ministry of Taxes and Tax Collection: data on the actual sums of taxation and payments in the local budgets by the oblasts and rayons;

Data of rayon executive committees, rayon finance departments and rayon tax administrations: total revenues (current and capital); local own source current revenues; local own capital revenues; shared revenues; grants, transfers, donations, subventions, etc.; annual net borrowing; data of rayon's executive committees and rayon finance departments; data on implementation of the revenue plan (on quarters); sheet of the revenue movement; data on receipt of revenues in budgets of rural and urban councils and cities with rayon status; data on shortages in the budget; classification of local governments: (administrative status (region, city, town, village, commune; regional position; population number; area, etc.).

Problems and obstacles in LFB implementation

Practically, local authorities have no any incentives for comparison and competition because there is no local financial autonomy and financial competition between municipalities. A fiscal capacity and expenditure abilities of the local governments are limited by the higher governmental authorities. In this case there is no competition between municipalities for public goods and services. So, it is very difficult to present an existence of local incentives for competition.

In all probability local authorities' participation in future LFB program is extremely small, though their experience, skills and knowledge potential is no bed, they are well prepared and could be participated in this program. But there are some reasons. As local authorities are strictly subordinated to the Central government and they are Central government's representatives at the local levels, there is no need to perform LFB as local budgets completely enter to the state budget. Thus, there is no sense for local authority's representatives to participate in this program. In addition, there is no political will and political decision on issue of power's decentralization and local government development in Belarus. Recently the President of Republic of Belarus Alexander Lukashenko said in mass media, that decentralization and self-government will ruin Belarus. It is the reply to challenges of local government development in Belarus. Therefore both the Central and local authorities won't be able to become allies and participants in future LFB program.

LFB program allies and participants can become independent bodies: civil organizations and institutions, public and non-governmental organizations (NGO) and others. For example, NGO "Lev Sapieha Foundation" in which experts are scientists and specialists in the field of local government and local finance can become the participant of benchmarking program.

Availability of information to participation in future LFB program is limited to special permissions for obtaining information. If we want to get any information from Ministries and local government bodies we should apply for what information we need. Very often we are getting negative response with motivation "it is closed information" and it requires a special permission. It can be received, however, by the channels of personal contacts and communications. For example, I am receiving information by my own channels based on personal contacts and reference on university studies in field of public finance.

Publicity of and access to local documents the allowing procedures requires. For receiving information on the studied object need to provide: the purpose of obtaining information, what kind organization you represent and where information will be used. Even if a positive permission will be obtained, local authorities try to provide as little as possible information on required subject (audit report, budget figures, etc).

Nevertheless, there are good technical capabilities to operate an external assessment of local finance. First of all, it is well developed Internet in Belarus, existence of software, and possibilities of creation of the special websites for future LFB program. Experts and specialists are able to use software products well.

Election years for Central and local governments and President are the following:

Parliament elections: every 4 year (2000, 2004, 2008, 2012, next elections 2016); Local elections: every 4 year (2002, 2006, 2010, 2014, next elections 2018); Presidential elections: every 5 year (2000, 2005, 2010, next elections October, 2015)

Guidance and program for adapting the (national and local) LFB toolkit

Opportunities for rising public interests of the central and local governments consist in creation of prerequisites for maximum approach of inhabitants to local finance management. It is necessary to show more advantages in approach of locals to management of local finance from experience and practice of the European countries. It is necessary to bring in consciousness of people, that the benefits from decentralized management more than the centralized one.

The main difficulty in an explanation of decentralization advantages is the following argument of official authorities: "Look at the Belarus public administration. Here everything works well. Public transport works well, there is light on the streets, there are no problems in water supply and the sewerage, streets are purely cleaned, there is no crime, good safety, high employment and isn't present unemployment. What still you need? If we introduce decentralisation, we will lose everything that we have now ". Decentralization, as official authorities say, it is chaos, a

disorder and ruin. Therefore, the strong counterargument in favor of decentralization and local government development has to be found in Belarus. Only then it will be possible to find allies represented by the central and local governments for rise in public interest in LFB.

A specified argument of authorities is the reply to a question why in Belarus the public sector reforms aren't carried out. Instead of public reforms implementation the some cosmetic measures and imitation of reforms are performed to get the next loan from the international financial organizations. Modernization programs don't concern fiscal and budgetary reforming, and they are directed to attract of foreign investments, only.

The international financial organizations (IMF, World Bank), European Union structures (Council of Europe, European commission), European foundations, NGO and other nongovernmental organization can be potential partners for rendering hospitality of future LFB program. Potential local sources for funding of the LFB program in Belarus are absolutely absent.

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