



Local self-governance in the Republic of Belarus

Aleh Mazol*

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Abstract

This paper explores the development of local self-governance in the Republic of Belarus. Attention is paid to the theoretical foundations of local self-governance, advantages and disadvantages of decentralization, assessment of its impact on economic growth, to the analysis of the existing system of local self-governance in the Republic of Belarus, including directions for its improvement. The main advantages of decentralization of local self-governance are the reduction of corruption, taxes and the size of local administrations, as well as informational advantage of local authorities on the needs of local population. The development of local self-governance should be directed to the implementation of deconcentration of the administrative-territorial division, reasonable centralization of local Executive Committees in combination with real empowerment of local Councils of deputies, to the improvement of the mechanism of alignment and balancing of local budgets, as well as development of the financial base of local financial management and intergovernmental relations.

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* Aleh Mazol is with BERO C, Minsk, mazol@beroc.by; Please direct correspondence to Aleh Mazol mazol@beroc.by,

1 Theoretical foundations of local self-governance

Local self-governance begins from the city self-governance carrying out administrative, financial, and some legal functions. Increasing autonomy of the cities contributes to the formation of corresponding independence in the management of economic affairs. The experience of European countries shows that rational distribution of powers and responsibilities between state and local governments helps to ensure the effectiveness of its interactions.

In scientific literature there are two prevailing theories of local self-governance: community and state. Other versions are a combination of these theories (see table 1). Also in world practice there are two main models of self-governance: Anglo-Saxon and continental. The Anglo-Saxon model of governance (for example, UK, USA, Canada, and Australia) has the following **features**:

- the local representative bodies function autonomously within their powers, there is no direct control of the central government;
- there are no representatives of the central government in the regions;
- control over the activities of local authorities is carried out through the Central ministries or the court.

The positive side of this system of self-governance is the lack of officials at the local level appointed by the central government. Local management is carried out by representative bodies elected by the community. The negative side of the Anglo-Saxon model is some isolation of local community.

Continental (Romano-Germanic) model of self-governance (countries of continental Europe, Latin America, Middle East, francophone Africa) is based on the direct connection of state management and local self-governance. At the local level there are relevant authorized governments who realize control over local authorities. The positive side of this model is to ensure the unity of actions of the central government and local authorities [12].

Decentralization means shifting of spending and revenue raising responsibilities to sub-national governments [55].

Theories of decentralization:

1. **“Decentralization theorem”** – local public goods should be provided by local governments (relies on information asymmetries, the assumption being that local governments have more information on local preferences, compared to higher levels of government) [47].

TABLE 1: Theories of local self-governance

Definition	Years	Authors	Basic principles
The theory of free community	The beginning of the XIX century	A. de Tocqueville	the local government should be elected by the population; local authorities are opposed to public authorities and are not included in their system; the separation of local governments and public authorities; the right for independence and autonomy of local authorities in the exercise of their prescribed powers
Social theory of the self-governance	The middle of the XIX century	O. Rossler; R. Mohl	Relied heavily on the ideas of opposing of bodies of state power and bodies of local self-governance. However, in social theory, in contrast to the theory of free community the motive of availability of local self-governance was not a natural human rights, but economic necessity and practicality
The state theory of self-governance	The middle of the XIX century	P. Gneist; L. Stein; G. Jellinek	local self-governance is the continuation of the state and its bodies, that is local public authorities; the scope of activities of local self – government is to perform public tasks; local authorities may not have other tasks besides that are formulated by the state; every public administration is a matter of the state, therefore, the reason to function of local self-government is not a separation from the state, but the subordination of their interests and goals.
The theory of dualism of municipal governance	The second half of the XX century	H. F. Alderfer; R. Rhodes	The essence of the theory of municipal governance is next: solving local issues local authorities need to solve common problems of public policy and some of the functions of the state.
The theory of social service	The second half of the XX century	--	Priority of the local government is a social service for the population; all other tasks and functions are rejected.

Sources: [2; 5; 12].

2. **Fiscal Equivalence** - describes the optimal allocation of responsibilities based on the area which is being affected by the public good (for example, national public goods, like national defense, should be provided by the national level, but local public goods, like policing, should be provided by a local government which its borders match the area being served) [48].
3. **Vertical Tax Externality** – the interaction between taxes at the national and local level (an increase in national tax rates would lower local tax revenues due to a common tax base and would eventually lead local government to increase their tax rates) [40].

The main **advantages** and **disadvantages** of decentralization are presented in table 2 and table 3.

TABLE 2: Advantages of decentralization

Definition	Role of government	Authors
Informational advantage of local governments – local governments have more information on local preferences, compared to higher levels of government: <ul style="list-style-type: none"> ▪ help dealing with cultural heterogeneity; ▪ lead to smaller, more efficient, governments; ▪ lead to increased economic growth, due to lower tax levels, a closer fit between preferences and policies and a better performance of the local government. 	Allocation	M. Olson; W. Oates; R. Prud'Homme
Lower corruption due to political competition and increased accountability of local governments (more pronounced in autocratic regimes, where checks and balances are stronger at the local level)	Allocation	G. Brennan; J. Buchanan; P. Seabright; T. Besley; S. Coate
Lower local taxes and size of government	Allocation	J. Wilson; T. Besley; A. Case; Y. Qian; G. Roland
Decrease in inequality within localities (for developed countries): residents would locate themselves to the locality which offers their preferred combination of local taxes and public education spending	Distribution	E. Gramlich; R. Ezcurra; P. Pascual; A. Rodríguez-Pose
Decrease in inflation (for revenue decentralization)	Stabilization	D. King; Y. Ma; B. Neyapti
Increase in income and population	Stabilization	L. Letelier; U. Panizza; M. Arzaghi; J. Henderson; D. Treisman

Sources: [19; 22; 23; 26; 32; 38; 41; 43; 46; 47; 48; 49; 50; 51; 53; 58; 59; 64; 66].

TABLE 3: Disadvantages of decentralization

Definition	Role of government	Authors
Higher corruption if political competition at the local level is limited (corruption might even be higher than at the national government)	Allocation	G. Brennan; J. Buchanan; P. Seabright; T. Besley; S. Coate
Inefficiently low tax level due to tax competition and a horizontal tax externality	Allocation	G. Zodrow; Z. Mieszkowski; S. Bucovetsky; R. Kanbur; M. Keen; J. Brueckner
Vertical Tax Externality (the interaction between taxes at the national and local level) – an increase in national tax rates would lower local tax revenues due to a common tax base and would eventually lead local government to increase their tax rates	Allocation	M. Keen
Increase production costs if economies of scale are present in the provision of public services, then delegating power to the local level would result in higher average costs (case in local governments which are relatively small)	Allocation	Y. Reingewertz
Increase of the soft budget constraint (the tendency of local governments to increase debt under the assumption that the central government would bail them out)	Allocation	J. Kornai; T. Goodspeed
Coordination issues between different local level governments	Allocation	P. Bolton; J. Farrelly
Coordination problems , either between local and national governments or between local governments themselves	Allocation	D. Treisman
Lack of administrative capacity of local government	Allocation	W. Fox; T. Gurley
“Race to the bottom” effect in local welfare transfers: if poor people can easily migrate they could move to localities which offer higher welfare transfers, which can reduce welfare transfers per capita (i.e. a race to the bottom), or would increase local taxes, which in turn might induce outward migration of rich residents, hence a decrease in the tax base which would also lead to a race to the bottom	Distribution	W. Oates
Increase in inequality in developing economies : if fiscal decentralization of revenues is allowed, inequality might increase due to agglomeration effects or differences in natural resources endowments	Distribution	A. Rodríguez-Pose; R. Ezcurra
Increase in inflation: enables state-owned enterprises to over-consume and over-invest	Stabilization	G. Fang; A. Feltenstein; S. Iwata

Sources: [23; 25; 26; 27; 28; 31; 33; 36; 37; 42; 55; 59; 63; 65; 69].

2 Assessment of the impact of decentralization of local self-governance on economic growth

Decentralization assumes delegation of authority or administrative functions to sub-national governments. Sub-national governments include the state level (in federal countries), a regional level, a district level, and a urban level (municipalities, communities). The need for decentralization is the following:

1. to account for local peculiarities in the performance of public functions or the provision of public functions;
2. to improve the efficiency of budget expenditures.

The **results** of decentralization are:

- improvement in the efficiency of allocation of budget expenditures through the adaptation of public services to local needs;
- increase of economic efficiency of public services and functions: a higher level of accountability of results, reduction in the number of bureaucratic procedures, accounting for the domestic price level in the planning of budget expenditures;
- increase of the competence of local authorities in addressing current and strategic objectives at the local level;
- promotion of entrepreneurial activity and increase of investment capacity of local authorities [3; 30].

A variety of modifications of the following model of multiple linear regression are used to assess the impact of decentralization on economic indicators [45; 67]:

$$y = a + \beta_y x + \beta_z z + \varepsilon, \quad (1)$$

where y is the growth rate of GDP per capita;

x - control variables (used to check the reliability of obtained results): population growth; the base level of GDP per capita (in a given year); the ratio of fixed capital investment to GDP; growth deflator; the number of computers per 1000 inhabitants; illiteracy;

z - indicators of fiscal decentralization: the ratio of expenditures of local budgets to the state budget expenditures; the share of tax revenues in the local budget revenues; the share of transfers in the local budget revenues.

The results of this model for the countries of Central and Eastern Europe show that the indicators of fiscal decentralization are negatively connected to GDP growth as a result of the opacity of budget expenditures at the local level and general underdevelopment of financial systems and institutions in these countries [3; 56].

The survey of other studies on the problem of evaluation of the impact of decentralization on economic performance of different countries are presented in table 4.

TABLE 4: Studies on the evaluation of the impact of decentralization on economic growth

Authors	Region	Period/Method	Results
H. Jin; Y. Queen; B. Veingast	29 regions of China	1982-1992 (annual data)/models with fixed effects and time dummy variables	Increase in decentralization of expenditures by 10% increases real GDP growth per capita by 1.6 percentage points (the significance level is 10%)
T. Zhang; H. Zou,	28 regions of China	1980-1992/LSDV regression	Fiscal decentralization reduces economic growth
A. Feltenstein; S. Iwata	China	1952-1996/VAR model	Fiscal decentralization increases economic growth
N. Akai; M. Sakata	50 states of USA	1992-1996 (annual data)/OLS, models with fixed effects and time dummy variables	Increase in decentralization of expenditures by 10% increases real GDP growth per capita by 1.6- 3,2 percentage points (the significance level is 10%)
D. Stansel	314 US metropolitan areas	1960-1990/OLS	The results indicate a negative relationship between the central- city share of metro area population and economic growth and a positive relationship between both the number of municipalities per 100,000 residents and the number of counties per 100,000 residents and economic growth.
D. Xie; H. Zou; H. Davoodi	USA	1948-1994/ Time series	The existing spending shares for state and local governments in US have been consistent with growth maximization and further decentralization in public

			spending may be harmful for growth in USA.
A. Behnisch; T. Butner; D. Stegarescu	Central regions of Germany	1950-1990/Time series	Increase of federal share of expenditures in total expenditures has a positive effect on productivity growth in Germany
H. Zou; H. Davoodi	46 developing and developed countries	1970-1989/OLS	Negative relationship between fiscal decentralization and growth in developing countries, but none in developed countries
A. Iimi	51 developing and developed countries	1997-2001/OLS	Increase in decentralization of expenditures by 10% increases real GDP growth per capita by 0.2 percentage points (the significance level is 5%)
J. Thornton	19 OECD countries	1980-2000/OLS	There are no link between fiscal decentralization and economic growth
A. Rodriguez; R. Ezcurra	21 OECD countries	1990-2005/OLS	Fiscal decentralization has a negative impact on economic growth
T. Baskaran; L. Feld	23 OECD countries	1975-2008/OLS	Fiscal decentralization has a negative impact on economic growth

Sources: [18; 21; 33; 35; 52; 44; 54; 57; 60; 62; 68].

Summing up the empirical literature suggests that the evidence on the relationship between fiscal decentralization and growth are mixed. First, due to the use of different data sets and different methodologies, and, second, due to the difficulty in measuring fiscal decentralization [55].

3 The system of local self-governance of the Republic of Belarus

«Local governance» in the Republic of Belarus means the activities of local executive and administrative authorities subordinated and accountable directly to the President of the Republic of Belarus (article 119 of the Constitution). Local self-governance» refers to the activities of local Councils of deputies, elected by the citizens for four-year term (article 118 of the Constitution). Key stages of the development of local self-governance in the Republic of Belarus are presented in table 5.

The Constitution of the Republic of Belarus determines the vertical hierarchy of executive and administrative bodies and Councils of deputies introducing the concept of «parent executive and administrative body» and «parent representative body» (article 122 of the Constitution). The highest level of authority for the executive and administrative bodies is the President of the Republic of Belarus, for the representative bodies – the Parliament, the National Assembly of the Republic of Belarus [9].

TABLE 5: The main stages of formation of local self-governance in the Republic of Belarus

Years	Stages
1991-1994	<p>Law № 617-XII “On local governance and self-governance in the Republic of Belarus” is introduced on February 20, 1991. Defines the system and the economic base of local governance and self-governance in the Republic of Belarus, consolidates the basis of the legal status of local governance and self-governance, individual forms of direct democracy. Transfers power from the local level party bodies and Executive Committees to the Councils of deputies and creates real prerequisites for the development of local self-governance.</p> <p>The Constitution of the Republic of Belarus of 1994 contains Section V «Local governance and self-governance». The Councils of deputies, executive and administrative bodies «make decisions on issues of local significance on the basis of national interests and interests of the population; execute the decisions of higher state bodies» (article 119 of the Constitution). This norm provides a hierarchical model of territorial administration of the Republic of Belarus.</p>
1995-1999	<p>The Decree of the President of the Republic of Belarus dated September 19, 1995, No. 383 “On the reform of local government and self-government”. The Decree of the President of the Republic of Belarus dated October 20, 1995, No. 434 “On association of administrative units of the Republic of Belarus that have common administrative center”. During the reform Councils of deputies were abolished in the cities with district division, and the majority of districts as administrative-territorial units (ATU) were merged with their administrative centers, i.e. cities and urban settlements, into one ATU. The result of association of districts and cities was the abolition of Councils and Executive Committees in the cities and urban settlements, which, in particular, led to stop of functioning of bodies of territorial public self-government in the cities.</p> <p>Changes and additions to the Constitution of the Republic of Belarus of 1994 are made. The main principles of formation of the vertical of power, including local government bodies - the executive and administrative bodies (the Executive Committees), are defined: through the delegation of authority of Councils to the Executive Committees increasing the competence of the authorities, decreasing political, economic and human influence of Councils on the Executive Committees. The Executive Committees are withdrawn from the</p>

	jurisdiction of Councils and re-subordinated to the President and the government of the Republic of Belarus.
2000-	Law №108-C "On local governance and self-governance in the Republic of Belarus" is introduced on December 11, 2009. Defines the legal and institutional framework of local governance and self-governance in the Republic of Belarus. The system of local governance based on the principles of state theory of local self-governance is formed.

Sources: [6; 9; 11].

As a result, next constitutionally fixed model of power exists in the Republic of Belarus: consists of two parts - representative authority and executive authority (see figure 1).

This model is similar to the Soviet model of organization of local authority, but has one significant difference. According to the USSR Constitution of 1977 local executive bodies are formed and controlled by the local Councils of deputies. In accordance with the Constitution of the Republic of Belarus local executive bodies are formed by the President of the Republic of Belarus through the appointment of heads of relevant authorities or determination of the order of such appointment.

As can be seen from figure 1 Councils of deputies are the main part of the system of local self-governance in Belarus. Councils of deputies are responsible and accountable to the citizens who live on the relevant territory. They perform their functions using sessions, permanent and temporary committees and other bodies, as well as through the implementation by the deputies of their powers in the legally prescribed manner.

The main **functions** of local self-governance in the Republic of Belarus are:

- *analysis* (social and economic processes on a particular territory);
- *forecasting, modeling and planning* (the development and approval of programmes and forecasts of socio-economic development of administrative and territorial units, regional programs and concepts on problems affecting local community);
- *organization* (ensuring protection of public order and protection of rights of citizens, enterprises, organizations and institutions of communal property);
- *incentives* (competition and business, effective use of public property and natural resources of the region);

- management (governmental, economic and socio - cultural construction on the territory);
- *accounting and control* (execution of decisions of local Councils and Executive Committees, the use of municipal property);
- *coordination* (activity of bodies of local self-government: basic, primary and regional levels).

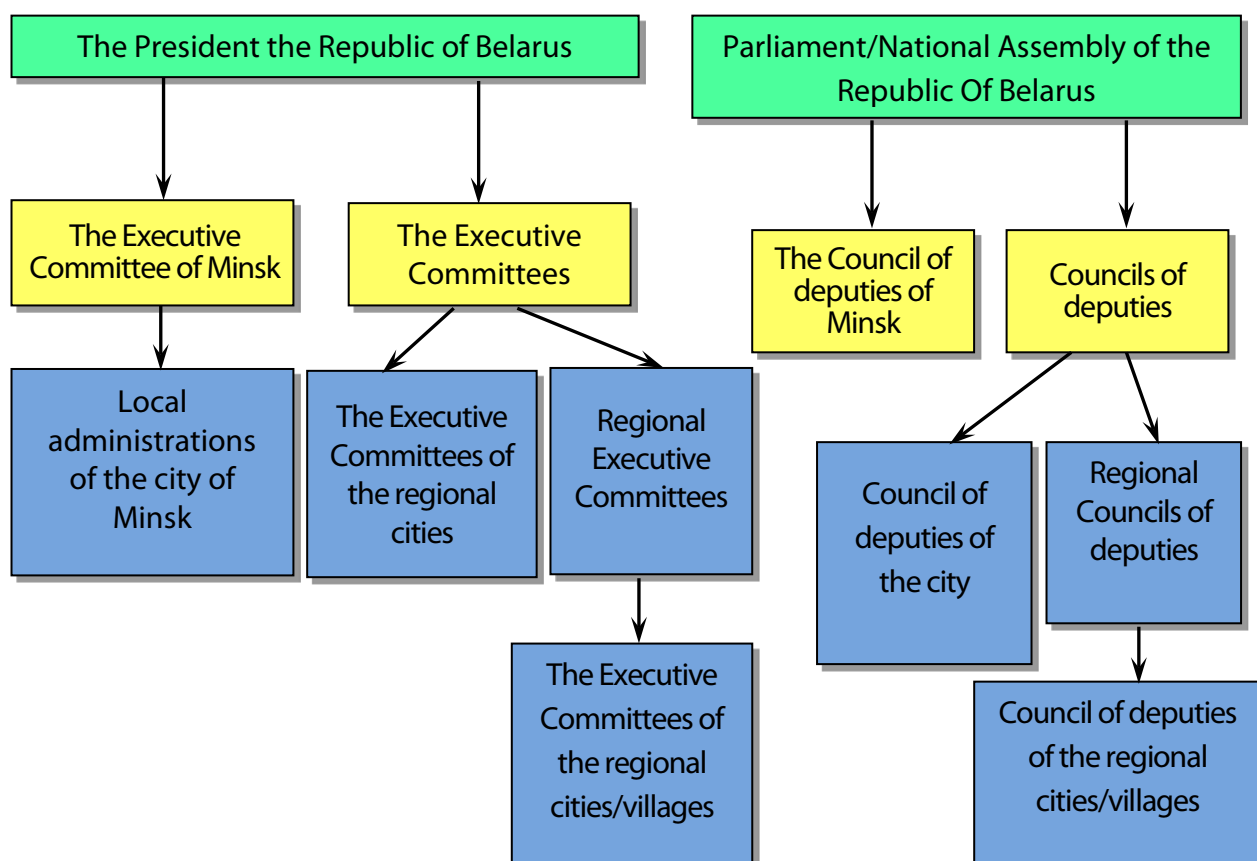


FIGURE 1: The constitutional model of the organization of power in the Republic of Belarus

Source: [9].

The key **tasks** of local self-governance in the Republic of Belarus are:

- ensuring sustainable innovative and socially oriented regional development through the effective use of local natural, material, financial resources, production, scientific, educational and workforce capacity;
- creation of a positive work, housing and socio-cultural living conditions for different age groups of the population of the territory, the implementation of social standards;

- ensuring the effective operation of enterprises, institutions of education and health, organizations of trade, consumer and social services, transport and communications, electricity, water, heat and gas;
- the distribution of social benefits and targeted support for the most socially vulnerable population groups (people with disabilities, veterans, pensioners, large families and other categories);
- ensuring a high service culture, public order, environmental protection, environmental and fire safety.

The main part of financial resources of local authorities of the Republic of Belarus is consolidated in the local budgets. The local budget level relates to the regional, district, and urban authorities. The budgetary model of Belarus uses a so called consolidated budget. This means the association of corresponding budgets of the administrative and territorial units: budgets of the village communities, townships, cities of district subordination, and district budget form the consolidated budget of an area; budgets of areas, cities of regional subordination and the regional budgets form the consolidated budget of a region.

Local budgets are divided on a territorial base as follows:

- budgets of the initial level (rural, cities of areas subordination);
- budgets of the base level (regional and cities of regional subordination);
- budgets of the regional level [20].

The local budgets of all levels are legally separate. Budget independence is guaranteed by the right of appropriate state bodies to draw, consider, and adopt the budget autonomously. However, this independence is not so evident. The role of the regional authorities and the authorities of Minsk city in the process of budget planning may be considered as almost nominal; that is, their task is reduced to keeping up the plans (to perform preliminary calculations of their budgets for the next fiscal year) and to execute the legislative function (local budgets are accepted by local Councils of deputies, local executive bodies administer the order and terms of local budgeting). Furthermore, the local finance bodies draft the local budgets on the basis of forecast of the revenues and expenditures of local budgets which they receive from the Ministry of Finance or higher executive bodies [20].

The main **sources** of formation of revenues of local budgets are:

- Tax revenues (income tax on citizens of the Republic of Belarus, foreign citizens and persons without citizenship according to the standards;

income tax, property tax, VAT, excise duties). Norms of deductions from the republican taxes and other obligatory payments to the regional budgets and Minsk budget are approved by the Budget Law of the Republic of Belarus for the next financial (fiscal) year, and for the corresponding lower budgets by higher Councils of deputies. Local Councils in accordance with the law have the right to establish: 1) local taxes, fees, and 2) the rates of other payments that are related to their competence. Income taxes, tax on profit of municipal and non-governmental organizations, property tax are fully credited to the local budgets. The norms of deductions to the local budgets and Minsk budget from value added tax is established annually by the laws of the Republic of Belarus on the national budget for the next fiscal year and in 2014 is increased. Approach in its distribution between regions is saved in proportion to the population that lives in the regions and Minsk city. However, indicators of the structure of local budgets on revenues do not show the level of autonomy of local authorities in decision making on the establishment of elements of taxation – local authorities in Belarus do not have significant tax powers. Revenues from local taxes and fees (tax for owning dogs, resort fee and others) are small part of local budgets. But the implementation of rights of local Councils of deputies on the increasing the rates of property taxes allows to significantly replenish local budgets: in 2014 the amount of such revenues is estimated at more than 3 trillion rubles) [1].

- Non-tax revenues (obtained from the use of the property of local authorities, fees, fines and other non-tax sources). Non-tax revenues also include additional revenues and savings of financial resources, voluntary contributions and donations from citizens, enterprises, organizations, institutions and associations, as well as the revenues from the issuance of local bonds, securities, exhibitions, concerts and other events.
- subsidies and grants from the state budget.

The first two types of revenues can be presented as own revenues of local budgets. The ratio of own revenues of local budgets and subsidies characterizes the degree of independence of local budgets.

Subsidies from the state budget are one of the major sources of revenues of local budgets and have a common (to equalize the difference between revenues and expenditures of local budgets) and a target purpose. The provision is determined based on the relevant regulations of the state budget of the Republic of Belarus.

The distribution of the tax revenues on the regional level of republican budget is presented in the table 6.

The minimum size of local budgets are determined on the basis of the average national standard of budgetary provision for non-production sectors per capita taking into account the existing infrastructure of the region. The standards of budget provision per capita are also set by law.

Local councils within its jurisdiction have the right to:

1. to determine the direction of use of funds of local budgets except target transfers of financial resources from the higher budget;
2. to increase within the available funds expenditures on utilities, health care, education, science, culture, physical culture and sports, social welfare, bodies of internal affairs, nature protection, historical and cultural values, and to set supplements and allowances to salaries and wage rates of the employees in these spheres;
3. to define additional benefits in providing assistance to certain categories of the population and the amount of benefits to citizens;
4. to set the size of the costs of their maintenance, maintenance of the Executive Committees and local administrations, including the wage fund, based on salaries and conditions of material incentives established in the current legislation;

TABLE 6: Distribution of the tax revenues on regional level of the budget of the Republic of Belarus

	Taxes	Regional budgets	Budget of the Minsk city
The divided taxes	state tax		100% (except for enlisted in the republican budget)
	Value added tax	30%	40%
	profit tax	20%	50%
	ecological tax	60%	80%
	income tax (except a tax on the income of implementation of lottery activity)	25%	50%
	income tax on the implementation of lottery activity	100% (for regional lotteries)	100 % (for lotteries of Minsk city)
	income tax from individuals (except for estimated from the income received from implementation of business activity	20%	100%
	– + income tax from the individuals		100%

	(estimated from the income received from implementation of business activity)		
	tax at the simplified system of the taxation		100%
	uniform tax on individual businessmen and other individuals		100%
	charge for implementation of craft activity		100%
	tax on a gaming		100%
	property tax	on objects of regional submission, – no more than 40 %	100%
	ground tax		100%
	tax on retails	100%	
	tax on services	100%	
Other taxes and fees	tax on advertising	100%	
	target collecting	100%	100%

Source: [4].

5. to introduce a mechanism for the sequestration of expenditures of local budgets;

6. to form a reserve, target, currency, extra-budgetary and other funds.

The income that obtained additionally during the execution of local budgets, as well as the excess of income over expenses resulting from exceeding revenues or cost savings, fully remain in the disposal of the Councils and can be used at their discretion. Councils can invest their available funds in economic activity, shares and other securities, to issue the loans to enterprises and other legal entities [8].

The dynamics of revenues of local budgets of the Republic of Belarus in 2009-2013 is presented in figure 2. Tax revenues and subsidies account for the largest share in local budget revenues. In turn, the share of non-tax revenues, which can be influenced by local authorities basically, is insignificant. The amount of subsidies is about one-third of the total revenues of local budgets indicating a fairly high level of fiscal decentralization in the country (see figure 2).

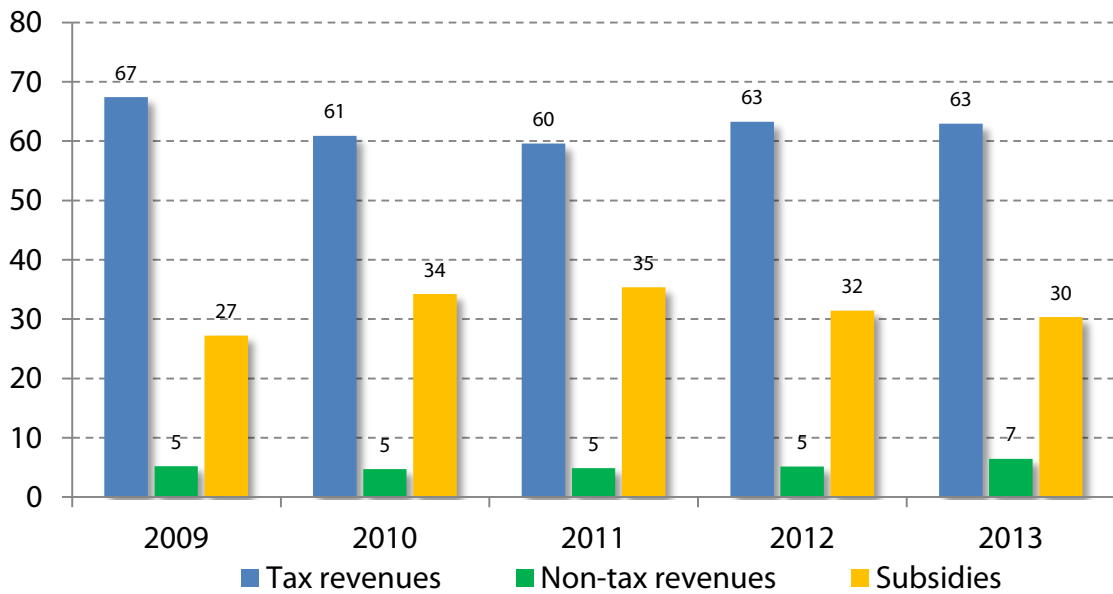


FIGURE 2: Dynamics of revenues of local budgets of the Republic of Belarus in 2009-2013, in %

Sources: [13; 14; 15].

Income tax makes up the largest share (about 30%) in the total tax revenues of all local budgets of the Republic of Belarus (see figure 3). The second most important tax for local budgets is VAT, constituting approximately 25% of tax revenues of local budgets.

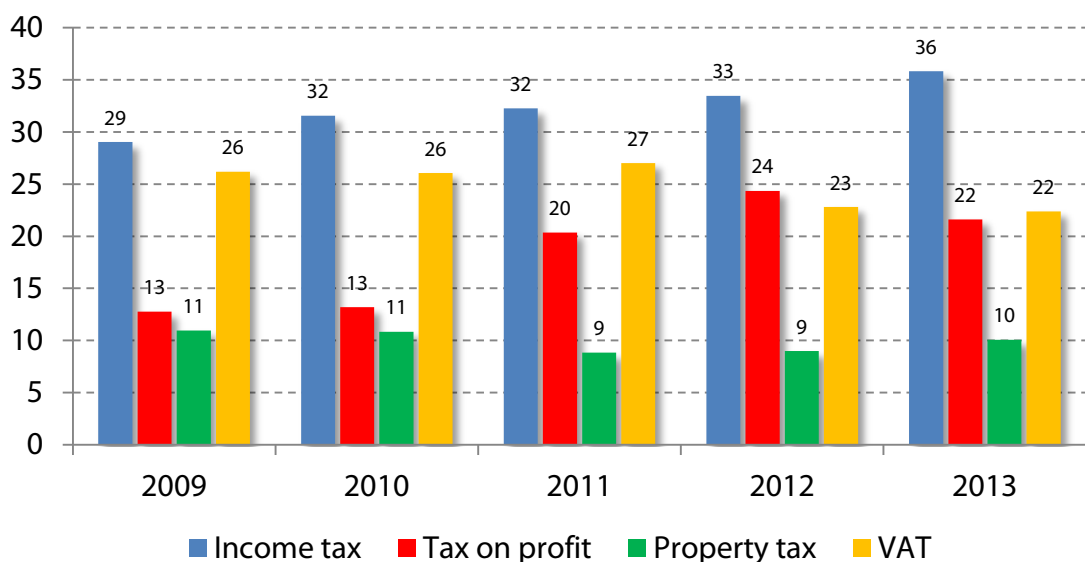


FIGURE 3: Dynamics of tax revenues of local budgets of the Republic of Belarus in 2009-2013, in %

Sources: [13; 14; 15].

The share of local budget expenditures in Belarus in GDP remains at the level of 17-18% over the past five years. Their share is more than a half in the state budget. Thus, the share of base current expenditures (wages of workers of budgetary sphere, medicines, food, utilities, payment of transfers to households, subsidies for housing and communal services and passenger transport services, debt service) in 2014 is 59% of the total expenditures of the budgets of the regions (see figure 4).

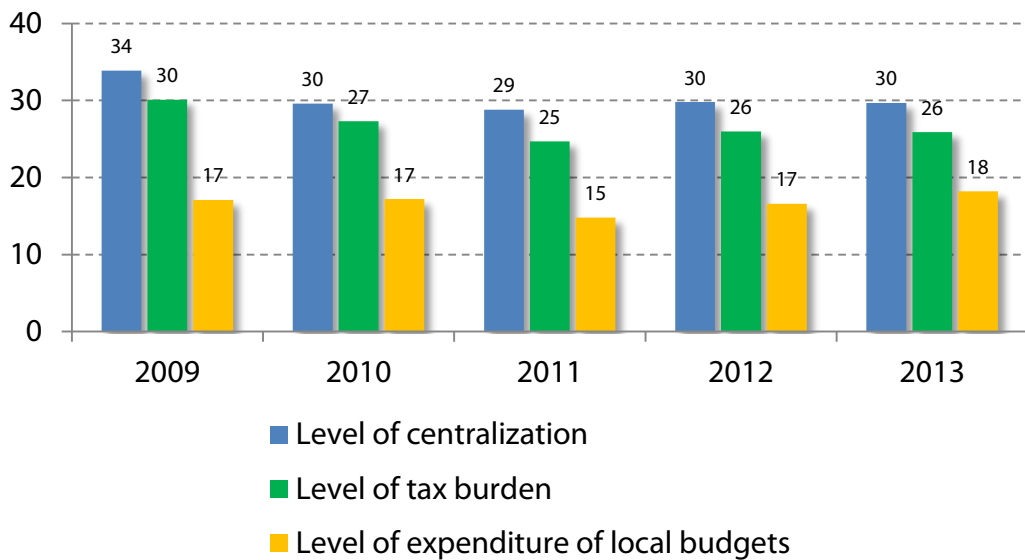


FIGURE 4: Expenditures of local budgets of the Republic of Belarus in 2009-2013, in % to GDP

Sources: [1; 13; 14; 15].

The revenues of the Republican budget constitute 56.9% in the structure of consolidated budget and local budget revenues account for 43.1% (excluding subsidies) (see figure 5).

The average level of subsidies in the consolidated budget of regions amounted to 32.1% in the total amount of their income in 2013 and in 2012 this figure amounted to 33.8%. The subsidies in the budget of Minsk city in 2013 equaled 1.2% (see figure 6).

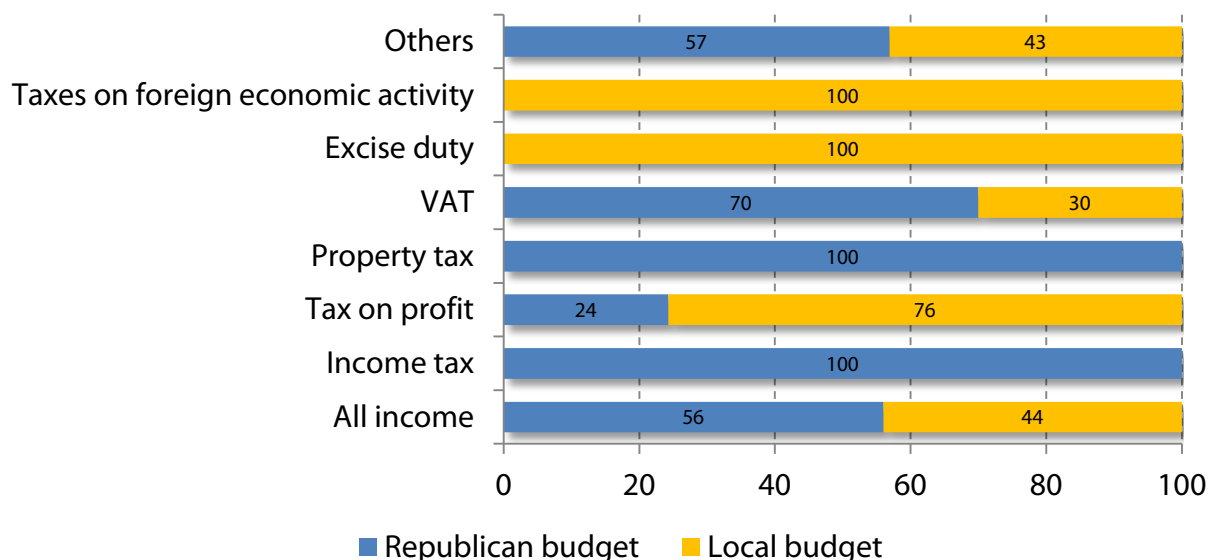


FIGURE 5: Structure of consolidated budget of the Republic of Belarus in 2013, %

Source: [15].

Depending on the tax capacity in the structure of incomes of the regional budgets subsidies given to the alignment of the resource capabilities of local budgets range from 40.5% (Mogilev region (oblast)) to 16.7% (Minsk region (oblast)) (see figure 6). In comparison with the developed countries the local budgets in our country are less dependent on transfers from the Republican budget [1].

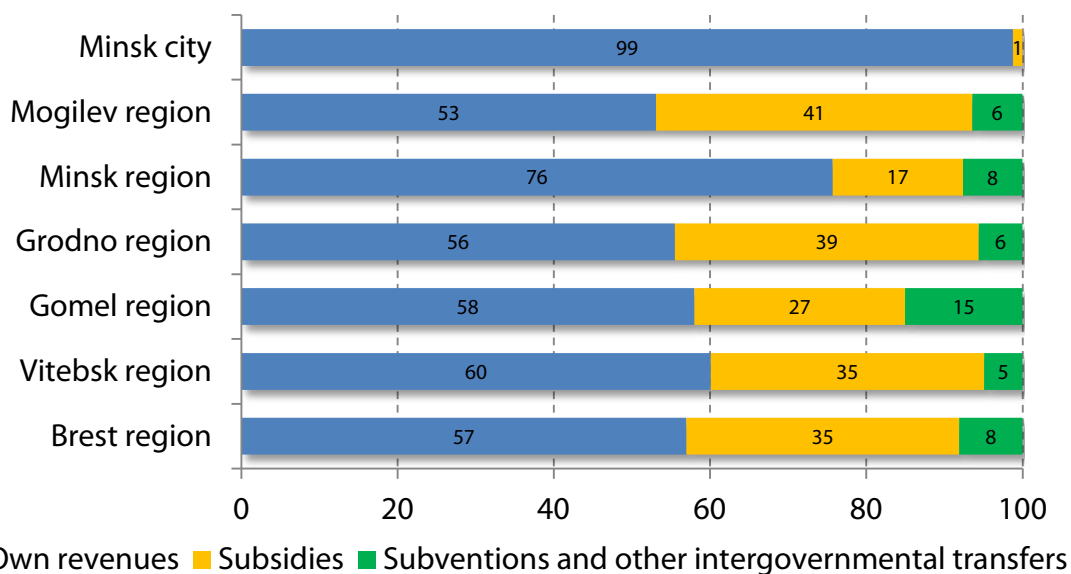


FIGURE 6: Structure of local budget incomes of the Republic of Belarus in 2013, %

Sources: [15].

The surplus of local budgets is amounted to 4 trillion of rubles in 2013 and increased by 17.6% in comparison with 2012 (see figure 7).

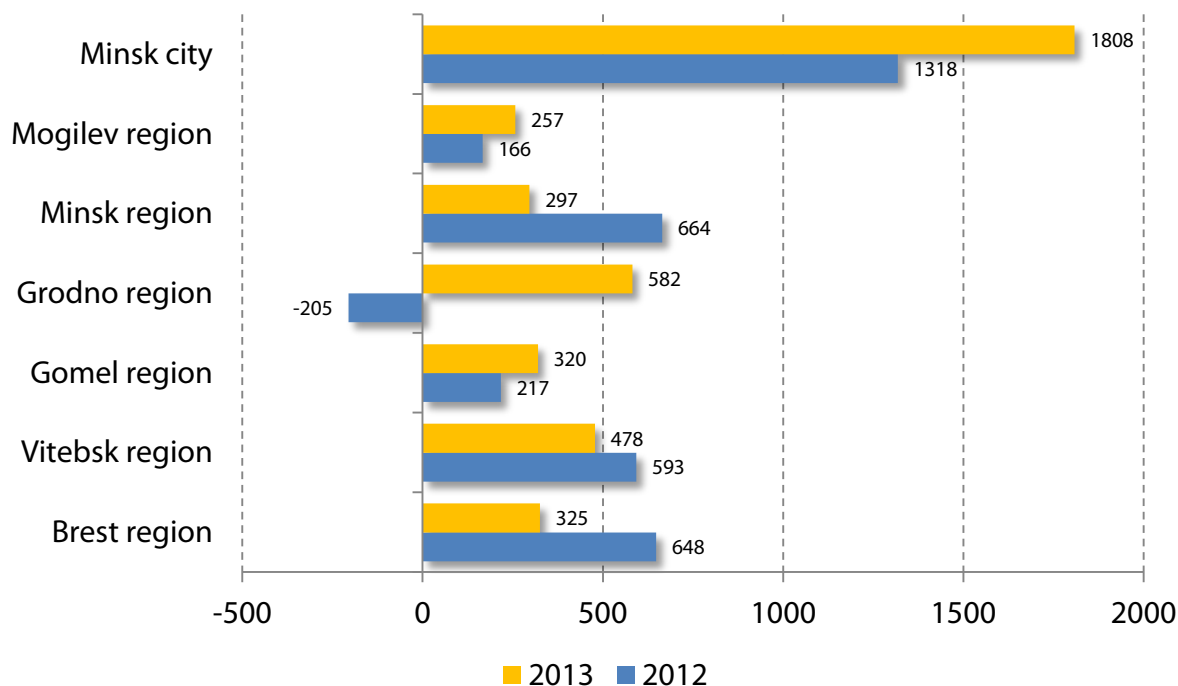


FIGURE 7: Deficit/Surplus of local budgets in the Republic of Belarus in 2012-2013, bln. rubles

Sources: [15].

Local budgets are significant in most developed countries in the world. In 2012, the expenditures of regional budgets averaged about 17% of the gross domestic product and 40% of public expenditure in the countries of the Organization for economic cooperation and development (OECD). Thus, the level of local budgets of the Republic of Belarus is optimal from the point of view of international best practices and approaches to its maximum level taking into account the degree of centralization of funds in the budget.

Functional structure of expenditures of local budgets of Belarus is close to the structure of the same budgets in developed countries. As in the OECD countries education and health are the largest areas of expenditures of local budgets of Belarus. They are on average about 45% of spendings at the regional level. The priority is given to budgetary participation in health spendings (for example, 47% of local expenditures in Italy) or education (approximately 36% in Iceland, Slovenia, Estonia and Slovakia).

The volume of public investment depends on the occupancy of the budget, and their structure - on state priorities. Therefore, despite the reduction of resources

centralized in the budget, the regional authorities are key investors, and a significant amount of public capital investment takes place through local budgets. In 2014 regional capital expenditures will be about 25 trillion of rubles. Some of them (more than 3 trillion of rubles) will be financed at the expense of subventions from the state budget.

In other countries local authorities also play a key role in public investment. In OECD countries capital expenditures of local budgets in 2012 averaged about 2% of GDP (total direct investments of consolidated budgets are around 2.7% of GDP), or about 11% of the total expenditures of local budgets.

4 Problems and prospects of development of local self-governance in the Republic of Belarus

The main problems of local self-governance in the Republic of Belarus are:

1. ***There is no common approach to the development of local self-governance*** which negatively affects the development of relevant legislation, the development, relationship and practical implementation of some national and regional programmes, the improvement of the administrative and territorial structure and so on [8].
2. ***Service dependency in the system of local government.*** The heads of the subordinated Executive Committees are appointed and dismissed by the head of the higher executive body. In practice this leads to the fact that the governing body is responsible for the overall activities of the subordinated body, uses all his powers to influence subordinated structures (for example, replacement of the head), while the supervisory body is limited in the choice of means of influence by special acts. The Executive Committees are obliged to supervise the activities of the heads of departments and community organizations.
3. ***Insufficient authority level of Executive Committees:*** administrative powers are transferred to the departments of the Executive Committee – committees, offices and departments.
4. ***Lack of qualified personnel in local administrations:*** low wages are unattractive to specialists who, for this reason, prefer to work in other spheres.

5. **Lack of adequate technical support in local administrations** (office equipment, transport, communications, Internet).
6. **High dependence of local authorities on the central government.** Revenues and expenditures of local budgets are defined and affirmed by the center. This estimated financing leads to indifference amongst the local authorities towards economic and financial activities as there are no incentives to optimize expenditures. The principle of fiscal decentralization is generally declarative. Local interests and needs are leveled, which leads to the absence of initiative and dependent moods [20].
7. Local budgets, as the financial resources of local authorities, in practice, represent **cost estimates** (but not a budget plan) approved by the central government through the strict regulation of utility costs. All additionally received funds that exceed the level of income determined in accordance with the state standards will be dropped in favor of the central government, and will be compensated for all missing fund by it [11].
8. **Lack of implementation review (assessment) of the local budget.** This may cause serious problems to local governments, which affects not only the current functions of the local government, but also other areas of community development such as local economic development, attracting foreign investments, etc. Essentially the budget process represents an on-going cycle. The culmination of all efforts during the year-namely the budget adoption – serves as a starting point for the beginning of the preparation for next year. It is apparent that each consecutive year may bring a better product, provided serious preparatory work is done. In order to be able to achieve all of this, the process needs a series of current surveys, aimed at getting credible information about the real price of services and the real potential revenues source for their delivery. Because of these analyses, local government employees can update the information, which they use during the budget implementation, in pursuit of making good decisions during the current year [20].
9. **The local budgetary process is totally dependent on procedures of the Government system of finance** leading to additional centralization. This causes time lacks in approval of local budgets by local Councils of deputies. Balance between administrative and territorial units does not exist.
10. **Lack of clearness in division of the local budget on operational and capital.**

11. ***Lack of promising «moving» planning and forecasting of revenues and expenditures of local budgets on short-and long-term (5-10 years) periods.***
12. ***The local budgets are not used by the state as a tool for strategic administration.*** There are no widely accepted standards and forms of preparation of the local budget. Balances of administrative and territorial units are not compiled in practice.
13. ***Inter-budgetary relations are fixed only with a higher level of the budget.*** Local authorities have no possibilities to change the allocation of budget resources except for intersection shifts. All modifications are allowed within one subsection. Budget modifications can be made in expenditure items of corresponding budgets within the limits of the authorized annual allocations. This actually allows a shift of resolving technical problems of financial flows. It could not influence the fixed range of budget appropriation. Accordingly, there is no real power for budgeting on local level.
14. ***Expenditures of local budgets are not sufficiently transparent,*** i.e., intergovernmental fiscal relations are only recorded with higher level of budget.
15. ***Local budgets in the Republic of Belarus have an insufficient level of fiscal autonomy.*** The share of own sources in their income, in particular income tax, reduces, the main part of the funds comes from the budgets of higher levels in the form of subsidies and subventions. This trend begins after the reduction of the list of local taxes and fees according to the state policy on simplification of the tax system. Also there is a possibility for the parent financial bodies to form budgets of prosperous regions with subsidies, in the execution of the tax function in a centralized manner [11].
16. ***Lack of own sources in the revenue base of local budgets,*** which creates a high degree subsidized budgets. The significant part of own tax revenues, the size and share depend on the level of economic development of administrative and territorial units (towns, districts). This leads to the fact that cities of regional or even district level of subordination have the greatest share of own revenue sources in the structure of local budgets than other districts.
17. ***The absence of adequate educational possibilities in the sphere of local self-governance.*** For many reasons Belarusian specialists do not have sufficient analytical information about the content, the essence, the principles of local self-governance development, as well as on the relevant

legislation of foreign countries. As a result, specialists at the local level (with rare exception) have one-sided knowledge limited only by national legislation. As a consequence, these specialists do not understand common European conceptual framework of local self-governance. Also there is no systematic and modern information about the reforms in the countries of Central and Eastern Europe (including CIS countries) in this sphere, their successes and failures [8].

The main directions of development of local self-governance in the Republic of Belarus are the following:

1. Further local self-governance reform in the Republic of Belarus is seen within a ***reasonable centralization of local Executive Committees*** and in the ***real empowerment of local Councils of deputies*** within specific administrative and territorial units with simultaneous control of central authorities over the legality of the activities of these bodies [11].
2. ***The implementation of deconcentration of administrative and territorial division (ATD) with subsequent transition to delegation of control.*** As a result, qualitative and quantitative legal, financial, and personnel strengthening of local self-governance will be achieved. Given the size of territory of Belarus, its population and type of settlement system it is impractical to contain any second regional level, nor weak from the point of view of economic potential, human and financial resources local councils. It is proposed to eliminate two lowest levels of the ATD and to create on their place one, which, on the one hand, will be closer to the population (geographically and from the point of view of the development of self-governance), and, on the other hand, will have a stronger potential enough to provide the sustainable development of local communities with minimal support from the state.
3. ***The formation of an effective state regional policy*** as a necessary condition for the further development of local self-governance through ensuring the reduction of direct state intervention in the development of local communities and, consequently, strengthening the role of local authorities in addressing most of the issues of local scale; a sustained focus from redistribution of state resources between administrative-territorial units to encourage the maximum use of domestic material, labor and financial resources of the regions, cities and so on, as well as the growth of economic activity of the population of the regions [11].

4. ***The transfer of the main focus in the solution of majority questions of local value directly on the local level and the continuation of the reform of local Councils of deputies*** [11].
5. ***The revival of the traditions of local communities and civil society.*** The sense of the system of self-governance is based on the principle that people who lives in a particular area form a community that is able to determine and to satisfy their need [8].
6. ***Systematic, large-scale and regular training of municipal personnel.***
7. ***It is reasonable to transfer economic issues to the local communities,*** because performers are simultaneously consumers of the results. Their reference to the powers of the central authorities can lead to the fact that they will be left without sufficient attention. This also prevents excessive centralization and concentration in the public sector. The government can focus on the supervision over the legality and expediency, because utilities are under effective local and civil control.
8. The ***main directions of development of financial decentralization*** in local financial management in the short term should be:
 - Selection of local financing from the national financial system with independence in operation.
 - The deduction of the system of local finances from the scope of the Budget Law and the regulation of the system of municipal financing through the Budget code and the Law on local financing and local budgets: legislative consolidation of expenditure responsibilities to different levels of government (management) and a clear separation of functions on the local level, the maximum reduction of functions of joint authority.
 - The transfer and consolidation on an ongoing basis of tax and non-tax sources of local budgets to local authorities and the establishment by the central authority conditions for self-administration by local authorities.
 - Conducting staged experiments in the sphere of fiscal decentralization, intergovernmental fiscal relations and local financial management [11].
9. It is necessary ***to accomplish financial decentralization on lower levels of governance,*** initially for prosperous regions and cities and taking into account the obtained results finally to implement it in practice of local self-governance.

10. It is vital **to improve practice of local budgeting**. A serious disadvantage of local budgeting in Belarus is that the process of planning and approval and delivery of the final size of local budgets is integrated into a single budget process and is entirely dependent on the decisions of the central authorities.
11. **Improvement of the mechanism of alignment and balancing of local budgets**. The existing mechanism of alignment is based on the vertical alignment using standard budgetary provision per capita. The alignment of local budgets is realized on the expenditures on non-productive sphere without taking into account tax abilities and efforts of local authorities, i.e. grants are delivered in case of excess of protected expenditures on non-productive sphere above the standard value calculated using formula of budgetary provision per inhabitant without coordination with the potential of their own revenue base. Thus, it would be advisable to move to a model of financial alignments on the principle of allocation of funds from the fund of financial support of the administrative and territorial units on the basis of the gap between expenditure needs and own fiscal capacity.
12. **The consolidation of tax on profit of enterprises on local budgets**. This measure will help to ensure that the level of resources available to local authorities fulfilling their expenditure functions and will generate incentives for the expansion and mobilization of necessary revenues for the budget. In addition, the implementation of this mechanism of deductions will help to raise the level of interest of local authorities in the expansion of production and sales of taxable products.
13. **Realization of rights on increasing the rates of property taxes** (real estate tax and land tax) by local Councils of deputies enable to replenish local budgets significantly (the amount of such revenues in 2014 is estimated approximately 3 trillion of rubles). Work on improving the efficiency of existing enterprises, fostering to new businesses, creation of new jobs, economic approach in the management of communal property and land are all factors of qualitative growth of incomes of local budgets and the impetus to regional development.
14. A new approach to management of local budgets is **to build own fiscal capacity** and not to require new subsidies from the national budget [8].
15. It is necessary **to develop a mechanism to encourage local authorities to develop their own budget resources** that will improve the predictability of needed resources for each of the regions in the medium term.

16. **The reform of intergovernmental fiscal relations** shouldn't be in the increase of total volume of transfer support from the national budget, but in improving the quality of distribution of transfers between regions [1].
17. **Prospective forecasting of intergovernmental transfers** should be an integral element of the medium-term budget forecasting in general. For sustainable regional development it is important to increase the predictability of resources for the regions in the medium term. [1].
18. It is necessary **to strengthen legal framework of local financial management and intergovernmental relations** in the Republic of Belarus. Obviously, the regulatory nature of the Budget Law should be abandoned. Apparently, it increases the budget process and the system of administrative control of the regions by the Centre and does not contribute to the development of financial decentralization and autonomy at the local level of government.
19. **The development of a legal framework of local self-governance by the special laws regulating financial activities of local authorities** (for example, the Law on local financing and budgets, the Law on municipal credit). In the future it is necessary to adopt the Budget code, which should include the equalization formula, the rights and obligations in the field of legal regulation of budgetary expenditures. In addition, it is necessary to define general principles of allocation of expenditure responsibilities between the authorities of different levels: central, regional, local.
20. **Development of a system of municipal borrowings**: the formation of the legislative base of borrowings, the approval of rules for the local authorities to enter the money and financial markets, the formation of mechanism of conversion of municipal securities into a safe financial instruments [11].

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