Who Governs Rural Russia?

Preliminary Outcomes of the 2006 Decentralization Reform

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To request copies of this report, or more information, please contact:

The Social Development Unit
Sustainable Development Department
Europe and Central Asia Region
The World Bank
1818 H Street, N W.
Washington, D.C. 20433

Fax: 202-477-3285
Acknowledgements

This report presents the main findings of a study conducted by the Social Development Unit in the Europe and Central Asia Region between 2005 and 2008 in the rural settlements (poselenija) of three regions of the Russian Federation: the Republic of Adygeya, the Perm Oblast, and the Perm Krai.

The study and the operational team were led by Maria Amelina. Omar Azfar, Diether Beuermann, Paul Dower, Ricardo Cavazos, Natalia Golovanova, Tugrul Gurgur, Saumik Paul, and Imogen Wade co-authored the background chapters. Carolyn Turk and Sarah Michael provided comments, while Svetlana Avakyan, Myrtle Diachok, Laura Pop, Dylan Primakoff, and Hiwote Tadesse ably assisted the team at various stages of the study and project implementation. Nicolas Perrin coordinated the final stages of production of the paper. All errors and omissions are ours.

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Foreword

It gives me great pleasure to introduce this publication to Russian and international audiences. The publication contributes to a better understanding of the effects of recent decentralization reforms in Russia. These reforms are significant because they aim to improve the lives of people in rural areas across the country in an inclusive and equitable manner. The publication also makes an important contribution by providing one of the first rigorous empirical analyses of the effectiveness of some aspects of the reforms.

The goal of decentralization reforms launched in Russia in 2006 was to bring local administrations closer to the population, with the expectation that it would make administration more responsive to the needs of the populations, increase the quality of services and, ultimately, the quality of life of the citizens. The analysis contained in this publication addresses several key questions: are rural citizens of Russia more satisfied with the governance practices and services provided by the newly elected officials? Do citizens see local officials as being more responsive and more capable of delivering the desired services? Among the instruments used to increase the capacity of local administrations – provision of information, training, and capacity building – which of them work better in increasing the efficiency of local administrators?

Clearly, answers to these questions are relevant to the future of decentralization in Russia. Done against a baseline analysis of the pre-reform interactions between the population and local administrations, the study may serve as a benchmark for further measurements of the perceived effectiveness of the reforms, with a particular focus on assessing effectiveness of different approaches to strengthening capacity of local officials. The rigorous design of the study (a dynamic two wave panel) makes it one of the first of its kind globally, enhancing its relevance for other countries that set themselves on the challenging path of decentralization.

The World Bank has been a long-standing partner of the government of Russia in helping to improve governance and service provision in order to achieve more equitable growth. In this context, this study is a modest but important step in the challenging task of making reform implementation better targeted and more fruitful. We stand ready to support further rigorous, policy oriented analysis that may enhance development effectiveness of the reforms launched by the government of Russia.

Pedro Alba
World Bank Country Director
Who Governs Rural Russia?

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1. EXECUTIVE SUMMARY

1.1 Objectives of the Study

1. This publication presents the main findings of a World Bank study carried out between 2005 and 2008 in the rural settlements (poselenija) of three regions of the Russian Federation: the Republic of Adygeya, the Perm Oblast, and the Perm Krai (for the location of the study see maps, Annex 1, Figures A1–4). The study was undertaken at the request of the Government of the Russian Federation and carried out in partnership with the Ministry of Regions. The full text can be found in the full report of “Who Governs Rural Russia”.

2. The objectives of the study are to:
   - Increase understanding of the effects and effectiveness of the implementation of the local government reform launched in 2006.
   - Assess the impact of a World Bank-supported intervention that aimed to enhance effectiveness of the reforms by increasing local capacity and local participation.

3. In line with these objectives, the study assessed the perceived effects and effectiveness of the implementation of the local government reform in selected provinces. The study also constitutes a baseline to allow for on-going assessment of progress and to inform corrective policy actions. The instruments and methods created during the study may be used in future assessments of the dynamics of local governance reform. These effects are reviewed in section 2.

4. The study also carried out a rigorous evaluation of the impact of an operational intervention carried out with World Bank support in the three regions of the study. This grant-funded project was aimed at increasing the effectiveness of participation of rural citizens in public life and increasing the capacity of local administrations to operate in the new legal and fiscal environment created by the decentralization reform. The summary of the impact evaluation can be found in section 3.

1.2 The Context

5. The policy milestone triggering the study was the broad-based local governance reform codified in the umbrella local government legislation (the Law) enacted in 2006. The legislation dramatically changed the country’s administrative-territorial division, revised the principles of intergovernmental relations, and redefined the rules for assigning service providing mandates and revenue sources among municipalities of different types (see Annex 3 for more details). As a result, about 10,000 rural settlements were formed, in addition to the 14,000 already in existence. In the pre-reform structure of local government settlements

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1 The operational intervention “Local Self-Governance and Civic Engagement in Rural Russia” was funded by the Japanese Social Development Fund and implemented in 2005–2007. Details on the project are included in Annex 5 of the main report and can be found on the site www.worldbank.org/russia/localgovernance.

formed part of districts and were hierarchically subordinate to them (see Annex 3 Figure A6 for the chart of governance structure). The new local governance legislation has made settlements administratively independent of the districts and equal to districts in legal standing (see Annex 3 Figure A7).

6. The legislation (the Law and subsequent amendments) codified deep political, administrative and fiscal decentralization at the settlement level. Every village or group of villages of 1,000 inhabitants or more was to have its own elected executive (the head of the settlement) and legislative (the deputies) bodies, formal publicly adopted budgets, assigned own taxes, shares of district, regional, and federal taxes and fees, as well as formula based transfers from district and government levels. Rural settlements received a list of service delivery mandates that were to be matched by assigned revenue sources (see Annex 3 Box A2 for the list of settlement and district level service delivery mandates). Importantly for this study, various forms of citizens’ participation in budgetary and other relevant decision making were legislated, providing legal space for the development of demand driven governance. By bringing decisions closer to the public, the reform aimed to improve resource mobilization at the local level, facilitate greater public participation in decision making, strengthen the accountability of local officials, and make public services more responsive to the preferences of beneficiaries.

1.3 Outputs and Relevance

7. This study provides a preliminary assessment of the impact of the reform as perceived by rural dwellers of Russia, the main subjects and objects of the reform. The study analyzes a unique data set, two longitudinal panels that reveal rural citizens’ and public officials’ perceptions of the processes and outcomes of local governance and service provision pre- and post-introduction of the reforms (see below for a description of the data). Given the uniqueness of this data set, this analysis is an important benchmark providing the first rigorous assessment of the effects of Russia’s decentralization reform, and should contribute to understanding the dynamics of local governance reform in other parts of the region and globally.

8. The pertinence of the study, however, is not limited to it being a benchmark for the effects and effectiveness of the first years of post-reform rural governance. It is also one of the first rigorous assessments of formal and informal rural government practices undertaken in the Russian Federation. For various historical and institutional reasons, Russian rural dwellers have been viewed first and foremost as agricultural workers and much less as subjects of political and administrative processes, citizens, or clients of service-providing entities. This gap in understanding the practices and outcomes of settlement-level governance and service delivery in rural Russia needs to be filled. From the policymaking perspective, such rigorous assessments are important since the government of the Russian Federation holds poverty alleviation and accelerated human development to be one of the centerpieces of its long term development strategy. To transform these strategic goals into developmental plans, it is important to equip policymakers and Russian society at large with

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3 See "Concept of the Long-Term Development of the Russian Federation up to the Year 2020", Order No 1662-p of the Government of the Russian Federation, November 17, 2008; http://base.consultant.ru/cons/cgi/online.cgi?req=doc;base=law;n=82134
a better understanding of the state of formal public life in rural areas, by far the poorest and the most disadvantaged economically (see Annex 2 Figure A5 for the dynamics of relative rural poverty in Russia). Such an understanding will help develop better targeted and more realistic plans for territorial development and social service provision in rural Russia.

9. The report also provides a rigorous impact evaluation of an operational intervention aimed at bringing the provisions of the decentralization legislation to life, by increasing the institutional space for public participation in the budgetary and other public decision making processes on the one hand and increasing the capacity of settlement administrations to competently address legal and fiscal issues facing the settlement on the other. The intervention attempts to simultaneously build the capacity of local governments to be responsive to their citizens, and encourage active citizen engagement in local decision-making. The intervention and the evaluation were carried out in a randomly selected set of settlements and districts in the three purposefully selected regions (see Box 1 for the database, Figures A1-4 in Annex 1 for the localities of the study).

10. The evaluation was designed to assess the effects of two types of training and capacity building treatments aimed at increasing the accountability of local administrations. The first treatment provided information about fiscal and administrative matters. Building on the legal requirement for public hearings, training in new techniques for engaging the population in public decision making was provided as well. The second treatment, in addition to information, provided on-site, situation-specific assistance to both public officials and the population in conducting public hearings, prioritizing expenses, and implementing infrastructure and social priority projects identified by the citizens. The design of the survey (a randomized panel) and the goal of isolating the effects of a governance-enhancing intervention in a rigorous, replicable manner make this a model approach to assessing local governance effectiveness. The study can be used by the Government of Russia (GoR) to assess the effectiveness of capacity building and participation-enhancing interventions, as well as by other clients of the World Bank that seek to increase the quality and rigor of impact evaluations of assistance aimed at enhanced capacity of local administrations.

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4 According to the 2005 Poverty Assessment report, the share of the poor living in rural areas has doubled since mid 1990s. 60% of the extreme poor are rural Russians, despite the fact that the share of rural population is one third of the total population of Russia

Box 1: The Database

The study is based on 4 types of unique complimentary data sets compiled for 109 settlements in 24 districts located in the 3 regions of the study. The settlements and districts were randomly selected. The selection of regions was purposeful, based on the location (one in the northern part of Russia, one in the center and one in the South), the share of rural population, and the readiness of regional administration to share socio economic data relevant for the study. The first data set consists of two panel surveys, one of district and settlement level public officials (sample size - about 600 respondents) and the other of rural households (pre-attrition sample size of about 2000 respondents). Each survey was administered immediately prior to enactment of the reform and the year following the reform. The second set, collected by Russian statistical agencies, includes district and settlement level data on budgets, administration, and social service provision. These data are subject to some limitations and inconsistencies regarding missing observations for some settlements. Therefore, it was used only sparingly. The third set consists of extensive qualitative data in the form of in-depth interviews collected in a sub-set of the project settlements in all the three regions. These interviews provide a more nuanced assessment of the perceived effects of the reform on settlement dwellers. Finally, the report team took advantage of a unique set of Russian historical municipal statistics that has been collected in local and national archives on serfdom, land ownership, religious affiliation, socioeconomic characteristics, and budgetary data for the same settlements (at that time “volosts” and “uezds”) of the study, but compiled during Russia’s first local governance (zemstvo) reform of the late 19th and early 20th centuries.

These data allow us to assess on a fairly consistent basis which historical and geographical characteristics of the locality, as well as the demographic, social and economic characteristics of its inhabitants and public officials, contribute to the creation of an environment conducive to effective self-government. For a summary of the study methodology and principal analytical approaches see section 2 of this paper, for the sampling frame of the public official and household surveys see Table A7 in Annex 7.

11. Another output of the study aimed at assisting the GoR and the rural population to better measure the perceptions of local governments’ performance is the prototype Settlement Performance Index (SPI). The index has been built using survey data as well as “passports of settlements,” a set of settlement level indicators collected and made publicly available by the Russian Statistical Service (Rosstat) since 2006. The purpose of the index is to provide information about the perceptions of performance of local administrations both by the population and by regional and national governments. The SPI is an aggregation of five broad thematic areas: (i) Effective service delivery, (ii) Participation and accountability, (iii) Corruption, (iv) Overall Performance and (v) Social Capital. The SPI is the first attempt to rate the performance of local rural settlements in terms of their accountability, transparency, and efficiency of service provision. The methodology can be used by the GoR or by individual regions to assess the performance of local administrations and to encourage the better performing settlements through developmental grants or other means.

12. This next section provides a summary of the main conclusions of the study. After some background material on the status of the decentralization research, the brief history of decentralization in rural Russia, and differences in the decentralization experience of the three regions of the study, we discuss the principal findings based on the analyses of the two

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5 The districts (rajons) covered in our study have an average population of about 30,000 and actual populations ranging between 12,000 and 58,000 in 2006. Each district involves 2 to 13 settlements (4.4 on average). The average size of the settlement of the study is about 1200 inhabitants. The settlements surveyed coincide with the control and treatment sites of an operational intervention “Local Self-Governance and Civic Engagement in Rural Russia” implemented in 2005-2007. Details on the project are included in annex 5 to the main report and can be found on the site www.worldbank.org/russia/localgovernance.

6 Specifically, it was used in two sections of the main report: in chapter 6 to compare whether settlements that received the random intervention differed significantly from control ones with respect to baseline budgets; and in chapter 7 to compare settlement ratings based on survey data to those based on objective data.

7 For more detailed description of the data and sampling frame see the main report.
waves of surveys regarding political decentralization, administrative decentralization, fiscal decentralization, local service provision, and corruption. We then turn to the evaluation of the technical assistance provided to a randomly-selected sample of settlements in the three regions, and conclude with a discussion of the main policy recommendations.

1.4 The main conclusions and recommendations of the study

13. The study has demonstrated that despite early stages of the reform implementation, positive trends can be seen in political and administrative aspects of decentralization as well as in the overall behavioral patterns of local administrators, particularly in their interactions with the population. However, to expand the benefits of the reform to more technical issues (primarily fiscal and financial) and to secure the continuation of the positive effects of the reform in the medium and longer terms, it is important to make additional policy steps and undertake capacity building initiatives.

14. The political decentralization is well underway, but problems still exist for the fiscal aspects. Overall, post-reform local administrations in rural Russia are well positioned to provide more transparent, more accountable, and less corrupt services to their constituencies. However, for fiscal decentralization to work two constraints need to be removed. First, technical preparedness of settlement level administrators needs to be increased, and, second, rural settlements need greater control over their revenues. The decentralization reform has begun to have traction on the ground. The main transformations were observed in the areas of political and administrative decentralization, while changes in the area of fiscal decentralization have been slower to show positive effects. Much of the delay is associated with the low level of technical preparedness of rural administrations to take advantage of the financial opportunities associated with the new taxation status of the settlement as well as the low level of understanding of the nature and composition of formulas that govern distribution of resources to the settlements. In addition, the faulty design of the settlement level tax collection and administration (discussed below) deprives settlement administration of the ability to influence the collection of settlement taxes. Thus the financial base of the settlements remains insecure and lags behind the administrative and political shifts triggered by the reform. In terms of the ethos of the post reform settlement administrations, it is important to note that newly elected officials believe in greater numbers that corruption should be fought than their more seasoned colleagues and particularly more than appointed officials. This bodes well for the moral standing of rural public officials. For the positive dynamics of the reform to continue, it is vitally important to provide local administrations with adequate and continuous capacity building assistance and training so that all three aspects of the reform - the political, the administrative and the fiscal - can evolve at a comparable pace and mutually reinforce each other.

15. Effective capacity building needs to be context-specific and scaled up. The study shows it is important to invest resources not only in information sharing through training activities, but also in long term, on site capacity building-assistance, so that formal and informal local leaders get practical help with effective public engagement and public management practices. The rigorous impact evaluation allowed us to provide an assessment as to which form of assistance has proven to be more effective. Training alone
(currently the most widespread form of assistance provided by federal and regional governments) has shown to have no statistically significant effect either on the quality of interactions of local administrations with the population on issues of public importance or on the satisfaction of the population with local services. At the same time, capacity-building assistance custom-tailored to the needs of the locality has shown to have a significant positive impact on the effectiveness of the interaction between the government and the governed. This last finding is based on the results achieved in the province of Penza that has had local governance structures ten years longer than the other two provinces. The data do not show consistent impacts for Perm and Adygeya. We interpret these provinces to be in the flat portion of the learning curve: the processes of decentralized governance need to be better internalized before they are mature enough not only to absorb, but also to reproduce adapted new practices in a consistent manner. These findings point to two conclusions. First, it is important to create a cadre of local rural municipal consultants with a good understanding of local needs and contexts to advise local administrations. Currently very few such professionals exist and there is no national or effective regional program tapping into the pool of active rural dwellers to create such a resource. Second, on the ground assistance providing necessary skills to local administrators and nurturing newly created institutions of settlement level governance will be effective only as a long term endeavor. Policymakers will need to have these dynamics in mind when developing programs of local territorial development in general and of the further advancement of the decentralization reform in particular. It is also important to be realistic in expectations as to when these efforts are likely to bear fruit.

16. **Standardized collection of data on local government performance is vital to guide reform implementation.** Results of the analysis of local administrations’ performance should be publicly available, accessible, and disseminated among local public officials and their constituencies. The project has developed an instrument that measures the effectiveness of settlement level administrators from the point of view of their constituency, the SPI index (see above). The index is based on the household perceptions of the processes and outcomes of interactions with local public officials and the perceived quality of provision of local services. It is expected that such measurements if made public and tied to positive incentives provided by regional and federal governments (e.g. additional development funding) will increase incentives to be responsive to the population as well as accountable to government monitoring bodies. As part of the same effort to make measurements of local administrative performance more relevant and effective without increasing the workload of overworked settlement administrations, the project analyzed the data currently collected by the GoR to assess settlement government performance (see Annex to the main report for a detailed analysis of individual indicators). The analysis has shown that actions of rural district and settlement level administrations can have little or no influence on some of the indicators that are currently used as measurements of their effectiveness. As part of the ongoing dialogue and working exchanges with the GoR some of these suggestions have already been adopted as methodological recommendations by the GoR.8

8 See Decree No. 607 of April 28, 2008 of the President of the Russian Federation “On the measurement of effectiveness of local self-governing bodies of the city okrugs and districts” ; Ordinance of the Government of the Russian Federation No. 1313-R of September 11, 2008 “Methodological recommendations on grant allocation to district level self-governing bodies to encourage or reward the achievement of best results in self-governance”
1.5   Theoretical and Historical Backgrounds

17. It is difficult to provide an unambiguous theoretical recommendation on the merits of decentralization since to date decentralization as governance practice has by far outpaced both conceptualization of its effects and empirical studies of its outcomes (see Box 2 for more detail). Across both developing and developed worlds, local governments are increasingly politically, fiscally and administratively independent of the center. For more than two decades the World Bank has supported knowledge and investment programs supporting decentralization efforts in many of its client countries. However, empirically it has been difficult to trace direct uncontroversial evidence of the theoretically expected benefits or demerits of decentralization. Part of the reason may lie in the paucity of rigorous empirical studies in turn related to the difficulty associated with isolating effects of the reform (see Box 2 for some representative examples of theoretical and empirical works on the subject).

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9 According to Yilmaz and Beris (2007), between 1987 and 2006, the Bank committed about US$ 32 billion to about 89 countries through 458 programs, projects, and grants in which decentralization was one of the key themes or classified as an activity.
Box 2: Theoretical expectations and empirical tests of decentralization’s impact on responsiveness and efficiency

Decentralization can improve the provision of public services by bringing decision making closer to the public, thus improving governments’ ability to match the preferences of their constituencies with the allocation of public resources (Oates 1972). A number of studies have argued that decentralization can make government more responsive to the governed.\(^\text{10}\) Other authors are more cautious, arguing broadly that decentralization is a complex, problematic phenomenon, but may ultimately have positive effects on local welfare.\(^\text{11}\) Bardhan and Mookherjee (2006) and Treisman (2007) argue that the outcomes of decentralization are generally dependent on the broader context, the design of reforms, and the quality of governance. The non-random nature of decentralization reforms as well as of the majority of the studies makes broader inferences difficult. Critics argue that local governments are too corrupt, susceptible to elite capture, and lacking in technical, human, and financial resources to produce a heterogeneous range of public services that respond efficiently to local demand.\(^\text{12}\) And a tendency towards profligacy is likely to endanger macroeconomic stability.

The (limited) available empirical studies provide some evidence that decentralization can improve government services and equity, although outcomes are heavily dependent on local circumstances and the structure of reforms. Decentralization was associated with more demand-driven and pro-poor distribution of public resources in Bolivia (Faguet 2003, 2004), higher capacity building in local government in Colombia (Fiszbein 1997), the creation and improved administration of protected areas in Bahia, Brazil (de Oliveira 2002), improved educational outcomes in Chile (Parry 1997), higher levels of social capital in Novgorod, Russia (Petro 2001), and increased participation by parents in school decision-making in El Salvador (Jimenez and Sawada 1999). A randomized study demonstrated that local supervision and increased openness was associated with a decline in corruption in Indonesia (Olken 2004). In cross-country studies, decentralization resulted in lower regional inequality (Shanker and Shah 2003), lower unit costs of road maintenance and better-quality roads (Humplick and Moini-Araghi 1996), lower measured corruption (Fisman and Gatti 1999) and improvements in the quality of democratic governance in both large cities and small towns (Rowland 2001).

Other studies show more negative aspects of decentralization. For example, the introduction of participatory mechanisms in Indonesian villages resulted in new forms of local capture, rather than more transparent and equitable distribution of public resources (Alatas, Pritchett, and Wetterberg 2003). Decentralization facilitated the introduction of new business licenses and taxes stifling private enterprise in Malawi (Ellis, Kutengele and Nyasulu 2003), propagated rent-seeking down to the district and lower levels in Tanzania (Ellis and Mdoe 2003) and Uganda (Ellis and Bahiigwa 2003), and increased the capture by local elites in Uganda (Bahiigwa, Rigby and Woodhouse 2005) and in Sub-Saharan Africa more generally (Porter 2002).

Surveys of the literature also disagree. Rondinelli, Cheema and Nellis (1983) note that most developing countries implementing decentralization experienced serious administrative problems and evaluations generally indicated limited success in some countries but not others. A decade and a half later, surveys by Piriou-Sall (1998), Manor (1999) and Smoke (2000) are somewhat more positive, but with caveats about the strength of the evidence in decentralization’s favor. Smoke finds the evidence mixed and anecdotal, and asks whether there is empirical justification for pursuing decentralization at all. More recently, in a review of 56 studies published since the late 1990s, Shah and Thompson (2004) find evidence that decentralization has in some cases improved, and in others worsened, service delivery, corruption, macroeconomic stability, and growth across a large range of countries.

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\(^{10}\) See Olowu and Wunsch (1990), Putnam (1993), World Bank (1994), and UNDP (1993).


\(^{12}\) Critics include Crook and Sverrisson (1999), Prud’homme (1995), Samoff (1990), Smith (1985), and Tanzi (1995).
18. The lack of firm theoretical or empirical conclusions regarding the benefits of decentralization points to the need to carefully place every decentralization effort in the historical context and assess the effects of the reform against this background, or in the words of Bardhan and Mookherjee “There cannot be any general presumption that decentralization will improve public service delivery or represent the interests of the poor better. Instead, one should expect the outcomes to be context and design specific” (Bardhan and Mookherjee, 2006). We, therefore, carefully examined the historical background of the decentralization reform in Russia (see Box 3) as well as the historical and legal backgrounds affecting the decentralization reform in the three regions of the study (see Chapter I of the main report and Annex 1 “Local Governance in Russia: Structure, Mandate, and Funding” of this paper for more detail).

**Box 3: Decentralization in Russia**

Russian history has been marked by brief episodes of decentralization that have been followed by longer periods of recentralization. In the late 19th and early 20th centuries municipalities (“zemstvos”) were created with limited autonomy but with access to revenues and responsibilities for the delivery of services. Zemstvos were most successful in expanding primary education to villages and in creating a new social force (“obschestvennost”) of educated or politically aware citizens willing to engage in political affairs. Zemstvo reforms were limited by the absence of a national unifying body on the one hand and the initial absence of the lowest, settlement (volost) level self-government on the other. The zemstvo reforms were eroded gradually as provincial governors, as a preventive measure against the spread of revolutionary sentiment, were endowed with the right to remove any person appointed by the zemstvo. The development of the institutions of zemstvos stalled in the beginning of World War I (1914) and then was stopped by the October Revolution in 1917, when zemstvos were dismantled and their leaders persecuted.13

In the Soviet Union, local self-government (particularly in rural areas) became, effectively, a powerless branch of the centralized State, with collective farms the locus of political power and service provision. Local self-government revived in the early 1990s under legislation providing for the autonomy, independence, and direct election of local councils. The 1993 Constitution recognizes and guarantees the independence of local self-government within the bounds of its powers and authorities. Since 1998, Russia has been a signatory of The Council of Europe's European Charter of Local Self-Government, a key underlying principle of independent local government across Europe. A 1995 law outlined the fiscal and conceptual foundations and functions of local self-government, yet allowed for much regional variation in local government’s revenue sources and spending responsibilities. Still, rural local autonomy was quite limited in most of the country: with the exception of 10 provinces (including Penza), settlements (usually a village or a group of neighboring villages) simply received set allocations from the districts, earmarked for specific expenditures. Heads of settlements were appointed by district authorities and were not legally accountable to the population.

19. While the decentralization Law applied the same rules to the entire country, the three regions selected for this study have undergone very different experiences under the reform, in part owing to the different levels of responsibilities prior to enactment. These differences reflect the range of paths to decentralization traveled by other regions of Russia.14

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14 At the time of March 1, 2009 there were 83 regions in the Russian Federation.
20. Penza (together with 9 other regions) participated in the first post-Soviet efforts at the establishment of rural local government in the 1990s, and thus has had a decade of experience with settlement level responsibility for budget management and service provision. By contrast, Perm and Adygeya (like the majority of Russia’s regions) did not take decentralization below the district level in the 1990s and had to decentralize in a deeper and more radical way (down to the settlement level) in 2006. Another important difference is that in Perm and Penza an array of responsibilities were moved to the settlement level, while in Adygeya (the poorest region) most mandated settlement level responsibilities remained with the district administration.

21. At the same time, political decentralization was most radical in Adygeya with direct elections of the representative bodies and the heads of settlement administrations taking place in 2005 and 2007. In Penza the elections at the settlement level are indirect. Heads of settlements are elected from and by deputies of the local representative body. The same procedure is observed in Perm. However, Perm is characterized by the most individual district-specific approach to self-government, whereby each district administration decides together with their settlement counterparts which responsibilities are transferred to the settlements of that district.

2. Benchmark Assessment of the Outcomes of the Reform to Date

22. The study attempted to provide answers to the following questions:

   How did the decentralization reform affect the characteristics, the behavior, and the perceived quality of local services? What are the observed differences in the interactions among rural dwellers and between rural dwellers and public officials, as well as among public officials of different government levels? In other words, how have various aspects of decentralization evolve in the three regional contexts of the study and what interim lessons can we learn from this dynamic?

2.1 Political Decentralization

*The democratic reforms are garnering public support.*

23. Survey data indicate that the reform has modestly increased public support for democratic elections and public participation. As Table 1 indicates, there was a slight jump in support for the assertion “Elections are necessary” between 2005 and 2007 from 72.9 to 74.2 percent. At the same time, the number of respondents claiming to have voted in settlement elections rose only slightly, from 60 percent before the reform to 63 percent after. This change was largely driven by the 10 percentage point increase in Adygeya (a jump from 75 to 85 percent), which was also the only region with direct elections of both settlement heads and council members. Qualitative interviews corroborate the finding that rural citizens prefer direct elections to the indirect ones.
“...the first person should be elected concretely, but the law says that the deputies should be elected, and the deputies then choose among themselves the head, so people don’t really have any say in the matter. I personally don’t like that, and people I talk to also don’t like it. The result is that they don’t know who’ll be the head. Any of the 7 people can be the head – as fate directs. They can get a rough idea, but nevertheless. But it would be nice, seeing as he’s the number one person, if he was elected and then he would have more respect, I think. By the majority of the people – this person – that’s my opinion...”

-- Local deputy and entrepreneur, Andreyevka rural settlement (population of just under 1,000 people), Okhansk District, Perm Region, 2008.

24. Despite multiple problems reported with the first wave of settlement level elections, the number of citizens believing that elections are necessary has increased in all the regions of the study. It is indicative that public officials tend to be less enthusiastic about elections than the population, with more than one third of officials believing that officials should be appointed, while about 10 per cent of the rural dwellers in the settlements of the study believe that heads of settlements should be appointed. In particular, public officials in Adygeya and Penza have very low opinion about elections: as many as half of the public officials support appointment. On the other hand, public officials in Perm, the region rated the most open and democratic of the three regions of the study by the Institute of Independent Social Research, give the highest support to elections by the people. 16

<table>
<thead>
<tr>
<th>Table 1: Households’ Opinion on Elections (percent of respondents)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Responses of villagers</strong></td>
</tr>
<tr>
<td>Elections are necessary</td>
</tr>
<tr>
<td>Should be Appointed</td>
</tr>
<tr>
<td>Does Not Matter</td>
</tr>
<tr>
<td><strong>Responses of villagers</strong></td>
</tr>
<tr>
<td>Elections are necessary</td>
</tr>
<tr>
<td>Should be Appointed</td>
</tr>
<tr>
<td>Does Not Matter</td>
</tr>
</tbody>
</table>

**Source:** The World Bank (household surveys, 2005, 2007).

<table>
<thead>
<tr>
<th>Table 2: Views of Public officials on elections and appointment of public officials (2007)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Views of respondents</strong></td>
</tr>
<tr>
<td>Should be appointed</td>
</tr>
<tr>
<td>Should be elected by representatives</td>
</tr>
<tr>
<td>Should be elected by the people</td>
</tr>
</tbody>
</table>

**Source:** The World Bank (surveys of public officials, 2007)

---

15 Qualitative observations are the outcome of open ended interviews carried out by the Inter-Disciplinary Academic Center for Social Studies (the Inter Center) at the Moscow School of Social and Economic Sciences in 2006 and 2007.

16 The Institute of Independent Social Research rates Russian regions according to an index of Openness and Democracy. Of the three regions in this study, Adygeya is rated the most closed and authoritarian (eighth decile), Perm the most open and democratic (among the top 5 Russian regions), with Penza in the middle (fifth decile).
25. Rural dwellers value honesty most of all in their elected officials and party affiliation least (Table 3); this points to a value-based, rather than a political, nature, of the settlement level polity.

“We believed in him [the newly-elected head of settlement], we wanted him for a long time, he’s an orderly person, an honest person. The place where he worked before blossomed and is flourishing to this day.”

**Table 3**: What influences households’ votes in choosing the head of the settlement administration? (percent of respondents)

<table>
<thead>
<tr>
<th>Candidate Characteristics sought</th>
<th>2005</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Candidates’ programs and service</td>
<td>33.2</td>
<td>33.5</td>
</tr>
<tr>
<td>Political affiliation</td>
<td>4.8</td>
<td>5.4</td>
</tr>
<tr>
<td>Good business manager</td>
<td>41.8</td>
<td>38.2</td>
</tr>
<tr>
<td>Reputation for honesty</td>
<td>49.6</td>
<td>52.5</td>
</tr>
<tr>
<td>Reputation for effectiveness</td>
<td>6.9</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Source: The World Bank (household surveys, 2005, 2007)

26. The study finds positive and significant correlation between voting and social capital characteristics of households, such as trust in government, following the media, knowing the name of local leaders, and satisfaction with local governments. There is also a positive and significant correlation between voting and participation in informal collective action.

... and shifting power to settlements officials...

27. Surveys also indicate that the public officials’ perceptions of power relationships are shifting slightly towards lower levels of government, as intended by the reform (Table 4). The perception of the power of the district administrations decreased in Perm and Penza following the reform but increased in Adygeya the region where district government has retained greater responsibility for providing services. In all three regions, there is a perception that power in the settlement has shifted from the head of the council to the council itself: an indication that the role of the council, as a collective body making decisions on resource allocation, has increased. The perceived power of the settlement administration has increased compared to that of the district administration in the two regions (Perm and Penza) that have seen more mandates and responsibilities moved to the local level; in Adygeya, where most of local government mandates remained with the district administration, the perception of the power of the region has increased.
Table 4: Household perceptions of who possesses real power in the settlement
(percent of respondents)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>The settlement council</td>
<td>17.2</td>
<td>19.6</td>
</tr>
<tr>
<td>The head of the settlement council</td>
<td>38.4</td>
<td>33.5</td>
</tr>
<tr>
<td>The settlement administration</td>
<td>17.8</td>
<td>21.8</td>
</tr>
<tr>
<td>The district administration</td>
<td>19.6</td>
<td>19.6</td>
</tr>
<tr>
<td>Director of the collective farm</td>
<td>3.9</td>
<td>3.8</td>
</tr>
<tr>
<td>Director of some other enterprise</td>
<td>0.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Religious organization</td>
<td>1.3</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Source: The World Bank (household surveys, 2005, 2007)

28. Improving the popularity and respect accorded to local government flies in the face of a long tradition in Russia, where citizens tend to rely more on federal than on local government (see below). This probably results from the history of the centralization of power and responsibility for service provision in higher levels of government, while local officials had little ability to affect the lives of citizens. This view is in contrast to the predominant trend in the United States and Western Europe, where citizens tend to invest greater trust in local than national governments. It is therefore particularly important to assist local administrations through enabling legislation and long term capacity building in developing capabilities to deliver on the promise of empowered and effective local government.

...who better understand public preferences...

29. Another indicator of potential benefits from the reform is that settlement-level public officials have a better understanding of what households want than do district-level public officials. This intuition was confirmed by undertaking a preference matching exercise whereby the households were asked to rate a list of services formally or traditionally provided by local administrations to the population, while public officials were asked to rate the same list of issues from the point of view of their constituency (for more detail on the methodology of preference matching see Annex 2 on the Main Econometric Specifications Used in the Study and chapter 2 of the main report).

30. In 2005 the simple correlation between household preferences and what district-level public officials think households want was 0.74 (0.73 in 2007), while the same correlation for settlement-level public officials was 0.87 (0.82 in 2007) (see figure 1 for a comparison of households’ and officials’ preferences in service provision). Thus officials who are closer to the population tend to have easier access to information on popular needs and preferences than do officials further removed from the population. The dislocation associated with the introduction of the new forms of governance and service provision may explain slightly

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17 In the United States, surveys by Gallup and the Pew Center consistently find that respondents view state and local government more favorably than the federal government (with state and local governments registering approval ratings close to 70 percent and federal government just above 40 percent during the past decade). See http://www.gallup.com/poll/28795/Low-Trust-Federal-Government-Rivals-Watergate-Era-Levels.aspx. For Sweden, SOM surveys also showed that people are consistently (from 1999-2007) more satisfied with the way democracy works in their local government than in their region or in the European Union (SOM Report 2008: 18 ‘Swedish Trends: 1986-2007’, p.21).
lower correlations for the second wave of surveys both at the district and settlement levels post reform.

**Figure 1**: Actual household preferences vs. officials say their understanding is of household preferences
Figure 1, continued

2005 Wave

2007 Wave
31. Similarly, elected public officials tend to have a more accurate perception of what households want than both professional employees and appointed heads of settlements and councils. The simple correlation between households’ preferences and public officials’ perceptions of household preferences was 0.86 for elected public officials, 0.69 for appointed officials, and 0.84 for professional employees. Figure 2 relates the understanding of public preferences by elected vs. appointed officials to those reported by households. The relationship is stronger in 2005, the year most of the local elections took place and before the confusion of the first year of reform implementation, but is significant in 2007 as well. A more complete regression analysis of public officials’ preferences confirms the finding that settlement public officials and public officials who are elected are more likely to have more accurate perceptions of household preferences than district level officials and appointed officials (see chapter 2 of the Main Report for more findings of the preference matching exercise). Thus the increase in the responsibilities of lower-level government officials, and greater reliance on elections to select officials, if combined with a proper incentive structure, could result in service provision that is more in tune with public preferences.

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Preferences Key: a) Small businesses; b) Support to collective farms; c) Support to private farms; d) Support to individual farming; e) Housing funds; f) Communal services; g) Public transportation; h) Roads; i) Law and order; j) Youth; k) Cultural institutions; l) Natural and cultural monuments; m) Waste management; n) General education; o) Pre-school education; p) Medical treatment; q) Cemeteries

Figure 2: The Difference Between Household Priorities as Understood by Elected Officials vs. Appointed Officials.

\[ r = 0.69 \]

\[ r = 0.86 \]

Source: The World Bank (household survey 2005; surveys of public officials, 2005)

32. Public officials are spending more time and effort trying to gauge opinions and preferences of their constituency and get closer to the population (now also the electorate). Although officials in both Adygeya and Perm have increased their use of public opinion surveys, and district officials have increased their settlement visits (Figure 3), this has not yet been translated into higher satisfaction with public officials. It is possible that the public is more disheartened by their greater knowledge than grateful to the officials providing it.
**Figure 3**: Frequency of visits to settlements reported by officials

![Bar chart showing frequency of visits to settlements](image)

# visits is an index of weighted averages with Biannually=0, Quarterly=1/4, Monthly=1/2 , Two or three times a month=3/4, Weekly=1.

*Source: The World Bank (surveys of public officials, 2005, 2007)*

### 2.2 Administrative Decentralization

*Decentralization led to some improvements in leadership*

33. The reform has brought to power new public officials. The turnover was greatest in Adygeya, where the changes brought by the reform were greatest. Almost 25 percent of officials claimed to be newly entered into their positions in Adygeya, as opposed to 8 percent for Penza and 9 percent for Perm. These new leaders differed in some important characteristics from the older leadership. Officials who took office at the settlement level in 2006 or 2007 tended to be more educated, less likely affiliated with a political party, have lived in the settlement for less time, and have a more equal distribution of gender, than officials who had been in office for two or more years (Table 5). However, in few cases do the means of variables related to education, age, or years in village differ significantly from zero. Moreover, only the difference in means for years in village is significantly different from zero for all provinces. This latter result may be the outcome of the substantial migration to rural settlements from the former Soviet states. The new migrants are often younger than the average population, more entrepreneurial, and tend to rise to positions of leadership, now codified in local elections.
Table 5: Differences in characteristics between recently entering (entering in 2006 or 2007) and more experienced political officials at the settlement level

<table>
<thead>
<tr>
<th>Region</th>
<th>Type</th>
<th>Higher Education %</th>
<th>Age</th>
<th>Female %</th>
<th>Number of Years in Village</th>
<th>% With Party Affiliations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adygeya</td>
<td>New</td>
<td>100</td>
<td>47</td>
<td>64</td>
<td>29</td>
<td>73</td>
</tr>
<tr>
<td></td>
<td>Old</td>
<td>79</td>
<td>49</td>
<td>77</td>
<td>44</td>
<td>67</td>
</tr>
<tr>
<td>Perm</td>
<td>New</td>
<td>69</td>
<td>43</td>
<td>44</td>
<td>30</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>Old</td>
<td>62</td>
<td>47</td>
<td>51</td>
<td>36</td>
<td>26</td>
</tr>
<tr>
<td>Penza</td>
<td>New</td>
<td>72</td>
<td>45</td>
<td>55</td>
<td>29</td>
<td>57</td>
</tr>
<tr>
<td></td>
<td>Old</td>
<td>61</td>
<td>48</td>
<td>59</td>
<td>37</td>
<td>63</td>
</tr>
</tbody>
</table>

Note: Data indicates level of characteristic, either as index number, share, or actual level. “New” refers to the observation after the reform, ‘old’ to before the reform. Bold indicates that the post-reform observation is statistically different from the pre-reform observation at the 5% level. Age is the age of the respondent in years. Years in village is the number of years the respondent has been living in the settlement.


34. In settlements under new leadership, none of these characteristics are significantly correlated with households’ assessments of the performance of local government. Thus while these average differences between the new and old leaders are suggestive of a more vigorous and informed cadre, these qualities by themselves are not sufficient to guarantee an improved ability to deliver public services, at least in the short run.

Decentralization has also led to improvements in personnel management. . .

35. There is some evidence of movement towards more professional and meritocratic government management: the share of settlement officials who recently received a performance evaluation increased substantially, especially in Adygeya and Penza; more time was spent improving staff qualifications in Adygeya and (slightly) in Perm, while the time spent fell in Penza, a region that already has significant cadre used to working in a decentralized setting.\(^{19}\) The probability that the most qualified applicant gets the job was significantly greater in Adygeya and Perm, where the impact of the reform was greatest, than in Penza. Overall, reform is associated with an increase in the use of performance evaluations by 65% and the belief that staff is adequately equipped by 16% controlling for public official and geographic characteristics.

. . . in hiring practices. . .

36. There is some evidence (from the multivariate analysis) that the reform enabled local officials to enjoy greater flexibility in their staffing decisions. Reform has led to greater flexibility for settlement administrations in setting wages (18 per cent) and hiring (23 per cent), controlling for public official and geographic characteristics (for details on the methodology used see Annex 9, section B). More settlement-level officials now believe that

\(^{19}\) Officials in Penza may have had less need to invest in training than in the other three regions because: (i) Penza is the one region (of the three) where formal government at the settlement level existed before the reform; (ii) Penza had the smallest turnover in officials of the three regions, and has the largest pool of experienced candidates for office, so the officials were more familiar with their duties; and (iii) the increase in fiscal autonomy was smallest of the three regions (the data show that the opportunity to use training due to fiscal autonomy is related to making an investment in training). It is not clear, however, why there was an absolute decline in training.
the most qualified person gets the job, while more staff feel that they have a clear understanding of, and the necessary equipment to perform, their responsibilities. At the same time, greater flexibility, in conjunction with the democratization of settlement politics, also has increased the influence of faith, tenure and political connections in staff promotions, and reduced the importance of professional connections (see chapter 3 of the Main Report for more details). A related, robust finding, that public officials surveyed in the second wave are 22 percentage points more likely to believe corruption should be fought against than those interviewed in 1st wave (full set of controls), bodes well for less corrupt hiring practices.

. . . and in relationships with the government and district self-governing administrations.

37. The relationships between district and settlement administrators appear to have become more collegial and characterized by a greater number of formal (as opposed to informal) meetings. For example, formal meetings between settlement and district officials more than doubled in each region following the reform (Figure 4). In Adygeya, the number of settlement level officials reporting too much pressure by district officials declined from 18 percent before the reform to 10 percent after. And multivariate analysis suggests that local officials are significantly more likely to believe that higher officials consult them on decisions, controlling for public official and geographic characteristics. Overall, new forms of interactions between settlement officials and their former district bosses appear to be taking root, and relationships have become more circumscribed and predictable.

**Figure 4**: Frequency of meetings with regional officials

For description of weighted average, see Annex 4

38. Relationships between district/settlement and regional authorities appear less changed. District and settlement officials overwhelmingly agreed, both before and after the reform, that real power rests in the hands of the regional authorities, despite a clear legal mandate for independent decision making on public matters on their territory as well as the allocation and
use of resources within the set of issues specified in the law. In Perm, there is a perception of significant decline of regional authorities’ power parallel to the perception of the increase of the power of district and settlement administrations.

2.3 Fiscal Decentralization

39. In 2007, local (district and settlement) governments in Russia raised 29.9 percent of operating revenues from taxes, 10.3 percent from fees and 59.8 percent from higher-level transfers. Of the countries analyzed in a recent World Bank study, only local governments in China and Poland raise a smaller share of revenues from taxes than do local governments in Russia. Local administrations in Kazakhstan, Argentina, Chile, India, France and the United States all raise a larger share of their revenues from taxes (The World Bank, 2006). Since land and property taxes are the main source of settlement level tax revenue, low rates and low collection rates on these taxes impede the growth of own revenue in the post reform Russian settlements.

Figure 5: Composition of Operating Revenues for Local Governments in Comparator Countries

Source: The World Bank (2006) and Center for Fiscal Policy calculations

The reform transformed the fiscal status of Russian settlements.

40. The decentralization law inaugurated a dramatic change in the allocation of revenues to settlement level administrations. Prior to the decentralization law many settlements lacked budgets of their own, receiving “smety”, itemized allocations for a closed list of expenditures. The Law provided that each settlement would have its own budget, financed by transfers from higher levels of government, by shares of federal taxes, and by own revenue largely coming from land and property taxes, which were designated for settlement use, as well as fees for services, revenue from rental/lease of property, and other minor collections. Conceptually, revenue sources were to match expenditure responsibilities specified by the legislation.
At the regional level the degree of change in fiscal status differed, depending on the fiscal arrangements prior to the reform. Prior to the law, there were no settlement level budgets in Adygeya, settlements in Perm had only a limited experience with budgets, and budgets were most developed in Penza where there had been a history of local governance since the mid-1990s. By 2006, however, settlement-level budgets were recorded in all three provinces (see Figure 6). However, since 2005 many regions of Russia, including Penza and Perm, have significantly reduced (without any formal prerequisites) the share of revenues assigned by regional laws to districts and settlements. The most likely explanation is that regional governments decided to seize the opportunity and substitute revenues transferred as taxes shares for equalization grants. Another explanation is that this decision is connected with the centralization of social policy expenditures in regional budgets between 2005 and 2007. These regional actions could have reduced the incentives of local government to engage in developmental policies aimed at enhancing own revenue and acted as a deterrent for effective development of a local revenue base. Of the three regions of the study only Perm Krai is transferring equalization grants directly to settlements bypassing the regions and strengthening settlements’ institutional stance as formal self-governing bodies. Both Adygeya and Perm transfer equalization grants to districts and those in turn redistribute them to settlements on their territory. This modality of transfers reinforces the past models (now supported by tradition, not legislation) of settlement hierarchical dependence on the districts.

**Figure 6:** Per capita allocation by administrative levels

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Per capita tax and non-tax revenues, RUR</td>
<td></td>
</tr>
<tr>
<td>Region</td>
<td>4,175 RUR</td>
<td>5,204 RUR</td>
</tr>
<tr>
<td>Cities, Raions, Settlements</td>
<td>1,400 RUR</td>
<td>1,400 RUR</td>
</tr>
</tbody>
</table>

**Adygeya**

---

20 Most objective information and data in the fiscal section builds on the analysis prepared by the Center for Fiscal Policy for the World Bank in the context of this study.

21 The 2005 and 2006 data for the Perm region are not strictly comparable, as in 2006 another region merged with the Perm Oblast and the new entity is now called the Perm Krai.
Penza

Perm

Error! Reference source not found.

Source: Center for Fiscal Policy, Background report for the study “Decentralization in Rural Russia, Moscow, 2008
Overall settlement revenues increased with the reform...

42. Following the reform, per capita revenues rose in Penza and Perm, and remained at roughly the same level in Adygeya (Figure 7). However, multivariate analysis (for the methodology used see Annex 9, section C) using a full set of controls (geographic characteristics and settlement and public official characteristics) finds that there is no significant relationship between the reform and the rise in per capita revenues. In effect, the impact of being in a particular region on the change in revenues from 2006 to 2007 was much greater than the impact of the reform.

Figure 7: Settlement revenues rose following the reform


... as did budgetary control....

43. Settlement officials in Adygeya and Perm, where the reform implied major changes in local administration, did perceive some increase in control over budgets following the reform (Figure 8). However, in Penza, with more established local administration, there was little perceived change.

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22 The substantially lower level of per capita revenues in Adygeya reflects both lower income levels and fewer responsibilities assigned to the settlements. For 2005 for Adygeya and most of Perm settlements these are district budgetary allocations for the settlements, not formal budgets.
Figure 8: Perceptions of settlement officials on flexibility in budget formulation

![Bar chart showing perceptions of settlement officials on flexibility in budgeting across Adygeya, Penza, and Perm for 2005 and 2007 waves.](chart)

Source: The World Bank (public officials surveys, 2005, 2007)
For a description of graph composition see Annex 4

44. With the right tax base control over own taxes empowers settlement administrations to plan expenditure and encourage business development:

“...If you can well project your collections, you can start working with these numbers. I have some businesses on my territory, they know they have to pay for their land. All the land tax goes into local budget, you can plan how to cover needs in priority areas. We have tourism potential, I am trying to encourage that, this increases payments and my ability to execute the budget.”


Settlements’ lack of control of tax administration and rules remains a problem. . .

45. However, constraints on settlements’ ability to manage their budgets are severe. One impediment to fiscal autonomy concerns the degree of control that settlement officials have over administration of the taxes allocated to them. Settlements receive revenues from the personal property tax and the land tax (see Annex 3, Table A4 for more detail on local tax assignment). However, since the cadastral valuation of land is the responsibility of the federal government, settlement authorities cannot accelerate the land valuation process. Nor can they deliver notifications for tax payment, even though their knowledge of legal and factual land ownership within the settlement’s territory is much more immediate and accurate than that of the federal cadastral and regional or federal taxation services. As a result, many taxpayers do not receive requests for payment of tax on their land and property or are provided with requests that are substantially below current land valuation. The losers are local budgets which collect lower revenues than they are entitled to. A clear incentive problem exists, whereby federal officials have little reason to aggressively pursue land
valuation and collection while settlement officials have no say in tax administration (sending of notifications, enforcement of payments, etc.).

**Head of settlement**: What’s the use of self-government? I am given four taxes, so what? So, now we have to collect it and live on this. For the first quarter we planned a pittance, Rb 14000, and even out of this we collected only Rb1500

**Interviewer**: Why?

**Head of settlement**: Because tax inspection does not work here any more. It does not exist in our district either, only at the level of the Republic (region). What babushka will go to pay tax if she has not received the notice? And no one else will either. They do not send it out until the end of the year, how are we expected to get through the year like this? I am sitting here banging my head against this problem. The same with everyone else. It used to be well organized. First the postman brings the pension (to pensioners), and the tax inspector is close behind. Babushka pays, we all pay, collection rate was 100 %. We had a book, we could follow who paid, who did not, we could write a note (a receipt), people could pay it right here. Now we can do none of that. We go to the tax inspection, ask them to give information, so that we at least know what is the state of affairs, and they tell us “we are not a statistical agency….I have it written (in the Law) that I am responsible for the budget execution, me, not the tax inspectors. It is a problem, is it not? They could not care less! He is thinking “Your property tax is 3 % of my collection for the Republic, I will get it somewhere else, and we are dying from this! Do you get it? This is the crux of the matter!”

-- Head of the Settlement Administration, Dakhovskaya Settlement, Adygeya, 2006

46. Another issue is that pensioners and handicapped citizens are exempt by regional and federal legislation from paying personal property tax. Since they make up a high share of the rural population (which is on average older than urban population) settlements do not get much revenue from this tax. In addition, the federal government provides exemptions to some individuals (e.g. veterans) and does not compensate local administrations for the lost revenue.

**Settlements’ dependence on transfers remained high.**

47. The reform appears to have had little role in increasing the self-reliance of the settlement governments by increasing the share of their own revenues in total budgets. Indeed there was some rise in the share of settlements’ own revenues in total revenues (relative to grants and subsidies from higher levels of government), and an increase in the share of own revenues in total revenues had a significant impact on whether public officials perceive that they have flexibility over the budget. However, settlements in all three regions continue to rely principally on grants and subsidies, while own revenues generate a relatively small share of total income.

... although the allocation of transfers became more transparent.

48. By law regional and district governments are now required to use a formula-based methodology for allocating equalization grants, the main source of income for local governments. Prior to the reform, the share of general grants, gap-filling subsidies and subventions in the budget were all positively and significantly correlated with settlement officials believing that financing depends on personal relationships (see Annex 3 Box A3 for explanations of differences between different types of transfers). However, after the reform
this is only true of subventions. Thus, the newly elected settlement level officials may begin to understand the difference between different forms of transfers coming from government and self-governing administrations as well as react to different incentives associated with different transfers.

The reform was disruptive

49. In the short term, however, the reform may have impaired the ability of some settlements to manage their finances. Although delays in receiving transfers did not appear to be a serious problem in 2007, the reported length of the average delay did increase in both Adygeya and Perm, perhaps due to the substantial changes in administrative arrangements as a result of the reform.\footnote{Since the second wave of data was collected in the pre-crisis 2007 these delays cannot be attributed to the effects of the crisis.} By contrast, fund delays declined in Penza, where local administration was more stable.\footnote{The increase in means observed in Adygeya is not significant, the increase in Perm is significant at 5%, and the decrease in means observed in Penza is significant at 10% in a t-test.} As expected, fund delays significantly affect the ability of settlement administration to plan and execute budgets. Multivariate analysis points to both direct and indirect constraints: directly, perceiving fund delays results in a 2 per cent reduction in the household assessment of the local government performance index. Indirectly, perceiving funds not being distributed according to known laws may be a proxy for understanding of the budget. Since better understanding of budget formation increases fiscal capacity, performance may positively depend on fiscal capacity.

50. Importantly, there is some evidence of confusion on the part of officials concerning the level of the subsidies they are entitled to. Both in the survey and in the qualitative interviews, new settlement level administrators displayed a lack of understanding of how formulas governing various transfers are constructed. There is also no evidence of a serious effort having been made by the district, regional, or federal authorities to explain the parameters included in the formulas or the importance of each element to settlement heads or accountants:

We (settlement administrators) talk amongst ourselves. No one had theirs (their transfers) lowered. Something was added, but what was added exactly, this is not known. They just send these numbers down to us; no one in the whole Krai (region) understands what they mean.... Simply put, those districts that have bigger budgets just distribute something. This is how it works in Perm Krai. Each district calculates these things separately.

-- Interview with an accounting specialist, Andreyevka settlement, Okhansk district, Perm Krai August 2008

51. This asymmetry of knowledge de facto perpetuates the control that districts have over settlements and undermines the incentives local governments may have to increase resource mobilization based on a solid understanding of the variables that most affect the change in the amount of resources transferred from district, regional, or national budgets. It is indicative that reports of greater financial autonomy correlate with the level of wealth and education of top settlement administrators rather than the reported objective characteristics of the locality or its financial situation (see Chapter 4 of the main report for more detail).\footnote{The better-educated administrators may better understand the technicalities of results of the multivariate analysis: A standard deviation in wealth index of settlement head makes it 17\% more likely that that settlement administration has financial autonomy in budget formation; a standard deviation in wealth index of settlement head makes it 24\% more likely that}
the new fiscal arrangements and the nature of the resources forming the settlement budget. This interpretation would point to the importance of training in accounting and budgeting tailored to the needs of the settlement.

When the last seminar was taking place in our region (of the World Bank project) we asked that explanations be concrete, how we, the settlement representatives can form our budgets. That was extremely helpful. I am not speaking for everyone, but we (here) cannot form a normal high quality budget. I think most rural settlements are in this position.

-- The head of Dakhovskaya settlement, Adygeya, 2006
52. Fiscal autonomy is also limited by constraints on settlements that are highly dependent on subsidies. If the share of government grants exceeds 30 percent of resources (which is true of most settlements), the settlements cannot perform any functions beyond those established by federal and regional laws, while salary levels are restricted (see Table A5 of Annex 3 for the details of the scheme). If grants exceed 70 percent, then regional government oversees and audits local government expenditures (note that the average share of transfers in settlement revenues exceeds 60 percent for all of Russia). While the federal government has a responsibility to ensure the efficient use of resources it provides, it is difficult to expect the settlements to effectively manage their resources while they remain highly dependent on government not only for transfers, but for budgetary decision-making as well.

53. Overall, the reform has provided the essential framework for fiscal autonomy, but for this framework to start bearing fruit consistently greater efforts need to be made to provide the settlement level officials with the necessary technical skills. It is also important to implement the legislated rules in a transparent and consistent manner, so that rules of the game, responsibilities, and deadlines are fully understood by the settlement administration and interested citizens. Finally, settlement level officials need to be able to control the resources assigned to the local level and affect the administration and collection of local taxes, so that local knowledge is used to generate revenue for local service provision.

Path-dependent informal revenue generating arrangements

54. Partly because of these uncertainties built into the new formal system of revenue accumulation, the post-Soviet tradition of informal taxation of large producers and their direct provision of services to employees lingers within settlements.

Box 4: How path-dependent relationships can affect settlements’ access to resources

While decentralization has made progress in formalizing the allocation of transfers and defining local governments’ access to tax revenues, pre-Soviet systems of redistribution continue to play an important role in the mobilization of public resources at the settlement level. Cooperatives and agricultural enterprises, many of them former collective farms, continue to provide a set of services in order to support their workers or to meet the expectations of the village dwellers (who are used to receiving such support). This assistance comes in formats and configuration established during Soviet times when the collective farm was viewed not only as an employer but as a service and input provider to the village and employees. Settlement officials often prefer these informal, time-honored arrangements to official tax payments, as informal arrangements are more subject to local officials’ control and are often more timely.

The agricultural enterprise in the settlement of Andreyevka (Perm Krai) is a fairly typical example of the continued importance of informal exchanges between the enterprise and local administration. While the settlement administration may not insist on the formal payment of settlement taxes, the enterprise is expected to use its equipment to help repair local roads, clean them of snow in winter, and allow low-fee (or free on particular days) fishing in its ponds to the villagers. The enterprise also provides presents for children, the elderly, and local distinguished citizens on holidays and during sports and other events. These informal relations can be considered as part of local social solidarity. However, the scope and uncertainty of this expected engagement often makes private entrepreneurship in rural areas risky and depresses local wages.
An agricultural enterprise in Belyaevka (neighboring on Andreevka) is presenting an interesting example of post-Soviet adaptation of public interactions to the Soviet tradition. The owner started his business in the post-Soviet times and originally intended to “have nothing to do with the village, never enter it”. However, he realized that given obligations to the remaining workers of the former collective farm and the traditional social expectations, refusal to provide traditional services would create a hostile environment that would be risky for his business. He therefore chose to follow the path of a traditional “partnership” with the local administration, providing some services and using his connections to secure others. These services included supporting local festivals and other events, helping to secure a policeman for the village, assistance in paying for higher education of some of the village sons and daughters. He even served as a mediator in asking the Perm Krai archbishop to assign a priest for the village, a new post-socialist “requirement” in the informal “social assistance package” local businesses are expected to provide to the community.

At the same time, he modified the expected “package” of in-kind payments to employees, a transaction internal to the enterprise and thus controlled directly by the manager/owner. The enterprise continues to provide output products (meat, milk) to its employees at subsidized prices, but limits the provision of hay and grain in lieu of payments. The owner decided not to provide inputs for individual employees’ private plots and “not to compete with the private cow”, since double occupation of his employees at their private plots and at his enterprise diminished their productivity. Instead higher wages are paid in time to a more limited and more disciplined staff.

The continuation of these path-dependent transfers in the modern context limits the ability of the newly elected settlement administrators to accumulate resources or adequately plan for their revenue, stunting the development of the locality. At the same time, there is a reluctance on the side of local administrations to fight these arrangements, as it is felt that they diminish (even if artificially, considering small and irregularly paid wages) unemployment and dislocation. However, these arrangements make the operation of profit and market-oriented enterprises difficult and slow down the economic and social transformation of the Russian countryside.

2.4 Local Service Provision

55. The decentralization law defined the services to be provided by district and settlement level authorities. The major responsibilities of settlements include housing and utilities, waste collection, local roads and public transportation, fire protection, and maintaining local facilities (libraries, cemeteries, parks, and gardens). The major responsibilities of districts include education (through secondary level), health care, police, waste management, inter-settlement roads and public transportation, and protecting the environment (for a more complete list see Box A2 of the Annex 3). Responsibilities can move between districts and settlements, however, it is mandated that responsibilities for the provision of a service are transferred together with revenue to provide it.

The reform has strengthened settlements’ control over expenditures. . .

56. Some improvement in settlements’ control over their expenditures can be seen as a result of the reform. While less than half of public officials in all three regions say they have flexibility in service provision (meaning that they have substantial influence in allocating resources among priorities, and if additional resources are available—beyond that required

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26 This was an improvement on the old law, which assigned responsibilities in part based on the ownership of property (e.g. a school or hospital). Under the 2006 law, each district and settlement is required to provide the designated service, either through its own resources or by paying another provider (for example, a district without a hospital would pay a hospital in another district to provide health care).
for their legal responsibilities—they can spend these on additional services), in Adygeya and Perm the share of officials saying they had flexibility increased following the reform, while in Penza (where changes in local government were smallest) the share remained the same (Figure 9).

**Figure 9:** Flexibility in budget implementation

![Bar chart showing perceived level of flexibility in budget implementation across Adygeya, Penza, and Perm in 2005 and 2007 waves.]

*Source: The World Bank (public officials surveys, 2005, 2007)*
*For a description of how index is composed see Annex 4*

. . . and expanded the services provided

57. Since 2006, much of the settlement budget has been spent on local administration. One explanation for such a state of affairs (besides meager “survival” budgets) is that rural settlement administrations have become ‘one-stop shops’ – a place where residents can go to get assistance with a range of issues that require interface with different levels of government. These issues include help with preparing pensions related documentation, resolving land registration/transfer issues, completing adoption/foster care papers, and handling the documentation needed to install gas, pay for water and heating charges, and register civil status (even if this responsibility lies formally with the district). Box 5 provides an example of the services offered by the administration of the Andreyevka settlement in Okhansk district, Perm Krai.
Box 5: An example of services at the settlement level

The share of expenditures from the Andreyevka settlement that is devoted to administration reached 66 percent in 2008 (box figure), up from 63 percent in 2006. In the extract below, the head of a rural administration and specialists describe the services offered by the settlement.

Expenditure allocation in Andreyevka settlement

There’s a passport desk. We do registrations/residence permits here. It’s not our responsibility – it’s a federal government one, but we do it. Registry offices were closed here 3 years ago. We haven’t registered any marriages for a year but now we’ve started to do it again. … The registry office prepares the documents and sends them to us, then we carry out the ceremony here…We can, at the request of residents, if they want to, prepare the documents of a deceased person… the same for birth certificates but we encourage people to go to the registry office straight from the hospital; they still have a registration system set up to give citizenship to the new-born baby – we can’t do that, only they can. We organize ceremonies of wedding anniversaries, starting from ‘porcelain’ wedding anniversaries … people want to do it here, in their village.

We do the military record here – a person gets their records from us then sends them to the medical commission. We also issue all notifications … at the moment there is no military office in the district center, Okhansk. The nearest is in the town of Nytva. That isn’t very convenient…Our specialist goes to Nytva, prepares the documents…

We don’t have a bank in our territory. Taxes are only collected in the bank. If the citizen wants, they can bring us the receipt, leave us the money and when we are in Okhansk (the district center), we pay the tax for them. As for social welfare, we prepare all documents, even those that are the responsibility of social welfare office. … Now we are working on installing gas – [name of the accountant] also deals with all the paperwork. Representatives of the gas company come here once a week to provide people with information.

-- Head of administration and administration specialists, Andreyevka rural settlement, Okhansk district, Perm region, 2008.

58. Even though most of these intermediary functions between national, regional, and district level bureaucracies are not part of the settlement administration’s mandate, they are reported to be very important for the citizens in overcoming isolation and providing access to formal benefits, registration of property, civic states and other benefits and manifestations of modernity.

Now people are coming to [settlement] administration with more issues. The administration was accessible before as well…. Now the responsibility is greater…people do not care, whether you have resources or not, you are responsible for everything that takes place at the territory, you have to provide all services

Accountant, settlement administration, Chemodanovka Settlement, Penza Oblast, 2006

32
59. This role should be taken into account when the usefulness of settlement-level self governance is discussed, considering the share of the budget spent on sustaining local administrative units. The provision by settlement administrations of these additional services may also partially explain why residents are often opposed to the proposals floated in a number of Russian provinces to merge settlements.

. . . although achieving significant improvements in services takes time

60. At the time of the study (2006 to the first half of 2007) institutions and practices engendered by the reform – own budgeting and more active participation of the population in the decision making on resource allocation – were in the process of formation. Combined with difficulties with budget formation, collection, and allocation described above it would be premature to expect the new service delivery practices to have changed significantly. The state of affairs described below should be viewed as a dynamic benchmark, rather than an indication of likely trends going forward.

61. Both before and after the reform, close to the majority of the public in the three regions perceived that the quality of the provision and maintenance of public housing was average (Figure 10). However, the results after the reform (in 2007) show a marginal improvement, with a smaller share of respondents reporting poor housing condition. The results show small improvements in Adygeya and Perm and a small deterioration in Penza. The perceived improvement in the first two regions may reflect greater efforts by the new officials to consult with their constituents (see above), rather than objective improvements in the services.
Figure 10: Citizens perceptions on the condition of the housing fund

Scale for the assessment of the rated service, from 1 very bad to 5, very good.
Source: The World Bank (household surveys, 2005, 2007)

62. By contrast, the public perception of waste management suffered a deterioration following the reform, with substantial increases in the share of respondents in the bottom two quintiles (Figure 11). Residents of Adygeya did perceive an increase in the quality of waste management. The improvement may be connected to the fact that settlements in Adygeya experienced the smallest increase in responsibilities of the three regions, so that local administrations could focus more effort on this mandate. The deterioration on average reflected a substantial increase in low grades from residents of Penza, where the smallest change in administrative procedures occurred. The deterioration of perceptions of performance of local administrations in Penza could be a reflection of complacency of Penza
administrators that did not review their service providing practices during the latest wave of decentralization. Public perception of road conditions deteriorated in the three regions, perhaps because these relatively expensive, capital-intensive services require more time to effect improvements (Figure 11).

**Figure 11:** Perceptions by settlement residents on the quality of waste management and the conditions of roads following reforms

Scale for the assessment of rated services – from 1 (very bad) to 5 (very good)

*Source: The World Bank (household surveys, 2005, 2007)*
63. Overall, it is heartening that despite the very short time period following the reform, and the likelihood of some short-term confusion and disruption of services as a result of the reform, public perception of services in the two regions where the reform had the greatest impact improved slightly. And the improvement was greatest in Adygeya, the poorest of the regions and the region where political decentralization was the most radical. However, changes captured by qualitative distributions have not been supported by the use of more sophisticated statistical methods and should be treated with caution. More time will be required for the changes to be reflected in increased satisfaction with service delivery. At a later stage, once new service delivery patterns are settled a reevaluation will be required to better track the impacts of these structural changes on satisfaction with public services.27

The reform has not helped reduce poverty

64. These are relatively poor rural districts, so that any improvement in services provision is likely to primarily improve the lives of those with incomes below the national average (see Annex 2 Figure A5 for data on rural poverty in the Russian Federation). However, the reform has not directed a greater share of expenditures towards households that are poor compared to the settlement average. Adygeya’s settlement level expenditures are regressive both before and after the reform. In Penza there is almost no relationship between local expenditures and the share of people living below subsistence levels, and in Perm expenditures have become more regressive after the reform. Poverty alleviation is not defined as one of the core mandates of local governments, and the incentives facing elected officials lead them to cater to the median voter. It is thus important for policymakers to ensure that, consistent with international good practices, poverty alleviation programs are managed nationally, rather than relying on local government. Needless to say, there is space for local administrations and communities to provide targeted assistance to disadvantaged groups the community members either on a short or a long term basis. In Soviet villages these responsibilities were largely taken on by collective farms (see below) and now underfunded local administrations find it difficult financially to inherit this role.

2.5 Corruption

65. The perceived levels of corruption of settlement level administrations are low compared to those for oblast and federal officials, which bodes well for the potential for reducing corruption through decentralization. At the same time the reform has not as yet led to a significant improvement in the perception of corruption of local officials as compared to the assessments of pre-reform, centrally appointed local managers. This may be due to dislocation and uncertainties associated with the first year of implementation, and it will be important to monitor progress in improving governance over time.

Public perception of corruption changed little after the reform. . .

27 Efforts to relate increases in the shares of expenditures on services, income levels, education levels, age, and time lived in the settlement with respondents’ (both the households and officials) satisfaction with those services yielded little in the way of significant results.
66. From 2005 to 2007, an index of public perceptions of corruption in settlement administration declined somewhat in Adygeya and Perm and rose slightly in Penza (Figure 12). However, these differences are not significantly different from zero.

**Figure 12:** Public perceptions of corruption in settlement administration changed little following the reform (index number)

![Figure 12: Public perceptions of corruption in settlement administration changed little following the reform (index number)](image)

**Note:** Corruption details are explained in Annex 8. The vertical axis measures public perception of corruption. Numbers range from 0 (corruption doesn’t exist) to 100 (corruption is widespread).

*Source: The World Bank (household surveys, 2005, 2007)*

67. Overall settlement administrations are perceived to be much less corrupt than other levels of administration, which bodes well for the reform. More strikingly, the surveys show that the public perceives the federal government as significantly more corrupt than settlement government, both before and after the reform (Figure 13 shows the data after the reform). Yet people in all three regions tend to place greater trust in leaders at higher levels of government (head of district, head of the region, and president of the country) than in the head of the settlement. Whether this reflects uncertainty over the new leadership ushered in by the reform or uncertainty about their new mandates is not clear. It may also reflect the distinction in people’s minds between the corrupt bureaucracy “up there” and the individual leaders they deal with and know to be somewhat honest but constrained by the limited resources, uncertainty of the revenue levels, and informal dependency on higher levels of administration.
Figure 13: Public perceptions of corruption and trust in leadership 2007 (index number)

Note: Index number for corruption ranges from 0 (corruption doesn’t exist) to 100 (widespread corruption). Index numbers for trust range from 0 (great distrust) to 100 (great trust). Index based on questions 32 and 33 of household panel survey, in which ‘corruption perception’ was on a scale from 1 to 4. Index constructed by the following equation: ((Answer - 1)/4)*100
Source: The World Bank (household surveys, 2007)

... although official attitudes may be improving.

68. The reform has been accompanied by a modest increase in the number of elected officials who state that corruption needs to be fought, at both the district and settlement levels. Moreover, recent entered public officials are slightly more likely to support the need to fight corruption than officials with longer tenure. And appointed officials are less likely to believe corruption should be fought against than are elected officials (although appointed officials are more likely to view corruption as a serious problem than elected officials). Thus the reform’s introduction of new officials and greater reliance on elections has contributed to a rise in the number of officials who believe corruption should be fought.

3. The Effectiveness of Capacity Building

3.1 Description of the Intervention and the Accompanying Evaluation

Introduction

69. While efforts to strengthen capacity at the local level are essential to the success of decentralization, the most effective forms of assistance and the conditions under which they are most likely to work are unclear not only for Russia, but worldwide. The decentralization reform and the World Bank intervention aimed at providing technical assistance to the newly established and/or reformed local settlement administrations provided the opportunity to test
the effectiveness of two forms of assistance (treatments), the provision of information versus on-site consultant services to local government.

Design of the Intervention

70. Both of the treatments shared a common component in which the newly elected settlement-level authorities and their teams were provided with training materials explaining several aspects of their new responsibilities. These materials included explanations regarding participatory budgeting processes, setting of social and economic priorities and the development of skills in demand-driven service provision. This basic treatment also included the organization of workshops in which specialized consultants explained these aspects to new authorities and active community members. We denote this intervention as “information”.

71. The second intervention included the basic “information” treatment, and, in addition, assigned one full-time Rural Municipal Consultant (RMC) and one Rural Legal Consultant (RLC) for a one year period to each treated settlement. These were local dwellers trained in the fundamentals of fiscal planning and participatory budgeting (in the case of RMCs) and local/district lawyers (in the case of the RLCs) trained in the creation of the local legal documents necessary to enact the provisions of the new law. The consultants were in regular contact with higher level specialists from the Institute of Urban Economics (IUE), Moscow. Since the practice of settlement level participatory budgeting was new to Russia, IUE consultants were, in turn, trained and advised by international consultants.

72. The tasks of the RMCs were to guide the treated settlements through the first post-reform budget cycle, help train public officials and interested citizens from among the population to organize meaningful public budgetary hearings, help identify three achievable budget priorities, and provide consultation assistance in achieving those priorities by mobilizing public and private resources and skills for each particular task. RLCs, in addition to creating the accompanying legal documents (the charter of the settlement, fiscal documentation, etc.), also provided pro-bono consultations to the population on private matters of public significance (e.g., rights for social assistance, cadastre/land/property legislation issues).28 We denote this intervention as “capacity building”.

73. Each of these interventions was implemented in 22 rural settlements, randomly selected from out of 109 settlements distributed in the regions of Adygeya, Penza and Perm. Table 6 below describes the breakdown of settlements by treatment group and region. Both interventions were conducted during the year 2006, after the newly elected settlement level authorities took office. Monitoring data suggests that the interventions were well implemented: All of the treated settlements were provided with the information and a full set of courses that were well attended. Public hearings monitored and facilitated by the RMCs took place in all the “capacity building” settlements. All of the treated settlements reported on the achievement of the identified public service priorities. More than 500 pro-bono legal consultations have been provided, and legal documentation for practical decentralization created (for more details on the specific outcomes of the capacity building intervention see Annex 3 “Design and Preliminary Outcomes of Operational Intervention”).

28 For more detail see the pilot project website at: www.worldbank.org/russia/localgovernance
### Table 6: Number of settlements with various treatments

<table>
<thead>
<tr>
<th></th>
<th>Adygeya</th>
<th>Penza</th>
<th>Perm</th>
<th>Total</th>
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<tbody>
<tr>
<td>Information</td>
<td>4</td>
<td>9</td>
<td>9</td>
<td>22</td>
</tr>
<tr>
<td>Capacity Building</td>
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<td>Control</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>20</td>
<td>45</td>
<td>44</td>
<td>109</td>
</tr>
</tbody>
</table>

*Source: The World Bank evaluation.*

74. The randomized nature of these interventions addresses concerns regarding potential endogeneity of program placement. Therefore, this intervention provides an ideal environment to learn about the effectiveness of these interventions towards enhancing the provision of public services. Below we describe the dataset used in our empirical work.

#### 3.2 Evaluation

75. The evaluation took place in 109 rural settlements distributed across the regions of Adygeya, Penza and Perm. Six districts in Adygeya, nine districts in Penza, and nine districts in Perm were randomly selected to participate in the pilot. The pilot settlements were then randomly selected from these districts.

76. In both treatment and control settlements, a baseline survey was conducted in February 2006, and the endline survey took place in November 2007. The evaluation instruments included a dataset obtained from questionnaires applied to 13 to 19 randomly selected households per settlement (depending on the size of the settlement). The questionnaire covered satisfaction levels with public services, priorities for public service delivery, level of trust among villagers and between villagers and authorities, participation levels in public and collective actions, and economic and demographic characteristics. In addition, a similar questionnaire was applied to Public Officials of each settlement. Finally, administrative data with respect to fiscal revenues and expenditures for each settlement during years the 2006 and 2007 were collected.

*The experiment tested the impact of providing information versus capacity building services*

77. The impact of the two forms of interventions was evaluated by comparing the results of surveys in settlements that had received the assistance versus settlements that had not. The surveys were used to evaluate the impact on two dimensions: (i) the process of public decision making (evaluated in terms of whether citizens made suggestions to public officials, the number of public meetings held, degree of citizen participation in local government, and

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29 After the pilot districts were selected; two districts in Adygeya, three districts in Penza and three districts in Perm were randomly selected as “information” districts. Also, two districts in Adygeya, three districts in Penza and three districts in Perm were randomly selected as “capacity building” districts. After this selection; four settlements in Adygeya, nine settlements in Penza and nine settlements in Perm were randomly selected from the “information” districts to receive the “information” treatment. Finally, four settlements in Adygeya, nine settlements in Penza and nine settlements in Perm were randomly selected from the “capacity building” districts to receive the “capacity building” treatment.

30 The surveyed positions included the head of the executive body and the head of the representative body.
citizens’ views of officials’ response to their problems); and (ii) satisfaction with the services that are the mandate of settlement administration (transportation, cultural and recreational activities, waste removal, and cemetery maintenance). The scores on these two dimensions were used as the dependent variable for a set of regressions, with the explanatory variables the provision (or not) of information or capacity building.

**Effectiveness depended on the type of intervention and experience with self government.**

78. **The provision of information alone was found by citizens to have no significant impact,** on average, in improving either the process of decision making or satisfaction of rural households with settlement-level services in any of the three regions (Table 7). **The provision of capacity building had a positive, significant impact on settlements in Penza** (where local self-government dated from the mid-1990s) on both measures, but no impact on settlements in Adygeya or in Perm (where settlement responsibilities changed dramatically with the reform). Thus providing information alone did not seem to improve citizens’ perceptions of local administration, while providing capacity building only had a significant impact where local institutions already had substantial experience with performing the responsibilities of government.

<table>
<thead>
<tr>
<th>Table 7: Estimated impact of providing information and capacity building</th>
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<tbody>
<tr>
<td><strong>Panel A. Penza</strong></td>
</tr>
<tr>
<td>The Process of Public Decision Making</td>
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<tr>
<td>(0.068)</td>
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<tr>
<td>Satisfaction with Settlement Level Services</td>
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<tr>
<td>(0.098)</td>
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<tr>
<td><strong>Panel B. Adygeya</strong></td>
</tr>
<tr>
<td>The Process of Public Decision Making</td>
</tr>
<tr>
<td>(0.107)</td>
</tr>
<tr>
<td>Satisfaction with Settlement Level Services</td>
</tr>
<tr>
<td>(0.096)</td>
</tr>
<tr>
<td><strong>Panel C. Perm</strong></td>
</tr>
<tr>
<td>The Process of Public Decision Making</td>
</tr>
<tr>
<td>(0.066)</td>
</tr>
<tr>
<td>Satisfaction with Settlement Level Services</td>
</tr>
<tr>
<td>(0.095)</td>
</tr>
</tbody>
</table>

*Estimated standard errors clustered at the settlement level are in parentheses. Regressions include the baseline values of the family summary index as control. * significant at 10%; ** significant at 5%; *** significant at 1%*

. . . and the quality of local governance

79. The effectiveness of technical assistance also depended on the level of government accountability. We developed an index that measures the accountability of governments prior to the reform (Box 6). We then re-estimated the regressions discussed above, but included an interaction term to distinguish whether the settlement ranked in the upper or
lower half of regional settlements according to the index of accountability. We can therefore judge whether the effect of these two treatments was different in high versus low accountability settlements.
The index of accountability is based on data from the baseline surveys administered to households and local public officials. We first ranked settlement households’ priorities for public services using their responses to the following question: “Imagine that you were allocating budget. What issues would you spend the money on in the first instance (maximum of three answers possible)?” This question had 17 listed services from which to choose.\(^{31}\) We denote by \(H_{js}\) the households’ rank order of service \(j\) within settlement \(s\). Similarly, local public officials were asked the following question: “Imagine that the municipal budget receives an additional 10 million rubles. What amount of these 10 millions would you allocate to addressing the following activities?"\(^{32}\) The response options for this question were exactly the same as the households’ question. We aggregate the responses to these questions at the settlement level and rank services according to the amount of money intended to be invested in each service. In that way, we denote by \(P_{js}\) the public officials’ rank order of service \(j\) within settlement \(s\). We then use both ranks to construct an accountability index for each settlement as follows:

\[
A_s = -\sum_{j=1}^{7} \left(H_{js} - P_{js}\right)^2
\]

This index measures the distance between the priorities for public services provision of citizens and local authorities. We then rank settlements within regions according to our accountability index, \(A_s\), and classify settlements above and below the 50\(^{th}\) percentile of each region. If accountability is a component of local efficiency in public service provision, the intervention should have stronger effects in settlements above the 50\(^{th}\) percentile of the accountability index.

80. The difference in impact between both types of interventions and between high and low accountability settlements varies by region (Table 8). In Penza, provision of capacity building increased participation in public decision-making significantly less in settlements with high accountability than in settlements with low accountability. Essentially, experienced local governments that were highly accountable to citizens’ preferences did not need consultants to show how to govern effectively. On the other hand, the provision of information increased citizens’ satisfaction with services more in high accountability settlements (while having no effect on average for the entire sample). This provides some evidence that the provision of information can be beneficial, but only in settlements with high transparency and substantial experience in local government.

81. For the other two regions, information had no impact on citizen’s perception of public decision making or citizens’ satisfaction with services. However, capacity building had a more positive impact on settlements with high accountability than settlements with low accountability. Presumably the local governments with high accountability were either more effective in general (or thus better able to absorb capacity building), or officials had greater incentive and ability to learn from capacity building technical assistance (officials in

---

\(^{31}\) These services are: development of non-agricultural small business; support to the former collective farms; support to private farmers, support to individual small-scale farming; condition of the housing fund; condition of communal services; public transportation; roads; law and order; problems of youth; condition of cultural institutions and recreational areas; preservation of natural and cultural monuments; collection, removal and utilization of waste; availability (access to) general education; availability (access to) pre-school education; level (e.g. quality) of medical treatment; and maintenance of cemeteries.

\(^{32}\) Notice that there is a slight mismatch between the public official’s and the household’s question. Specifically, the public official’s question asks about marginal spending, and the household’s question does not explicitly ask about marginal spending (the word additional is not used in the Household Survey). The reason for this discrepancy is that pretests revealed that households often misunderstood the question when phrased in marginal terms and it was reformulated for cognitive/comprehension reasons.
low-accountability governments were less concerned with making government more responsive).

**Table 8**: Differences in the impact of information versus capacity building in high-accountability versus low-accountability settlements (citizens’ perceptions)

<table>
<thead>
<tr>
<th></th>
<th>Information</th>
<th>Capacity building</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public decision making</td>
<td>Satisfaction with services</td>
</tr>
<tr>
<td>Penza</td>
<td>Same</td>
<td>Greater in high-accountability</td>
</tr>
<tr>
<td>Adygeya</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Perm</td>
<td>Same</td>
<td>Same</td>
</tr>
</tbody>
</table>

*Note*: No calculation is made for the impact of information in Adygeya because no household receiving information was located in a settlement in the bottom half of the pre-treatment accountability index.


82. **Thus the data suggest that the most effective forms of support would be specific to local needs and provided over a significant period of time. One shot training sessions do not have significant effects.**

83. What general conclusions can we draw from all of these results? The provision of information alone and the more commonly practiced training interventions has not shown to be effective in improving either the process or the results of local government. This may reflect the fact that improvements in administration are heavily conditioned by local circumstances and events, so that standardized information is of little use. Or perhaps busy officials tend not to pay much attention to an additional pamphlet, book, or even a class if it tackles more generic issues and does not deal with the specific problems of the locality. However, providing information can be helpful if the local administration is both experienced and accountable to its constituents.

84. These results also suggest that **strengthening local administration is a long-term commitment**. We should not conclude from the limited impact of capacity building in Perm and Adygeya that newly-formed local governments should not be offered assistance. Capacity building was provided for only a one-year period, immediately following a dramatic change in local government responsibilities. Decentralization has the potential of generating real benefits by bringing government closer to the citizenry. But it will require patience and time to realize these benefits.

4. **Policy Implications and Priorities**

4.1 **Introduction**

85. The current study has demonstrated that on balance, despite early stages of the reform implementation, one can see positive trends in political and administrative aspects of decentralization as well as in the overall behavioral patterns of local administrators,
particularly in their interactions with the population. However, to expand the benefits of the reform to more technical issues (primarily fiscal and financial) and to secure the continuation of the positive effects of the reform in the medium and longer terms, it is important to make additional policy steps and undertake capacity building initiatives.

86. On the basis of the operational intervention, the impact evaluation exercise, and analyses of objective data on rural governance in Russia, the following broad based recommendations can be made, including on:

- The adjustment to the reform implementation regulations and practices
- Training and capacity building
- The collection and use of data on municipal performance

4.2 Creating Favorable Policy Context for Effective Decentralization

87. Poverty alleviation efforts in the rural settlements, which on average are much poorer than the urban areas, remain critical. However, it is important to realize that the resources of settlement level governments are not sufficient to tackle social assistance. Moreover, our findings corroborate the established notion that local governments are primarily interested in serving medium to high income dwellers (the median voter and the higher formal and informal contributors of resources to local administrations). Local administration contribution to poverty alleviation should come rather from creating a corruption free environment conducive to the development of the locality. Social assistance issues need to be managed at the federal/regional levels.

88. The study indicates that public perceptions of corruption in settlement-level governments are much lower than in higher levels of government and are more directly related to the performance of local administration, its openness, and the share of own revenue collected by the municipality. These results suggest that the context is right to give local administrations more independence in the use of own and transferred resources. Thus, post-reform local administrations in rural Russia are well positioned to provide more transparent, more accountable, and less corrupt services to their constituencies. Increased capacity of local administrations and increased financial independence are needed to produce significant improvements in governance and in service provision to the rural population of Russia.

89. For fiscal incentives to work, rural settlements need greater control over their revenues. The settlements need to have more responsibility for administration and collection of local taxes (land and property), as the higher-level administrators appear to lack adequate incentives and relevant information to collect local taxes efficiently. Settlement administration also needs more autonomy in decision making over the use of own revenue regardless of the share of own revenue. It is also important for the federal and regional governments to compensate settlement level budgets for the revenue lost when tax exemptions are given to the groups of the population residing in rural areas.
4.3 *Scaling Up Capacity Building*

90. The reform has occasioned considerable disruption in administration, partly because in many settlements administrators do not have sufficient qualifications or information to deal with their new responsibilities. Poor understanding of many aspects of public management by rural administrators has been identified as one of the main constraints for the further development of effective rural self-governance. It is important, therefore, to **invest resources not only in information sharing through training activities, but also in capacity building and on-site assistance, so that formal and informal local leaders get practical help with effective public engagement and public management practices.** The study demonstrated that to be effective, capacity building needs to be context–specific. It would be important, therefore, to create programs to train a cadre of local rural municipal consultants. The consultants need to combine local knowledge with accessibility and technical expertise. Such capacity building support is likely to contribute to a more competent, creative, and demand-driven development of rural municipalities. Since reform was initiated at the federal level, it is important for the federal government to create incentives for institutionalization and use of such capacity building support. It also is important to adjust both the expectations about such programs and the duration of consistent support to the time it takes to build viable institutions.

91. **The reform has opened up the potential for local participation in government decision-making.** Enhanced public participation can generate long term benefits by improving the design of service provision and increasing public trust in government. Capacity building designed to improve officials' ability to organize truly constructive and open venues for public participation (public hearings, meeting with a constituency on specific issues, formation of civic observer and monitoring groups) should thus be a high priority and form part of regional and federal policies of assistance to the decentralization reform.

4.4  **Improving the collection and use of data on local government performance**

92. **Standardized collection of data on local government performance is vital to guide the reform implementation.** Continuation of rigorous periodic measurements of the processes and outcomes of the political, administrative, and fiscal aspects of the reform is central for making timely policy corrections, setting reform implementation priorities, and, ultimately, building more effective local governance structures. Longitudinal assessment of the perceived effectiveness of local government performance in interactions with the population and service delivery will be an important measure of the outcomes of decentralization as well as a tool to better understand the causes of successes and failures in rural policies, a poorly understood area of public governance in Russia.

93. **Results of the analysis of local administrations’ performance should be publicly available, accessible, and disseminated among local public officials and their constituencies.** Availability of credible information on local governance performance will allow for self-corrective actions by local officials and provoke debates on performance/formats for improvement of processes, services, and interactions with the population.
Both the objective data and the survey data should be used to create **ratings of local administrative performance** (for a prototype rating based on the data of the study see Box 7). Such a rating makes relative progress of settlement administrations easy to understand and to track both for the population and the administrators. Such a rating adds transparency and competitiveness to the actions of local administrations and helps to allocate developmental grants to a locality in a more transparent manner (see below).

**Box 7: The Settlement Performance Index**

The settlement performance index was designed to monitor and assess the performance of local administrations in 109 rural settlements spread over Adygeya, Penza and Perm, based on a panel of household surveys administered in 2006 and 2007. The index covers seven broad thematic areas: (i) provision of capital intensive services, (ii) provision of other services, (iii) accountability, (iv) accessibility, (v) participation, (vi) corruption, and (vii) general satisfaction. The index is designed to help guide local government policies to make them more in tune with public preferences, and to evaluate local government performance. For the detailed description of the structure of the Index and ratings see Annex 8, *Settlement Performance Index*. 

References


Annex 1: Maps of the Project Regions

Figure A1. Location of the Study’s Regions Within the Russian Federation

Table A1. Municipal Units in Each Region, Before and After Decentralization

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Municipal districts</th>
<th>Urban Districts</th>
<th>Urban Settlements</th>
<th>Rural Settlements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Republic of Adygeya</strong></td>
<td>38</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>33</td>
</tr>
<tr>
<td><strong>Penza Oblast</strong></td>
<td>431</td>
<td>28</td>
<td>5</td>
<td>22</td>
<td>376</td>
</tr>
<tr>
<td><strong>Perm Krai</strong></td>
<td>52</td>
<td>33</td>
<td>14</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td><strong>Republic of Adygeya</strong></td>
<td>60</td>
<td>7</td>
<td>2</td>
<td>5</td>
<td>46</td>
</tr>
<tr>
<td><strong>Penza Oblast</strong></td>
<td>430</td>
<td>27</td>
<td>3</td>
<td>24</td>
<td>376</td>
</tr>
<tr>
<td><strong>Perm Krai</strong></td>
<td>363</td>
<td>42</td>
<td>6</td>
<td>33</td>
<td>282</td>
</tr>
</tbody>
</table>
Figure A2. Map of Republic of Adygeya
Figure A3. Map of Penza Oblast
Figure A4. Map of Perm Krai
Annex 2: Relevant Macro Indicators

Figure A5. Rural/urban breakdown of Russian population and population below the poverty line

Table A2. Poverty rates in the Russian Federation and regions of the study 2003-2008

<table>
<thead>
<tr>
<th>Region</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Federation</td>
<td>20.3%</td>
<td>17.6%</td>
<td>17.7%</td>
<td>15.2%</td>
<td>13.3%</td>
<td>13.1%</td>
</tr>
<tr>
<td>Republic of Adygeya</td>
<td>34.9%</td>
<td>33.7%</td>
<td>33.2%</td>
<td>32.9%</td>
<td>30.4%</td>
<td>24.7%</td>
</tr>
<tr>
<td>Penza Oblast</td>
<td>33.2%</td>
<td>27.9%</td>
<td>26%</td>
<td>23.1%</td>
<td>17.1%</td>
<td>15.5%</td>
</tr>
<tr>
<td>Perm Krai</td>
<td>21.8%</td>
<td>20.3%</td>
<td>17.1%</td>
<td>14.4%</td>
<td>13.8%</td>
<td>14.5%</td>
</tr>
</tbody>
</table>

Source: World Bank Poverty Statistics
### Table A3. Socioeconomic Indicators

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russian Federation</td>
<td>5170</td>
<td>6410</td>
<td>8112</td>
<td>11,096</td>
<td>12,601</td>
</tr>
<tr>
<td>Republic of Adygeya</td>
<td>2549</td>
<td>3080</td>
<td>3880</td>
<td>4707</td>
<td>5755</td>
</tr>
<tr>
<td>Penza Oblast</td>
<td>2765</td>
<td>3421</td>
<td>4386</td>
<td>5659</td>
<td>8002</td>
</tr>
<tr>
<td>Perm Krai</td>
<td>5257</td>
<td>6371</td>
<td>8202</td>
<td>10,982</td>
<td>13,481</td>
</tr>
<tr>
<td><strong>Unemployment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russian Federation</td>
<td>8.2%</td>
<td>7.8%</td>
<td>7.2%</td>
<td>7.2%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Republic of Adygeya</td>
<td>15.9%</td>
<td>17.6%</td>
<td>12.9%</td>
<td>13.7%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Penza Oblast</td>
<td>9.0%</td>
<td>6.9%</td>
<td>6.5%</td>
<td>6.5%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Perm Krai</td>
<td>7.1%</td>
<td>7.0%</td>
<td>7.0%</td>
<td>6.9%</td>
<td>6.5%</td>
</tr>
<tr>
<td><strong>Share of Rural Population</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russian Federation</td>
<td>26.6%</td>
<td>27.0%</td>
<td>27.1%</td>
<td>27.0%</td>
<td>26.9%</td>
</tr>
<tr>
<td>Republic of Adygeya</td>
<td>47.4%</td>
<td>47.4%</td>
<td>47.4%</td>
<td>47.5%</td>
<td>47.5%</td>
</tr>
<tr>
<td>Penza Oblast</td>
<td>34.7%</td>
<td>34.4%</td>
<td>34.2%</td>
<td>33.9%</td>
<td>33.7%</td>
</tr>
<tr>
<td>Perm Krai</td>
<td>24.9%</td>
<td>24.8%</td>
<td>25.1%</td>
<td>25.1%</td>
<td>25.0%</td>
</tr>
</tbody>
</table>

Annex 3: Local Governance in Russia: Structure, Mandate, and Funding

**Political Decentralization:** The transfer of policy and legislative powers from central governments to independent, lower-level assemblies and elected local councils; the selection of local government officials through local elections.

**Administrative Decentralization:** The process of placing authority and responsibility for service delivery in the hands of locally situated civil servants who are under the jurisdiction of elected local governments.

**Fiscal Decentralization:** The process of giving substantial authority for revenue raising and taking expenditure decisions to intermediate and local governments.

Figure A6. Structure of governments in Russia, before implementation of Law No.131 (adopted 2003, enacted 2006)

Three variations of government structure

**Type I (50 Regions)**
- Regional Government
- Local Self-Government within the borders of districts and city units
- Territorial subunits of districts and city units

**Type II (13 Regions)**
- Regional Government
- Territorial subunits or independent bodies of government authority

**Type III (23 Regions)**
- Regional Government
- Local Self-Government within the borders of districts and city units
- Local Self-Government within the borders of settlements
Figure A7. Structure of governments in Russia after implementation of Law No.131 (adopted 2003, enacted 2006)

- Federal center
- Region
- Urban districts (gorodskie)
- Municipal districts (raiony)
- Urban and rural settlements (poseleniya)
Box A2 Local Government Service Delivery Mandates According to the Decentralization Legislation

<table>
<thead>
<tr>
<th>The main functions assigned to districts are:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• providing preschool, primary, and secondary education along with supplementary after class education using subsidies from the regional budget;</td>
</tr>
<tr>
<td>• providing health care in general hospitals, maternity care, and ambulance services;</td>
</tr>
<tr>
<td>• providing municipal police (having localities provide this service would require amending the existing law enforcement system, therefore implementation of this particular item has been postponed until 2010);</td>
</tr>
<tr>
<td>• protecting the environment;</td>
</tr>
<tr>
<td>• waste management;</td>
</tr>
<tr>
<td>• maintaining district libraries;</td>
</tr>
<tr>
<td>• organizing recreational, cultural, and sport events;</td>
</tr>
<tr>
<td>• providing electricity and gas;</td>
</tr>
<tr>
<td>• constructing and maintaining inter-settlement roads;</td>
</tr>
<tr>
<td>• providing inter-settlement public transportation.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The main functions assigned to settlements are:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• delivering housing and utilities (electricity, heating, water, gas, fuel, street lighting) and providing waste collection;</td>
</tr>
<tr>
<td>• constructing and maintaining housing for low-income households;</td>
</tr>
<tr>
<td>• providing basic fire protection;</td>
</tr>
<tr>
<td>• maintaining cemeteries;</td>
</tr>
<tr>
<td>• maintaining parks and gardens;</td>
</tr>
<tr>
<td>• maintaining settlement libraries;</td>
</tr>
<tr>
<td>• organizing recreational, cultural, and sport events and recreational activities for teenagers;</td>
</tr>
<tr>
<td>• constructing and maintaining intra-settlement roads;</td>
</tr>
<tr>
<td>• providing intra-settlement public transportation.</td>
</tr>
</tbody>
</table>

---

35 As summarized by the Center for Fiscal Policy, background paper for this study, 2008
## Local Budgets

### Table A4. Taxes Assigned to Local Government, 2006-2007

<table>
<thead>
<tr>
<th>Tax</th>
<th>Determination of</th>
<th>Taxes assigned by Budget Code (%)</th>
<th>Additional taxes assigned to raions by regional laws (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Base</td>
<td>Rate</td>
<td>Federal</td>
</tr>
<tr>
<td><strong>Local taxes</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal property tax</td>
<td>F</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>Land tax</td>
<td>F</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td><strong>Regional taxes</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enterprise property tax</td>
<td>F</td>
<td>R</td>
<td>100%</td>
</tr>
<tr>
<td>Transport tax</td>
<td>F</td>
<td>R</td>
<td>100%</td>
</tr>
<tr>
<td>Tax on gambling businesses</td>
<td>F</td>
<td>R</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Federal taxes and special tax regimes assigned to regional and local governments by the Budget code</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enterprise profits tax</td>
<td>F</td>
<td>F</td>
<td>27%</td>
</tr>
<tr>
<td>Personal income tax</td>
<td>F</td>
<td>F</td>
<td>70%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excise taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On alcohol and alcohol-based products</td>
<td>F</td>
<td>F</td>
<td>50%</td>
</tr>
<tr>
<td>On gasoline and diesel fuel</td>
<td>F</td>
<td>F</td>
<td>40%</td>
</tr>
<tr>
<td>On alcoholic products (except wine)</td>
<td>F</td>
<td>F</td>
<td>100%</td>
</tr>
<tr>
<td>On wine, beer</td>
<td>F</td>
<td>F</td>
<td>100%</td>
</tr>
<tr>
<td>Mineral resource extraction tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hydrocarbons other than gas</td>
<td>F</td>
<td>F</td>
<td>95%</td>
</tr>
<tr>
<td>Common minerals</td>
<td>F</td>
<td>F</td>
<td>100%</td>
</tr>
<tr>
<td>Other minerals</td>
<td>F</td>
<td>F</td>
<td>40%</td>
</tr>
<tr>
<td>Fee for the use of fauna</td>
<td>F</td>
<td>F</td>
<td>100%</td>
</tr>
<tr>
<td>Single tax levied under an applicable simplified taxation system for small businesses</td>
<td>F</td>
<td>F</td>
<td>10%</td>
</tr>
<tr>
<td>Single tax on imputed income</td>
<td>L(F)</td>
<td>F</td>
<td>10%</td>
</tr>
<tr>
<td>Single tax on agricultural enterprises</td>
<td>F</td>
<td>F</td>
<td>10%</td>
</tr>
</tbody>
</table>

⑥ The regional tax rate for the profits tax is 17.5 percent, which regions can reduce to 13.5 percent.

*F = federal, R = regional, L = local governments

*Source: Center for Fiscal Policy (for the World Bank), based on Tax Code, Budget Code and Regional laws*
Box A3: Types of transfers from regional to local budgets

Definitions of the main kinds of intergovernmental transfers to local budgets (grants, subsidies, subventions) are given in the Budget Code. The Budget Code also provides for the main requirements to the allocation of equalization grants.

The following transfers are allocated from budgets of regions to the local level:

**Equalization grants.** These are general purpose grants, allocated through a formula, and are the main source of income for most local governments.

**Gap-filling subsidies.** These subsidies should compensate local budgets for losses of tax revenues and/or increased expenditure burdens that result from regional policies. However, gap-filling subsidies are often allocated to compensate for the gap between local revenues after receiving formula-based equalization grants and forecasted expenditures.

**Compensation for federal and regional mandates (subventions).** The Budget Code provides for the allocation of earmarked funds to support delegated mandates. A list of subventions depends on a list of expenditure responsibilities delegated to the local level in a given region.

**Co-financing of expenditure grants (subsidies).** A region may allocate its own financial resources to fund local government issues. This is a kind of matching grant to be co-financed by local governments.

**Municipal finance reform grants.** These are grants awarded to municipalities that have submitted, and successfully implemented, the best plans for reforming their public financial management systems.

**Ad hoc subsidies.** The existence of formula-based transfers does not exclude the possibility of also having transfers with less transparent allocation principles. The latter are often a result of lobbying efforts of individual municipalities.

Source: Center for Fiscal Policy, 2008
Table A5. Restrictions to Local Government’s Autonomy

<table>
<thead>
<tr>
<th>Share of grants (including tax transfers) in total revenues of a local government</th>
<th>Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 ≤10%</td>
<td>None\textsuperscript{37}</td>
</tr>
<tr>
<td>&gt; 10% for two consecutive reporting years</td>
<td>Salary of local officials shall not exceed the ceilings established by the regional council.</td>
</tr>
<tr>
<td>&gt; 30% for two consecutive reporting years</td>
<td>Local spending is limited to matters explicitly listed as local expenditure responsibilities in federal and regional legislation.</td>
</tr>
<tr>
<td>&gt; 70% for two consecutive reporting years</td>
<td>The local government shall sign an agreement with the regional government to increase the efficiency of local spending and enhance collections. The local government’s budget is submitted to the regional government for approval. The regional government audits end of year local budget execution reports at least every other year.</td>
</tr>
</tbody>
</table>

\textsuperscript{37} For the general limits on the size of debt and debt service set by the Budget Code.
Annex 4: Structure of Indexes

Description of how Figure 4 is determined:
Questions 78 and 80: How many times since the beginning of 2005-2006 have you been invited to a meeting with Regional authorities or met with them on your own initiative? Weighted average of sum of both questions: zero meetings of either=0; 1 to 3 meetings=.2; 4 to 6 meetings=.4; 7 to 9 meetings=.6; 10 to 12 meetings=.8; more than 12 meetings=1.

Description of how Figure 8 is determined:
Question 62: How much flexibility does local government have in allocating funds from one budget line to another at the stage of budget formulation? Weighted average assigning the following values: 0=Completely inflexible; .33=Flexible to some degree; .67=Flexible to a large degree; 1=Completely flexible.

Description of how Figure 9 is determined:
Question 63: How much flexibility does local government have in allocating funds from one budget line to another at the stage of budget implementation? Weighted average assigning the following values: 0% = Completely inflexible; 33% = Flexible to some degree; 67% = Flexible to a large degree; 100% = Completely flexible.
Annex 5: Design and Preliminary Outcomes of Operational Intervention

LOCAL GOVERNANCE AND CIVIC ENGAGEMENT
IN RURAL RUSSIA PROJECT

The pilot project is implemented under a Grant Agreement dated May 2004 between the World Bank and the Charities Aid Foundation, UK (CAF). The Japan Social Development Fund (JSDF) provided grant funds for the financial assistance for the project in response to the Recipient’s request, and the Ministry of Economic Development and Trade of the Russian Federation (later the Ministry of Regional Development) pledged its support to project implementation.


The goal of the “Local Governance and Civic Engagement in Rural Russia” project is to empower villages in taking control over their resources through strengthening formal and informal local governance institutions and engaging the public in local government decision making activities. This is accomplished through a synergetic and results-oriented program of onsite capacity building, training, and intensive community engagement that serves to both educate participants on roles and responsibilities and to forge paths to partnership to identify and resolve issues of concern. In other words, the project simultaneously builds the capacity of local governments to be responsive to their citizens, and encourages active citizen engagement in local decision-making processes.

Three pilot regions – the Republic of Adygeya, Penza oblast and Perm krai – were selected to test the program precepts and methodology in a total of 8 districts and 22 settlements.

How the Project Worked
The Urban Institute team designed a synergistic approach that intertwines intensive training and ongoing capacity building of Rural Municipal Consultants with targeted training (by UI Team) and ongoing technical assistance (by RMCs) of Local Government/Community Working Groups. Together with the RMCs, the LG/C Working Groups work with the local government officials in developing annual budgets, identifying priorities and solutions for improving local services, and engaging the community in these public processes.

• Local Government and Community Training Series. A comprehensive training and technical assistance agenda focused on the most essential concepts and practices required for effective financial management and performance. Training cover topics such as key budgeting concepts, participatory budgeting, local self government legislation, revenue alternatives, intergovernmental fiscal relations, performance management, service improvement action planning, and civic engagement.

• Community Meeting Series: The public is involved from the outset in the preparation of annual budgets, the identification of priorities and solutions to address them. Beginning with the project’s signature Community Visioning Festival, the Community Meetings engage the public in the process of key decision-making activities. They also serve an educational role: local governments learn more about what their communities want and need while communities
discover more about how local government operates and the special constraints within which it makes decisions.

**Service Improvement Action Plan (SIAP):** The SIAP provides a framework and process, based on performance management principles, which help communities improve a service or address a particular issue (e.g. cleanliness of town/village, poverty, roads, employment, street lighting) by understanding the current status of the priority area to be addressed; setting meaningful and feasible goals; creating a strategy and action plan to attain goals; and monitoring areas in need of improvement. The SIAPs are introduced midyear to respond to prioritized community input and provide a prelude to budget development for FY 2007.

**Intergovernmental Fiscal Relations:** The project entails ongoing monitoring, analysis and training in the legislative and fiscal implications/reality of intergovernmental fiscal transfers. This is to ensure that newly acquired human capital (through the training and capacity building components) is sufficiently grounded in structures that allow local governments to take full advantage of the promises of decentralization.

**Legal support for municipal development:** 8 legal municipal consultants provide pilot municipalities with necessary legal consultations and model municipal legal acts.

**Preliminary Results**

- Establishment of a network of 10 Rural Municipal Consultants and 8 Legal Consultants in each region to provide ongoing assistance to local communities as well as build skills for future opportunities;
- Formation of 22 Local Government/Community Working Groups (LG/C WG) comprised of a broad spectrum of settlement administrative staff, elected deputies and community members to spearhead and carry out the local work;
- Training for the LG/C Working Groups on a broad range of interrelated subjects, forming building blocks to a comprehensive managing-for-results system, which is expected to lead to improvements in government-community relations and the quality of life in general;
- Communities have attended 5-6 planned Community Meetings. Attendance figures amount to hundreds if not thousands of citizens who have provided input into the budget process and are working toward common solutions to identified priorities;
- Analysis of the legal environment conducted for pilot territories and exposure of the absent legal acts needed for the existence of self government. The legal consultants actively assisted local communities work out model legal acts and provide legal consulting for rural residents;
- Analysis carried out of the existing normative-legal framework of local self-government in the pilot regions and recommendations to improve this framework drawn up;
- Private municipal fund-type initiatives in pilot regions have been supported and developed;
- Operational needs and technical capacities of 30 pilot municipalities were defined and provided with necessary IT equipment;
A Monitoring Survey was carried out in the pilot and control territories. The Monitoring Data Base is being compiled;

Locality Card (for investigating local communities’ needs) have been developed and approved in Perm and the Republic of Adygeya;

Research on public service provision in healthcare (Perm), education (Penza) and public services & amenities (Republic of Adygeya) undertaken. Recommendations on monitoring these services and increasing their quality were drawn up and discussed directly with government representatives and other key stakeholders in the regions;

Service Improvement Action Plans (SIAPs) have been developed for all settlements participating in the project and discussed at local community meetings;

Preliminary project results have been presented at international seminars on participatory budgeting in Kirgizia, Albania, and Brazil.
Annex 6: Information on Project Regions

The Republic of Adygeya

Adygeya is on the northern slopes of the North Caucasus range and contains the highest share of rural population of the three regions (48% rural, or about 20% more than the national average of 27% according to the 2002 census). It has a budget deficit, and industrial and social infrastructures are poorly developed in comparison to other regions. There is a large ethnic minority (ethnic Adygs constitute 24% of the population). Since the 19th century, frontier Russians (primarily Cossacks) and the remaining Adyg peoples who were not exiled from the region lived in a relative (uncommon for the North Caucasus) peace, each following distinct indigenous traditions of self-governance.

The region lies in 77th place out of 88 in terms of Gross Regional Product (GRP) per capita; and in 76th place for volume of industrial production. The Quality of Life Index puts Adygeya at the bottom of Russian regions (75th out of 88 in 2005) and the Democracy and Openness index presents a fairly closed and authoritarian picture as well (8th decile out of 9 for 2002-2004 average). The Republic of Adygeya chose to fully introduce the Law on local self-government.

Fiscal issues

a. District level expenditure responsibilities:

In addition to their own responsibilities, the following state responsibilities have been delegated to districts:

- Social support to orphans and other children without parental care;
- Payment of compensation for housing and utilities bills to some groups of the population;
- Organizing and operating commissions on juvenile affairs and rights;
- Organizing administrative commissions and drawing up protocols on administrative violations;
- Subventions to support the educational process (implementation of the state general education standard), as in many other regions;
- The largest expenditures of districts’ budgets are on education (the educational process is supported by earmarked subventions from the Republic’s budget), health care, general public services and culture. The share of road expenditures is very low in Adygeya, because

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38 An integral index consisting of the average per capita income to regional cost of living, share of population with income above cost of living, employment level, mortality and birth rates. For source and methodology see Independent Institute of Social Policy, the Atlas of the Regions, http://atlas.socpol.ru/indexes/index_life.shtml

39 The Democracy and Openness index for the Russian regions created by the Independent Institute of Social Policy consists of expert assessments of the openness of the region, democratic nature of the elections, political pluralism, independence of media, economic liberalization, development of civil society, political structures, corruption, local governance; for more detail see http://atlas.socpol.ru/indexes/index_democr.shtml

40 The health care sector is funded not only from the budget but also from the Obligatory Medical Insurance Fund.
the road sector is mostly funded from the regional budget. [should this refer to the federal budget?]

b. **Settlement level expenditure responsibilities:**

- The majority of settlements’ spending goes to maintenance and operational costs of their local governments.

**Local revenues**

In 2005, the Republic of Adygeya assigned local budgets (i.e. districts and settlements) the following proportions of different taxes:

- 50% of revenues from personal income tax collections (the main source of own and assigned revenues of districts and settlements);
- 50% of excise taxes on wine and alcoholic products;
- 50% of enterprise property tax;
- 60% of the common minerals tax;
- 36% of the other minerals tax.

Starting from 2006, the Republic of Adygeya assigns **districts** shares of the following federal and regional taxes in addition to the assignment of shares of federal taxes provided by the Budget Code:

- 10% of the share of the enterprise profits tax due to the regional budget;
- 10% of the excise tax on alcoholic products;
- 50% of the excise tax on wine;
- 50% of the excise tax on beer;
- 45% of the single tax levied under an applicable simplified taxation system;
- 30% of the single tax on agricultural enterprises;
- 50% of the enterprise property tax;
- 60% of the mineral resource extraction tax (common minerals tax).  

In addition, 10% of the personal income tax was assigned under the region’s 2006 and 2007 budget laws. State duties are also assigned to districts’ budgets.

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41 The above shares are established by a regional law (On Sharing Rates of Federal and Regional Taxes and Fees and of Taxes Envisaged by Special Tax Regimes Allocated by the Republic of Adygeya from Its Budget).
Penza Oblast

Penza is slightly more industrial than Adygeya but agriculture plays an important role (20% of GRP from agriculture, 36% rural residents) – a fact explained by its location in the fertile Black Earth area on the eastern plains of the Volga River. The region is in 69th place out of 88 for GRP per capita, and 34th for agricultural production. Historically, Penza was noted for having a large serf population; at the time of the 1861 abolition of serfdom, serfs constituted more than half of Penza’s population.

The region is in 69th place out of 88 in GRP per capita, and 34th in agricultural production. Penza rates 62nd in the 2005 Quality of Life index and is in the middle 5th decile for Democracy and Openness.

Penza was one of about ten regions in Russia that already had a settlement structure before the introduction of Law No. 131, which means that officials were elected according to the 1995 law on local self-government. However, heads of rural administrations were appointed in 2004 for a 2-year term, while deputies were elected at the end of 2004. Therefore, elections for settlement heads and local government bodies under Law No. 131 took place in 2006 when their previous terms of office expired.

Fiscal issues

District level expenditure responsibilities:
In addition to their own responsibilities, districts and cities in Penza region were assigned the following responsibilities:

- Social support and provision of social services to elderly people and invalids, people in hard circumstances and low-income citizens;
- Social support and provision of social services to orphans and other children without parental care, children in socially dangerous situations, families with children in hard circumstances;
- Assessment and payment of allowances to families with children;
- Social support to large families;
- Social support to labor veterans, those who worked behind the front during the Great Patriotic War of 1941-45, victims of political repression;
- Social support to individual groups of qualified employees working and residing in rural areas;
- Collection of documents necessary for assessment and payment of retirement pensions to public employees and those holding public offices regionally;
- Provision of soft loans to large families for complete repairs, reconstruction or purchase of housing and buildings;
- Provision of housing under social lease contracts to orphans, other children without parental care, children placed under guardianship (care) and persons in the category of orphans and children without parental care;
- Organization of administrative commissions and drawing up protocols on administrative violations;
- Labor protection management;
- Preventive measures with regard to child negligence and juvenile violations;
Responsibility for preparation of an agricultural inventory (in 2006).

In addition to the state responsibilities delegated to municipalities before 2007, a new law delegated the following responsibilities to municipalities:

- Subsidies for paying housing and utilities bills (to districts and cities);
- Social support to teachers working and residing in rural areas (to districts);
- Individual responsibilities associated with the formation, maintenance and use of regional archives (to districts and the city of Kuznetsk);
- Regional budget execution in terms of cash payments on customer accounts of Penza region spending units located in municipalities of the region, provided payment documents have been approved as part of the implementation of the region’s budget process automated management (to districts and cities);
- Lump sum payments to young teachers, lump sum payments to winners of a regional competition for teachers (to districts and cities);
- Responsibilities for guardianship and patronage (to districts and cities);
- As in the Republic of Adygeya, education is an important part of districts’ budget in Penza Oblast. Yet in contrast to Adygeya, social policy expenditures (delegated responsibilities financed through subventions) and intergovernmental transfers to settlement budgets also consume a large amount of districts’ budget.

**Local revenues**

Regional legislation assigned additional unified shares of personal income tax to districts. From 2008, additional shares of federal and regional taxes were assigned under a regional law.\(^{42}\)

- 10% of revenues from the enterprise profits tax due to the regional budget to municipal districts (in 2005);
- 40% of the personal income tax to district budgets and 10% to settlement budgets;
- 90% of the individual entrepreneur income tax was transferred to districts and 10% to settlements;
- Districts also received 2.5% (on the whole, 50% assigned to the regional budget) of the excise tax on ethyl alcohol from raw food material, 50% of the excise tax on alcohol-based products, 100% of the excise taxes on wine and beer, 5% of the excise tax on alcoholic products (except for wines), 50% of the enterprise property tax and 100% of the tax on property inherited or gifted. Other taxes due to districts included 2.5% of revenues from the oil production tax, 100% of the common minerals tax, and 40% of the other minerals tax (however, no minerals were extracted so there were no actual tax revenues).

In 2006, Penza and Perm regions significantly reduced the amount of taxes assigned at uniform sharing rates without any evident prerequisites.\(^{43}\) The Republic of Adygeya also cut the sharing rates for the personal income tax from 50% to 30% (including 20% assigned by the federal law).

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\(^{42}\) *On Intergovernmental Fiscal Relations in Penza Oblast.*

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From 2008 Penza Oblast has increased federal tax sharing rates due to district budgets. The relevant provisions are included in the law *On Intergovernmental Fiscal Relations in Penza Oblast*. It established additional sharing rates for the following taxes:

- Enterprise profits tax at the rate established for its remittance to regions, at 10% rate;
- Personal income tax – at 12% rate;
- Excise tax on ethyl alcohol from food raw material – at 3% rate;
- Excise tax on alcoholic products (except for wines) – at 3% rate;
- Excise tax on wines – at 10% rate;
- Single tax levied under an applicable simplified taxation system for small businesses – at 30% rate;
- Tax levied as a patent fee under an applicable simplified taxation system – at 30% rate;
- Single tax on agricultural enterprises – at 30% rate;
- Enterprise property tax – at 10% rate.

41 This can be formally explained by the centralization of expenditure responsibilities that took place in 2005 (e.g., regarding the social policy). Though centralization occurred a year before, in 2005 it was followed by the social support reform (monetization of privileges) for which expenditures had been underestimated from the very beginning. Thus, regions decided to increase their revenues at the expense of local budgets.
Perm Krai

Perm is a large region (approximately the size of Tunisia or the US state of Florida) on the Western slopes of the Ural Mountains with a population of 2.9 million. Almost 99 percent of its territory is in Europe. It is the least agricultural region in this study, and has historically been an industrial and manufacturing center. It managed to adapt well during the transition to a market economy and the regional economy is dominated by heavy industry, forestry, chemical, oil and fuel industries. Less than 25 percent of the population lives in rural areas and the share of agriculture is 3.7%. The region placed 16th out of 88 regions in terms of GRP per capita. While the Quality of Life index put it in 18th place for 2005, the Democracy and Openness index consistently rated Perm among the top five regions in Russia in terms of pluralism, freedom of expression and political accountability.

Being a remote northern territory, Perm has been a place of exile for both political prisoners and criminals and also victims of religious persecution (e.g. Old Believers). It was also one of the regions which implemented zemstvo reforms from the 1860s and the Stolypin reforms in the early 20th century.

Like the Republic of Adygeya, Perm Krai chose to fully introduce the Law on local self-government in 2006. In Perm, all municipalities are newly formed: deputies were directly elected and heads of municipalities were elected by the deputies in October 2005.

Fiscal issues

a. District level expenditure responsibilities:

The following responsibilities have been delegated to local governments (districts and cities) by regional legislation:

- Social support, social assistance and provision of social services to individual groups of population;
- Subsidies for paying housing and utilities bills;
- Provision of housing certificates, subsidies for buying houses to individual groups of population;
- Setting up administrative commissions and organization of their operation;
- Coordination of gambling business locations and control over gambling business places and activities;
- Organization of commissions on juvenile affairs and rights protection and organization of juvenile activities;
- Preserving, gathering, taking inventory of and using archive documents in the state subdivision of the regional archives.

The following responsibilities were delegated to the local level (districts and cities) in 2007:

- Organization of special medical aid;
- Payments to medical staff of feldsher-midwife stations (heads of feldsher-midwife stations, paramedics, midwives, nurses and visiting nurses) and doctors, paramedics (midwives), nurses of ambulance stations of the municipal health care system in the region;
• Providing preschool, primary, and secondary general education in special correction schools, schools for invalids.

In addition to the above, some further responsibilities in the education sector have been delegated since 2008. As in the other two regions, education is the largest part of budget expenditures in Perm Krai.

**Local revenues**

Municipalities in Perm Krai have full autonomy in deciding how to use any own-source tax revenues, in accordance with the Law. In 2005, Perm Krai assigned municipalities (consolidated districts) 50% of the environmental tax revenues at the uniform rates. Municipalities were also given 100% of revenues from the single tax levied under an applicable simplified taxation system for small businesses, the tax on property transferred by way of inheritance and gift, and the subsoil use regular payments. Personal income tax was assigned to local budgets at the single rate.

At the current time, revenues from the following federal and regional taxes are assigned to districts (and cities) in Perm Krai as follows:

- 100% of the single tax on agricultural enterprises due to Perm Krai;
- 5% of personal income tax.

The above sharing rates are the same for all districts (and cities) in Perm Krai, established by a regional law.

Furthermore, additional shares of revenues from personal income tax due to the region are assigned to districts (and cities) under the Budget Law of Perm Krai. In accordance with the Budget Code, these assignments are made instead of equalization grants and therefore should be viewed as transfers rather than tax revenues; nevertheless, they are reported as personal income tax revenue.

In addition, the following state duties are also assigned to districts (and cities):

- Notarial acts performed by notaries of state notary offices and/or officials of executive bodies authorized to perform notarial acts in accordance with federal and/or regional legislation;
- Cases tried by the constitutional (statutory) court of Perm Krai;
- State registration of interregional, regional and local public associations, branches of public associations and for state registration of amendments to their foundation documents;
- State registration of regional branches of political parties;
- Registration of mass media disseminating materials mostly within the region and production of duplicate copies of the registration certificate;
- Transportation tax – 100% to districts and cities (see Box 1.6 below);
- Corporate (enterprise) property tax – from January 1, 2009, regional laws state that 70% of the corporate property tax (100% of which previously went to the regional budget) would henceforth be transferred to budgets of (districts and cities). The remaining 30% of the tax would continue to be transferred to the regional budget.45

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44 Regional Law, *On The Budgetary Process in Perm Krai*

In both the Republic of Adygeya and Penza Oblast, responsibility for settlement fiscal capacity equalization has been delegated to districts. In Perm Krai, per capita intergovernmental transfers to settlements are not as high as in Penza oblast because settlements receive equalization grants directly from the regional budget.

100% of the land tax and personal property tax goes to settlements in Perm Krai, as specified by the federal Budget Code and the Law.
Annex 7 Survey Results

Table A7. Sample frame of the household and public officials’ surveys
(2007, post-attrition)

<table>
<thead>
<tr>
<th>District Name</th>
<th>Total Respondents</th>
<th>District Status*</th>
<th>Total Settlements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Household</td>
<td>Public Official</td>
<td></td>
</tr>
<tr>
<td>PENZA OBLAST DISTRICTS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Narovchatsky</td>
<td>99</td>
<td>16</td>
<td>Capacity b-ding</td>
</tr>
<tr>
<td>Nikolsky</td>
<td>99</td>
<td>27</td>
<td>Capacity b-ding</td>
</tr>
<tr>
<td>Penzensky</td>
<td>102</td>
<td>18</td>
<td>Capacity b-ding</td>
</tr>
<tr>
<td>Neverkinsky</td>
<td>100</td>
<td>24</td>
<td>Training</td>
</tr>
<tr>
<td>Serdobsky</td>
<td>100</td>
<td>26</td>
<td>Training</td>
</tr>
<tr>
<td>Sovnovobortsky</td>
<td>10</td>
<td>27</td>
<td>Training</td>
</tr>
<tr>
<td>Bashmakovsky</td>
<td>49</td>
<td>24</td>
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</tr>
<tr>
<td>Zametchinsky</td>
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<td>28</td>
<td>Control</td>
</tr>
<tr>
<td>Kamensky</td>
<td>-</td>
<td>19</td>
<td>Control</td>
</tr>
<tr>
<td>Kolyshleisky</td>
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<td>21</td>
<td>Control</td>
</tr>
<tr>
<td>Lopatinsky</td>
<td>-</td>
<td>19</td>
<td>Control</td>
</tr>
<tr>
<td>Tamalinsky</td>
<td>-</td>
<td>27</td>
<td>Control</td>
</tr>
<tr>
<td>Regional Total</td>
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<td>PERM KRAI DISTRICTS</td>
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<td>Capacity b-ding</td>
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<td>Capacity b-ding</td>
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<td>19</td>
<td>Training</td>
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<tr>
<td>Ochiersky</td>
<td>-</td>
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<td>Control</td>
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<tr>
<td>Uinsky</td>
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<td>14</td>
<td>Control</td>
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<td>Regional Total</td>
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<td>ADYGEYA REPUBLIC DISTRICTS</td>
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<td>Capacity b-ding</td>
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<td>Maikopsky</td>
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<td>16</td>
<td>Capacity b-ding</td>
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<td>Giaginski</td>
<td>64</td>
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<td>Training</td>
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<td>Teuchezhsky</td>
<td>68</td>
<td>8</td>
<td>Training</td>
</tr>
<tr>
<td>Takhtamukaisky</td>
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<td>14</td>
<td>Control</td>
</tr>
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<td>Shovgenovsky</td>
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<td>15</td>
<td>Control</td>
</tr>
<tr>
<td>Koshekhabalsky</td>
<td>-</td>
<td>13</td>
<td>Control</td>
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<td>Regional Total</td>
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<td>SUM TOTAL</td>
<td>1658</td>
<td>600</td>
<td>-</td>
</tr>
</tbody>
</table>

*Treatment: training and consulting activities were undertaken; Training: training activities only were undertaken; Control: survey only is undertaken
Annex 8: The Settlement Performance Index

This annex explores the index built to evaluate implementation of decentralization reform in Russian settlements during the period 2006-2007. It covers 109 settlements spread over three regions (Perm Krai, Penza Oblast and the republic of Adygeya) where reform took place in terms of changes in the channel of funding and responsibilities for service provision at the local level. We use a number of indicators under five broad themes which are closely tied with the performance of local government. The primary goal is to have a comprehensive tool that can be used for monitoring and evaluation of governance programs and projects, establishing benchmarks, objectives, targets and goals in the context of future development.

The Settlement Performance Index (SPI) is built on a unique panel dataset at the settlement level which is the outcome of household surveys done in 2006 and 2007. The Settlement Performance Index (SPI) is an aggregation of seven broad thematic areas: (i) Provision of capital intensive services, (ii) Provision of other services, (iii) Accountability, (iv) Accessibility, (v) Participation, (vi) Corruption and (vii) General satisfaction. To keep it simple yet informative, we take un-weighted average of individual survey indicators at the settlement level and then aggregate the individual indicator scores by each thematic group. Based on our indicators, the three regions rank from best to worst: Penza oblast, Perm Krai and Adygeya. The better ranking of the Penza settlements could be attributed to longer experience with settlement level self-governance in this oblast as well as to the better understanding of the population of the constraints faced by settlement level administrations. Detailed ranking shows an interesting mobility pattern in terms of performance for most of the settlements between 2006 and 2007. We find settlements which are closer to the district center performed better.

Figure A9. Overall framework of Settlement Performance Index

![Diagram of Settlement Performance Index](image-url)
SPI Themes

Accountability
A representative government works best when it is closer to people (Stigler, 1957). We measure accountability at the settlement level looking at issues such as whether government officials explain the budgetary spending to people, if they take into consideration citizens’ opinions, etc (see Appendix 1 for more details). Both in Adygeya and Perm, the score on accountability went down from 2006 to 2007 whereas in Penza it improved during the same period of time, which may reflect grater familiarity of the constituency with the officials in the Penza region on one hand and greater familiarity of Penza officials with the job requirements and practices on the other.

Accessibility
The delivery of municipal services becomes more efficient if there is effective communication between the administrative staff and people. We look at a number of survey questions related to citizen’s perspective about local government’s accessibility (listed in Appendix 1). Respondents were asked if it is possible to meet the settlement representatives whenever they needed, also how frequently the meetings with local authorities are arranged. Again, we find that the score on accessibility has improved only in Penza from 2006 to 2007, remaining almost the same in other provinces. This result, in combination with similar results on accountability, may point to a time lag in adaptation of both the government and the governed to the new institutional setting, adjusting the expectations from the actions of their public officials on the one hand, and understanding the opportunities and the constraints associated with the new “rules of the game” on the other.

Participation
We use seven subjective indicators based on the evaluations of respondents to measure participation at the settlement level. These include whether they take part in the elections of the head of the settlement administration, meet to address significant issues (like helping the local school, cleaning the streets, providing security in the streets, protecting the crops, repairing a well, etc.), and whether this participation is viewed by settlement residents as meaningful and important (for the full list of questions see Appendix 1). The score on the participation index has improved for all provinces. The ranking the settlements from highest to lowest improvement is: Adygeya, Perm and Penza. Considering that this was the first year of formal self-governance for Adygeya and Perm, increased popular participation is an encouraging sign, particularly since qualitative tests registered significant skepticism of the population towards the new formats of administration in 2005 and 2006. Equal and higher assessments may indicate the ability of new administrations to overcome initial doubts and self-assessed passivity of the population.

Corruption
In municipalities, an undeveloped political culture characterized by low accountability and legitimacy often encourages corruption to take hold in the local government. Political instability at a higher jurisdictional level also leads to corruption in the local government since people are unsure of their time horizons in office. On the other hand Barry Weingast (2009) expects corruption to be lower in a decentralized setting, provided local governments have increased
control over local revenues as well as of local policies. We consider four subjective indicators of corruption ranging from corruption levels to incidence of bribing to get official work done (see Appendix 1 for more details). Our findings suggest that the perception of corruption slightly increased in Adygeya from 2006 to 2007 whereas in Penza and Perm the level of corruption remained almost the same. More time for observation is needed to detect trends and relate them to such issues as fiscal autonomy and policy independence.

**General satisfaction**
We also take into consideration whether people are satisfied with the overall performance of settlement administration. Respondents were asked to rate the overall efficiency of their local administration on a number of issues, such as whether they live better now, if the improvement in recent past has changed for better, etc. The average score on general satisfaction with the settlement decreased in Adygeya and Perm, but remained almost the same in Penza. Future surveys will show whether the slight decreases are the result of the transition dislocation or the beginning of a trend.

*Figure A10. Thematic scores by region*
List of SPI Indicators

Questions from the household and public official questionnaires that form part of the indices used:

**Index of Capital-Intensive Service Delivery**
- [15.1] How would you evaluate condition of the Housing fund (apartment buildings and private houses) worst to best
- [15.2] How would you evaluate condition of the Communal services worst to best
- [15.4] How would you evaluate condition of the Roads worst to best
- [15.5] How would you evaluate condition of the Law and order. (security level, maintaining citizens’ rights) worst to best

**Index of Other Service Delivery**
- [15.3] How would you evaluate condition of the Public transportation worst to best
- [15.7] How would you evaluate condition of the Cultural institutions and recreational areas worst to best
- [15.8] How would you evaluate condition of the Natural and cultural monuments worst to best
- [15.9] How would you evaluate condition of the Collection, removal and utilization of waste worst to best
- [15.13] How would you evaluate condition of the Maintenance of cemeteries worst to best
- [56] Please evaluate the cleanliness of the streets in your Settlement? Clean/ rather clean/ rather dirty/ dirty
- [57] If we compare with the situation three years ago, have the streets become cleaner, dirtier or remained the same?
- [N69.2] During the last year, improvement of Public conveniences (gardens, park, playing, sport fields, monuments) changed for the better/ stayed without changes/ Changed for the worse

**Index of Accountability**
- [26] Has any member of the local government tried to explain the local settlement budgetary spending? Yes/ No
- [19.1] Do you agree that SETTLEMENT administration takes citizens' problems seriously and takes their opinion into account while solving local problems? Yes/ No
- [50.9] To what extent do you personally trust the head of the settlement administration? Great trust to great distrust

**Index of Accessibility**
- [19.3] Do you agree that it is possible to meet the representative of the SETTLEMENT administration whenever needed? Yes/ No
- [21] How often are the meetings of the local authorities with the local citizens (local town meetings or meetings) held? Are not held or held less than once a year/ Annually/Biannually/Quarterly/Once or more times a month/of necessity
**Index of Participation**

[39] Did you personally take part in the elections of the head of the settlement administration in?
Yes/ No

[N19] In your opinion, during the last year the citizens' role in governance of your SETTLEMENT changed for the better/ stayed without changes/ Changed for the worse

[22] Do you think meetings allow solving important problems of your settlement or they are a simple formality?

[N27] How many people on an average took part in meetings?

[44] Have residents of your SETTLEMENT met to address significant issues like helping the local school, cleaning the streets, providing security in the streets, protecting the crops, repairing a well, etc. for YOUR SETTLEMENT during [1st wave= 2005-2006] [2nd wave= 2006-2007]?
Yes/ No

[45] Have the issues discussed at those meetings been solved? Yes, all issues/ some issues/ No, none of the issues have been solved

[52] If the LOCAL COUNCIL makes a decision about subbotnik (e.g., repairing the cultural center, garbage collection, etc.) would you or members of your family take part in this activity?
Yes/ No

**Index of Corruption**

[32.1] Now a question on the extent of corruption. Please estimate on a five-point scale the level of corruption in your settlement administration from “corruption doesn’t exist” to “it is widespread”

[34] Did you or members of your family make gifts or pay for the officially free of charge services? Yes/ No

[42.5] Sometimes during the election campaigns candidates for the post that is being elected or their representatives (accredited representatives) propose some kind of gifts to the voters in exchange for the voices. Has this ever happened in your settlement during the elections of the settlement leader? Yes/ No

[42.6] Sometimes during the election campaigns candidates for the post that is being elected or their representatives (accredited representatives) propose some kind of gifts to the voters in exchange for the voices. Has this ever happened in your settlement during the elections of the settlement council? Yes/ No

**Index of General satisfaction**

[2] In your opinion, on the whole people in your Settlement live better, worse, or more or less the same now than [1st wave= 3 years ago] [2nd wave= year ago]?

[N3.1] In your opinion, during the last year activity of the administration of your Settlement changed for the better/ stayed without changes/ Changed for the worse

[20] Please rate the overall performance of Settlement administration very bad to very good

[N69.1] During the last year, improvement of Municipal formation in common changed for the better/ stayed without changes/ Changed for the worse

[N3.2] In your opinion, during the last year relationship between administration and people changed for the better/ stayed without changes/ Changed for the worse

[N17.1] During the last year the quality of services given to people by the settlement administration changed for the better/ stayed without changes/ Changed for the worse
Index of Social capital
[43] To what degree do you agree with the opinion that the majority of people can be trusted? agree/ somewhat agree/ somewhat disagree/ disagree
[46.1] To what degree are you in agreement that the majority of people in my Settlement try to help each other from completely agree to completely disagree?
[46.2] To what degree are you in agreement that the majority of residents of MY Settlement don’t care about the appearance of the locality from completely agree to completely disagree?
[46.3] To what degree are you in agreement that the majority of residents of MY Settlement trust each other from completely agree to completely disagree?
[47] From your point of view, in the past [1st wave= 3 years] [2nd wave= 2 years], have people in your Settlement started to trust each other more, less, or nothing has changed?
[49.1] In your opinion, how serious are disagreements between people with different incomes in your settlement? Please estimate on a five-point scale from very insignificant to very serious
[49.2] In your opinion, how serious are disagreements between people with different political views in your settlement? Please estimate on a five-point scale from very insignificant to very serious
[49.3] In your opinion, how serious are disagreements between elderly people and the youth? Please estimate on a five-point scale from very insignificant to very serious
[49.6] In your opinion, how serious are disagreements between people Living in different parts of the settlement? Please estimate on a five-point scale from very insignificant to very serious
[49.7] In your opinion, how serious are disagreements between those who moved here and those who have always lived in your settlement? Please estimate on a five-point scale from very insignificant to very serious
Annex 9: Main Econometric Specifications Used in the Study
This annex explains the methodology used in three multivariate analyses that support the conclusions discussed in the main text. Preference Matching

A. Multivariate analysis is used to determine the extent to which officials’ perceptions of what households want are consistent with what households actually say that they want, based on surveys of officials and of households:

- **Household survey**: Imagine that you were allocating the public budget. What issues would you spend the money on in the first instance?
- **Public Officials Survey**: If the local school receives 500 thousand rubles, on what of the following would the population of your municipality prefer to spend the money?

There are 17 goods/services cited in both surveys. These services fall under the responsibility of local governments. They were chosen based on district and settlement public expenditures in previous years. There is also a match between the list and local and regional responsibilities discussed in Articles 14-15 of Law No. 131.

An index was created measuring the differences between what households want and what public officials think they. This index, which we called preference mismatch, corresponds to the absolute difference between households’ preferences and public officials’ perceptions of households’ preferences (average over 17 priorities).

We have seven main sets of regressors:

- **Public Sector Management variables**: Openness, accountability, professionalism, resources, corruption
- **Social Capital variables**: Trust in government, trust in other households, support for voluntary organizations, collective action, political participation
- **Historic variables**: Serf population, Old Believers population, zemstvo and Stolypin reforms
- **Decentralization variables**: Internal resources, local government expenditure per capita, local revenue mobilization, flexibility, relations with central/regional government
- **Public Official specific variables**: Whether the public official is elected or appointed, whether the public official is at district or settlement level
- **District specific variables**: Wealth, wealth inequality, population, urbanization, whether local elections are held or not

We run two sets of regressions. The first one is at the individual level (public official) and for each good/service. The second one is at the district level and for each good/service.

In the first case, we used a logit specification where the dependent variable is the public official’s response. In that specification households’ preferences (averaged within districts) are used as regressors. The interaction of other independent variables with household preferences is also included in the regression.
where $Y(i,j,k)$ is the $i$-th public official preference estimate for the $j$-th good/service at district $k$, $PSM(k)$ is the public sector management variables at district $k$, $SC(k)$ is the social capital variables at district $k$, $H(k)$ is the historic variables at district $k$, $DC(k)$ is the decentralization variables at district $k$, $PO(j,k)$ is the characteristics of $j$-th official at district $k$, $HH(k)$ is the household specific variables at district $k$, and $HHP(j,k)$ is the household preferences for the $j$-th good/service at district $k$. We use interactions with $HHP(j,k)$ for all regressors (except for the HHP of course).

In the second case we used the absolute difference between what households want and what public officials think they want as our dependent variable. The specification is as follows:

$$\text{abs} = Y(i,j,k) - HHP(j,k)$$

where $\text{abs}$ is the absolute difference between what households want and what public officials think they want for the $j$-th good/service at district $k$, $PSM(k)$ is the public sector management variables at district $k$, $SC(k)$ is the social capital variables at district $k$, $H(k)$ is the historic variables at district $k$, $DC(k)$ is the decentralization variables at district $k$, and $D(k)$ is the district specific variables at district $k$.

Source: Omar Azfar, Tugrul Gurgur, Maria Amelina “What Do Rural Russians Want?” Chapter 2 of the Main Report, see [site]

B. Multivariate analysis of the impact of the reform on administrative transformation

We would like to measure the extent to which the observed improvements in local administration (including the degree of meritocracy, professionalism, competency, openness, and flexibility), can be attributed directly to the reform, as opposed to differences in formal organization (captured by regional dummy variables) and informal practices (which we proxy by public officials’ characteristics). We also control for settlement-level development characteristics which can influence both formal and informal local governance practices. We run regressions specifically on the characteristics of administrative reform and not indices to take advantage of the disaggregated nature of the data using the following specification:

$$y_{ds} = \alpha^\text{reform} + \beta^T g_{ds} + \delta^T s_{ds} + \varepsilon_{ds} + \eta_d$$

(1)

The outcome variables are administrative characteristics. The main variable of interest is the reform dummy, and the controls are: (i) public official characteristics such as age and age squared, education, gender, household size, marital status, new public official dummy, party affiliation dummy, and wealth; (ii) locality characteristics such as average income, diversification of income sources, inequality, and population size; and (iii) geographic characteristics, such as distance to regional capital and an urban locality dummy. Including the full set of controls restricts the sample to only those localities surveyed in the household questionnaire.\(^{46}\)

\(^{46}\) An appendix comparing these settlements with those localities in the public officials survey is available in the larger paper.
Given that the reform is likely to have an uneven impact, using a simple dummy variable (showing whether the public official was surveyed before or after the reform) to measure the impact of the reform (as in equation 1) is problematic, since unobservable differences among respondents could be incorrectly captured as an effect of decentralization.

Instead, we will employ a difference-in-difference approach. We consider settlements in Adygeya and Perm as settlements receiving the decentralization treatment and use settlements in Penza as a control group. Although this assumption may seem unrealistic, the outcomes are variables measuring administrative transformation and, in this respect, Perm and Adygeya stand in stark contrast to Penza whose settlement administrations have had 10 years to stabilize. Since Penza already had local governance, we would expect that Penza would respond less to the reform in the dimension of administrative transformation than Perm and Adygeya. We then difference the pre-reform and post-reform outcomes for all settlements and finally difference this difference for the treatment and control settlements. The main variable of interest is \( \text{reform} \times \text{treatment} \) in Equation 2. The advantage of this strategy is that we can difference out any time trends that may have confounded our results from running the regression in Equation 1. The disadvantage of this method is that it requires that, absent the intervention, both treated and control regions would have trended equally with respect to the outcomes of interest. However, given that the data contains only two points in time, we are unable to test for pre-existing trends. In addition the model implicitly assumes that we can control for all relevant remaining differences between the three provinces with our settlement and district level controls.

\[
y_{ds} = \alpha \times \text{reform} + \gamma \times \text{treatment} + \varepsilon \times \text{reform} \times \text{treatment} + \beta g_{ds} + \delta d_{ds} + \varepsilon_{ds} + \eta_{d} \tag{2}
\]

The robustness of the results was also tested through an OLS equation on pooled data from the political officials, treating the responses to the political officials’ questionnaires purely as repeated cross-sectional data.\(^{47}\) In this case, we include regional fixed effects and position fixed effects (whether district leader, settlement head or settlement specialist) and cluster standard errors by districts.\(^{48}\)

Source: Paul Dower, “Ability to Deliver“, Chapter 3 of the Main Report, see [site].

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\(^{47}\) Ideally, we would like to isolate one particular outcome, such as the settlement head’s visits to households, holding all other factors fixed and see how this changes with the 2006 mandates. Although we can and will control for many regional, district, settlement and individual characteristics, the fact that political officials as well as the structure of government is changing at both the settlement and district level will confound any attempts to isolate a causal effect of decentralization or important variables of interest on administrative transformation either through panel or cross-sectional methods.

\(^{48}\) In the case of binary outcomes, running OLS is equivalent to the linear probability model. There are two reasons why we prefer the linear probability model over the alternative probit model: first, many explanatory variables are binary as well and second clustering at the district level using a probit model would result in a misspecification.
C. Multivariate analysis of fiscal capacity

Finally, we analyze the extent to which the reform, as opposed to other forces, is responsible for improvements in revenues generation. In the first set of regressions, described in equation 1, the outcome variables, \( y \), are revenue per capita and share of own revenue in total revenue, both taken from the Rosstat database and indexed by district \((d)\), settlement \((s)\) and year \((t)\).\(^{49}\) The main variable of interest is the dummy for the reform. The controls consist of geographic characteristics, \( g \), and settlement and public official characteristics, \( p \), both taken from the public official survey, and we include settlement and district specific disturbance terms.\(^{50}\)

\[
y_{dst} = \alpha \cdot \text{reform} + \beta g_{dst} + \delta p_{dst} + \epsilon_{dst} + \eta_d
\]  

(1)

In the second set of regressions, the perceptions of public officials are the outcome variables, \( s \), with the reform and share of own revenue as the main variables of interest.

\[
s_{dst} = \alpha \cdot \text{reform} + \lambda \cdot \text{ownrev} + \gamma \cdot \text{reform} \cdot \text{ownrev} + \beta g_{dst} + \delta p_{dst} + \epsilon_{dst} + \eta_d
\]  

(2)

Due the nature of the reform and data limitations due to missing data, the results may be biased or imprecisely measured because of endogeneity and measurement error.

*Source: Paul Dower, “Fiscal Capacity”, Chapter 4 of the Main Report*

\(^{49}\)There is a slight mismatch in the fiscal year 2006 and the first wave of the PO survey (partially administered in 2005). The objective data has been corrected for regional and yearly differences in inflation using a regional CPI obtained from Rosstat. Attrition will be discussed in Chapter 6. Other missing data issues concern missing settlements in objective data and, notably, missing population data. In order to alleviate the population problem, we use the population data from 2004 as a proxy for population in 2006 and 2007 and then we can make use of a much larger (but still not full) sample.

\(^{50}\)Basic controls used in all regressions are whether or not settlement is in an urban area, distance to district capital (in logs), diversification of production opportunities in settlement, region dummies; settlement controls are settlement population (in logs), average income in settlement, and income inequality in settlement; public official controls are age and age squared of public official, wealth of public official, whether or not public official is married, whether or not public official has had higher education, years living in settlement, position of public official.