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Local Self-Government and Civic Engagement in Rural Russia
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The editors of this volume are deeply grateful to all of our friends and colleagues, who have supported and who continue to support the project for the development of *Local Governance and Civic Engagement in Rural Russia*. We would like to thank Julian Schweitzer for his support of the project while still in its early stages. William Reuben, Julian Schweitzer and Yelena Zotova all made important contributions to the work of two roundtables held in St. Petersburg and Smolensk. Tatyana Vinogradova (St. Petersburg Center *Strategia*) organized the first roundtable in St. Petersburg in a talented and professional fashion. Olga Mikhailina (CAF Russia) expertly coordinated the two subsequent roundtables in Rostov-on-Don and Smolensk.

We would particularly like to thank the numerous participants of the roundtables for their innovative presentations and active participation in discussions. Your comments have strengthened our belief that the Russian village possesses the rich and diverse resources necessary for the success of independent local self-governance.

Alexander Balobanov, Olga Mikhailina and Leah Cohen masterfully edited and formatted the Russian and English versions of the publication.

We are especially grateful to the Ministry of Economic Development and Trade for its energetic and warm support of both the project and this publication. The financial support of the Japanese Government for the project *Local Governance and Civic Engagement in Rural Russia* is gratefully acknowledged.

All errors and omissions are ours.
The birth of local self-governance as a public institution in Russia dates back to the nineteenth century, although some of its elements can be traced even earlier. In Soviet times, however, local self-governance was transformed into a powerless branch of the State.

The rebirth of local self-governance occurred at the beginning of the 1990s with the restructuring of the economy. Under the constitutional reform of 1993, local self-government was declared to be an independent structure in the system of government. The new 1995 federal law *On the General Principles of Organization of Local Self-Governance in the Russian Federation* provided fresh impetus to the development of local government. The law introduced new terminology and concepts pertaining to local self-governance, determined its functions, and established its fiscal foundations.

Local self-government is one of the cornerstones of the constitutional structure of the Russian Federation; it stands closest to the population and provides the most immediate protection of the public interest. Those interests are based on the life of the community and its interaction within a given territory. Local self-governance is an important mechanism for the formation of civil society in Russia, and has a unique place in its development. A true people's government involves members of the local community in the process of public decision-making.

Analysis of the development of local self-governance in Russia during the past decade demonstrates that the most important constitutional right of the population – that of independent problem-solving at the local level – has not yet been realized on a national scale. For a number of years, the Federal government largely ignored the problems of local self-government. This disregard has directly affected the standards of living in both the city and the village over the long term. Russia is now faced with the need to fundamentally restructure its system of local self-government. In order to accomplish this successfully, a reformation of the entire system of public government is needed.

In this regard, the year 2003 marks a turning point. A new draft resolution of the Federal Law *On the General Principles of Organization of Local Self-Governance in the Russian Federation* is now under discussion in the State Duma. The law is based on the division of legal and financial authority between federal and regional power structures and local governments, eliminating the vagueness surrounding these relationships. The main provisions of the draft resolution are related to changes in the principles of territorial organization of local government; only those clauses of the resolution which have proved to be viable in practice will be adopted. At the same time, the law also takes into account the pre-revolutionary experience of Russia in local self-governance.

The reformation of local self-government is closely related to the problem of financing local government activities. Municipal revenues and expenditures must be balanced. The problem of creating an adequate financial base for local government in Russia has always been acute. Lawmakers, scholars, and municipal experts both from Russia and
from abroad have been invited to work on the problem. A great deal of help has also been provided by the World Bank.

The proposed restructuring of local government and the realization of its envisioned powers strives to eliminate existing boundaries between regional and federal structures and the population. Local government in its new form will be close to the people, making local self-governance a reality throughout the Russian Federation. To achieve these goals, it is necessary to train qualified administrative specialists, the kind of specialists whose skills are equal to the scope of reforms. They will, without doubt, receive the support of the Federal Government.

Public effort created the new principles of local self-governance and provided for their implementation as set down in the new draft resolution *On the General Principles of Organization of Local Self-Governance in the Russian Federation*. These issues have been widely discussed in Russian society. Even once adopted, however, the law cannot be put into effect without the active participation of Russian citizens or the involvement of public organizations and federal and regional power structures.

We have a great deal of complicated work to do. However, without viable local self-governance the organization of power in the Russian Federation as a whole, cannot be effective. Moreover, it is precisely on the local level that the potential for popular power exists. Only through full implementation of reform can power be made closer and more available to the population; reform will restore the lost authority of the people that has been discussed at such length over the past few years both in Russia and in the European community.

Vitalii Shipov
Deputy Minister
Ministry of Economic Development and Trade
The Russian Federation
Why Local Self-Governance?
WHY LOCAL SELF-GOVERNANCE?

Our goal in putting this volume together is to start an informed discussion on how to involve Russian villages in shaping their economic and social lives. What are the benefits of such an involvement? How can local self-governance be developed on the ground?

Poverty in rural Russia is deep and pervasive. In many parts of the country, this is also compounded by disempowerment. Many villages continue to get směty (suggested budgets) from district officials; these budgets determine the amount of resources available for all public needs, and direct the exact use of these resources, without any participation from local citizens. Yet, as this volume will show, some rural communities in Russia have developed new ways to mobilize themselves, and have found creative ways to provide for their social and economic needs. These innovative solutions involve citizens, the private sector, civil society, and local governments. The challenge for rural Russia is to make these cases the rule rather than an exciting and heroic exception.

International experience demonstrates that direct and active control of resources by communities allows them to better manage their developmental paths, to decrease corruption among local officials, and to expand opportunities for growth and self-expression. The articles collected here show that the foundation for local participatory decision-making has been established in law. Mechanisms of fiscal allocation have also been partially articulated. However, collective and transparent public decision-making is still required to encourage rural citizens of Russia to become active and responsible owners of their public lives and resources.

Rural Russia has suffered from a complex and sometimes tragic history of coercion and social experimentation. It is a history in which decisions made for rural Russians from above, by landowners and the State, cost them their resources, their dignity, and their lives. Rural Russia has withstood these perils stoically and resourcefully, and has reinvented itself time and time again. Rural Russia knows both the cost of serfdom and the price of freedom.

The goals of effective self-governance are simple. Communities that generate resources should also control them. Control improves villagers’ capacity to decide how to manage their assets for development and how to allocate resources for providing social services. However, it is difficult to bridge the gap between rhetoric and reality. Living and breathing institutions need to be created in the countryside, institutions that rural communities create and recreate themselves. Administrative incentives need to be structured so that regional authorities do not have the power to distort or disregard community decisions and actions.

For rural communities to make well-informed social and economic decisions, the transfer of power and funds must be backed by technical knowledge on the ground. This technical knowledge consists of basic yet vital skills, such as designing viable budgets, participating in budgetary negotiations and discussions with government bodies, designing flexible and appropriate service provision schemes, and planning for future investment and growth. Russian villages need educated and engaged leaders – social entrepreneurs who know how to lead and also how to unite and to listen. Effective self-governance requires an engaged citizenry that is aware of its rights, and has the interest and discipline to see that these rights are respected.
External players like the World Bank can help bring international experience (some presented in this volume) and technical assistance to trigger such institution building. These players should also approach the task with realism and humility. Local solutions might be quite different from the methods that worked in other places. We, at the World Bank, have to be able to listen, learn, and search with our partners, the Government, the regions, and above all the communities, as they determine best how to influence their destiny. We are at the beginning of this journey.

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Social Development Specialist
Europe and Central Asia
The World Bank

Alexandre Marc
Sector Manager
Social Development
Europe and Central Asia
The World Bank
Outline of the Publication
OUTLINE OF THE PUBLICATION

MOTIVATION FOR THE CURRENT PUBLICATION
The materials presented here are the product of a series of three roundtables on local governance and civic engagement in rural Russia initiated by the World Bank. These sessions were held in three cities in different parts of the country – St. Petersburg, Rostov-on-Don, and Smolensk. The discussions provided an overview of the legal, fiscal, and financial framework of rural self-governance, and helped identify innovative experiences of self-mobilization and priorities for more effective development as seen by rural leaders. The best practices identified here will inform the development of a World Bank project sponsored by a grant from the Japan Social Development Fund (JSDF). The project will seek to design channels for effective self-governance in selected villages and municipalities. It is also hoped that this work will be a source of information and inspiration for those formal and informal local leaders who are trying to develop viable institutions for self-governance and civic engagement in the Russian village.

OUTLINE OF THE PUBLICATION
The first three sections of this volume focus on three main areas where self-governance is already beginning to develop. These areas are the legal, fiscal, and financial environments, each of which is important for the future of the Russian village in general and for rural self-governance in particular. Part of the financial section as well as the section on local solutions present examples of effective self-governance currently found in Russia and in other post-Socialist economies. To give a better overview of government priorities and sources of financing in this area, the volume concludes with a list and description of federal programs currently implemented in rural areas.

The publication begins with an overview of the current rural situation. Nikolai Mezhevich examines central social and economic aspects of rural life and the methods of adaptation to the market used by rural citizens today. Next, Lilia Ovcharova and Alina Pishnyak provide a picture of poverty in rural Russia, its causes, and its current dynamics. Liubov Ovchintseva focuses on public service provision and changes in rural access to social services and utilities. She concludes that more effective and accountable local governance is needed to make access to services more universal, maintenance of facilities more consistent, and quality of services more predictable.

The second section opens the discussion of constraints that currently impede the development of effective local governance. Olga Savranskaya provides an overview of the legal framework for local self-governance in the Russian Federation. It is apparent that while local authority is generally recognized, further legislation is needed to define the mechanisms by which these bodies can govern effectively. In the third section, Nataliya Golovanova discusses the fiscal reforms that are necessary to provide local governments the control over revenue generated by expanding the local tax base.

Government revenue and local standards of living are ultimately dependent on the growth of the local economy. The fourth section explores different methods of rural financing that can provide the resources necessary for stimulating that growth. Nina Medvedeva presents one approach to rural financing in her discussion on the development of a rural credit cooperative system. While rural credit cooperatives primarily serve the needs of the small agro-industrial sector, there is an increasing trend toward consumer credit, particularly for social needs. Anatolii Maximov presents
another system of rural financing – a Municipal Fund for Rural Development Support (MFRDS) that serves the population directly by providing small loans primarily for agricultural plot production. Two concluding case studies provide examples of credit cooperative and service development in Russia.

The final section focuses on the need to create an active public dialogue between society and the State, and on the innovative self-governance schemes generated at the local level. Larissa Avrorina briefly introduces the importance of partnerships between citizens, NGOs, and local government to make government more responsive to local needs and to engage citizens in solving local problems. She then discusses the Charities Aid Foundation (CAF) experience in promoting social partnerships. Other case studies depict a number of successful examples of partnerships in Russia and abroad. In Russia, cases include: budgetary training of local officials; civic engagement projects; eco-tourism in environmentally sensitive areas; and community efforts to provide a center for the elderly. International examples are taken from World Bank experience in other post-socialist countries. These include: social investment funds in Moldova, the Ukraine, and Romania that empower communities to identify and solve local problems; and local government efforts in Armenia to attract external resources for rural development. An appendix with information on current federal efforts to promote rural development and a list of related programs is provided in conclusion.

This publication has been compiled for the sake of local governance experts and policymakers, as well as those interested in the current state of affairs in rural local self-government. We hope that the detailed discussion of legal, fiscal, and financial issues, as well as the case studies will provide local practitioners with valuable information and inspiring examples of self-mobilization necessary for realizing their goals.
Socio-Economic Development and the Rural Sphere
RURAL RUSSIA: ECONOMIC ASPECTS OF OVERCOMING THE CRISIS

N. Mezhevich

The deep transformation of the Russian economy - so apparent in urban areas - has affected rural areas at least as forcefully. However, social and economic changes in rural lives and livelihoods have attracted much less attention from researchers, politicians, and civil society at large. The peripheral position of rural post-socialist transformations in the minds and actions of both reformers and society has negatively affected the course of rural reform. At the same time, the consequences of reforms have been more dramatic in the village, as economic and social aspects of household life are more immediately interrelated in rural agricultural communities. This joining of economic and social which characterizes the rural sphere makes adaptation to the market in rural areas different from that of urban areas; a circumstance that was not adequately taken into account when social and economic policies of transition were designed, and, more importantly, implemented. The following paper is a short introduction to the changes in the life and space of rural Russia. We attempt to conceptualize the significance of the crisis in rural terms, and to identify current methods of adaptation. The rural sphere is an important component of Russia that has long demanded its own approach to reform appropriate to its needs and modes of operation.

THE RURAL POPULATION: CHARACTERISTICS OF SIZE AND LOCATION

There have been profound changes in the rural life of Russia over the course of the last century. The process of urbanization that accompanied rapid structural transformation turned the population structure upside down in less than a hundred years. The urban share of the population, which accounted for about 30% in 1900, grew to 70% by the 1980s, while the rural share declined symmetrically from 70% to 30%. However, in comparison to other industrialized nations, Russia continues to have a relatively large share of the population living in rural areas (about 30%). Moreover, the importance of small towns and the recent development of semi-urban settlements are also unique to the Russian rural setting.

Table 1
Dynamics of Urban-Rural Population Ratio in Russia for 100 years, in %

<table>
<thead>
<tr>
<th>Year</th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>1897</td>
<td>14.7</td>
<td>85.3</td>
</tr>
<tr>
<td>1926</td>
<td>17.7</td>
<td>82.3</td>
</tr>
<tr>
<td>1939</td>
<td>33.5</td>
<td>66.5</td>
</tr>
<tr>
<td>1959</td>
<td>52.4</td>
<td>47.6</td>
</tr>
<tr>
<td>1970</td>
<td>62.3</td>
<td>37.7</td>
</tr>
<tr>
<td>1979</td>
<td>69.3</td>
<td>30.7</td>
</tr>
<tr>
<td>1989</td>
<td>73.6</td>
<td>26.4</td>
</tr>
<tr>
<td>2001</td>
<td>72.9</td>
<td>27.1</td>
</tr>
</tbody>
</table>


Since the 1980s the map of populated area in Russia has changed significantly. During this period, the total area inhabited shrank from 7.7 million to 7.0 million square kilometers (a reduction of 5% of the total territory) bringing about new patterns of spatial concentration.1

Table 2
The Rural Population in the Russian Federation, in Thousands

<table>
<thead>
<tr>
<th>Provinces</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2001, as % of 1999</th>
<th>2001, as % of 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>RF, total</td>
<td>38,975</td>
<td>39,403</td>
<td>39,162</td>
<td>99.4</td>
<td>99.4</td>
</tr>
<tr>
<td>Central</td>
<td>8,369</td>
<td>7,832</td>
<td>7,733</td>
<td>97.6</td>
<td>98.7</td>
</tr>
<tr>
<td>North-West</td>
<td>2,725</td>
<td>2,633</td>
<td>2,608</td>
<td>98.4</td>
<td>99.1</td>
</tr>
<tr>
<td>South</td>
<td>8,271</td>
<td>9,194</td>
<td>9,207</td>
<td>100.8</td>
<td>100.1</td>
</tr>
<tr>
<td>Volga Region</td>
<td>9,294</td>
<td>9,355</td>
<td>9,297</td>
<td>100.7</td>
<td>99.4</td>
</tr>
<tr>
<td>Ural</td>
<td>2,480</td>
<td>2,517</td>
<td>2,501</td>
<td>99.1</td>
<td>99.4</td>
</tr>
<tr>
<td>Siberia</td>
<td>5,916</td>
<td>6,143</td>
<td>6,107</td>
<td>99.0</td>
<td>99.4</td>
</tr>
<tr>
<td>Far East</td>
<td>1,920</td>
<td>1,729</td>
<td>1,709</td>
<td>97.7</td>
<td>98.8</td>
</tr>
</tbody>
</table>


DEMOGRAPHIC CHANGE IN TRANSITION

The transition to a market economy has initiated a number of complex demographic processes in the countryside. Statistics show a small increase in the rural population from 1989 to 2001 of 0.16 million persons (by 0.5%). Two factors contribute to this increase: 1) the influx of migrants and refugees from the former Soviet Republics, and 2) the restoration of rural status to worker’s semi-urban settlements (rabochie pos’elki gorodskogo tipa). Migration has led to an increase in the rural workforce by over 400 thousand or an increase in the share of rural labor from 51.5% to 55.2%. This process has the advantages of rehabilitating rural labor potential, and of softening the effects of poverty in Russia, as the rural population is able to support itself through small-scale agricultural production.3

At the same time, rural population growth rates are negative, as death rates have exceeded birth rates every year for the past decade. Depopulation of the countryside currently occurs in 69 subjects of the Russian Federation. The number of newborns per 1000 inhabitants has decreased during the past ten years by almost 40% for Russia as a whole, while in rural areas it has decreased by 60%. The rural population also continues to age, for although rural areas have traditionally had higher birth rates than their urban counterparts, death rates are typically higher as well. The number of deceased per 1000 rural inhabitants has grown to 17%, as opposed to 14.7% in urban areas.

SPATIAL CHANGE IN TRANSITION

Transition in Russia has been associated with the concentration of rural communities around cities, and stronger seasonal migration between city and village. The ‘clusters’ of cities intensify these contrasts, both drawing the rural population out of sparsely populated regions and filling up the countryside with new dachas and garbage dumps. The marginalization of habitable land proceeds. The mixing of peoples and ways of life has created new and poorly understood forms of living in rural settlements, unique from other developed countries – the transfer of masses to the “cities” has not resulted in urbanization of the country in a literal sense.4

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2 Data is taken from the preliminary results of the 2002 population census reported by Ekonomika i Zhizn in spring, 2003. Figures are not official and are not confirmed by the State Statistics Committee.

3 Kosmarskii (2002).

Under the Soviet Union, the spatial development of Russia was controlled by the State. Today, the growth of settlements occurs naturally, leading to qualitative changes in the social and economic parameters of life over the last 10 to 12 years. The polarization of space has led to new geographical and economic tendencies, as cities become increasingly developed and rural areas fall further behind. The growing contrast between rural and urban is key to conceptualizing life and change in the rural sphere.

Spatial differences are also important due to the Locus nascendi, or place of birth, factor, which Jacob Levy Moreno describes as the creative point for objects and individuals. In reference to the rural economy, this factor leads to the development of territorial ties among the population. Stable populations care more about the future of their communities, and are more interested in investing time and resources into community development. Rural life is also unique in that social and economic activities are intertwined. Households in many parts of Russia produce primarily to satisfy their own needs through small-scale agricultural production. Sustainable rural development does not involve the rapid accumulation of capital assets, as in urban areas. Instead, the concentration of physical capital (equipment, roads) and human capital (health, knowledge, and skills) occurs gradually over time, and is directly connected to natural resource endowments such as land fertility.

ECONOMIC AND SOCIAL ADAPTATION TO THE MARKET ECONOMY IN RURAL AREAS

The adaptation of the rural sector to the market economy has multiple aspects - some positive some negative. Many of these processes are complex, and difficult to characterize as conditions continue to fluctuate. According to A.G. Zdravomyslov:

the position of modern Russian society turned out to be shifted, the perspectives – vague… That is why it is not possible to unambiguously answer the question, what is the gain or interest of this or that individual, or even broader – this or that social group.⁵

In most rural areas, the population is unable to improve, or even to maintain its standard of living under the current economic circumstances. The lack of resources available to rural households hinders mobility and creates social tension; isolating these households in impoverished and remote areas. Given these limitations, we attempt to present four main trends of adaptation observed in rural areas.

SPATIAL ADAPTATION

The regions are currently undergoing a new process of self-identification. As used here, the term denotes the qualitative reappraisal of features of spatial existence. This process is reflected in two divergent tendencies. The first pattern is based on land fertility. The fertile grain-growing regions of Chernozem and Kuban possess greater resources for adapting to the market. These areas have, by Russian standards, a wealthy rural population and show a high level of socio-economic stability. Those areas that are not located in fertile agricultural zones have been less fortunate. In the Non-Chernozem zone, Ural, and Siberia the rural economy has moved from one engaged in socialist forms of interregional trade to one that is subsistence-oriented and does not typically export to other regions.

---

⁵ When speaking of rural areas, we mean the territory located beyond the bounds of urban settlements, where economic activities common to that area are carried out. The rural population subsequently refers to the residents of these areas.

The second trend deals with proximity to urban centers and is illustrated by the rapid growth of the village. The proximity of the village to urban markets has led to the rapid growth of agriculture in these areas. In geographical or spatial terms, high levels of agricultural production are observed in densely populated areas. This trend differs from Western countries, where proximity to urban centers does not typically drive agricultural development. The exceptions to this pattern among developed countries are Canada and Australia, where urban growth has occurred in areas of very fertile land. However, the settlement of these areas was driven by the level of land fertility; meaning that settlements grew as inhabitants sought to settle on productive land. In this instance, population density did not determine changes in agriculture.

In the Russian case, rural areas located at greater distances from big cities have experienced deeper social and economic collapse. Here, as exemplified in the Non-Chernozem zone, we are witnessing a return to the subsistence economy on a scale not seen in Russia since the harshest years of the Soviet era.

**Structural Adaptation: The Agricultural Sector**

Changes in the agricultural sector reflect the structural adaptation of the rural economy to the market. At the end of the Soviet period, Russia had a developed and highly centralized agro-industrial sector in which the State controlled the allocation of inputs and delivery of farm outputs. The goal of the agricultural transition was to effect the successful transformation of the Soviet system to a private market economy based on independent farming. With this goal in mind, the Soviet agro-industrial complex was privatized and broken into individual, uncoordinated components. The government hoped that the invisible hand of the market would promote any further restructuring that was needed. This failed to occur. Agricultural production declined dramatically, and the crisis of the rural economy ensued.

The internal causes of rural economic decline were aggravated by external conditions in the world food economy. Demand for Russian agricultural goods fell, as lower-priced international goods flooded the domestic market. Lower prices in the international market have been achieved as the result of government subsidization of agriculture. Subsidies are used to improve productivity and to preserve social and political stability in the countryside. In Russia, however, government subsidies are not spent effectively, and do not lead to increased productivity.

After more than a decade of reform, the current farm sector has not undergone substantial restructuring. Commercialization of the sector is still necessary for growth. This requires increases in individual initiative, stability in production, development of market infrastructure, and improvement of the agro-industrial terms of trade. Experts predict that the passage of the Federal law permitting the sale of agricultural land will lead to accelerated agricultural development and improvement of the rural economy. However, agricultural and economic growth cannot be achieved through legislation alone. The agricultural sector also requires an inflow of investment. Inefficient government policy hinders external investment in agriculture by fostering a situation in which unproductive farms maintain high levels of debt - a circumstance that discourages private investment.

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7 Interestingly, “ruralization” (urbanization of rural areas) has been overlooked. This process occurs in Europe and the US where 46% of the population resides today in suburbs, 31% - in cities, and 23% - in rural areas. In Russia, the process of pseudourbanization is developing, i.e. people moving to urban centers to find work (urbanization in the classical sense). However, statistics also show that urbanization is occurring in rural areas i.e. ruralization; as people increasingly settle in rural centers, leading to their growth.

8 Ioffe and Nefedova (2001).
ADMINISTRATIVE ADAPTATION AND CIVIL REFORM: CIVIL SOCIETY AND LOCAL GOVERNANCE

Civil and administrative reform at the local level illustrates initial attempts to adapt to the new circumstances of the market economy. The creation of civil society and effective local self-governance is increasingly identified as important for successful rural development. The Constitution of the Russian Federation, passed in 1993, recognizes local government as a basis for democratic power, and allows for the separation of local self-government from the central authority of the State. This turned out to be both good and bad; it reduced the ability of the State to interfere at the local level, but also led to a reduction in local budgetary resources.

More specifically, rural local self-government must service large and often sparsely populated areas and support social and economic activities inside these larger jurisdictions. At the present time, local governments are not equipped with the tools necessary to fulfill their economic and social responsibilities to the population. The municipal revolution remains incomplete. Local democracy today is largely confined to local elections, which often do not meet even minimal democratic standards. In 2000, the President was empowered to dismiss elected local officials, in the event that they violated either federal or regional law. This act contradicts the European Charter of Local Self-Government, which Russia joined in 1996, and testifies to the lack of power at the local level.

The federal and regional authorities are not interested in sharing power with local governments. For this reason, municipal budgets are still highly dependent on federal and regional budgetary transfers, and most lack control over local revenue generation i.e. local taxes. Local governments also lack the resources to provide social services, in spite of the fact that all social infrastructure should have been transferred from former socialist enterprises to municipal ownership. The unfunded mandates that are handed down to local levels often result in no provision of services whatsoever, as almost 95 percent of municipalities are unprofitable (the majority of which are rural).

PSYCHOLOGICAL ADAPTATION

The sudden transition to a market economy had vast psychological impacts on the population. Adaptation to new circumstances has been difficult for much of the rural population, and has reinforced the tendency to remain within the collective. Subsequently, most collective farms underwent little restructuring, changing only in name to joint-stock companies. This pattern is in keeping with the historical tendency of rural Russia to work collectively. The Soviet period reinforced this tendency both organizationally on the farm, and ideologically in the rural mentality.

The new individual, entrepreneurial atmosphere of the market economy requires substantial psychological adaptation for the rural population. The Government has provided no support to the population in overcoming these difficulties. Instead, the Government has been more concerned in single-mindedly effecting the structural changes deemed necessary for longer-term growth. The analytical bulletin of the Federation Council stated in 1999:

The professional orientations of the younger generations, typical for the present stage of macroeconomic transformation, support the assumption that the outflow of the population from rural areas will not only be maintained, but will grow stronger... The decline in the rural population and the simultaneous increase in available agricultural land will create the conditions necessary for the import of foreign agricultural labor.⁹

As the result of different experiences, the ideological and psychological perceptions of transition differ markedly in the village and in the city. These differences are reflected in a survey on the perception of gain versus loss as a result of reform. As Table 3 shows, the number of those who considered themselves to have gained from the reforms is two times higher in urban centers than in villages. On the positive side, the number of rural respondents reported to have lost from reforms declined between 1996 and 2001, showing that rural areas are beginning to adapt to new circumstances.

Table 3
Gain versus Loss from Reform According to Settlement Type, in %

<table>
<thead>
<tr>
<th>For the years of reform</th>
<th>Large City</th>
<th>Regional center</th>
<th>District Center</th>
<th>Village</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gained</td>
<td>15.8</td>
<td>19.1</td>
<td>6.5</td>
<td>14.1</td>
</tr>
<tr>
<td>Neither gained nor lost</td>
<td>31.0</td>
<td>26.2</td>
<td>23.3</td>
<td>26.8</td>
</tr>
<tr>
<td>Lost</td>
<td>38.0</td>
<td>33.9</td>
<td>59.0</td>
<td>39.1</td>
</tr>
<tr>
<td>Difficult to say</td>
<td>15.2</td>
<td>20.8</td>
<td>11.2</td>
<td>20.0</td>
</tr>
</tbody>
</table>

Source: RAN Institute of Complex Social Studies, 2002.

RURAL PERSPECTIVES
The situation in the village is poorly understood and appears disturbingly critical in some regions. While rural areas remain in flux, there have been multiple areas in which adaptation has been taking place. First, there has been a concrete process of spatial reconfiguration according to levels of land fertility and distance from urban centers. The other three paths of adaptation, singled out in this paper, have been initiated but still remain incomplete. First, structural adaptation of the agricultural sector requires further commercialization and investment. Second, administrative adaptation and civil reform require further decentralization of power and greater fiscal independence at the local level. Third, psychological change occurs more slowly and requires state involvement.

The depth of current poverty in rural areas impedes successful market-oriented transformation of the rural economy. The chief labor economist of the Russian Scientific Research Institute for Agricultural Economics Dr. Pankov notes:

Indeed, how can we discuss the adaptation of labor, if the incomes of rural inhabitants are 28% lower than the minimum standard of living and almost six times lower than they were in 1990? Wages in rural areas are the lowest in the economy. The gap between agricultural and industrial wages has increased 3.2 times. According to approximate calculations in 2000, the share of poor in the rural population, according to a minimum consumer basket, had increased to 70% (compared to 55% in urban areas), and according to money incomes - to 80% (compared to 58% in urban areas). The cost of labor in the agricultural sector is 65% of the living wage of the able-bodied population.¹⁰

Overall, the transformation of rural economic, social, and civic lives has been started.

¹⁰Pankov (2002).
with good intentions. However, more must be done. Russia needs a coherent national strategy of rural development to address problems of poverty and social decline. The road ahead will be difficult. Agrarian reform in Russia has always been complicated, from Stolypin through Soviet times. The social, economic, and political position of the Russian village has also differed from urban areas. The unique nature of rural life must be taken into account if further efforts at development are to succeed. The work to revive rural Russia has just begun.
REFERENCES

RURAL POVERTY IN RUSSIA

L. Ovcharova and A. Pishnyak

Rural poverty in Russia is extremely acute. The rural poor are at a much greater risk of falling below the poverty line than their urban counterparts because poverty in rural areas is considerably deeper. What processes have contributed to the current situation in the Russian countryside? What factors lie at the root of rural poverty? To answer these questions, it is necessary to begin by addressing the events that have occurred in Russia over the last decade.

INCOME DYNAMICS OF THE RUSSIAN POPULATION

During the 1990s, the combination of the reduction in income and the rise in income inequality led to an increase in the proportion of poor in the population. The myth prevalent during the Soviet period maintained that poverty did not exist in the Soviet Union. Today’s research has disproved this claim, showing that the problem was instead carefully masked. A gap has always existed between the levels of rural and urban incomes. Recent research estimates that in 1985 16% of workers and clerks earned incomes below the basic standard of living, while as much as 39% of agricultural employees fell into this category.¹¹

Contrary to popular belief, the general decline in income did not begin with the rise of prices in April 1991. In reality, the process began before the start of market reforms. The subsequent liberalization of prices in 1992 created additional downward pressure on income. From 1993 until the Ruble crisis of August 1998, trends began to reverse as money income rose. However, the sharp jump in consumer prices that followed the crisis cancelled any gains, leading to more declines in actual money income (Table 1).

<table>
<thead>
<tr>
<th>Table 1</th>
</tr>
</thead>
</table>

Dynamics of Actual Money Income and Actual Wages of the Population of Russia in 1991-2001, as % of 1991

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual money income</td>
<td>100</td>
<td>43.7</td>
<td>42.5</td>
<td>55.4</td>
<td>49.7</td>
<td>50.8</td>
<td>48.2</td>
<td>40.7</td>
<td>45.4</td>
<td>48.3</td>
<td>41.0</td>
</tr>
<tr>
<td>Actual wages</td>
<td>100</td>
<td>51.4</td>
<td>48.0</td>
<td>37.7</td>
<td>34.0</td>
<td>36.5</td>
<td>40.5</td>
<td>30.0</td>
<td>30.5</td>
<td>35.3</td>
<td>34.8</td>
</tr>
</tbody>
</table>


Today, only the most optimistic figures estimate that actual money income has reached pre-1998 crisis levels – a level approximately 75% of 1991 averages. Statistics on the reduction in actual wages are even more discouraging. As a result, more than 30% of the population earns an income that is below the minimum standard of living. Approximately 10% of the population currently lives in abject poverty, lacking the ability to purchase even the cheapest foodstuffs.

Chapter 1: Socio-Economic Development and the Rural Sphere

Income inequality in Russia also increased during the transition period. Analysis of income distribution by quintile illustrates a growing concentration of resources in the highest income group and, conversely, an almost twofold reduction in income among the lowest group (Table 2). Thus, in 2001 the income of the fifth quintile equaled almost half of all money income for the population, and the income for the first quintile was less than 6%.

Table 2
Distribution of Total Money Income by Population Quintile (1992-2001), in %

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Income, Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1st Quintile (with Lowest Income)</td>
<td>11.9</td>
<td>6.0</td>
<td>5.8</td>
<td>5.3</td>
<td>5.5</td>
<td>6.2</td>
<td>5.9</td>
<td>6.0</td>
<td>6.1</td>
<td>6.0</td>
<td>5.9</td>
</tr>
<tr>
<td>2nd Quintile</td>
<td>15.8</td>
<td>11.6</td>
<td>11.1</td>
<td>10.2</td>
<td>10.2</td>
<td>10.7</td>
<td>10.2</td>
<td>10.4</td>
<td>10.4</td>
<td>10.4</td>
<td>10.4</td>
</tr>
<tr>
<td>3rd Quintile</td>
<td>18.8</td>
<td>17.6</td>
<td>16.7</td>
<td>15.2</td>
<td>15.0</td>
<td>15.1</td>
<td>14.8</td>
<td>14.8</td>
<td>14.7</td>
<td>14.8</td>
<td>15.0</td>
</tr>
<tr>
<td>4th Quintile</td>
<td>22.8</td>
<td>26.5</td>
<td>24.8</td>
<td>23.0</td>
<td>22.4</td>
<td>21.6</td>
<td>21.6</td>
<td>21.2</td>
<td>20.9</td>
<td>21.2</td>
<td>21.7</td>
</tr>
<tr>
<td>5th Quintile (with Largest Income)</td>
<td>30.7</td>
<td>38.3</td>
<td>41.6</td>
<td>46.3</td>
<td>46.9</td>
<td>46.4</td>
<td>47.5</td>
<td>47.6</td>
<td>47.9</td>
<td>47.6</td>
<td>47.0</td>
</tr>
</tbody>
</table>


Changes have also occurred in the structure of income. New categories of income have been created due to the legalization of business activities and the establishment of property rights. From 1990 to 2001, income from business increased more than threefold (if in 1990 they were only 3.7% of the population income, by 1996 they increased up to 13%), while income from property more than doubled. Despite these increases, wages continue to provide the main source of money income, accounting for almost 65% of total income in 2001. The combination of the reduction in actual incomes and the increase in income inequality has resulted in a greater number of poor. For more information on the methods used for measuring poverty, please refer to the appendix at the end of the article.

Describing Rural Poverty
The situation in rural areas is even more dramatic than for Russia as a whole. Recent budget figures estimate that 49.3% of the Russian population was considered to be poor in 2001. Approximately 43.5% of the urban population was poor, while 65.1% of the rural population fell into this category. These figures illustrate the fact that rural areas suffer disproportionately from poverty. Calculating poverty on the basis of available household resources (as opposed to money income only) leads to a slightly different outcome,

---

12 For more information on the definition of poverty and methods of calculation, please refer to the appendix at the back.
although the basic picture remains the same. According to this method, 40.0% of the total population was poor. This figure included 37.0% of the population in urban areas, and 48.1% in rural areas (Table 3). In comparison to 2000, the number of urban poor in 2001 decreased by 22.4% while the number of rural poor declined by only 15.3%. Also in 2000 the deficit between monthly per capita money income and the minimum standard of living in urban areas was approximately 394 Rubles, while in rural areas it was almost 100 Rubles higher at 477 Rubles.\textsuperscript{13} Using the index of available resources produces a deficit of 356 Rubles and 380 Rubles respectively. In other words, the deficit of rural money resources exceeds urban levels by 21% and the deficit of available resources does so by 7%. These figures serve to further illustrate the depth of rural poverty. The face of poverty in Russia as a whole is dominated by children. Research also shows the increasing feminization of poverty as a disproportionate number of women fall victim to destitution.

\textbf{Table 3}
\textbf{Poor as a Share of the Population Using Household Budget Estimates (1999-2001), in \% of Total Population}

\begin{tabular}{|l|c|c|c|}
\hline
 & 1999 & 2000 & 2001 \\
\hline
On the basis of income: & & & \\
As a whole in Russia & 47.9 & 59.3 & 49.3 \\
In urban areas & 41.7 & 54.3 & 43.5 \\
In rural areas & 65.0 & 73.1 & 65.1 \\
\hline
On the basis of available resources: & & & \\
As a whole in Russia & 37.8 & 50.2 & 40.0 \\
In urban areas & 34.6 & 47.7 & 37.0 \\
In rural areas & 46.7 & 56.8 & 48.1 \\
\hline
\end{tabular}


In addition to wage declines for Russia as a whole, statistics show that the last ten years have also seen a decline in the level of agricultural wages relative to other sectors. Since a large proportion of the rural population is employed in agriculture, sector wages are indicative of wage levels for much of the populace. In 1990, average wages in the agricultural sector were 95\% that of the national average.

In 1995, wage levels for agricultural workers had declined to 50\% of the national total and by 2001 accounted for just 40\% (Table 4).

\textsuperscript{13} The deficit of money incomes is defined as the sum of money resources necessary to achieve a living wage.
Chapter 1: Socio-Economic Development and the Rural Sphere

Table 4
Wages in the Agricultural Sector (1990-2001)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages in agricultural sector, in % of country average</td>
<td>95</td>
<td>50</td>
<td>48</td>
<td>46</td>
<td>45</td>
<td>41</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Share of agricultural employees with wages lower than living wage, in % of total agricultural employees</td>
<td>-</td>
<td>80</td>
<td>70</td>
<td>66</td>
<td>-</td>
<td>82</td>
<td>85</td>
<td>81</td>
</tr>
</tbody>
</table>

Source: Calculated using data from Goskomstat (State Statistics Committee), 2002.

It is important to note that at the end of the 1980s the welfare of agricultural employees was considerably increased through large state transfers to the agricultural sector, bringing agricultural indicators closer to country averages. The abrupt end of state policies of income redistribution and equalization between different sectors of the Russian economy has led to a deep crisis within the agricultural sector as a whole. Lack of alternative employment opportunities in rural areas and lack of budgetary funding for social services such as education and healthcare have put additional pressure on farms to continue providing a basic level of social security in the countryside. Today, more than 80% of agricultural employees receive wages below the minimum standard of living, while only 26.4% of rural inhabitants receive transfers and subsidies from the government. The most prevalent types of transfers include housing payments (granted to 12.5% of rural inhabitants) and purchase of foodstuffs (granted to 6.6% of rural inhabitants) (Table 5). The actual level of money transfers to rural inhabitants is even lower, as a portion of payments is usually made in-kind. Even allowing for in-kind payments, the wage level in 1999 for the lowest decile of those engaged in agricultural activity totaled only 8% of the minimum working wage – an amount even lower than minimum unemployment benefits.

Table 5
Distribution of Transfers and Subsidies, in 2000

<table>
<thead>
<tr>
<th>Recipients of Grants and Benefits, % of Total Families</th>
<th>Amount of Grant per Recipient, in Rubles</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>City</td>
</tr>
<tr>
<td>Total</td>
<td>41.5</td>
</tr>
<tr>
<td>For foodstuffs</td>
<td>4.9</td>
</tr>
<tr>
<td>For transport expenses</td>
<td>25.6</td>
</tr>
<tr>
<td>For housing payments</td>
<td>22.7</td>
</tr>
<tr>
<td>Holiday premiums</td>
<td>1.5</td>
</tr>
<tr>
<td>For medical services</td>
<td>1.3</td>
</tr>
<tr>
<td>For nursery payments</td>
<td>3.8</td>
</tr>
<tr>
<td>For purchases of goods at reduced prices</td>
<td>0.1</td>
</tr>
<tr>
<td>Gifts from enterprises</td>
<td>3.3</td>
</tr>
<tr>
<td>Other</td>
<td>5.2</td>
</tr>
</tbody>
</table>

Source: Calculated using data from Income, Expenditures and Household Consumption, Goskomstat (State Statistics Committee), 2000.
The low level of wages within agriculture leads to high wage inequality between agriculture (and rural areas) and other branches of the economy. Agricultural wages differ from other sector wages even more than in the banking sector! In 2001, wage inequality between agriculture and other sectors of the economy equaled 48.6 (Figure 1), while in 1999 it did not exceed 31.6, and in 1997 it did not exceed 24.4.\textsuperscript{14}

\textbf{Figure 1: Average Wage Inequality in the Economy, in 2001 as a Factor of Funds}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure1.png}
\caption{Average Wage Inequality in the Economy, in 2001 as a Factor of Funds}
\end{figure}


Moreover, agricultural wages are subject to a high level of arrears. By the beginning of 2001, 283\% of total monthly wages owed by agricultural enterprises were in arrears. A startling 40\% of agricultural employees received lower wages or received nothing at all. Despite these negative trends, employment in agriculture over the last decade has declined more slowly than in other branches of the economy. One reason may be the lack of other employment opportunities within rural areas, and the obstacles to small business development.\textsuperscript{15} At the same time, farm managers have also not been eager to reduce employment as agricultural production has fallen. In spite of these factors, the level of agricultural unemployment did continue to increase until 1998. From 1992 to 1998 the share of unemployed in rural areas increased by 3.6 times (from 3.7\% in 1992 to 13.5\% in 1998). In contrast to 1990, the number of people employed in agriculture by 2001 had declined 18.4\% (Table 6).

\textsuperscript{14} The factor of funds is defined as the calculated wage ratio for the 10\% of employees with the highest wages and the 10\% of employees with the lowest wages.

\textsuperscript{15} The age structure (large share of elderly) often hinders changes in occupation and place of residence in rural areas. An estimated 49\% of rural inhabitants are over 40.
Table 6

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of economic activity</td>
<td>65.6</td>
<td>59.8</td>
<td>58.6</td>
<td>56.4</td>
<td>55.4</td>
<td>63.5</td>
<td>63.1</td>
<td>60.4</td>
</tr>
<tr>
<td>Employment rate</td>
<td>63.2</td>
<td>54.8</td>
<td>53.4</td>
<td>49.4</td>
<td>47.9</td>
<td>55.6</td>
<td>56.5</td>
<td>54.0</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>3.7</td>
<td>8.4</td>
<td>8.9</td>
<td>12.3</td>
<td>13.5</td>
<td>12.5</td>
<td>10.4</td>
<td>10.7</td>
</tr>
<tr>
<td>Number of employed, in % of 1990</td>
<td>103.8</td>
<td>100.2</td>
<td>92.2</td>
<td>88.3</td>
<td>89.7</td>
<td>87.3</td>
<td>86.0</td>
<td>81.6</td>
</tr>
</tbody>
</table>

Source: Calculated using data from Obzor Zanyatosti v Rossii, 2002 and Goskomstat (State Statistics Committee), 1999.

The dire situation compelled rural inhabitants to search for additional sources of income. Private production on small plots of land offered the most popular solution, as it provided income through money and food for household consumption. In 1999, food from household production composed almost 24.7% of available household resources, a factor that reduced the poverty risk in rural areas by 10%.16 In comparison, only 5.2% of urban income was derived from household production (Table 7).

The large proportion of household income derived from agricultural production in rural areas makes calculation of income for these households more difficult as it can lead to underreporting. According to data by the Russian Longitudinal Monitoring Survey (RLMS), only 46.2% of income for rural households was recorded, while for urban households this figure was almost 70%.17 Only 24.3% of income for rural households in the highest decile was reported, while 59.5% of income was reported for urban households in this category.

Table 7
Structure of Available Household Resources (1999), in %

<table>
<thead>
<tr>
<th>Available Resources</th>
<th>Urban Families</th>
<th>Rural Families</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Money incomes</td>
<td>89.8</td>
<td>71.9</td>
</tr>
<tr>
<td>Natural entries of foodstuffs</td>
<td>5.2</td>
<td>24.7</td>
</tr>
<tr>
<td>Granted in-kind, grants and benefits</td>
<td>1.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Attracted resources and spent savings</td>
<td>3.4</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: Calculated using data from Goskomstat (State Statistics Committee), 1999.

In spite of the benefits of household production, rural households continue to spend an even larger share of resources - about 38% - on the purchase of additional foodstuffs. In all, rural households spent more than 63% of total household income on food items in 2000. While urban households spent more on the purchase of foodstuffs, the total income spent on food was almost 15% less than for rural households. There is

17 For more information on RLMS and poverty calculations, please see the appendix at the back.
also a considerable difference in expenditures on services between rural and urban inhabitants. In 2000, rural families spent almost half as much on these items as their urban counterparts (Table 8).

Table 8  
Structure of Expenses for End Consumption, in 2000 as %

<table>
<thead>
<tr>
<th>Expenses for End Consumption</th>
<th>Urban Families</th>
<th>Rural Families</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Purchase of foodstuffs</td>
<td>43.3</td>
<td>37.9</td>
</tr>
<tr>
<td>Natural entries of foodstuffs</td>
<td>5.5</td>
<td>25.4</td>
</tr>
<tr>
<td>Non-food goods</td>
<td>31.8</td>
<td>25.0</td>
</tr>
<tr>
<td>Services</td>
<td>13.3</td>
<td>7.9</td>
</tr>
<tr>
<td>Medical and health services</td>
<td>1.8</td>
<td>0.4</td>
</tr>
<tr>
<td>Passenger transport services</td>
<td>2.6</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Source: Moscow Carnegie Center, forthcoming.

In classifying households according to income category, the majority of rural inhabitants fall somewhere between the middle and lower classes, here referred to as lower-middle class.18 Households are categorized on the basis of three criteria: material status, vocation, and self-identification. Attempts to classify households are made on the basis of each separate criteria, and on the basis of these criteria combined. Each income category - middle, lower-middle and lower - is characterized according to certain values of the above factors. On the basis of these methods, 10% of the rural population is considered to be middle class, 77% is considered to be lower-middle class, and 13% fall into lower class (Table 9).

Table 9  
Social Stratification Based on Combined Estimation of Factors, in 2000 as % of Total Households

<table>
<thead>
<tr>
<th>Type of Settlement</th>
<th>Middle Class</th>
<th>Lower-Middle Class</th>
<th>Lower Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional centers, including large cities</td>
<td>30</td>
<td>63</td>
<td>7</td>
</tr>
<tr>
<td>Regional centers and towns</td>
<td>12</td>
<td>73</td>
<td>15</td>
</tr>
<tr>
<td>Rural and semi-urban villages</td>
<td>10</td>
<td>77</td>
<td>13</td>
</tr>
</tbody>
</table>


18 Based on the results of Economic and Social Strategies of the Middle Class, conducted by the Moscow Carnegie Center.
The majority of rural inhabitants identify themselves as lower-middle class and assess their material status as that of lower-middle class as well (41% and 51% respectively). If classified by education and training most rural inhabitants (66%) fall into the lower class.19 However, according to this criterion, the majority of the population in regional centers and in district centers and small towns would belong to the lower class as well (Table 10-12).

### Table 10
Social Stratification Based on Material Status, in 2000 as % of Total Households

<table>
<thead>
<tr>
<th>Type of Settlement</th>
<th>Middle Class</th>
<th>Lower-Middle Class</th>
<th>Lower Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large cities</td>
<td>48</td>
<td>40</td>
<td>12</td>
</tr>
<tr>
<td>Regional centers</td>
<td>23</td>
<td>49</td>
<td>28</td>
</tr>
<tr>
<td>District centers and towns</td>
<td>15</td>
<td>46</td>
<td>39</td>
</tr>
<tr>
<td>Rural and semi-urban villages</td>
<td>16</td>
<td>51</td>
<td>33</td>
</tr>
</tbody>
</table>

*Source: Calculated Using Data from Goskomstat (State Statistics Committee), 2000.*

### Table 11
Social Stratification Based on Vocation, in 2000 as % of Total Households

<table>
<thead>
<tr>
<th>Type of Settlement</th>
<th>Middle Class</th>
<th>Lower-Middle Class</th>
<th>Lower Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large cities</td>
<td>49</td>
<td>30</td>
<td>21</td>
</tr>
<tr>
<td>Regional centers</td>
<td>30</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>District centers and towns</td>
<td>15</td>
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<td>56</td>
</tr>
<tr>
<td>Rural and semi-urban villages</td>
<td>10</td>
<td>24</td>
<td>66</td>
</tr>
</tbody>
</table>

*Source: Moscow Carnegie Center, forthcoming.*

### Table 12
Social Stratification Based on Self-Identification, in 2000 as % of Total Households

<table>
<thead>
<tr>
<th>Type of Settlement</th>
<th>Middle Class</th>
<th>Lower-Middle Class</th>
<th>Lower Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large cities</td>
<td>55</td>
<td>33</td>
<td>12</td>
</tr>
<tr>
<td>Regional centers</td>
<td>43</td>
<td>36</td>
<td>21</td>
</tr>
<tr>
<td>District centers and towns</td>
<td>36</td>
<td>35</td>
<td>29</td>
</tr>
<tr>
<td>Rural and semi-urban village</td>
<td>33</td>
<td>41</td>
<td>26</td>
</tr>
</tbody>
</table>

*Source: Moscow Carnegie Center, forthcoming.*

19 More than half of those employed in rural areas have no vocational education, including 19% without secondary education. This also explains why even in the crisis years there was no mass outflow of labor to other sectors of the economy.
In summary, between 50% and 60% of rural inhabitants are poor, a figure which exceeds the level of urban poverty by a factor of approximately 1.5. The overwhelming majority of rural households are engaged in agriculture, which is characterized by the lowest average wage and by the highest wage inequality. Moreover, rural workers lack alternate employment opportunities. Although the development of larger scale independent farming stands to play the most positive role in changing the economic position of the village, it is hindered by high taxes, administrative obstacles, absence of circulating assets and other negative factors. Given these conditions, the production of private plots provides essential support to rural communities. Many families view household production activities as an adaptive measure to the current circumstances, rather than a long-term trend towards larger scale independent farming. Overall, the rural population has lost out in the transition to a market economy. Consequently, many families see their future in urban terms, hoping to escape some of the difficulties of the rural situation by moving to the city.
APPENDIX: DEFINING AND MEASURING POVERTY

The official technique for measuring poverty in Russia was adopted in 1992 and defines the poor to be those individuals whose average level of per capita income lies below the minimum standard of living. The living wage represents the “cost estimation of a consumer’s basket, and also mandatory payments and fees” (Federal Law of October 24, 1997, No.134-FL “On Living Wage in the Russian Federation”). The consumer’s basket is a minimum package of foodstuffs, non-food goods, and services. The living wage value is calculated quarterly using current price levels for the components of the consumer’s basket in order to establish a poverty line. From 1992 to 1999, the consumer’s basket was calculated based on the structure of household expenditures. Total available household resources, which include the sum of money resources, and the cost of in-kind foodstuffs and benefits, are also compared to the living wage. Since 1997, official statistics have used estimated expenditures of the population, rather than direct data on incomes, to make this additional calculation.

In addition to official data from the State Statistics Committee, data is also included from the Russian Monitoring Service for economic welfare and health of the population (RLMS). From the beginning, RLMS has evaluated poverty through a combination of methods. The Survey estimates the non-food component of the consumer basket based on the structure of household expenditures for the lowest income group; and calculates the food component using current price levels. The method for establishing the poverty line also differs. RLMS compares household expenditures, instead of income, to the living wage to establish the level of poverty. This method is considered to be more accurate than the official approach. RLMS also applies equivalence scales for income and expenditures when calculating these figures, which leads to a more accurate estimation of average per capita incomes because it takes into account the economic effects of family size. This method implies that large families require smaller average per capita incomes than smaller families because the purchase of consumer goods for two-member families costs two times less than for people living alone.

There are disadvantages in both official and RLMS calculation techniques. Due to changes in the method for calculating the living wage, State Statistics Committee data does not adequately represent the actual dynamics of poverty in Russia. For example, in 1994 there was a stated decline in the percentage of poor. This change occurred as a result of the transition to new statistical procedures, and not in response to an improvement in social welfare. RLMS methods do not consider changes in the structure of household expenditures. Since expenditures for utilities have considerably increased in the last ten years, the share of these expenses for the entire population should also have increased.

Overall, poverty calculations vary depending on which method of poverty definition is used:

- According to the data on household expenditures, 49.3% of the Russian population was considered poor in 2000.
- According to available household resources, 40% of the population was considered poor in 2000.
- According to the macro-economic data on income, not more than 29.9% of the population was poor in 2000.
- According to RLMS data on expenditures, 29% of the population was considered poor in 2000.

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21 RLMS (Russian Longitudinal Monitoring Survey) – the series of nationally representative surveys, conducted beginning in 1992. To date, RLMS has conducted 10 yearly surveys. For more information and survey results, see http://www.cpc.unc.edu/projects/rlms/.
22 The coefficient of total revenue calculation: for two-member family – 1.78; three – 2.42; four – 2.99; five – 3.53.
REFERENCES


Chapter 1: Socio-Economic Development and the Rural Sphere

THE CURRENT STATE OF THE SOCIAL SPHERE IN THE VILLAGE

L. Ovchintseva

The term rural social sphere can be found in magazines, government documents, and academic literature. In speaking about the social sphere, authors tend to emphasize those aspects of rural life that are not related to agricultural production. There are numerous meanings of this term however, all of which vary significantly. In this article, the term social sphere is used to describe the current condition of rural social and physical infrastructure, as well as the attitudes of rural people and of local authorities towards this infrastructure.

POLICY BACKGROUND

In comparison to 1990, today’s social infrastructure in rural Russia is characterized by both a decrease in the number of organizations that provide services to villagers and in the types of services that are provided. Declines in the number of pre-schools, clubs, libraries, and so on has led to an overall reduction in the volume of social services available in rural areas. The roots of these problems stem from the failures in rural development under the Soviet Union. By the 1970s, the crisis in the rural social sphere had begun to reveal itself. By this point, villagers had received identification documents (passports), which allowed them to move more freely. The recognized gap between the quality of life in rural and urban areas spurred the migration of rural inhabitants away from the village. Large disparities between sectors of the national economy also contributed to a declining interest in working for rural enterprises, particularly those of the agro-industrial complex.

To combat these negative trends, the Russian government adopted programs to promote rural development. The programs sought to improve the material and technical resource base of agricultural enterprises and of the social sphere. In 1975, the “Non-Chenozem Zone development” program was adopted. One of the main program objectives was to “transform villages into settlements belonging to Soviet collective farms with all the proper amenities; by constructing... modern houses for the rural population, as well as buildings for cultural and other service provision.”23

Three years later, the problems of agro-industrial development became the focus of the Communist Party plenum. Party documents are declarative and reliable information is notoriously difficult to extract. However, they do demonstrate that, despite a significant level of investment in the rural social sphere (40 billion Rubles) during the period 1965 to 1970, problems in housing and social service provision remained. There was simply not

enough construction to meet rural needs. Plans to build houses, daycare centers, and buildings for social service provision were never fulfilled. “A more abrupt change in the priorities of the Communist party, Soviet labor, and economic organizations is necessary to reorganize villages, and to improve housing and social service conditions for rural workers.”

A new five-year period led to a new document on the “Food Supply Program” from 1982 to 1990. The underdevelopment of agriculture in comparison to the rest of the agro-industrial complex continued to be apparent. The “Food Supply Program” devoted an entire chapter to the improvement of social conditions in rural areas. It described earlier objectives in detail, including construction of houses and buildings for social service provision; development of social services; promotion of education, health care, and transportation; and development of roads. New resources were invested into villages and many state and collective farms were improved.

At the same time, however, the forced migration of the population of “non-perspective” villages (neperspektivniye derevny) to less remote rural territories continued. As a result, there was a continued need for new programs of rural development. In 1990 the federal law “On Social Development of Rural Areas” was adopted. The law suggested that 15% of GDP be allocated for the development of the agro-industrial complex. Plans included funding for the social sphere, which would come from local, regional, and federal budgets. The law called for construction of housing, subsidies for agricultural and industrial products, and creation of wage and other incentives for social sphere employees to relocate to villages. One year later, in 1991, the program “Revival of the Russian Village” was adopted. The program included increases of 15.7% in the volume of annual house construction, 41% in the construction of schools, 15.4% in kindergartens, 26% in gas pipelines, and 11.7% in roads. The government established a special commission to focus on social development within the village to ensure more effective implementation.

However, the program “Revival of the Russian Village” was never completed. In 1992, the transition to a market economy began. Responsibility for the development of the rural social sphere was transferred from federal to local levels, and federal funding for the program was discontinued. Moreover, production subsidies for agricultural enterprises were also reduced, creating funding problems for farms. By the end of 1995, only partial implementation had been achieved, including: 37% of house construction, 39% of school construction, 18% of kindergarten construction, 13% of central heating systems, 5% of sewage systems, 17% of clubs and cultural centers, 32% of roads with hard surfacing, and 15% of telephone communication. Unfortunately, neither the law “On Social Development of Rural Areas” nor the program “Revival of the Russian Village” set down mechanisms for funding social development during transition, and further efforts to implement the plan were abandoned.

In 2002 a federal program “Social Development of the Village to 2010” was adopted. The program includes a range of activities designed to promote the development of social and physical infrastructure, and to establish information and consulting services in rural areas. The program marks an important step towards establishing a systemic federal

26 “Non-perspective” villages were defined under the Soviet Union to be small villages with an aged and declining population - those that did not have a future. The State identified these populations and resettled them in new areas to fit planned development needs.
28 The Ekonomist (2000).
Chapter 1: Socio-Economic Development and the Rural Sphere

approach to rural development. Whether the program will actually be implemented is more uncertain as over half of the funding needed for the program is supposed to come from off-budget sources, which often remain undetermined.

PROBLEMS OF THE TRANSITION PERIOD

Agrarian reforms attempted to separate rural agricultural production from the social sphere. A series of laws were adopted to transfer social sphere expenditures from farm balance sheets to municipal governments and special departments. This transition was scheduled to be finished by 2004. Unfortunately, farms have either failed to transfer social services to local budgets, or the latter has refused to assume these responsibilities due to a lack of funding. The lack of funding at the local level for maintaining social infrastructure is a widespread phenomenon. In the second half of the 1990s there was an increase in the size of local municipalities throughout most of the regions. Each rural territory became part of a municipality, which belonged to a larger raion (district). Under these changes, rural entities of local self-government lost a substantial amount of budgetary resources, practically becoming branches of urban municipal governments. If resources for social services are scarce in municipal centers, funding for social needs in remote rural areas often does not exist at all.

Social infrastructure can remain the property of rural enterprises for a number of reasons. Sometimes the leaders of successful and profitable enterprises refuse to transfer these services to poor municipalities in order to maintain them, should the enterprises become municipal centers in their own right. Another reason may be that the infrastructure is in such bad condition that municipal authorities do not want to assume responsibility for repairing them. Those who live in older housing are in the worst situation. Sometimes enterprises have gone bankrupt and cannot maintain these houses; other enterprises simply do not have the funds to do so, or the manager may not see the point in wasting money on them. In some areas, the transfer of social responsibilities to municipal budgets has taken place only on paper and enterprises continue to maintain and control them for public use. Enterprise managers are typically glad to be rid of responsibilities for maintaining social infrastructure. In many cases, however, managers continue to provide funding for social services (even once they have been transferred to local budgets) because they feel a personal responsibility for the welfare of local villagers. Therefore, the quantity and quality of social services provided can vary significantly in different rural areas, and may depend on the financial situation of the collective agricultural enterprise or municipality that provides the service, or on the individual preference of the enterprise manager. The legal framework that ensures rural inhabitants the right to basic social services does not work to the same extent in all areas.

According to the Ministry for Agricultural Development, a substantial proportion of social infrastructure still remained on farm balance sheets in the beginning of 2002. These included: 50 million square meters of available housing; kindergartens for 296 thousand children; schools for 290 thousand students; clubs for 131 thousand people; hospitals with 6.4 thousand beds; ambulatory clinics for 14 thousand visitors per shift; 3.6 thousand medical stations; more than 800 libraries; 31 thousand water pumps; 5.3 thousand kilometers of sewage system; 94 thousand kilometers of water supply; 11 thousand kilometers of heating system; 21.4 thousand kilometers of gas pipelines; 60 thousand kilometers of highways; and telephone systems for 49 thousand telephones.

29 In particular, the Russian Federation government resolution “On the reorganization of state and collective farms” of December 29, 1991, No. 86, recommended that state and collective farms transfer rural social infrastructure to municipal property.
Social Infrastructure

Social infrastructure began to disintegrate during the transition. However, it did not do so uniformly. Research has illustrated that this differentiation is largely determined by the following factors.

First, the maintenance of social infrastructure is based on its level of necessity. When federal funding for social services came to a halt and local financial resources started to dwindle, only the most vital services were maintained. These include resources for housing, communication, roads, and schools.

Social services that were closing the gap between urban and rural standards of living were shut down in the first round. When rural incomes fell, it became cheaper to bathe and do laundry at home, as opposed to using public bathhouses or laundry services. Kindergartens were subject to closure because these services became less valuable in the climate of high unemployment, which applied especially to rural areas and to women.

Second, the transition from communism to a market economy influenced the attitudes towards social services. During the transformation from a socialist enterprise, which provided social services as a “guaranteed right”, to a market economy, in which firms became more profit-oriented, the population was forced to pay for a larger proportion of social services.

In the Soviet economy of the 1970s and 80s, the state required that a villager work in exchange for providing a guaranteed salary, housing, and standard social services. The transformation of the social and economic system led to the division of social services into two categories: 1) those that could be privatized and for which the population was willing to pay, and 2) those that could not be supported in privatized form (since poor rural inhabitants would prefer to go without the service rather than pay).

The current condition of rural social infrastructure is poorer, on average, than that of Russia as a whole. Furthermore, the development of social infrastructure in rural areas lags behind that of cities.

Housing

Per capita housing is higher in rural areas than in towns or cities. However, village housing is not modernized to the same extent (Tables 1 and 2). Although statistics indicate that the number of rural houses equipped with indoor plumbing and hot water has increased, these levels still remain far below the national average. In 2000, rural houses were two times less likely to be equipped with running water and central heating than for the country overall. They were three times less likely to have hot water.

The discrepancy between city and village is even more dramatic in this respect. Gas supply is the only instance in which rural figures are higher than the urban and national averages. This circumstance can be attributed to the fact that city housing is ten times more likely to be equipped with electric kitchen stoves than with gas, while in rural areas the tendency is the opposite.

30 Our observations show that, as a rule, the physical infrastructure belonging to specialized enterprises providing the population with electricity, heating, and gas, are in better condition than those that have remained in agricultural or other rural enterprises.

31 According to the official statistical data, the level of economic activity among male villagers was almost 1.5 times higher than that among women. Population survey on employment problems. November 2002, pp. 29-30. Women also were observed to lose jobs to men. The Russian Scientific Research Institute of Agricultural Economics (2002), p. 122.
### Chapter 1: Socio-Economic Development and the Rural Sphere

#### Table 1

**Housing, Average Square Meters per 1 Inhabitant**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>In Urban Areas</th>
<th>In Rural Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>13.4</td>
<td>13.3</td>
<td>13.7</td>
</tr>
<tr>
<td>1990</td>
<td>16.4</td>
<td>15.7</td>
<td>18.2</td>
</tr>
<tr>
<td>1995</td>
<td>18.1</td>
<td>17.8</td>
<td>18.6</td>
</tr>
<tr>
<td>1999</td>
<td>19.1</td>
<td>18.9</td>
<td>19.5</td>
</tr>
<tr>
<td>2000</td>
<td>19.3</td>
<td>19.1</td>
<td>19.8</td>
</tr>
<tr>
<td>2001</td>
<td>19.7</td>
<td>19.5</td>
<td>20.2</td>
</tr>
</tbody>
</table>

**Average Number of Inhabitants per 1 Room**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>In Urban Areas</th>
<th>In Rural Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>1999</td>
<td>1.2</td>
<td>1.3</td>
<td>1.1</td>
</tr>
<tr>
<td>2000</td>
<td>1.2</td>
<td>1.3</td>
<td>1.1</td>
</tr>
</tbody>
</table>

*Source: Goskomstat (State Statistical Committee), 2001-2002.*

#### Table 2

**Utilities in Rural Areas, % of Housing in Total**

<table>
<thead>
<tr>
<th>Specific Systems within the Home</th>
<th>Water Supply</th>
<th>Sewage System</th>
<th>Central Heating</th>
<th>Baths</th>
<th>Gas</th>
<th>Hot water</th>
<th>Electric kitchen stoves</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Housing</td>
<td>66</td>
<td>61</td>
<td>64</td>
<td>57</td>
<td>70</td>
<td>51</td>
<td>14</td>
</tr>
<tr>
<td>1993</td>
<td>66</td>
<td>61</td>
<td>64</td>
<td>57</td>
<td>70</td>
<td>51</td>
<td>14</td>
</tr>
<tr>
<td>1995</td>
<td>71</td>
<td>66</td>
<td>68</td>
<td>61</td>
<td>69</td>
<td>55</td>
<td>15</td>
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<tr>
<td>1997</td>
<td>72</td>
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<td>69</td>
<td>73</td>
<td>64</td>
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<tr>
<td>2001</td>
<td>74</td>
<td>70</td>
<td>75</td>
<td>64</td>
<td>70</td>
<td>61</td>
<td>16</td>
</tr>
<tr>
<td>Urban Housing</td>
<td>83</td>
<td>80</td>
<td>84</td>
<td>75</td>
<td>68</td>
<td>69</td>
<td>19</td>
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<td>87</td>
<td>79</td>
<td>69</td>
<td>75</td>
<td>21</td>
</tr>
<tr>
<td>2001</td>
<td>87</td>
<td>85</td>
<td>88</td>
<td>80</td>
<td>69</td>
<td>77</td>
<td>22</td>
</tr>
<tr>
<td>Rural Housing</td>
<td>30</td>
<td>19</td>
<td>20</td>
<td>16</td>
<td>73</td>
<td>9</td>
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</tr>
<tr>
<td>1993</td>
<td>30</td>
<td>19</td>
<td>20</td>
<td>16</td>
<td>73</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>1995</td>
<td>35</td>
<td>24</td>
<td>23</td>
<td>20</td>
<td>73</td>
<td>12</td>
<td>2</td>
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<td>1997</td>
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<td>26</td>
<td>26</td>
<td>22</td>
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<td>1999</td>
<td>39</td>
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<tr>
<td>2000</td>
<td>39</td>
<td>30</td>
<td>37</td>
<td>24</td>
<td>74</td>
<td>17</td>
<td>3</td>
</tr>
<tr>
<td>2001</td>
<td>40</td>
<td>31</td>
<td>40</td>
<td>24</td>
<td>74</td>
<td>19</td>
<td>3</td>
</tr>
</tbody>
</table>

*Source: Goskomstat (State Statistical Committee), 2002.*
EDUCATIONAL INSTITUTIONS
The number of educational institutions in rural areas has decreased. Rural pre-schools have decreased by almost one half, and the total proportion of children attending kindergarten in the village has decreased from one half to one third. However, declines in kindergarten attendance are not uniform. In remote villages with small populations, where women are mostly unemployed, kindergartens typically close; in large rural settlements the kindergartens remain overcrowded.

Table 3
Pre-school Indicators

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of pre-school institutions, in thousands</td>
<td>87.9</td>
<td>68.6</td>
<td>53.9</td>
<td>51.3</td>
<td>50.0</td>
</tr>
<tr>
<td>In rural areas, in thousands</td>
<td>40.6</td>
<td>31.5</td>
<td>24.3</td>
<td>22.7</td>
<td>22.1</td>
</tr>
<tr>
<td>Number of children in pre-school, in thousands</td>
<td>9,010</td>
<td>5,584</td>
<td>4,225</td>
<td>4,263</td>
<td>4,246</td>
</tr>
<tr>
<td>In rural areas</td>
<td>2,149</td>
<td>1,232</td>
<td>847</td>
<td>855</td>
<td>862</td>
</tr>
<tr>
<td>Children aged 1-6 attending pre-school, %</td>
<td>66</td>
<td>55</td>
<td>55</td>
<td>56</td>
<td>57</td>
</tr>
<tr>
<td>In rural areas</td>
<td>56</td>
<td>39</td>
<td>36</td>
<td>36</td>
<td>38</td>
</tr>
</tbody>
</table>

Source: Goskomstat (State Statistical Committee), 2002.

The number of primary and secondary schools, as well as the number of students overall, is decreasing. These dynamics largely show that the rural population is aging. However, there has also been a disturbing decline in the quality of rural education. This factor, in combination with low rural incomes, reduces the chance that rural students will continue their studies after completing secondary education.32

Table 4
General Education Institutions in Rural Areas, in Thousands

<table>
<thead>
<tr>
<th></th>
<th>1990/91 school-year</th>
<th>2000/01 school-year</th>
<th>2001/02 school-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of education institutions</td>
<td>48.2</td>
<td>45.2</td>
<td>44.8</td>
</tr>
<tr>
<td>Number of students</td>
<td>5,796.8</td>
<td>6,015.2</td>
<td>5,891.8</td>
</tr>
<tr>
<td>Including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Primary</td>
<td>16.5</td>
<td>13.1</td>
<td>12.5</td>
</tr>
<tr>
<td>Number of students</td>
<td>240.0</td>
<td>205.1</td>
<td>190.1</td>
</tr>
<tr>
<td>* General</td>
<td>13.3</td>
<td>11.2</td>
<td>11.1</td>
</tr>
<tr>
<td>Number of students</td>
<td>940.0</td>
<td>739.7</td>
<td>691.4</td>
</tr>
<tr>
<td>* Secondary</td>
<td>17.9</td>
<td>20.3</td>
<td>20.7</td>
</tr>
<tr>
<td>Number of students</td>
<td>4,548.0</td>
<td>4,977.0</td>
<td>4,916.0</td>
</tr>
</tbody>
</table>

Source: Russian Scientific Research Institute for Agricultural Economics, 2002.

32 For more detailed information see the Independent Institute for Social Policy (2003).
Rural school and kindergarten facilities are also in poor physical condition. Recent research has found that one third of rural kindergartens are housed in unsuitable premises, and only two thirds are suitably equipped. Two thirds of all rural schools lack basic amenities such as water sanitation systems and central heating (Table 5). However, funds do not exist to resolve these problems.

Table 5
Physical Condition of State Schools and Available Amenities

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Thousand%</td>
<td>Thousand%</td>
<td>Thousand%</td>
</tr>
<tr>
<td>Number of schools in urban and rural settlements</td>
<td>20.1 30.6</td>
<td>23.6 35.6</td>
<td>23.5 36.2</td>
</tr>
<tr>
<td>• Capital repairs needed</td>
<td>In rural areas</td>
<td>13.3 27.8</td>
<td>15.7 33.5</td>
</tr>
<tr>
<td>• In unsafe condition</td>
<td>In rural areas</td>
<td>4.1 6.2</td>
<td>4.2 6.3</td>
</tr>
<tr>
<td>• Equipped with all amenities</td>
<td>In rural areas</td>
<td>3.2 6.6</td>
<td>3.2 6.8</td>
</tr>
<tr>
<td>• Equipped with all amenities</td>
<td>In rural areas</td>
<td>25.5 38.8</td>
<td>29.7 44.8</td>
</tr>
</tbody>
</table>

Source: Goskomstat (State Statistical Committee), 2000.

CULTURAL INSTITUTIONS

Cultural institutions such as clubs and libraries are experiencing serious financial problems, despite the high demand for these services in rural areas. Initial hopes for charging service fees have not been realized. Clubs are in slightly better shape because they organize dances and other entertainment, and rent office space, for which people are willing to pay. Libraries find themselves in the worst situation because the range of services for which they can bill is very limited. Funds from the library loan system are relatively small, and the number of new books and periodicals is decreasing as a result. As libraries deteriorate, access to information becomes more limited and the material poverty of rural inhabitants is followed by spiritual impoverishment.

33 Russian Scientific Research Institute of Agricultural Economics (2002), p. 86.
Table 6
Cultural Institutions in Rural Areas

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultural and entertainment institutions, in thousands</td>
<td>62.6</td>
<td>52.6</td>
<td>48.4</td>
<td>48.1</td>
<td>48.0</td>
</tr>
<tr>
<td>Number of available places, per thousand</td>
<td>248</td>
<td>-</td>
<td>-</td>
<td>207</td>
<td>185</td>
</tr>
<tr>
<td>Libraries, in thousands</td>
<td>42.2</td>
<td>40.1</td>
<td>38.8</td>
<td>38.8</td>
<td>38.9</td>
</tr>
<tr>
<td>Library fund, in millions</td>
<td>422</td>
<td>393</td>
<td>369</td>
<td>368</td>
<td>365</td>
</tr>
<tr>
<td>Items per capita</td>
<td>10.9</td>
<td>9.9</td>
<td>9.5</td>
<td>9.5</td>
<td>9.5</td>
</tr>
</tbody>
</table>


Health Care
The overall number of beds provided by health care institutions has declined in comparison to 1990 levels. However, there has been a slight increase in the number of beds in rural areas in recent years (Table 7).

Table 7
Health Care Institutions

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Health care institutions, number of beds</td>
<td>21,831</td>
<td>9,193</td>
<td>8,159</td>
<td>7,321</td>
<td>8,828</td>
<td>9,534</td>
<td>7,571</td>
</tr>
<tr>
<td>In rural areas</td>
<td>5,301</td>
<td>1,351</td>
<td>2,501</td>
<td>1,185</td>
<td>1,498</td>
<td>1,522</td>
<td>1,743</td>
</tr>
</tbody>
</table>

Source: Goskomstat (State Statistical Committee), 2002.

The number of medical stations in Russia has decreased from 47.7 thousand in 1990 to 44.3 thousand in 2001. The merging of municipal entities into districts has led to the under-funding of these healthcare facilities. Reductions in funding are partially justified as district center hospitals provide a wider range of medical services to all district inhabitants. However, medical stations usually constitute the closest form of health care for villagers, and the place where they go first for immediate medical attention. The buildings where these services are found are often in disrepair and lack equipment and personnel.

Service Provision
A survey conducted by RosAgroFond found that the level of service provision in rural areas has significantly decreased, despite a general increase in service consumption for the country as a whole. The closure and/or privatization of rural enterprises led to declines in the level and quality of services provided to rural areas. Services such as shoe repair, hair salons, and the repair of electronic devices were shifted to the private informal sector with corresponding reductions in the level and quality of service, while

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35 For instance, the household survey in Leningrad and Oryol Oblasts. The survey was conducted by RosAgroFond in partnership with D. Lolyain in 2001. 320 households were involved in the survey, two-level selection.
lavatory and dry-cleaning services have practically disappeared. Research shows that the level and quality of rural services improved only in the regions that supported programs for small enterprise development.

TRADE
The privatization of trade has led to an increase in village stores that sell food. From 1990 to 2000, the survey found that the number of stores in 16 rural districts of Leningrad Oblast increased from 7.0 to 10.6, while the number of stores selling clothing and other items increased from 2.8 to 3.4. However, the number of goods available in these areas decreased. This phenomenon is closely connected with the collapse of the central planning system on the one hand, and the decline in purchasing power in rural areas on the other. These factors paradoxically result in a situation where shelves in rural stores are often empty, while the sale of cheap consumer goods on the street flourishes.

ENGINEERING INFRASTRUCTURE
WATER SUPPLY
Approximately 40% of rural houses have running water, while central heating is available in only 29% of rural areas (Table 2). Rural access to water has generally increased since 1998. However, this increase varies from region to region. Regions in the lead include the Southern and Volga Federal Districts, which account for 48% and 25% of the total volume of water supplied to rural areas respectively. At the same time, half of all regions did not build or repair local water supply systems. Half of the street water supply systems in rural areas belong to agricultural enterprises, while only 36% belong to municipalities. Almost one third of these systems are in need of repair.36 Most of the rural population is forced to use poor quality water from wells, springs, or open reservoirs. In 2001, only 18% of all water in rural areas was purified through the sanitation system; the figure for towns was 61%.37

GASIFICATION
The implementation of the Federal program for the “Gasification of Russia” contributed to the building and provision of gas pipelines throughout rural areas. However, the lack of funding led to an unstable gasification process, and only 58% of the program was implemented. In general the village supply of gas remains low. The data shows that in 2000 only 14% of rural areas were supplied with gas.38

ELECTRIFICATION
Electrification in rural areas remains low, and the supply of electricity is not always reliable. High levels of debt among agricultural enterprises and rural inhabitants to electric power suppliers remain a problem. The 1996-2000 Federal program “Fuel and Energy” that called for the electrification of rural areas was never implemented. Moreover, the level of electrification during that period did not achieve even half of levels from the previous five-year period. Some regions such as Kaliningrad and Kemerovo have provided additional funds to promote rural electrification.39 However, these instances are an exception.

38 Russian Scientific Research Institute of Agricultural Economics (2002), pp. 142-143.
39 For more detailed information see Russian Scientific Research Institute of Agricultural Economics (2002), pp. 145-147.
COMMUNICATION
The level of telephone communication services among rural inhabitants is increasing. The number of villagers who possess telephones increased from 13.9 per 100 families in 1990 to 23.5 in 2000. This means that almost one in four rural families now has telephone communication. However, the gap between the level of phone communication among rural and urban inhabitants remains significant. Rural areas have half as many telephone lines as urban areas. Furthermore, rural phone communication networks have deteriorated, and equipment and phone lines often break.

A few rural families can afford cellular phones, however their number is extremely small (Table 8).

Table 8
Communication Indicators

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of people with telephone units in the home (per 100 families), total number of units</td>
<td>30.0</td>
<td>38.5</td>
<td>46.8</td>
<td>49.3</td>
</tr>
<tr>
<td>In rural areas</td>
<td>11.9</td>
<td>18.8</td>
<td>21.9</td>
<td>23.5</td>
</tr>
<tr>
<td>Street telephones, total number of units in thousands</td>
<td>225.6</td>
<td>188.0</td>
<td>188.6</td>
<td>-</td>
</tr>
<tr>
<td>In rural areas</td>
<td>9.9</td>
<td>6.6</td>
<td>8.0</td>
<td>-</td>
</tr>
<tr>
<td>Number of radio points in rural areas per 100 people</td>
<td>27.7</td>
<td>-</td>
<td>-</td>
<td>7.0</td>
</tr>
</tbody>
</table>

Source: Goskomstat (State Statistical Committee), 2001.

There has been a decline in wire radio broadcasting, now that stations increasingly use FM airwaves. State radio broadcasting has been transformed into commercial radio stations, which provide service to approximately one fourth of the rural population. In 2001, a little more than half of the rural population had access to wire radio coverage. The transition to the new form of wireless radio broadcasting has been constrained in rural areas due to the high price of FM radio sets.

Television is available for the majority of rural families as a source of information. In 2001, only about 1 million people (less than 3% of the population) did not get television reception; yet, 2.1 million people (5.5% of the population) could watch only one television program (Table 9).

Table 9
Number of People with Television Coverage and Radio Broadcasting, in % of the Total Population

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Can watch at least one TV program</td>
<td>97.9</td>
<td>-</td>
<td>98.9</td>
<td>98.9</td>
<td>98.6</td>
<td>98.4</td>
</tr>
<tr>
<td>Can listen to at least one state radio program</td>
<td>-</td>
<td>95.9</td>
<td>96.7</td>
<td>96.8</td>
<td>96.0</td>
<td>95.0</td>
</tr>
<tr>
<td>Rural population</td>
<td>-</td>
<td>93.1</td>
<td>93.4</td>
<td>93.9</td>
<td>91.9</td>
<td>87.9</td>
</tr>
<tr>
<td>…at least one commercial program</td>
<td>-</td>
<td>18.2</td>
<td>44.8</td>
<td>50.0</td>
<td>43.6</td>
<td>42.2</td>
</tr>
<tr>
<td>Rural population</td>
<td>-</td>
<td>6.0</td>
<td>19.3</td>
<td>40.7</td>
<td>16.3</td>
<td>18.4</td>
</tr>
</tbody>
</table>

Source: Goskomstat (State Statistical Committee), 2001.

TRANSPORTATION
Transportation in rural areas has worsened in comparison to the pre-reform period. The number of public buses per 100 thousand inhabitants has decreased from 103 buses in 1990 to 75. The number of routes and fixed-route buses has also decreased, as well as the number of traffic lights. Some villages that used to have daily bus service now have service that runs only once or twice a week; this is because municipal transport enterprises that provide connection between villages and district centers are typically unprofitable.

The implementation of the federal program “Roads of Russia” contributed to the improvement of transportation. The density of highways in rural areas is increasing, and in 2001, road density reached 315 per 10 thousand square kilometers. The level of road density varies significantly by region from 3.5 thousand per 10 thousand square kilometers (Moscow Oblast) to 0.2 per 10 thousand square kilometers (Evenkiia Autonomous District). Although bus connections were restarted in 1.2 thousand rural areas in 2001 from the previous year, the volume of passengers decreased due to the high cost of transportation.

The reduction of public transport is partially offset by the increase in private means of transportation. Overall, the number of rural families with a car remains small; 23% of the respondents from the above-mentioned survey.

Table 10
Number of People with Personal Cars, Number of Cars per 1000 Inhabitants

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>The Russian Federation</td>
<td>58.6</td>
<td>93.3</td>
<td>128.1</td>
<td>132.4</td>
<td>139.0</td>
</tr>
</tbody>
</table>

Source: Goskomstat (State Statistical Committee), 2002.

SELF-MOBILIZATION: SOCIAL INFRASTRUCTURE AND THE RURAL POPULATION

The underdevelopment of social infrastructure in rural areas reduces the attractiveness of living in rural areas and contributes to the outflow of rural labor. How does the rural population view the social sphere? Research showed that people did not perceive problems connected to local social infrastructure worth their personal involvement. This phenomenon is attributed to two basic factors.  

First, most villagers, who worked as agricultural employees during the Soviet era, do not perceive social infrastructure to be their responsibility. Although everything at that time was technically “public” property, enterprise managers were the only ones who took any real responsibility for social services. The rural population tended to depend on the State to provide social infrastructure. Today people are suspicious of becoming involved in activities that contribute to the public good. The positive aspects of voluntary participation were discredited by the mandatory labor of the Soviet era. People are more likely to participate in the modernization of social infrastructure through activities such as restoration of churches, and support of schools and medical stations. However, in only a few rural areas with a long history and stable population have the inhabitants continued to view the territory as their own. There are many villages and townships of former state and collective farms that are inhabited by people who came from other villages, districts, and regions. In such instances an understanding of ‘mine’ is limited to an apartment, a private house, a cattle shed, and a garden.

Second, the disintegration of rural communities has caused villagers to focus more on immediate household needs than on the needs of the village. Social differentiation, followed by a decline in rural living standards, has meant that villagers pay closest attention to the material condition of their family. In 1999, the State Statistics Committee estimated that the average per capita resources for 42% of all households was less than a subsistence wage. In rural areas, the number of impoverished households is even greater. The majority of the rural population is poor and villagers often cannot afford medical, educational, or cultural services. Analysis of household expenditures reveals that a large portion of household expenditures is paid to public utilities. In 1999, 44% of household expenditures in rural areas went to public utilities.

Rural workers face limited employment opportunities due to the deterioration of the agro-industrial complex. While urban unemployment has continued to fall, the unemployment rate in rural areas of 38 Russian regions exceeded the critical 10% level in 2002.

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44 Data was taken from qualitative and quantitative surveys conducted from 1999-2003 within the framework of the project Sustainable Rural Livelihoods.
45 See, e.g., the results of the survey on 4.5 thousand agricultural enterprise employees. The survey was conducted four consecutive years. In 1999-2001 respondents pointed to the financial position of the family as their main cause for concern. In 2002, this reason was second to worries regarding children’s futures (with only 2% difference). Condition of Social and Labor Sphere of Village. Fourth Edition, p. 149.
47 Households’ incomes, expenses and consumption in 1999 (according to the results of the sampling analysis of the household budgets (2000), p. 97.
Table 11
Comparative Indicators of Employment and Unemployment Rates among Rural and Urban Population, %

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment Rate</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban Areas</td>
<td>Rural Areas</td>
</tr>
<tr>
<td>1999</td>
<td>57.8</td>
<td>55.6</td>
</tr>
<tr>
<td>2000</td>
<td>59.1</td>
<td>56.5</td>
</tr>
<tr>
<td>2001</td>
<td>60.2</td>
<td>54.0</td>
</tr>
<tr>
<td>2002</td>
<td>61.3</td>
<td>54.8</td>
</tr>
</tbody>
</table>

Source: Goskomstat (State Statistical Committee), 2002.

Informal employment is widespread in Russia, a phenomenon that has recently been included in official statistics.\(^{49}\) In 2002, the rural employment rate in the informal sector was estimated to be 27%. Two thirds of villagers that reported employment in the informal sector were not employed elsewhere. Three fourths of those employed in the informal sector work in agriculture, which usually means personal small-scale agricultural production.\(^{50}\) Trade, personal services, and construction are other important forms of informal employment. Circumstances of unemployment and poverty often force rural inhabitants to choose work in the informal sector. However, it is not a preference. Informal employment does not count towards government pensions or provide any form of social security for those employed.

RURAL SELF-GOVERNANCE
The development of effective local self-governance, achieved by educating and involving local citizens in public decision-making processes, can help solve rural social problems. Rural authorities have become subordinate to the district government as a result of current efforts to enlarge municipal areas. Despite the fact that rural government authorities are more in tune with local needs than the authorities at the district level, the rural authorities do not possess the rights or resources to solve the problems.

The development of more effective local self-governance will depend on both the separation of authority within municipal districts, and on the provision of additional resources to support rural initiatives. At the same time, it is also necessary to provide local governments with control over local revenue generation. Efforts should aim to establish local self-governance entities with limited authority, which will participate in the local budget planning process and monitor the effective allocation of funds. The development of active civic engagement is crucial to achieving these goals.

Active examples of local self-governance in regions such as Novgorod, Moscow, Saratov, Vologda, Ulianovsk, and Volgograd testify to the importance of such reforms.\(^{51}\) The inventory and registration of rural resources provide a basis for the separation of power at the municipal level. A clear understanding of local problems, and the resources available for their resolution, could provide a foundation for rural development programs. Working groups should be formed to implement these programs that incorporate a range of local interests such as government, enterprises, entrepreneurs, farmers, and

\(^{49}\) Shanin (1999); Questions of Measuring the Hidden Economy (2002).


NGO representatives. Open debate could also contribute to wider public involvement in program implementation; in the process of effective self-governance; and in the revival of a sense of local responsibility towards the social sphere.
REFERENCES


Legal Foundations of Rural Self-Governance
Organizational reforms of government at the local level in the early 1990s mark the beginning of the emergence of local government within the framework of public institutions of the modern Russian state. The Constitution of the Russian Federation of December 12, 1993, provides for a federal state structure based on developed local governments. Thus, the process of decentralization of state power, launched in the late 1980s, found its logical conclusion within the context of constitutional reform. At the same time, it is premature to speak about the completed development of local government in Russia due to the ongoing transformation of the economy and the weaknesses of public power highlighted in the process of broader state reform.

**The Legal Framework for Rural Government**

**Federal Legislation Concerning Local Government**

The system of local government in the Russian Federation established by the Constitution has a number of features. As defined in the Constitution, the sole source of power in the Russian Federation is its multiethnic people. The people exercise their will both directly, as well as through state and local government bodies (para. 2, art. 3). Representing state power, which is most proximate to the population, local governments ensure the fulfillment and protection of the vital interests of the citizens. Neither the Constitution of the Russian Federation, nor federal legislation on local government differentiates between general principles of organization for local governments in urban versus rural areas. Equal rights for all citizens of the Russian Federation, regardless of their place of residence, is one of the main constitutional principles.

The legal framework of local government is founded in the Constitution of the Russian Federation, federal legislation (which includes international legal instruments ratified by the Russian Federation), legislation of constituent units of the Russian Federation, and local laws. The Constitution of the Russian Federation recognizes and guarantees local government, establishing that local government is independent within its authority and that bodies of local government shall be separate from the general state government (art. 12). According to the Constitution of the Russian Federation, the institute of local government, along with the institution of state power, federal state structure, republican form of government, and other provisions of Chapter I of the Constitution of the Russian Federation, is considered to be one of the basic elements of the constitutional system of the Russian Federation (art. 16).

Chapter VIII of the Russian Federation establishes that local government shall be administered in urban and rural communities and in other territories taking into account historical and other local traditions. Changes in the boundaries of the territories where local government is administered, shall be made in consultation with the population of relevant territories. The structure of local government bodies shall be determined independently by the population.
Chapter 2: Legal Foundations of Rural Self-Governance

As established in the Constitution of the Russian Federation, general organizational principles of local government are in accordance with international standards and define not only the right of the population for local self-governance, but also include economic and legal guarantees of support by federal and regional governments to this essential institution of people’s power.

Thus, the Constitution of the Russian Federation recognizes and guarantees local government as an organizationally separate form of exercising power by the people based on their own authority, on the independence within the limits of this authority, the election of public bodies and officials, the availability of local resources and the possibility for direct public participation in the exercise of this power. The constitutional framework of local government in Russia is in full compliance with the European Charter on Local Government.

Active development of legislation on local government effectively started following the adoption in 1995 of the Federal Law “On General Principles of Organization of Local Government in the Russian Federation,” which, according to many scholars, reflects the democratic tendencies of a developing civil society and the rule of law, and meets international standards, including the European Charter on Local Government.

Norms of municipal law are contained in many other federal normative and legislative acts, including such significant pieces of legislation as the Civil Code of the Russian Federation, the Budget Code of the Russian Federation, and the Tax Code of the Russian Federation. There are more than 1,300 federal legislative acts containing norms of municipal legislation, including no fewer than 300 federal laws.

Yet a number of issues has yet to be addressed in the legislation (requiring regulation at the federal level), including the status of elected officials of local governments (delegates, members of elected bodies of local government, heads of municipalities, and other elected officials); procedures for reimbursing local government for expenditures related to the execution of state responsibilities, as well as for increased expenditures or loss of revenues by local budgets; the process of transferring state property to municipalities has not been established; no basic social standards have yet been determined by the state for calculating local budget minimums.

These problems delay the development of local government, especially in rural areas, since unlike urban territories rural municipalities had no established economic basis for local government at the time that the Federal Law “On General Principles of Organization of Local Government in the Russian Federation” was adopted.

Regulation of Local Government in Rural Areas through Legislation of Constituent Entities of the Russian Federation

Based on the federal structure of the Russian Federation and the fact that the establishment of general organizational principles of local government in accordance with the Constitution of the Russian Federation pertains to the joint authority of the Russian Federation and constituent entities of the Russian Federation, practical issues of local government are also subject to constitutions (charters) and laws of the constituent entities of the Russian Federation. The limits of such legislative regulation and its main requirements are established in federal laws. Constituent entities of the Russian Federation are primarily responsible for regulating those aspects of local government related to the need to take into account local circumstances, settlement of the population, its traditions, economic, social, national and historic development
of the territories, and regulation of budgetary relations between constituent entities of the Russian Federation and local governments. **Regional legislation reflects the specific character of local government in rural areas.** This arrangement reflects both the process of determining territories in which local government is carried out and the boundaries of these bodies, as well as the process of altering the extent of authority of rural local governments through delegation of certain responsibilities of state powers from constituent entities of the Russian Federation.

Presently each constituent entity of the Russian Federation has developed a separate legal framework for reforming the local government system.

Apart from the laws addressing organization of local government, elections to local government bodies, local referendums, forms of public participation in local government, and municipal service, a number of constituent entities of the Russian Federation have enacted laws on administrative misconduct associated with the exercise of local government. However, regrettably, these laws are only in force in some of the constituent entities of the Russian Federation, which does not ensure the functioning of an effective mechanism of accountability for noncompliance with the decisions of local government bodies and officials, and also undermines the efficient operation of local government.

To create a system of local government that is highly responsive to the interests of the population, it is essential to define the territories in which local government is carried out. First, it is necessary to take into consideration the common public interests of a municipality and the specific territorial and temporal availability of services provided to the population by the bodies of local government, municipal enterprises and institutions.

**The legislation of constituent entities of the Russian Federation has a considerable impact in determining the territorial arrangement of local government.** In addition to defining municipal boundaries and the process of establishment, transformation, dissolution, and unification of municipalities, government bodies of constituent entities of the Russian Federation must also determine the procedures and safeguards for incorporating public opinion in the process of altering municipal boundaries. **However, in the majority of constituent entities of the Russian Federation these issues have not been resolved, leading to the violation of the public’s right to determine the boundaries of the territories in which local government is exercised. This is especially true in regard to the population of rural areas.**

In addition to public opinion, a decision to set boundaries of a rural municipality should be guided by such concerns as the historic frontiers of a compact settlement, the availability of adequate land resources, such as lands for public use (for example, pastures, grazing grounds, hayfields, and so on), recreational areas, and lands required for municipal growth, including areas in which the economic activities of local government bodies are carried out. **The majority of laws of constituent entities of the Russian Federation regulating determination of municipal boundaries do not provide these norms.** As a result, the established boundaries of rural municipalities often fail to provide necessary conditions for the exercise of local government responsibilities. The fact that only 8,258 out of 8,426 rural territorial formations, 245 out of 270 rural communities, and 1,461 out of 15,700 raions (district) have defined boundaries raises concern.

**Furthermore, rural municipalities are not able to solve issues of territorial rearrangements quickly and effectively.** This is due to the lack of legislative norms in the majority of laws of constituent entities of the Russian Federation on
regulating succession of municipal property and liabilities, and creating budgets in the event of territorial rearrangement.

Government bodies of constituent entities of the Russian Federation are responsible for providing the financial and economic foundations for local government. They must establish prudential budgetary requirements, carry out budget adjustment (including by transfer of financial support funds to municipalities), ensure balanced local budgets and provide guarantees of financial self-sufficiency of local governments, transfer to local governments financial resources necessary for implementation of delegated government functions and decisions of government bodies, and assign to municipalities a share of federal and regional tax revenues.

In the majority of constituent entities of the Russian Federation intergovernmental regulation is controlled by budget laws for every fiscal year. However, in most cases these laws do not regulate the rates of transfers from federal and regional taxes, or the assignment of financial assistance from municipalities to the budgets of rural communities and rural districts (volost).

Government bodies of constituent entities of the Russian Federation only rarely include in their legislation provisions designed to promote the development of rural municipalities. The Republic of Mordovia can be cited as a positive example. Here, apart from regulating intergovernmental relations by determining shares of transfers from regulated sources of income into rural municipal budgets and providing fixed amounts from the territorial financial support fund, additional transfers from this fund are assigned according to the reported output of goods (services) in the municipal territory. This practice encourages local governments to participate in the creation of conditions for the growth of production, and for the social and economic development of the territory.

Yet, in the majority of constituent entities of the Russian Federation there is no necessary legal regulation for ensuring the financial and economic independence of local government, the creation of municipal property, or the development of a local financial system. In some constituent entities of the Russian Federation the rights of local government are clearly violated, particularly those of rural municipalities. Thus, according to the State Statistics Committee (Goskomstat) data for 2002, 8,140 out of 8,426 rural administrations (volost, rural districts) have budgets (projected expenditures and revenues), 258 out of 270 rural communities, and 1,484 out of 1,509 raions. Considering that towns and raions constitute 18.2% of all municipalities, they carry 54.8% of expenditures for all local budgets in the Russian Federation. The share of own budget revenues of rural municipalities is 15.9%, while the average level of own revenues of municipalities is 39.5% and the level of own revenues of urban municipalities reaches 76%. Thus, the weak financial position of rural municipalities is largely due to imperfect legislation.

It should be noted that in some cases intergovernmental regulation for rural municipalities is carried out not by government bodies of constituent entities of the Russian Federation, but by local bodies of district municipalities, leading to the subordination of municipalities, in clear contradiction of federal legislation. In violation of the Federal Law “On General Principles of Organization of Local Government in the Russian Federation” and budget laws, the majority of rural communities effectively adopt estimates of expenditures and revenues, rather than a budget.

The absence in the laws of constituent entities of the Russian Federation of appropriate regulation for separation of authority, income sources of local budgets, and property when one municipality includes other municipalities in its boundaries, is also a serious obstacle for the development of rural municipalities. In these circumstances, rural municipalities often lack a necessary economic base for the functioning of local government and become directly dependent on the raion government bodies.

Thus, the legislation of constituent entities of the Russian Federation that addresses the issues of local government in rural areas does not provide the necessary conditions for the development of rural municipalities.

Since the scope of local government authority includes various issues subject to sectoral laws, legislation of constituent entities of the Russian Federation covering local government should also specify, in addition to the laws of constituent entities of the Russian Federation on local government, sectoral laws of constituent entities of the Russian Federation addressing issues falling under the joint authority of the Russian Federation and constituent entities of the Russian Federation, which include the norms of municipal legislation and sectoral laws of constituent entities of the Russian Federation addressing issues falling under their authority, which include the norms of municipal legislation. The large number of such legislative acts creates difficulties for municipalities in their ongoing application and control, especially in those rural areas that lack the necessary information and communication resources.

**LEGAL FRAMEWORK FOR LOCAL GOVERNMENT IN RURAL AREAS**

The Constitution determines local government in the Russian Federation as an organizationally separate form of government by the people, based on its own authority and independent within the limits of this authority. This establishes the possibility and the necessity for regulating a range of issues through universally binding municipal charters and local legislative acts.

The regulation of issues relating to the activities of local government through municipal legislative acts is carried out within the limits set by law and ensures independent decision-making by the population and local government bodies in addressing issues of local importance.

According to Article 8 of the Federal Law “On General Principles of Organization of Local Government in the Russian Federation”, a municipality has a charter which serves as its main normative legislative act and must contain norms that regulate the activities of the population and the bodies of local government related to governing the territory of the municipality. The charter is developed independently by the municipality and is adopted by the population or by a representative body of local government. A majority of municipal charters in the Russian Federation were adopted by representative bodies of local government. In 24 regions only the charters of some municipalities were adopted directly by the population through referendums or town meetings, which is more appropriate to the nature of local government.

A municipal charter must be registered with the state in accordance with the procedure established by the laws of a constituent entity of the Russian Federation. State registration of a municipal charter can be denied only if it is in conflict with federal laws or the laws of a constituent entity of the Russian Federation.

The charter goes into effect upon its publication (promulgation). In addition to the charter, other local legislative acts regulate the range of locally important issues.
Experts estimate that the most critical issues of municipal government require adoption of at least 20 different regulations, such as those on: local government bodies and their structural subdivisions; budgetary process and budgetary system; municipal procurement; the procedure for ownership, use and disposal of municipal property; municipal service; various forms of participatory exercise of local government; land use control, and so on. In the majority of rural municipalities these legislative acts have not been adopted as of yet, or are of very low quality, both from a legal standpoint and in their content, scope and quality in regulating various issues.

Lawmaking is an important function of local government. However, local government bodies of rural municipalities usually have a shortage of skills needed for thorough work on legal issues. For this reason official acts of local government bodies, primarily charters, are often of low quality, frequently display legal ignorance, and do not comply with either federal or regional legislation. As a result, charters of rural municipalities often fail state registration. For example, in Southern Federal District charters for 35% of municipalities were not registered after the first attempt. Furthermore, many rural municipalities still have no charters. According to the Goskomstat data, only 8,092 out of 8,426 rural administrations (volost, district) have charters. This prevents citizens from exercising their right for local government, does not provide the necessary legitimacy to local government bodies and legislative acts adopted by them, and does not allow for the necessary protection of rights of local governments.

Experience shows that rural municipalities need expert legal and organizational assistance on issues of local government both in the development of charters and in everyday legal work.

TERRITORIAL ORGANIZATION OF LOCAL GOVERNMENT IN RURAL AREAS

One of the characteristics of exercising local government in the Russian Federation under the existing legislation is legal recognition of multiple forms of its territorial organization, including cities, townships, raions, rural districts (Sel’soviety), and other communities or territories.

Civil legislation defines municipalities as legal entities entitled to participate in civil legal relations. Local government bodies, acting within the limits of their authority as determined by legislative acts establishing the status of these bodies, can acquire and exercise property and non-property personal rights and obligations on behalf of these municipalities.

According to the Federal Law “On the General Principles of Organization of Local Government in the Russian Federation”, a municipality can be an urban or rural settlement, several settlements united by common land, a part of a settlement, or any other inhabited area, envisaged by the legislation on local government and having within its boundaries local governance, elected bodies of local government, municipal property and a local budget. Modern legislation of the Russian Federation provides for equal rights of municipalities regardless of their type and specific features, whether associated with rural or urban territories. As an extension of the constitutional provisions, the current Federal Law “On General Principles of Organization of Local Government in the Russian Federation” determines that the right to carry out local government cannot be denied to the population of an urban or rural settlement regardless of the number of residents.
Thus, according to federal legislative norms residents of rural settlements have the right to exercise local government in their own communities or in association with other communities. In determining the types of municipalities the following forms can be distinguished:

1. rural settlement (village, township, stanitsa, aul);
2. territorial settlement municipality (volost, rural district, nasleg, kaimak, somon, rural council, rural raion, which must include one or several settlements);
3. territorial municipality. This type is characteristic for the regions of the Far North where the special character of the main economic activities rules out settlements due to the nomadic way of life. The same arrangement is applicable to municipalities in rural areas where the economy is based on individual farms (khutor). In Russia, like in most countries, this type is not common and is an exception to the rule.

It should be noted that in some cases a raion can be considered a rural municipality (if it does not include urban settlements and townships), but in most cases it is a territorial settlement of mixed type (both urban and rural). Because of this, statistical data for raions are not representative and cannot be used to evaluate the situation in rural territories.

It is also not uncommon for the population of a rural settlement (several settlements) to make some decisions of local importance independently, while addressing other issues jointly with the residents of other communities. The law defines this situation as a municipality located within the boundaries of another municipality.

Current legislation allows the choice of any model of territorial organization of local government, taking into account local political, cultural, national, geographic, historic and other features. This approach guarantees the consideration of traditional ways of life and the traditional economy and is very important for rural development.

The right of the population to independently select the territory for local government is guaranteed by legislative provisions stipulating: that no settlement, regardless of the number of residents, may be denied the right to self-governance; that municipal territories should be established with regard to public opinion; that municipal boundaries may not be altered without regard to public opinion; and that the population has the right to decide independently on issues of formation, transformation, unification and dissolution of municipalities. At the same time the interests of government bodies of constituent entities of the Russian Federation are protected by the fact that territories of municipalities are established according to the laws of constituent entities of the Russian Federation, whereas the boundaries of municipal territories, procedures of their establishment, and procedures of formation, transformation, unification and dissolution of municipalities are determined by the laws of constituent entities of the Russian Federation. Thus, the norms of federal legislation can be considered to balance the interests of the population and the state in the choice of territorial organization models for local government.

In practice, however, the choice of models of territorial organization for local government has been predominantly made in the process of competition between regional and local political elites and according to their interests. The right of the population to independently determine territories for local government has been neglected, or situations were artificially created where the population was forced to abandon its right to local
government within the boundaries of settlements. This resulted in the establishment of municipal territories either through a compromise between said elites, or according to the interests of one of these groups. In addition, municipal territories were often determined without regard for the principles of maximum efficiency in carrying out the functions of local government, or for the establishment of local government structures at the level most proximate to the population. As a result, in an overwhelming majority of constituent entities of the Russian Federation territorial organization of local government does not match its objectives, goals, and responsibilities.

Furthermore, change of leadership in regional government bodies often leads to changes in the territorial organization of local government in that constituent entity of the Russian Federation. A vivid example is provided by the situation in Tiumen’ Oblast where following the elections and replacement of the Governor the settlement model of the territorial organization of local government was changed into a territorial settlement model, and municipalities were enlarged at the expense of the interests of the rural population.

It should be noted that current federal legislation enables the population to independently decide issues of territorial organization. The existing situation is related not so much to the gaps in the legislation, but to the violation of federal legislations by the regional government bodies. The latter is due to the insufficient activity and empowerment of citizens, on the one hand, and, on the other hand, to weak control and inconsistent implementation of federal policy of developing local government by federal authorities. However, the mechanism of legal remedy, interaction with federal authorities, the use of qualified consultants, and the increased scope and quality of the information accessible to citizens, allow the population to defend its rights and to demand necessary changes not only in the territorial organization, but also in the economic foundation of rural government.

In the Russian Federation all possible territorial types of municipalities exist:

1. separate settlements (urban and rural);
2. associations of rural settlements (rural districts, rural councils, volost, and so on), with smaller territory than that of administrative raions;
3. Raions combining both rural and urban settlements;
4. Two-tier organization (raion and intra-raion municipalities, town and intra-town municipalities).

According to the Goskomstat data for 2002, the Russian Federation has 11,482 (12,215 in 2000) municipalities, including 1,509 raions (1,404 in 2000), 8,426 rural districts (9,314 in 2000), and 270 rural settlements (203 in 2000). There has been an overall decrease in the number of rural municipalities in recent years. This is mainly due to the political situation, the insufficient financial support of their activities, the violation of the rights of rural municipalities, and the lack of appropriate legal protection.

For various types of territorial organizations of local government in constituent entities of the Russian Federation, the following distribution has emerged:

1. At the level of rural settlements municipalities exist in ten constituent entities of the Russian Federation (Udmurt Republic, Kaluga Oblast, Stavropol Krai, Astrakhan Oblast, Krasnoiarsk Krai, Khabarovsk Krai, Republic of Adygea, Republic of Sakha, Karachaievo-Cherkess Republic, Evenk Autonomous Okrug);
2 At the level of rural districts - in 37 constituent entities of the Russian Federation;
3 At the level of administrative raions - in 72 constituent entities of the Russian Federation;
4 Reform of local government was not adopted in Chechnya and Altai Republics.

Combinations of different types of rural territories are as follows:
1 Raion and rural district - in 22 constituent entities of the Russian Federation;
2 Raion and rural settlement – in 1 constituent entity of the Russian Federation (Udmurt Republic);
3 Raion, rural district, and rural settlements - in 5 constituent entities of the Russian Federation (Kaluga Oblast, Stavropol Krai, Astrakhan Oblast, Krasnoiarsk Krai, Khabarovsk Krai);
4 Rural district and rural settlements - in 2 constituent entities of the Russian Federation (Republic of Adygea, Republic of Sakha);
5 Rural settlements only - in 2 constituent entities of the Russian Federation (Karachaievo-Cherkess Republic, Evenk Autonomous Okrug);
6 Rural districts only - in 8 constituent entities of the Russian Federation (Kursk Oblast, Nenets Autonomous District, Bashkortostan, Tatarstan, Penza Oblast, Republic of Khakassiya, Novosibirsk Oblast, Aginskii Buriatskii Autonomous Okrug).

Thus, in more than half of constituent entities of the Russian Federation the rural population does not exercise local government independently within the boundaries of rural territories. The possibility for the population to participate in local government is provided through territorial public self-governance (TPSG). However, it should be noted that TPSG only provides to citizens a venue for public self-expression, but carries no authority. Within the framework of TPSG the population can only undertake its own initiatives on local issues backed by local resources. Whereas issues of livelihood fall under the authority of local government, which have the right to allocate resources from local budgets, collect taxes and fees, and receive resources from the federal government. In this situation residents of rural settlements can only have indirect influence on these issues, through joint action with residents of urban settlements and other territories. This means that local government decisions in rural areas depend considerably on the population of urban settlements and townships, thus preventing full consideration of rural development needs and of specific features of the rural way of life. Yet, as was pointed out earlier, this situation developed not because of the limitations at the federal level, but as a result of application of the laws in constituent entities of the Russian Federation.
ORGANIZATIONAL FRAMEWORK OF RURAL MUNICIPALITIES

THE AUTHORITY OF RURAL MUNICIPALITIES

One of the basic principles of local government is the existence of exclusive delegated authority. In the Russian Federation the process of local government, i.e. local decision-making, may not be conducted by the government or by government officials. Thus, definition of the exclusive authorities of local government is a matter of critical importance.

Since local government is a legally subordinate authority, the law determines the scope of its authority or the possibility of placing any matter, as well the rights and responsibilities (authorities) of local government, under municipal authority.

At the present time, the main issues placed under the authority of local government competence are determined by the Constitution of the Russian Federation and the Federal Law “On the General Principles of Organization of Local Government in the Russian Federation.” A number of issues are placed under the authority of local government by federal sectoral laws. **The current legislation does not differentiate between the scope of authority for rural and other municipalities.** At the same time, the variety of local conditions does not allow determination of a conclusive list of matters of local importance at the federal level, including the specific features of rural areas. For this reason Chapter 6 of the Federal Law “On the General Principles of Organization of Local Government in the Russian Federation” provides that municipalities have the right to consider other issues regarded by the laws of constituent entities of the Russian Federation as having local importance, as well as those issues not excluded from their authority and not included in the authority of other municipalities and bodies of government.

According to this legal norm, rural municipalities and **raions** primarily consider the issues related to regulation of agricultural development, support of agricultural producers, and creation of production infrastructure. At the same time, the issues of maintaining municipal housing and provision of utilities are less important for rural areas. As a rule, the main focus in this area of rural government is on provision of fuel to the local population and to municipal institutions. Developing gas and energy supply is vital for rural municipalities. However, due to the high costs of developing this infrastructure and lack of resources in rural municipalities, these problems are not properly addressed. **To resolve the existing situation it is necessary to adopt government development programs in this field, to create conditions for financing these projects on terms acceptable for rural municipalities, or to develop cooperation at the local and intermunicipal level.** The latter task is delayed because of legal restrictions, as well as insufficient legal and methodological support for the financing and cooperation activities of local government.

It should be noted that application of the norms of the Federal Law “On the General Principles of Organization of Local Government in the Russian Federation” which define the authority of local government, has raised serious problems relating to unclear terms and the use of definitions that have more than one legal interpretation, such as “organization,” “development,” “participation,” “provision.” Application of these legal norms creates problems. To clarify the authority of local government, constituent entities of the Russian Federation adopt laws restricting or expanding the rights of local government in some areas without justification, and assigning to local entities the responsibilities of government without appropriate compensation of expenditures.
Rural municipalities have particular difficulty in defending their rights, due to insufficient information and lack of necessary skills.

An additional problem is the fact that the bulk of issues of local importance fall under legal regulation by sectoral laws of the Russian Federation and of constituent entities of the Russian Federation, although in many cases the legal norms contained in sectoral laws do not correspond to the legislative norms dealing with local government. In part this is due to the fact that in a number of industries legislation was adopted before the Constitution of the Russian Federation and the Federal Law “On the General Principles of Organization of Local Government in the Russian Federation” went into effect.

The Constitution of the Russian Federation and federal laws establish the main rights and responsibilities of local government (generally, ensuring that local government meets the primary needs of the population in the areas under its authority, and carries out delegated government responsibilities to the extent of available material and financial resources). In addition, government bodies of constituent entities of the Russian Federation may provide, within the limits of their authority, additional rights to local government, while local government may independently or through popular vote, assume additional responsibilities, taking into account the interests of the population, as well as historical and other local traditions.

Local government may also extend certain general government responsibilities delegated by law. Early local government legislation in the Russian Federation provided for local government bodies of rural territories to maintain the registration of civil acts, to provide certain notary functions and other government responsibilities. Current legislation does not provide for delegation of some of these responsibilities to local government. For example, government bodies of constituent entities of the Russian Federation must maintain the registration of civil acts; property records are maintained by the federal government, and so on. There is evidence that, despite legal prohibition, government bodies of constituent entities of the Russian Federation in practice still delegate to rural government the responsibility to maintain the registration of civil acts and perform notary services. This is due to the fact that delegation of certain government responsibilities to local governments of rural settlements, such as registration of civil acts, notary actions, military records, environmental land use control, property record in remote areas, and provision of social assistance is necessary because the creation of government bodies is not feasible at the local level and the execution of these functions must be done in close proximity to the population.

When the boundaries of a municipality (raion, rural district, volost) encompass other municipalities (volost, village, and so on), the areas of authority, sources of income, and property owned by these municipalities are separated by the laws of a constituent entity of the Russian Federation. The authority must be “divided” in a way that offers the most effective solution of each set of issues related to the provision of services to the population. Often government bodies of constituent entities of the Russian Federation pass decisions covering all municipalities with similar territories (raion-volost; volost-township, volost-village, and so on). This practice is unacceptable because in each specific case municipalities have: different infrastructure facilities and different capacities for their creation; different ways may be available to provide services to the population (by municipal institutions proper or through outsourcing to other municipalities and private enterprises, hiring appropriate specialists, and so on); the distances between municipalities vary greatly; settlements may have different access to transportation...
links, and consequently different temporal availability of services provided by local government; specific national and historical features; different personnel capacities, availability of resources and demographic composition of the population, which determines the need for various services (e.g., prevalence of pre-school and school-age children, pensioners, and youth); and different environmental conditions. Thus, no single approach is appropriate for all municipalities.

It is also clear that the adoption of laws for each type of municipalities is a lengthy and complicated process. It would be useful to follow the example of Pechora Raion of Pskov Oblast in dividing authority between a raion and two volosts. The municipalities held preliminary discussions on separation of authority. Government bodies of the constituent entity of the Russian Federation provided methodological support to this process and organized consultations by experts from the Local Government Department of the Federation Ministry of Russia. The results of the discussions were presented by the municipalities to Pskov Oblast legislature. To overcome the differences that emerged, a specialized structural unit of the oblast Administration conducted reconciliatory meetings with authorized representatives of the municipalities, a deputy of the legislative government body of these territories, and representatives of government bodies in the disputed areas. Building on all undertaken activities the legislative government body of Pskov Oblast adopted laws on the division of authority between the municipalities of Pechora Raion and Krupskaya Volost, as well as between Pechora Raion and Kuley Volost. The criterion guiding adoption of these laws were maximum proximity of services to the population, and the ability of the population to monitor the responsibilities carried out by local government.

It should be noted that in the process of dividing authority between municipalities the same issues may be assigned to the competence of each municipality, simply by defining the territory under the jurisdiction of each municipality.

Issues related to the maintenance of municipal institutions should be placed with the municipality in whose territory these institutions are located and to whose population they provide services. For example, institutions of vocational education, tertiary hospitals (such as cardiology, ophthalmology, neurology), and (in some constituent entities of the Russian Federation) hospitals that provide services to the entire population of the raion are typically located in raion centers. In this case maintenance of these institutions can be assigned to the authority of raion municipalities. In contrast, schools and medical stations usually provide services to the residents of one volost (township, village) and their maintenance should be assigned to the authority of local government of that volost (township, village). However, it should not be ignored that any municipality has the right to fund construction and organization of municipal institutions with its own resources or with funds provided under minimum social standards for education and healthcare of citizens residing in the territory of a municipality.

Thus, although current legislation establishes a unified list of subjects under the authority of local government for various types of municipalities, in practice they have different authority, which reflects specific local features and types of municipalities. This arrangement is more appropriate to the needs of municipal government in each particular case and can be viewed as an achievement in legal regulation of the complicated issue of determining the authority of local government.
THE STRUCTURE OF LOCAL GOVERNMENT

According to the Constitution of the Russian Federation the structure of local government is determined independently by the population. The principle of separation of authorities that determines establishment and operation of government bodies is not binding for local government under applicable legislation. The existing structure of local government in an individual municipality reflects local and national specific features and traditions. As a rule the structure of local government also reflects the specific features of different types of municipalities.

The Federal Law “On the General Principles of Organization of Local Government in the Russian Federation” determines that the structure of local government must include a representative body, elected by ballot vote through universal, equal and direct suffrage.

Federal legislation makes an exception for small rural settlements. If it is possible to hold a public meeting, then formation of a representative body of local government is not required, and its authority, including exclusive powers, are assumed by the public meeting. In this case the meeting is legally qualified if at least 50% of citizens are present that reside in the territory of the municipality and are eligible to vote. This procedure of self-governance is usually available to municipalities with a population under 500. However, the laws of some constituent entities of the Russian Federation allow municipalities with a larger population to hold meetings that carry out the functions of representative bodies of local government as well. For example, in Krasnoiarsk Krai a meeting can be held in municipalities with up to 1,000 residents; in Magadan Oblast – with up to 5,000 residents.

Although the establishment of local government involves certain costs and compliance with complex electoral procedures set forth in the Federal Law “On General Guarantees of Voting Rights and Rights for Participation in a Citizens’ Referendum in the Russian Federation”, elected bodies of local government have not been created and their responsibilities have been assumed by a public meeting in only six rural territories. In all other rural municipalities representative bodies of local governments have been elected and are functioning. Furthermore, meetings of citizens in rural settlements are held as well. For example, in all rural municipalities of the Republic of Kalmykiya meetings of citizens are convened in the system of local government along with elected representative bodies of local government. If a municipality includes several rural settlements, a meeting in an individual settlement is usually either an advisory body or a body of territorial public government. In some local settlements, which are municipalities, a public meeting as a form of direct majority rule of the citizens is envisaged in municipal charters and can assume the functions of a representative body of local government and make decisions on critically important issues of rural life. In some municipalities, charters stipulate certain decisions, which can be made only by a public meeting. In particular, these include decisions pertaining to: the alteration of the territory of local government; issues of public confidence in the elected bodies and/or local government officials; issues of the acquisition or disposal of municipal property; and issues of the accountability of elected local government officials.

Reflecting national, historic and other traditions various names are assigned to elected bodies of local government in rural municipalities (raion, ulus, kaimak, volost, somon, nasleg, rural councils, villages, and so on), such as meetings of representatives, meetings of deputies, khurals, councils of deputies, self-governance committees, municipal meetings, zemstvo meetings, volost administrations, and so on).
Term limitations of the deputies of local representative bodies of local government in different municipalities are from two to five years.

Elections of deputies to representative bodies of local government in the majority of rural territories have been held according to the majority system of single-mandate election districts, in more than 20 regions - with multi-mandate election districts, and in Krasnoiarsk Krai and Sverdlovsk Oblast a mixed system has been used in which some deputies are elected according to a proportional system based on the election of deputies from lists of electoral associations. It should be noted that the electoral system for municipal elections is determined independently by a municipality and is subject to change. Notably, there is a much higher attendance of municipal elections by voters in rural municipalities than in urban ones. In villages and rural districts (волость, and so on) attendance is 70-80% of voters, while in urban areas it is generally 45-55%, but sometimes barely reaches 25%. This indicates a greater concern among the rural population in ensuring representation of their interests and establishing local governments. The electoral traditions of the rural population also play a significant role.

The number of members of representative bodies varies: from 4 deputies in rural districts and settlements, for example in Chita Oblast, to as many as 30 and more in rural районы. On the whole, however, it should be mentioned that, after the experience of overstuffed Soviets of People’s Deputies in the 1990s and the need to set up Lesser Soviets, the majority of municipalities tend to keep a low number of members in the representative bodies of local government. Unfortunately, the size of elected bodies of government is rarely determined with consideration for the specific territorial features of a municipality, or the distribution or ethnic composition of the population. The same is true for the use of electoral systems in electing deputies to the representative bodies of local government. Yet, a sound approach to incorporating all factors allows for the identification of the best representational arrangement, for the safeguard of national interests and the interests of individual settlements, and for the establishment of the most effective bodies of local government. As in the case of drafting legislative acts, particularly a charter, local governments of rural municipalities require qualified consultations to assist in the development of organizational structures responsive to various specific local features.

Under the laws of the Russian Federation a representative body may carry out all the responsibilities of local government, with the exclusion of cases where citizens exercise direct majority rule. A representative body of local government may assume only those functions placed under its exclusive authority by federal legislation. All other responsibilities are carried out by other bodies, including executive bodies. Other models of relations between representative and executive bodies are used as well.

Most frequently municipalities create a single executive and administrative body – the administration. Yet, in small rural municipalities it is common to elect and appoint only a few municipal officials (head of municipality, treasurer, secretary of local council, elder, and so on), rather than to create a multi-member executive body of local government.

All activity associated with local government can be headed by an elected official – the head of a municipality. The head of a municipality is elected either by the entire population or by the representative body of local government from among its members. In approximately one third of constituent entities of the Russian Federation (the Republic of Kabardino-Balkaria, Republic of Mordovia, Republic of Bashkortostan, Novosibirsk, Nizhnii Novgorod, Oryol, and Penza Oblasts, Oginski-Buriatskii and Nenetskii Autonomous Oblasts) the heads of administration of all or the majority of municipalities
have been elected from among the deputies of representative bodies. For example, in the Republic of Bashkortostan only ten municipal heads out of 985 have been elected by the entire population. In contrast, in Kursk Oblast all heads of rural municipalities have been elected by popular vote.

As a rule, the head of a municipality elected by the population, as well as the head of a municipality elected from among the deputies of a representative body, joins the representative body with a casting vote, chairs meetings, and approves the decisions of the elected body of local government. Additionally, the head of a municipality either heads the administration, if one exists, or independently carries out executive and administrative activities within the limits of his authority, as determined by the charter of the municipality.

Although it does not occur often, in some rural municipalities the executive administrative body is headed or executive and administrative activities are carried out by a contracted manager (head of the administration). For example, in Voronezh Oblast heads of the executive bodies were contracted in Arkhangeskii, Mosolovskii, Naschekinskii, and Rubashevskii rural councils, and in the villages of Brodovoye and Sadovoye among others. This ensures a more professional level of municipal government and an appropriate degree of control by the representative body and the population over executive and administrative activities.

In some rural municipalities a so-called “commission model” can also be found, where members of the elected bodies of local government conduct executive and administrative activities in different areas. In villages these commissions are often formed from the members of a local community who are professionals in specific fields and do not work in these commissions on a regular basis.

Thus, in rural municipalities of the Russian Federation various models of organizational structure exist, reflecting different local conditions and traditions of the population.

It is instructive to look at the structure of local government adopted in the village Kamaievo of Ichalkov Raion in the Republic of Mordovia as an example. Local government in the village is carried out with true community spirit and provides a good illustration of the positive experience of rural government.

The village has 250 inhabitants, including 80 children and teenagers. The highest body of local government is the public meeting, which makes decisions on the most important issues affecting local life, including those of economic activities of farms (there are 12 farms in the municipality) and also the matters on which the elected body of local government could not reach a unanimous decision. Individuals under the age of 18 also have the right to participate in the meeting with a consultative voice.

The representative body of local government is elected from among the residents, while the heads of main municipal institutions (school, culture and sports center, and so on) and officials of the municipality also serve as deputies. If any of these officials are not elected by the population to the representative body – Village Council, those officials are dismissed from their management positions for receiving a popular vote of no confidence. The Village Council decisions are considered and adopted by the unanimous vote of all members of the Council. Otherwise the matter is decided at the meeting of the citizens. The highest officer is the President of the village. In order to ensure executive and administrative activities the head of the administration and the treasurer are elected at the meeting. This system allows effective decision-making on issues of local importance.
and promotes social and economic development of the territory. The residents of the village have independently built and are maintaining a school and a cultural and sports center, have set up a medical station and are paying for the onsite services of an external physician and a pediatrician, and have purchased agricultural equipment that serves not only the farms in the village but is also used for contract work elsewhere. Considerable attention is given to public agronomy, soil control, increasing agricultural fertility, and the creation of agricultural processing enterprises. Transportation services for the population are provided through use of private vehicles owned by some residents. Residents take special care to retain the younger generation in the village, they provide professional guidance to school students and create employment for young graduates of higher and secondary vocational schools.

**PERSONNEL AND OTHER ORGANIZATIONAL ISSUES**

An unfavorable personnel situation is one of the main obstacles to effective operation of local government. The average age of municipal employees is 43 years. The percentage of non-elected municipal employees who have reached the retirement age is 4.1% on average; while in the most senior positions their share is 5.9%, in management positions – 5.8%, and in other lesser positions – 4.7%.

As for the educational level of municipal employees in the C category, 50.4% have higher education, 46.7% - secondary education, and 2.9% have not completed secondary education. Data on the composition of personnel in local government suggest that no more than 24% of municipal employees have special education (in the disciplines “state and municipal government”, “economics and management”, and “law”). In rural areas these numbers are considerably lower. Moreover, economic education is not usually related to the management of the economy in the territories, while only 1.5% of employees have been trained in the discipline “state and municipal government.”

While there exists a fairly large number of educational institutions licensed to provide training, retraining and professional development for specialists in state and municipal management, in many of them the educational process is detached from the practice of the municipal service, while the quality of education falls short of the requirements for municipal employees. The number of municipal employees trained annually is also not very large. In 1998, 11,900 individuals received training, of which 2,400 (20%) were retrained and 9,500 (80%) participated in professional development programs. Professional development is usually limited to two or three-day seminars and courses. Only 600 employees received professional certificates in 1998. The majority of municipal workers participating in professional development are the employees of urban and raion municipalities. Workers of rural municipalities have virtually no opportunity to improve their qualifications due to the deficit of funds in local budgets and the lack of state funding for professional training.

The severe shortage of qualified managers prevents effective use of resources, affects the quality of public services, and compromises the overall performance of local government, particularly in rural areas.

The situation is also exacerbated by the insufficient level of information available to local government.

Today information resources have become as important as material and financial resources, if not more so. Municipalities acting alone and using only local budgets find it impossible to develop an informational support system for the population and for local
governments. As a result, no comprehensive system of informational support for local government is available. For years informational services for municipal governments were carried out ad hoc, without any informational support provided to local government by the State. As a result, some municipalities have established local information networks using selected information technologies. But this approach is virtually unknown in rural municipalities of the volost and settlement type. Information technologies, as well as access to information sometimes present an enormous challenge for local government. The system of mandatory mailing for official published government legislation to each body of local government that existed in the early 90s has been discontinued. Rural municipalities lack funds for acquiring necessary informational materials (even primary sources, not to mention methodological and research literature). Recently rural libraries have virtually discontinued new acquisitions. This has created a severe shortage of information in rural municipalities on the most critical issues of municipal management.

In the course of the implementation of the federal program of local government support, certain technologies and techniques were developed. However, because of the lack of resources, they have only been adopted with the help of the federal government in a limited number of municipalities. The lack of informational support prevents municipalities from independently implementing techniques that have been developed. Because of this the federal program has had only limited impact, although according to estimates made in the course of the implementation of various methods and technologies in different types of municipalities, an increase of the income base of local budgets by 25-30% can be reasonably expected, with similar savings of budget resources through sound management of local finances.

**OPPORTUNITIES FOR COOPERATION BETWEEN MUNICIPALITIES**

The Federal Law “On General Principles of Organization of Local Government in the Russian Federation” determines that municipalities may form associations and unions in order to coordinate their activities and to realize more effectively their rights and interests. The responsibilities of local government cannot be delegated to municipal associations and unions. Currently a large number of both federal and regional unions and associations are active in the Russian Federation. Thus, the Association of Rural Municipalities has been created and is active. Associations and unions of municipalities, including rural municipalities, have been established in the Republic of Kalmykia, Stavropol Krai, Astrakhan, Kursk, Orenburg Oblasts and others.

Local governments may not act as participants of economic societies or as founders of other commercial organizations, with the exception of the establishment of unitarian enterprises and joint stock companies in the course of privatization and capital investments. Thus, municipalities cannot form joint commercial entities for carrying out activities aimed to address local issues and territory development.

At the same time, the law does not limit the right of municipalities to participate in non-profit organizations. Accordingly, for the purpose of implementing joint projects local governments of different municipalities can create other non-profit organizations besides associations and unions, define their objectives and terms of operation, and carry out various economic activities through them.
THE ECONOMIC FRAMEWORK FOR RURAL GOVERNMENT

The development of local government, including rural municipalities, is impossible without a financial and economic framework, legislative norms on the budget and tax rights of local government, the rights of municipalities to local finances and municipal property, and the right to regulate the social and economic development of a municipality. The Constitution of the Russian Federation sets forth basic norms that guarantee the economic rights of local government.


According to the law, the economic foundation of local government consists of municipal property, local finances, state owned property transferred to local government management, and any other property serving the needs of the municipal population according to the law.

At the same time, the right of local government to participate in economic activity, as well as the possibility to coordinate the activities of other economic agents for the purposes of municipal development, is essential for ensuring that local government functions properly.

By ensuring the economic independence of local government as well as the possibility for local government to influence economic development, and by supporting the right of municipalities to necessary resources, the financial and economic framework encourages conditions for supporting the livelihood of the population, for meeting its needs, and for the development of competition in the production of goods and services.

Municipal property is one (key) element of the economic foundation of local government. Municipal property includes: local budget funds; movable and real property, including municipal housing and non-residential premises; municipal lands and other natural resources owned by a municipality; municipal enterprises and institutions, including educational, healthcare, cultural and sports facilities; and municipal banks and other financial and credit institutions. The local budget is the main component of municipal property required for the operation of local government. The status of local finances is discussed in another section of this paper. The following review addresses other main components of municipal property.

Municipal property, as one form of property, is recognized and protected under article 8 of the Constitution of the Russian Federation. In the process of local government the population of a municipality owns, operates and disposes of municipal property (art. 130 of the Constitution of the Russian Federation) and the bodies of local government independently manage municipal property in accordance with article 132 of the Constitution of the Russian Federation.

Municipal property, formed as a result of the property relations reform undertaken as part of the restructuring of the government system, serves as the basis for the economic activities of local government.

Direct legislative regulation in the area of property relations is accomplished through the Civil Code of the Russian Federation and the laws adopted in accordance with the Code. The Civil Code also established the right of municipalities to participate in civil legal relations, including involvement in financial and economic activities.
The law does not limit the types of property that can be held in municipal ownership. Formation of municipal property had started before the adoption of the new Constitution of the Russian Federation and was carried out in accordance with the Resolution of the Supreme Soviet of the Russian Federation of December 27, 1991, No. 3020-1 “On Separation of State Property of the Russian Federation into Federal Property, State Property of Republics with the Russian Federation, of Krai, Oblasts, Autonomous Oblasts, Cities of Moscow and St. Petersburg, and Municipal Property,” and the Order of the President of the Russian Federation of March 18, 1992, No. 114-rp “On Adoption of the Regulation on Determination of Composition of Federal, State, and Municipal Property and the Procedure of Establishing Property Rights." These legislative acts provided the basis for the formation of municipal property in raions and in oblast level cities. The transfer of municipal property to raion level towns, councils of townships and villages was also permitted, however not through a declarative procedure, but rather by conciliation with the raion local government. As a result, some municipalities have no municipal property notwithstanding the fact that upon the adoption of the Federal Law “On General Principles of Organization of Local Government in the Russian Federation” all municipalities received equal rights.

The process of separation of municipal property between municipalities of different types, including by the laws of constituent entities of the Russian Federation, is underway but has not been completed. Initial formation of municipal property is based on the separation of state property. In the future municipal property may be formed through creation of new property, purchase, acquisition in the form of a gift, incorporation in municipal property of escheated property, and through other legal means, including by enforced judicial attachment of private property for municipal needs.

In regard to municipal property local governments enjoy all owner rights: they may transfer property for temporary or permanent use to legal entities and individuals; lease; dispose of property according to the established procedure; and perform other transactions, and set in contracts and agreements the terms of use for privatized property or property transferred for use, including the terms of land use.

The Federal Law also defines the rights of local government concerning the privatization of municipal property. Unlike previous legislation, after the adoption of the Federal Law “On General Principles of Organization of Local Government in the Russian Federation,” the procedure and terms of privatization of municipal property are defined directly by the population or independently by representative bodies of local government. Proceeds from the privatization of municipal property must be fully transferred to local budgets.

Municipal property supports effective exercise of the Constitutional authority of local government and resolution of the main issues concerning the livelihood of the population; it is used to provide services to the population, generate additional income for local budgets and reduce local budget expenditures. But even generation of income from the use of municipal property is not the goal but only a means of ensuring the authority of local government.

Yet, rural municipalities often lack even the most essential municipal property. According to the Goskomstat data, all raion municipalities own some municipal property. Of 8,092 rural administrations (volost, village council, districts) and 270 rural settlements only 7,755 and 264 municipalities of these types, respectively, own municipal property, which primarily includes only the buildings housing local government and the required minimum equipment of workplaces of municipal employees. For example, only 6,653
out of 8,362 rural municipalities (not including raions) own local government property; 2,200 municipalities own enterprises and other institutions, including interest in equity; 4,671 municipalities own housing and non-residential premises; 5,469 municipalities own educational institutions; 4,692 municipalities own healthcare institutions; 4,653 municipalities own cultural, physical education and sports institutions. Not one rural municipality owns a municipal bank or other financial or credit institution.

The data on ownership of municipal property indicate that about 1/3 of municipalities have no basic municipal property (housing, utilities, education, healthcare, and so on). Furthermore, the majority of municipalities without required municipal property are former territorial sub-units of the raion – rural councils, villages, and towns of the sub-raion level.

Another serious problem related to the municipal property of rural municipalities is the ineffective composition of municipal property, which includes unviable holdings, and inefficient management of the municipal economy. A selective analysis of municipal enterprises in municipalities confirms that their activities are largely unconnected to the responsibilities of local government or could be accomplished more effectively by enterprises that belong to other forms of property. The municipal procurement system is not used or is used in a perfunctory manner, whereas its sound utilization could save from 10% to 25% of funds. Municipal property facilities are not used according to their purpose or are underutilized. The municipal economy lacks a sound management structure and its operation in rural municipalities remains virtually unregulated.

The Federal Law “On General Principles of Organization of Local Government in the Russian Federation” grants local government the right to create enterprises, institutions, and organizations for conducting economic activities and to define objectives, terms and the manner of operation for these enterprises or organizations, to regulate prices and tariffs for their products (services), to approve their by-laws, to appoint and remove managers of these enterprises, institutions, and organizations, and to review reports on their activities.

The capability of local government not only to exercise its authority, but also to engage in economic activities, and to create enterprises and institutions promotes decision-making on a range of issues linked to traditional economic activity, and ensures the sale of products and the creation of jobs.

Local governments, similar to other economic agents, have the right to engage in external economic activities in the interests of the population.

According to Article 36 of the Federal Law “On General Principles of Organization of Local Government in the Russian Federation” and Articles 60, 62, 41-43 and 47 of the Budget Code of the Russian Federation, income received by municipalities from their own economic activities and from the use and disposal of municipal property is included in the revenues of local budgets.

Planned Legislative Changes of General Principals of Local Government Affecting Rural Municipalities

The draft Federal Law “On General Principles of Organization of Local Government in the Russian Federation” provides for radical transformations of territorial and organizational
principles of local government and a significant change of their authority. The law also affects fiscal matters and addresses citizens’ rights to local government.

Three types of municipalities with different levels of authority are envisioned. The first type includes settlements. These are rural and urban settlements or a number of settlements united by common territory. Furthermore, to qualify as a municipality the settlement should have a population over 1,000, or over 3,000 for the territories with high population density. Individual settlements with smaller population are united by the decision of the government bodies of constituent entities of the Russian Federation in a way that ensures that the size of the population is not below the numbers specified above. The boundaries of a settlement encompassing two or more communities are determined by a constituent entity of the Russian Federation “taking into consideration pedestrian accessibility to the center of the settlement and back within one working day for the residents of all communities constituting the settlement.”

The implementation of the provisions of the draft law in the majority of constituent entities of the Russian Federation will involve the creation of municipalities in the territory of settlements. This has the advantage of bringing government closer to citizens. At the same time, in some constituent entities of the Russian Federation it was citizens who decided to enlarge municipalities by bundling all settlements within the raion boundaries. In such cases upon the adoption of the draft law in question the population’s decision will not be implemented.

The introduction of the draft law will affect the majority of the currently existing 270 municipalities - rural settlements, because it will require their elimination and association with other settlements. This situation apparently will have no effect in Stavropol Krai due to the large size of the population living in rural settlements. The introduction of the draft law will be especially painful in rural settlements similar to the village of Kamaievo, where residents have independently created the entire system of local government, formed municipal property and engaged in addressing issues demanding regulation and solution precisely at the village level to ensure a stable social and economic situation. Apparently, the reshaping of territories will also affect the majority of the existing rural districts (volost) since very few of them have the required number of residents.

Issues of local importance and the scope of authority are contained in a closed list that is identical for both urban and rural settlements. Other issues not placed under the authority of municipalities of other types, can be undertaken by the settlements administration only if own material and financial resources are available. The draft law does not provide for addressing these issues through the use of resources mobilized elsewhere.

In the list of issues of local importance there are no provisions for the adoption and implementation of municipal development programs, the creation of infrastructure required for carrying out economic activities, including for the development of agricultural production, the coordination of enterprise activities aimed at territorial development, the creation of conditions for employment of the population, and a number of other important issues traditionally addressed by municipalities. There will be no opportunity for the development of agricultural cooperation with the participation of local government or with their organizational support and credit cooperation. At the same time the most problematic issues of electricity and gas supply to the population within the boundaries of the settlement have been placed under the authority of this type of municipality. No separate state responsibilities are delegated to local government.
The second type of municipality is a municipal district (район). It consists of several settlements united by common territory. The boundaries of a municipal district are determined “taking into consideration pedestrian accessibility to the center of the settlement and back within one working day for the residents of all settlement constituting the municipal district.” The boundaries of municipal district are determined “taking into consideration the availability of conditions for addressing intermunicipal issues of local importance by local government of municipal district, as well as for the implementation of selected state responsibilities in the entire territory of municipal district.”

Issues of local government in municipal district include “issues of an intermunicipal nature.” These are guardianship and trusteeship; pre-school, general primary education, basic general education and tertiary education; primary healthcare including perinatal healthcare; emergency medical assistance; electric and gas supply within settlement boundaries; maintenance and construction of roads, with the exception of federal and regional roads; transportation services between settlements; law enforcement; utilization and processing of household waste; fiscal adjustment of settlement budgets through transfers from the municipal district budget, and some other issues of lesser importance. The “intermunicipal” character of the responsibilities highlighted in italics above raises concern.

As in the example above, the list of issues of local importance does not include the adoption and implementation of municipal development programs the creation of infrastructure required for carrying out economic activities, coordination of enterprise activities aimed at territorial development, creation of conditions for employment of the population, and a number of other important issues traditionally addressed by municipalities. Municipal districts are restricted in assuming issues not envisaged in the draft law, similar to the draft law for settlements. Some state responsibilities are delegated to the local government of a municipal district.

The third type of municipality is an urban district. It is defined as “an urban settlement not included into a municipal district.” The issues of local importance for an urban district include all issues of local importance for settlements and municipal districts. Some state responsibilities are delegated to local governments of urban districts. A review of the specific aspects of creation for municipal districts and preservation (acquisition) of their status, as well as the procedure of territorial organization of local government in the federal level cities is not the subject of this paper.

The adoption of the draft law will involve changes in the territorial organization of the constituent entities of the Russian Federation, establishment of new boundaries of municipalities as soon as possible, and redistribution of land property and other municipal property.

The draft law provides for the possibility to exclude certain objects from municipal property in the event of a rearrangement of responsibilities. Municipalities shall have the right to own only those objects that are directly connected to the implementation of responsibilities for that type of municipality. By considering proposed changes in the sectoral laws, this provision is apparently introduced for the purpose of removing educational and certain healthcare institutions from municipal ownership. The Ministry of Education of Russia has proposed for some time to transfer the responsibility of establishing educational institutions, and the right to appoint managers and to approve by-laws of educational institutions to the bodies of general government. The draft federal law on the separation of property in the Russian Federation should also be considered.
This draft proposes the removal of all objects not directly related to the exercise of authority by local government and government bodies of constituent entities of the Russian Federation without compensation from municipal and constituent entities' ownership. Particularly relevant in this case will be the change in the composition of the municipal property of settlements.

The draft does not adequately distinguish the responsibilities or establish the authority of different types of municipalities. The law still employs unclear terms (participation, creation of conditions, ensuring conditions, organization, and so on), the rights and duties of municipalities are not defined, no criteria are set defining the scope and quality of services provided to the population by local government.

The draft introduces differentiation and, for a number of existing municipalities, limitations of citizens' rights depending on the place of residence, while not providing for the possibility to utilize specific local conditions for more effective management, growth and political stability.

In comparing issues placed under the authority of different types of municipalities a clear difference in citizens' rights emerges, depending on whether they reside in settlements or urban districts, which contradicts not only the Constitution of the Russian Federation, but also the recognized norms of international law. For example, the organization of primary healthcare, the functioning of pre-school, primary, basic, secondary, and tertiary educational institutions in accordance with the interests of the population in big cities is determined independently by that population, without participation of other citizens, whereas in small and medium-size towns and rural settlements similar decisions on behalf of these local communities are made by other citizens who do not use the services of these institutions and are not affected by their activities.

Assigning responsibilities to each type of municipality in the form of a closed list also raises concern. The Russian Federation is a very large country with very different local conditions. Imposing a closed list of issues of local relevance without thereby restricting the rights of citizens to determine independently issues of livelihood and functioning of local government is an unsustainable proposition.

By making the size of the population and the type of settlement factors that define the possibility for independent local government and for determination of the issues of local importance, the draft law, when adopted, would become an obstacle to the growing participation of citizens and the creation of a civil society, and will encourage a dependent attitude among the population. Adoption of the law will have particularly negative implications for agricultural production and development of rural settlements. Precluding the population from influencing the process of ensuring livelihood, and restriction of local authority with corresponding limitation of financial resources (no authority – no finances) will lead to a mass flight of the population from rural areas, especially young people, and will promote the aging and extinction of villages, as well as the contraction of the labor force. In such situations replacement of the indigenous population by migrants, declines in agricultural production, and abandonment of agricultural lands become likely possibilities.

In the concept of local government reform the opportunity for the local population to independently determine its interests becomes a function not of effectively existing and potentially available material and financial resources but of the degree of centralization of all resources determined by superior bodies of government. This is especially evident for municipalities of the settlement type.
The draft law also entails substantial changes in the organizational structure of local government. As was noted in part 2 of section 4, currently a number of settlements with the population above 100 (from 200 to 500) successfully use public meetings as a form of local government. This increases the confidence of the population in the authorities, promotes civic activity and enables the attraction of additional resources. Draft provisions preclude this arrangement in settlements with the population over 100. At the same time, small settlements (under 1,000) are not considered municipalities under the draft. Thus, direct local rule through public meetings will not be permitted.

Deputies of a representative body of local government of a raion cannot be elected by the entire population through universal, equal and direct suffrage, but rather by settlement deputies from among their members. At the same time, heads of municipalities - settlements serve in the representative body of local government of the raion.

The authority of a representative body of local government is expanded simultaneously with a considerable increase in the number of deputies. At the same time, control over the activities of other bodies and officials of local government is excluded from the authority of a representative body and a norm on the creation of a special oversight body is introduced. There is a provision for mandatory formation of administration as an executive and managing body within the structure of local government. All these changes will involve special organizational efforts, mobilization of additional staff, and rising costs of municipal service.

The draft law provides for participation of government bodies of constituent entities of the Russian Federation in formation of local government and termination of their authority.

The possibility to use local traditions and legal procedures developed in local conditions for establishing the structure of local government and in organizing its activity will be limited. As mentioned earlier, a number of democratic procedures are excluded from the tools of municipal management and the formation of local government.

Substantial changes will be required in the organizational forms of local government in rural municipalities. An almost complete revision of the legislative acts of municipalities will be required as soon as possible, in order to ensure their compliance with the new law.

The draft law envisages a change in the nature of government bodies. Local governments will acquire the status of economic agents - legal entities in the form of institutions with considerable limitation of authority in the area of civil legal relations with other economic agents.

The possibility to implement the norms of the federal draft law is directly linked to changes and additions in fiscal legislation. It is too early to say what these changes will be; however, the views express by the authors of the reform suggest that many types of income from regional and federal taxes will be excluded from the income base of local budgets. For example, the issue of including property tax for legal entities, real estate tax, and other regional taxes and shares of federal
taxes (at the present time local budgets receive 50% of property tax of legal entities or real estate tax) in local budgets. The share of income tax assigned to local budgets will be reduced from an average of 50% for a constituent entity of the Russian Federation to 12-25%. Overall, a substantial decrease in the income of consolidated local budgets of the Russian Federation is envisaged.54

Thus, proposed legislative changes in the general principles of organization of local government will have a significant impact on the system of local government in rural municipalities and will affect all aspects of rural life.55

53 A precise number within this range has not been determined.
54 Representatives from the Ministry of Finance of Russia cite a figure exceeding 200 billion rubles.
55 Regional legislation on local self-governance, and Municipal regulations were used in preparation of this article.
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Fiscal Foundations of Rural Self-Government
FISCAL CHALLENGES AND OPPORTUNITIES

N. Golovanova

ORGANIZATION OF LOCAL GOVERNMENT AND THE PROBLEMS OF CURRENT LEGISLATION

A single model of local government is unlikely to be equally effective throughout the entire territory of Russia. One look at a map of the Russian Federation showing settlements with a population over 1,000 (see Figure 1 in the Appendix) suggests that local government in the European part of Russia differs from that in Siberia or the Far East; and the problems of local government characteristic of rural areas are different from those in large industrial cities.

Adoption in 1995 of the Federal Law “On General Principles of Organization of Local Government in the Russian Federation” created conditions for various models of local government to emerge in different regions throughout Russia. Today, 51 constituent entities of the Russian Federation have local government at the city and raion levels.56 Thirteen constituent entities formed local governments at the city and rural settlement level, while at the raion level there are territorial subdivisions of government bodies of constituent entities. In 22 regions a two-tier model of local government has developed, i.e. both at the city and raion level and at the rural settlement level. (However, not all constituent entities have rural municipalities with full budgets; rather rural municipalities often formally approve estimates of revenues and expenditures developed by financial bodies of the raion.)

Although there is a variety of existing models of local government, current fiscal legislation (Budget Code) envisages only one level of local budgets. Accordingly, tax legislation contains only one list of local taxes, while the current version of the Federal Law “On General Principles of Organization of Local Government in the Russian Federation” has only one list of issues of local importance.

In the event that there are two tiers of local government in the territory of a constituent entity, it is the responsibility of the latter to assign revenues and expenditures to the two tiers. However, if there is a one-tier model of local government in cities and settlements, both a large industrial center and a rural district will have the same set of responsibilities and the same list of own revenues. Since the tax system in Russia is heavily centralized, own taxes are an insignificant share of local budgets. Although a city with a developed tax base does have some flexibility based on its own revenue sources, the lack of a differentiated tax base and federal benefits provided to the agricultural sector make almost all budgets of rural districts subsidized.

REFORM OF LOCAL GOVERNMENT AND ASSIGNMENT OF RESPONSIBILITIES

Since current legislation does not capture the variety of forms of local government in Russia, it is necessary to improve the existing regulatory framework.

The proposed amendments to the Budget Code eliminate the restriction concerning the number of tiers of the budgetary system. The new draft law “On General Principles of Organization of Local Government in the Russian Federation” provides for a uniform

56 Goskomstat (State Statistical Committee) (2002); Results of surveys conducted by the Center for Fiscal Policy.
organizational structure of local government throughout the territory of Russia, three
types of local budgets (raion, settlement and urban district), two lists of issues of local
importance and two lists of local taxes (for settlements and municipal raions). The
issues of local importance in urban districts are included in both lists of issues of local
importance, while all local taxes are retained in the budgets of urban districts.\(^57\)

The draft law “On General Principles of Organization of Local Government in the Russian
Federation” helps clarify the assignment of expenditure responsibilities between the
government of the Russian Federation and local governments. Local governments will
not be required to fund inappropriate functions (for example, managing military draft)
and will be able to spend untargeted revenues to finance their own responsibilities.

**Unfunded mandates**

Unfunded mandates, imposed by federal legislation on local government, currently
present a difficult problem for local budgets. To address this problem, the draft law “On
General Principles of Organization of Local Government in the Russian Federation"
provides for targeted financing of the mandates through transfers. This legal
provision will undoubtedly restrict the practice of adopting unsustainable expenditure
responsibilities.

Unfortunately, the alternative to targeted financing of the mandates from upper-level
budgets is the centralization of budget resources. There is no single answer as to which is
the better option. On the one hand, if a higher level of government not only determines the
need to provide public services (as is the case now) but also allocates resources for this
purpose, this is an important step towards promoting transparency in intergovernmental
relations. On the other hand, local governments that previously had the option not to
execute decisions of the federal and regional governments, claiming a lack of funds, will
be deprived of a significant portion of untargeted funds, which would return as targeted
transfers. As a result, the volume of budget resources which local governments may
spend at their discretion will decrease, while the share of funds which local governments
can spend for federally and regionally mandated purposes will increase.

**Limited revenue sources of local budgets**

Local revenues are subdivided into own and shared revenues. According to Article 47 of
the Budget Code, own revenues (both tax and non-tax) are those that are assigned to the
appropriate budgets on a permanent basis.\(^58\) Shared revenues (Article 48 of the Budget
Code) are those whose shared rates are established by the annual budget law. Also, the
current version of the Federal Law “On Financial Foundations of Local Government in
the Russian Federation” sets forth the requirements for general (average) sharing rates
for allocating tax revenues across tiers of the budgetary system.

Own revenues of local governments cover about 30% of their total expenditures.
However, this is a consolidated indicator achieved basically through the input of industrial
cities with an advanced tax base and areas with a developed resource-extracting
sector. Own revenues of rural areas do not cover even 10% of their expenditures. The
almost complete absence of own revenue sources serves as a disincentive for local
governments to develop a tax base in their territory, to create favorable climate for
business and investment and to effectively use budget resources. This also makes local

\(^57\) List of revenue sources of local government will be determined in the Tax Code.
\(^58\) In practice this means assignment by law, with the exception of the annual law on the budget of a superior
government body.
Budgets dependent on higher levels of government and reduces the transparency of intergovernmental relations.

Although the task of gradual reduction of shared revenues and their transformation into own revenues and permanently assigned revenues was set in the “Program for Developing Budgetary Federalism in the Russian Federation by 2005” as early as 2001, it has not been easy to implement. A highly uneven distribution of the tax base hinders the assignment of local revenues in federal legislation. Thus, a dilemma arises: to function properly, local governments need their own sources of revenue. However, the greater the share of revenues assigned to municipalities, the higher the differentiation in own revenue capacity across local budgets and the greater amount of funds necessary to equalize their fiscal capacities. Since the total volume of tax burden cannot grow indefinitely, constituent entities of the Russian Federation will not have sufficient funds to pursue the equalization policy when consolidated local budgets have a large portion of local taxes.

**Selection of Revenue Sources for Local Governments**

What taxes should be assigned to local budgets in the Tax Code? The basic criteria for assigning taxes across the tiers of the budgetary system are as follows: stable flow of revenues, economic efficiency of tax assignment to different tiers of the budgetary system, social equity and even distribution of the tax base, and the degree of tax burden “exportability” beyond the jurisdiction in question.60

**Personal Income Tax**

The personal income tax is distributed rather evenly across local budgets within constituent entities of the Russian Federation. In some heavily subsidized constituent entities of the Russian Federation (Amur Oblast, Koryak Autonomous Okrug) income tax is the most evenly distributed tax at the city and raion levels.

Today, the personal income tax is mainly paid by enterprises at the place of their registration rather than by taxpayers at their place of residence. This results in an export of tax burden if the taxpayer resides and receives public services in one municipality but works in another. The amended income tax collection system (transition to collection at place of residence) will make its distribution more even, thus benefiting those rural municipalities whose residents earn their income in cities.

Income tax is a main revenue source for local budgets. Today, it makes up 34% of tax receipts of consolidated local budgets. In the absence of the real estate tax, income tax is the only tax imposed on residents as recipients of public services, and the bulk of services (healthcare, education, housing) are provided to residents by local government. If local governments have at least one source of revenue, from which its collection depends directly on the number of residents and the level of their incomes, the government will have the incentive to promote comfortable living conditions and respond to the specific demands of local residents for public services. In the meantime, local governments tend to see residents as a source of expenditures rather than revenues.

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59 The greater the task of placing the tax burden on taxpayers from other territories (regions, municipalities), the better the tax in question will be suited for assignment in that territory.

60 These criteria are discussed in greater detail in the Rationale for the Section “Distribution of Tax Responsibilities and Sources of Revenue” of the Program for Developing Budgetary Federalism in Russia Federation in the Period until 2005 (http://www.fpcenter.org).

61 The degree of even distribution of the tax base was evaluated by the Center for Fiscal Policy (http://www.fpccenter.org) using the data on revenue structure in the budgets of 23 constituent entities of the Russian Federation.
Generally speaking, the income tax has a mobile tax base; in Russia, however, the mobility of the population is still insignificant due to the low level of incomes. In the future, when the real estate tax is introduced, the real estate is reassessed at market value, and the tax rate grows, the role of income tax in local government revenues may decline. However, this situation is not imminent.

**PERSONAL PROPERTY TAX**

The personal property tax is distributed rather evenly both at the city and raion level and at the settlement level, making it a good candidate as a revenue source for settlement budgets.

The nature of the property tax makes its revenue only marginally vulnerable to the fluctuations of the business cycle. Such stability is especially important for local governments that are responsible for providing numerous services that are vital to their population - whose need for social services is permanent and is not affected by economic ups and downs. Real estate is the main component of the current personal property tax base. Since it is not easy to hide real estate, it is much more difficult to avoid paying the property tax, than it is to evade other taxes. Presently, the individual property tax makes up only 0.4% of local tax revenue. This insignificant share is explained by low tax rates as well as by using book values rather than market prices for assessing the tax base as is usual in other countries. If the amount of tax is assessed at the market price of property, only market changes or an environmental change in the area where the property is located would have a main impact on personal property tax collections. The efforts of local government to develop settlement infrastructure can make the area more attractive and property values will grow accordingly.

Of course, one cannot change the location of real estate. A house cannot “move” to another area with lower real estate tax rates. Real estate has a fixed address and geographical ties. One can create land use maps to determine the jurisdiction of a land plot with buildings on it, i.e. the municipality entitled to taxation.

Revenues from the personal property tax can be used to finance real estate related functions covered from the local budget. In this sense, the property tax may be considered as a charge for services rendered – in any case, the experience in countries where this tax is imposed and actively used shows that the volume of rendered municipal services is approximately correlated with the values of real estate located in the jurisdiction where the service is provided. The residents of a jurisdiction carrying the burden of the tax have a clear opportunity to compare the cost of services with their utility.

**ENTERPRISE PROPERTY TAX**

The enterprise property tax has all the advantages of real estate taxes, except for one: its uneven distribution. It is unevenly distributed at the city and raion levels, and more so at the level of settlements, which makes it a poor source of local revenues. However, in the regions where this tax is distributed fairly evenly, constituent entities of the Russian Federation can assign a portion of it over a long-term basis to municipal raions and urban districts.

**LAND TAX**

In terms of an evenly distributed tax base, the land tax is a good candidate to become a revenue source for local budgets. In municipalities of Altai Krai, the Republic of Adygeiia, the Republic of Altai, Novgorod, Ivanovo, Kurgan and Tomsk Oblasts, the land tax is the
most evenly distributed tax among revenue sources. A transition to tax base assessment on the basis of market prices will strengthen the revenue base of rural governments that have dacha plots located in their jurisdictions.

**TAX ON PROFITS OF ENTERPRISES AND ORGANIZATIONS**

The profits tax is not a very reliable revenue source for local governments. The collections of the profits tax are distributed unevenly. The profits tax depends greatly on the economic situation in the country, subsequently making its collections very unstable, therefore it is not advisable to assign it to local levels. Furthermore, profit is the type of indicator that can be easily misrepresented.

The profits tax base has significant mobility and thus may be easily exported beyond the boundaries of a municipality or a region, which is the main argument against assigning this tax to the local level. Sprawling enterprises with many branches further complicate the determination of where profit is earned in a jurisdiction. The legislation that requires the branches of an enterprise to pay tax proportional to the value of fixed capital is not observed in most cases. In such a situation, a constituent entity of the Russian Federation is better equipped to address the problem than a local government.

**SMALL BUSINESS TAXES**

There are two types of small business tax in Russia: the single tax collected due to the simplified system of taxation, accounting and reporting, and the single tax on imputed income from certain types of activity. Though the share of revenues from these two taxes in the consolidated budget of the Russian Federation is not large, they have potential to become a good source of revenue for regional and local budgets in the event of small business growth in Russia.

Within constituent entities of the Russian Federation the single tax on imputed income from certain types of activities is distributed more evenly than the single tax collected through the simplified system of taxation. In some regions (Vladimir, Saratov, Volgograd Oblasts and Khanty-Mansi Autonomous Okrug) the tax on imputed income from certain types of activities is the most evenly distributed.

**PROPOSALS OF THE GOVERNMENT OF THE RUSSIAN FEDERATION ON FORMATION OF REVENUE SOURCES FOR LOCAL GOVERNMENTS**

Given the size and heterogeneity of Russia, an economic solution involves more than just the selection of local taxes. However, no final decision will be able to simultaneously address the interests of both wealthy and poor municipalities, or to reflect both the interests of municipalities and constituent entities of the Russian Federation.

The highly irregular distribution of the tax bases makes it impossible to assign significant own revenue sources to local budgets, since increasing the share of revenues creates a greater differentiation of per capita fiscal capacity. Revenue assignment to local governments leads to the increased independence of municipalities with developed tax bases (primarily urban districts). However, the opportunities for regional governments to provide transfers for the equalization of municipal fiscal capacities will diminish.

The Government of the Russian Federation has proposed to assign part of the personal income tax, the single tax collected through the simplified system of taxation, the single tax on imputed income from certain types of activities, the single agricultural tax, the land tax, the personal property tax and the advertising tax (see Table1) to local governments.
as their revenue sources. These taxes best meet the assignment criteria of revenue sources, though they do not fully cover municipal expenditure requirements. Only the personal income tax contributes substantially to local governments’ revenues and, despite the mobility of its tax base, remains the main revenue source of local budgets.

Nevertheless, 30% of personal income tax collections, 60% of small business taxes, 100% of land tax, and 100% of personal property tax will provide more revenue to local budgets than 2% of profits tax, 50% of enterprise property tax, 50% of land tax and the rest of local and assigned taxes as envisaged by current legislation. This structure would increase the revenue capacity of rural budgets because tax bases of the profits tax and enterprise property tax are concentrated mainly in the cities and natural resource-extracting areas, while tax bases of the personal income tax and small business tax are evenly distributed throughout Russia.

**Specific Features of Local Government in Rural Russia**

Rural areas encounter many of the same problems faced by other local governments in Russia. However, rural governments also have specific challenges, the main one being the absence of a developed tax base.

Without a tax base, no model for expenditure responsibilities and revenue source assignment can be developed. The assignment of the personal property tax to rural settlements is the correct decision in terms of intergovernmental relations. However, because of the tax’s low rates and evaluation of its tax base at book value, it cannot become a significant source of revenue for rural budgets. Even the right to change the tax rate would not help local governments to noticeably improve the situation due to the low income of the rural population and the limited opportunities for tax collection. In this situation only the redistribution of per capita personal income tax collected in local jurisdictions would increase local governments’ revenues and support governments' interest to attract residents into their jurisdictions. However, because this source of budget revenues is not directly related to incomes of the residents of a municipality, it is unlikely that residents will be interested in controlling the effectiveness of services and the use of budgetary resources. Only the personal income tax paid directly at the place of residence and the tax on imputed income can involve rural communities in active participation in the budget process and in local elections. The taxes imposed on small business where agriculture is unprofitable do not provide a stable revenue source, although the fact that they are collected for local budgets encourages local authorities to reduce administrative barriers to small business development in their jurisdictions.

If local budgets in rural jurisdictions are supported only by equalizing transfers, the institution of local government will not work. The lack of own municipal revenues disrupts the link between providing public services and paying for them in the form of taxes. Only the gradual development of a tax base in rural areas and a greater interest from communities and local administrations in the growth of their own tax base will promote the stability of financial foundations of local government, community participation in local management, and the overall development of democracy and civil society.
**Table 1**

*Estimated Sources of Tax Revenues of Local Budgets*

<table>
<thead>
<tr>
<th>Source of Revenue</th>
<th>Consolidated Budget of Constituent Entities of RF</th>
<th>Local Budgets</th>
<th>Including Budgets of Municipal Districts</th>
<th>Budgets of Settlements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax</td>
<td>100%</td>
<td>30% 15% 15%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Including redistribution from the constituent entity’s budget to local budgets</td>
<td>20%</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Single tax collected through the simplified taxation system</td>
<td>90% 60%</td>
<td>30% 30%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single tax on imputed income from certain types of activities</td>
<td>90% 60%</td>
<td>30% 30%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single agricultural tax</td>
<td>90% 60%</td>
<td>30% 30%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land tax</td>
<td>100% 100%</td>
<td>-</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Individual property tax</td>
<td>100% 100%</td>
<td>-</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Advertising tax</td>
<td>100% 100%</td>
<td>100%</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

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Private Financing in Rural Areas
RURAL CREDIT COOPERATION AS A BASIS FOR SOCIO-ECONOMIC DEVELOPMENT

N. Medvedeva

According to national figures, an estimated 62% of those living in rural areas are considered poor. The resources allocated by the government for rural development are clearly insufficient. Access to financial resources is therefore crucial to promoting the economic growth and social development necessary for the rehabilitation of rural communities. At the same time, those who would play a key role in this growth – rural manufacturers, privatized farms, individual peasant farmers, and other local entrepreneurs – lack the necessary access to credit resources. Lack of credit access adversely affects the rural economy on two levels. At the village level, the absence of tools necessary to sustain basic economic activity leads to the reduction of available jobs and to the decline in the standard of living within the community. At the household level, lack of credit access for individuals makes it difficult for them to build up savings and to pay for important items such as education, home construction and repair, and healthcare costs.

Providing rural access to credit fulfills three functions important to the development of effective local governance. First, it promotes economic development by providing needed jobs and increasing the local tax base. Second, it plays an important role in social development by providing resources for basic household needs and for the implementation of social development programs. Third, credit access leads to the development of a middle class in the countryside by enabling rural inhabitants to accumulate resources through savings and investment activities. This article examines one method for providing credit access in rural areas of Russia, that of the development of a credit cooperative system.

CREDIT COOPERATION AS AN APPROACH TO RURAL FINANCE

The Rural Credit Cooperative Society (RCCS) is a voluntary association that gives membership both to individuals and organizations that reside and/or operate in a rural area. Members of credit cooperatives range from individual peasant farmers, agricultural manufacturers and processors, to rural businessmen and inhabitants not engaged in agricultural production. The RCCS is established in order to satisfy members’ financial needs through the joint accumulation of savings and granting of loans. The main activities consist of mobilizing members’ savings and lending capital in order to grant loans to members for production, commercial, and household needs.

The credit cooperative society is based on the principles of cooperation, mutual aid, self-management, and individual responsibility of each member. Organization members are its investors, creditors, owners, and employees. They control the application and use of cooperative funds; share responsibility for cooperative activities; bear joint liability for its financial risks; and make joint decisions on credit eligibility, loan size, and use of any other resources. The nature and organization of these financial institutions differ from a commercial bank. The difference is formally reflected through their legal status as non-profit organizations, and by their mission to provide member services as inexpensively as possible.

62 Starikov (2002); Press bulletin “Rural Credit” (2003).
The development of rural credit cooperation contributes to the development of local governance by addressing a wide range of economic and social problems. RCCS activities directly provide the rural community with credit resources; increase the financial stability and level of solvency of agricultural producers; deliver start-up capital to small agricultural businesses; and increase the attractiveness of the agrarian sector for investment. On a macro-level, the financial activities of the credit cooperatives contribute to the revival of rural business activity. Local rural businesses serve as an engine for economic growth by improving infrastructure, creating new jobs, and generating local tax revenue. On a micro-level, RCCS activity helps individual members to accumulate savings; to overcome financial difficulties caused by illness, temporary loss of jobs, or delays in wages or pension payments; and to accumulate resources for items such as housing improvements and child education. In many regions, cooperatives act as a mechanism for government to provide discounted credit for housing improvements and other social development programs. Over the longer term, the RCCS also leads to the development of a middle class by enabling members to accumulate resources through savings and investment. In addition to these concrete benefits, the RCCS also promotes local empowerment through the development of new economic skills and individual initiative. By learning to use financial resources effectively, members of the rural community adapt more easily to new market conditions.

Rural credit cooperatives in Russia provide a wide range of services to their client-members at low cost. These services include:

- Granting of loans to members for firm and household needs.
- Reception of member deposits as savings.
- Allocation of temporarily available resources to deposits in commercial banks or to state bonds.
- Provision of financial services to members through mutual settlements with a third party.
- Provision of member consultation and information services on legal and financial issues relating to improved business efficiency.
- Training on various credit activities such as bookkeeping, taxation, business scheduling, and computer literacy.
- Provision of additional office services such as mail, facsimile, and documentation copying.

RCCS activities demonstrate that in many areas these organizations have become centers of rural business.

The Development of the Credit Cooperative Movement

Internationally, credit cooperative societies (CCS) have played, and continue to play, an important role in civil society development. One of the most prominent and successful examples of the role played by CCSs can be found in post-World War II Europe, where credit cooperative societies were vital in the reconstruction and development of the main economies of Western Europe.

The national credit cooperative movement in Russia, which has only just begun to develop, is growing at a rapid pace. In 1997 there were only 30 rural credit cooperative societies in Russia operating in 12 regions. Today, national numbers have grown to more than 280 rural credit cooperative societies, with 22 thousand members operating in 63 different regions. Rural credit cooperative societies play a significant role in financing small-scale agricultural producers and processors. Main participants include
small-scale plots, individual peasant farms, and small agro-businesses. In 2002, RCCSs granted over half a billion Rubles in loans. Members used funds for many purposes, for example, to acquire fuel, seeds, fertilizers, herbicides, pesticides, and spare parts; to repair facilities; and to purchase and raise pedigree cattle. RCCS development is heavily concentrated in the southern grain-growing regions, which account for 36.4% of the total number of RCCSs in Russia. The share of RCCSs by region breaks down as follows: Volga Federal Okrug – 16.5%, Siberian – 21.2%, Central – 7.3%, Northwest – 5.8%, Ural – 8.3%, and Far East – 10.7%.

Despite rapid growth, there continues to be considerable demand for rural credit cooperative services. The lack of alternative sources of financing has led to pent-up demand for credit resources. Consequently, the potential for RCCS development still remains substantial. According to a survey conducted among 40 cooperatives in 2001, the current level of financing provided by the Fund for Rural Credit Cooperation Development only meets about 53% of demand from accredited member cooperatives.\(^{63}\) The limited availability of other financing options make credit cooperatives one of the only sources of credit for small firms and inhabitants in rural areas. Firms such as small agricultural enterprises and manufacturers are unable to obtain credit from commercial banks due to the lack of sufficient guarantees and the complexity of the credit application procedure. Moreover, rural credit cooperative societies are often the sole financial structure operating in certain rural areas, as commercial banks have closed many of their rural branches.

Despite rapid growth and high levels of demand, the development of rural credit cooperatives continues to be constrained by the lack of an adequate legal foundation. Legal inconsistencies generate problems for RCCSs on issues such as taxation, accounting, and membership. The current Federal Law “On Agricultural Cooperation” is not tailored specifically to the needs of rural credit cooperation, although it does enable rural credit cooperative societies to operate with mixed membership (individuals and organizations). Cooperation with government at the regional level has led some oblast administrations to pass additional legislation more specific to RCCS needs. However, in most areas of Russia, the inadequacies of the federal legal framework lead to three main obstacles to credit cooperative development. First, regional administrators are reluctant to be engaged in credit cooperative development in the absence of a concrete law. Second, the legal base does not provide for adequate application of the Federal Tax Code to credit cooperative societies, which leads to ambiguity as to how RCCSs should be taxed. Third, administrative and tax authorities in a number of regions frequently misunderstand the specifics of credit cooperation, leading them to treat RCCSs as commercial organizations engaged in profit-maximization. A new Federal Act “On Credit Cooperation”, which would resolve many of these difficulties, is currently in its first reading in the State Duma and will be discussed at greater length towards the end of the paper.

\(^{63}\) The system of Credit Cooperation will be explained in more detail below.
Box 1: Micro-Credit
The Micro-credit movement was started in the early 1980s in South Asia and was quickly replicated in other areas of the world as a mechanism to reduce poverty. Traditional micro-credit programs target those without land or assets and 90 percent of recipients are women. Loans are collateral-free, and usually have a maturity of approximately 50 weeks with weekly repayments. Borrowers are part of a 15-20 person group that meets regularly. Savings is an integral part of the program and financial transactions are recorded in individual passbooks in the presence of the entire group to enhance transparency and self-monitoring. Micro-finance institutions start with a small loan and provide repeater loans of increasing amounts as long as repayment of the earlier loan is satisfactory. This repeater feature is critical to the excellent repayment performance. Most micro-finance institutions have loan repayment rates in excess of 95 percent. More importantly, the basic premise is that the poor need to have continuous access to credit for 8 to 10 years to accumulate enough savings or assets to escape poverty.

Micro-credit in Eastern and Central Europe (ECA) differs from traditional forms and methods of implementation. Loan recipients have a much higher level of education, on average, and a greater percentage are men. Borrowing groups are typically smaller and programs often provide individual loans. The scope of informal micro-credit arrangements in ECA is also more limited due to a stricter interpretation of the law as well as burdensome taxes and regulations. In the ECA countries there is a strong demand for safe savings and deposits, which only formal institutions are generally allowed to offer. Because the scope for informal financial institutions is more limited than elsewhere, assistance is needed to help informal financial sector institutions to formalize. Micro-credit at the community-level is not community-owned or managed. Informal arrangements built on community level structures would benefit from modification to a recognized legal form, in order to ensure their long-term sustainability. Credit Unions/Cooperatives offer a formal sector model with scope for community representation and relevance.

The System of Rural Credit Cooperation in Russia
At the national level, there are two organizations that play a central role in the formation and development of the rural credit cooperative system in Russia: the Fund for Rural Credit Cooperation Development and the Union of Rural Credit Cooperative Societies. The Fund for Rural Credit Cooperation Development (FRCCD) is a nongovernmental, non-profit organization that was established in 1997 by the Association of Farmers and Small Agricultural Entrepreneurs (AKKOR) and the Ministry of Agriculture to assist in the formation of a rural credit cooperative system. FRCCD fulfills its mission by providing accredited cooperatives with loans for agricultural development and processing and with technical assistance and credit training. The bulk of resources utilized for these activities were allocated to FRCCD by the Russian-American program “Development of Rural Credit Cooperation in Russia”. The program provided funds from the sale of U.S. Department of Agriculture seed in 1999 and 2000 and established ACDI/VOCA as the American partner for implementing the program.

There are currently 43 accredited cooperative societies located in 20 different regions of Russia. From 1999 to March 2003, the FRCCD granted loans totaling 453.5 million Rubles to member cooperatives, of which 207 million Rubles were granted in 2002 alone. In 2002 the lending portfolio consisted of 55.7% loaned to large farms, 22.4% to individual peasant farms, 14.1% to agricultural production cooperatives, and 7.8% to agricultural businesses. Loan terms range from three months to one year, and
the size of each loan (to member cooperatives) is limited to a maximum of 5% of the Fund's loan capital. Currently, the maximum loan amount is about 10 million Rubles. Loans are granted at the market interest rate, which is between 21% and 25%. Specific rates depend on the category of the borrower as well as the loan term, purpose, and level of collateral. In 2002, the loan repayment rate was 99.9%. Overall, this method of financing has led to considerable growth in the economic parameters of each RCCS. The co-op share fund, the quantity of members, and the number of granted loans have all grown by 2.5 to 3.0 times their original amount.

The Union of Rural Credit Cooperative Societies (URCCS) is also a nongovernmental, non-profit organization, established in 1997 by AKKOR and FRCCD, which provides non-financial support to member credit cooperatives. These functions currently include:

- Representation and protection of the rights and concerns of participants to governmental authorities, local government bodies, and public organizations.
- Coordination of rural credit cooperative society activity.
- Development of a normative, technical base for rural credit cooperation.
- Utilization of investments and provision of technical assistance from Russian and international financial organizations, and assistance in implementing international projects on credit cooperation in Russia.
- Training for RCCS personnel.
- Provision of consulting services and assistance on RCCS formation and activities.
- Development and distribution of manuals, guidelines, and the monthly bulletin Agricultural Credit.

In order to deliver more effective services at minimal cost, the URCCS is reorganizing on a new multi-level structure (Figure 1). As shown below, the new structure will be divided into three different layers. The first level will include individual rural credit cooperatives that operate at the local level. Their interests will be directly represented in the URCCS through territorial representation. The second level will consist of larger regional consumer credit cooperatives that serve local member cooperatives. These interests will be served through regional and interregional representation. The third level includes national organizations.
REGIONAL GOVERNMENT COOPERATION

FRCCD has worked with URCCS, as well as individual credit cooperatives, to establish contacts with the regional administrations in which credit cooperation is active. Joint agreements have been concluded in seven different regions, including: Volgograd, Astrakhan, Voronezh, and Perm Oblasts; Republic of Chuvashiya, Republic of Mary El, and Republic of Udmurtiya. Types of cooperation range from the formation of legislative foundations and norms to the creation of mechanisms to mitigate against risk.

Experience shows that the greatest success has been achieved by those cooperative societies that are integrated into regional systems and regulated through local legislation. In these regions credit cooperation is often included as a component in rural development programs. Programs that target rural credit exist in many regions such as Volgograd, and Vologda Oblasts, and the Republic of Chuvashiya. Program documents identify rural credit cooperation as the mechanism for rehabilitation of rural investments, development of small-scale manufacturing and business, and improvement of rural living standards.

Regional government recognition of rural credit cooperation testifies to the success that individual cooperatives have made on economic as well as social fronts. RCCSs are quickly becoming an important facet of civil society in rural Russia. In addition to government recognition, their growing social importance is demonstrated in three ways. First, credit cooperative societies have taken root at the local level through the active participation of agricultural manufacturers, rural businessmen and villagers, and support
from the local government. Second, credit cooperatives supply an increasing amount of financial assistance to rural agricultural business and the rural population as a whole. In Volgograd Oblast, RCCS loans grew from 15.2 million Rubles in 1999 to 241 million Rubles in 2002. Third, commercial bank confidence in cooperative societies has also increased in recent years as a result of high (almost 100%) repayment rates. The number and range of banks working with credit cooperatives has enlarged as a consequence.

**Case Studies**
Volgograd Oblast is the leader in credit cooperation development, with 41 individual credit cooperative societies operating under the larger rural consumer credit cooperative society *Sodruzhestvo* that serves the region. This two-level system includes 10.5 thousand members, or half of all RCCS members in Russia. Loans have grown rapidly, increasing from 136.9 million to 241 million Rubles between 2001 and 2003. The structure of regional loans in 2001 included 74.1 million Rubles to peasant farmers for production and asset replenishment needs. With the help of rural credit cooperative societies, members purchased 27 tractors, 14 combines, 3 calibration machines, 2 UAZ motor vehicles, and 150 heads of pedigree cattle; and constructed 6 warehouses.

RCCS resources have also contributed to social needs, as regional cooperatives have become increasingly involved in providing financial assistance to underprivileged members of rural communities such as pensioners, students, and those with disabilities. Almost all the cooperative societies of the region have concluded agreements with the Pension Fund, enabling those citizens in underserved categories of society to become RCCS members. Cooperatives provide these members with deposit and other savings mechanisms as well as access to credit at discounted rates. Financial services have helped rural inhabitants install gas and electric supply for housing and to pay for basic social needs. The Volgograd experience is a concrete demonstration of how rural credit cooperatives work to raise rural standards of living and to promote social development in addition to supporting economic activities.

**The sources for cooperative credit fund formation are increasingly varied.** Savings deposits account for 40% of credit resources, on average, and in some cooperatives are as high as 76%. Additional sources include financial organizations and commercial banks (49.6%), securities and savings funds formed through deductions from RCCS funds and through regional budget resources (11.7%), as well as member capital (6.7%). Given the current stage of development in Volgograd, regional experts now feel that further increases to the credit fund should be made through the addition of individual member savings. This would increase member stake in the organization and work to ensure against the abuse of funds.

Relative financial stability has been achieved through the allocation of RCCS and regional government resources to a Securities and Support Fund, which is managed by the regional agricultural consumer credit cooperative society *Sodruzhestvo*. Regional budget allocations to replenish the Fund grew to 2.2 million Rubles in 2002 and, by the end of 2002 the Fund totaled 10 million Rubles. Specific Fund applications include:

- Financial security for repayment of external loans (not less than 70% of fund resources).
- Financial assistance to the credit cooperative societies suffering from liquidity problems during certain periods of the harvest cycle, which involves the granting of favorable loans to RCCSs for a period of approximately eight months (not more than 30% of fund resources).
Perm Oblast provides another example of successful credit cooperation development. As in Volgograd, the regional administration supports the idea of forming a system of credit cooperation for the region. Regional administrators and cooperative members plan to turn RCCS *Doverie* into the central financial organization for the regional system. *Doverie* has operated in the region since 1997, growing from 15 members to a total of 268 members by the beginning of 2002. Members include individual peasant farmers, agricultural enterprises, and small-scale processors from 25 districts in the region. With 3 million Rubles of member capital, *Doverie* is one of the largest rural credit cooperative societies of Russia. Current plans will create a credit system that consists of 50 local rural credit cooperative societies, established in 40 districts. A surplus fund will be established at the regional level to provide guarantees for external loans to new regional RCCSs.

**LESSONS LEARNED**

Experience in Volgograd and Perm Oblasts provide a number of insights into the successful development and operation of a rural system of cooperative credit. First, the examples show that regional cooperation through the creation of a legislative base and other forms of support are instrumental in instilling popular support and fostering sustainable development. Second, the creation of guarantee funds at the regional and district levels are important for guaranteeing the stability of the system. Additional funds are needed to cover unforeseen losses, to defray expenses, and to defend against losses incurred under bad loans. Surplus funds also help attract new members.

**THE FUTURE OF RURAL CREDIT COOPERATION IN RUSSIA**

Today, the creation of a credit cooperative system in Russia continues through the formation of a multi-level system, developed at local, regional, and federal levels. Two-level systems currently operate in many regions of the country, such as Volgograd and Perm, where credit organizations serve members on a local and regional basis. These systems provide financial security through guarantee mechanisms and are characterized by high levels of repayment. Their successful track record in Russia demonstrates that the accumulation and formation of financial assets in cooperative societies at the second level does not occur at the expense of cooperative societies of the first level. Rather, regional cooperatives enhance local operations and development by attracting external resources (commercial banks, budgetary funds, and other financial organizations), cooperating with regional government, providing technical assistance and other member services, and regulating cooperative growth. All the activity of cooperative societies of the second and third levels is driven by the principle concern for the welfare of local cooperative societies.

The multi-level model of credit cooperation has operated in many developed countries, including those in Europe, for over a hundred years. The main argument against formation of such a system in Russia is that it may result in so-called “pyramid” structures. However, this problem has not characterized multi-level structures in other developed countries and should not pose a problem in Russia either. Moreover, credit cooperative societies contain developed mechanisms of internal regulation. Organizational characteristics such as voluntary membership and assumption of joint liability help ensure against abuse. Since cooperative societies of second and subsequent levels are based on the same democratic principles, internal regulation at higher levels is also effective.

**The advantage of a multi-level system of credit cooperation is the system of checks and balances it provides at each operational level.** Higher levels serve to regulate and to provide financial and technical assistance to member cooperatives. Moreover,
a multi-level structure enables formation of an internal audit system and a system of securities and readjustments. It also facilitates RCCS cooperation with government at various levels. As demonstrated by the case studies, government cooperation can promote systemic development by enhancing communication, mobilizing additional resources, creating a legislative base, and instilling popular trust.

Credit cooperation today is one of the main segments of the international finance market, encompassing 650 million members worldwide. In Russia, the system of credit cooperation is still continuing to develop. On a national level, cooperative societies have now reached the capacity to satisfy the immediate credit needs of small-scale individual and former collectives farms. By augmenting the co-op share fund and strengthening the interaction between financial organizations, experts expect cooperative capacity to meet medium-size producer and processor demands in the near future. Over the longer term, it will be important to extend regional and district credit services to provide long-term crediting. The possibility for this currently exists in a number of cooperative societies that have managed to accumulate sufficient resources independently.

Further development of the credit cooperative system requires increased government involvement through the enactment of legislation and state targeted programs. The new Federal Act “On Credit Cooperation” would provide the necessary framework for cooperative credit structures. The primary goals of the bill are to observe the financial interests of member shareholders and to ensure the financial stability of cooperative societies. The bill acknowledges the credit cooperative society to be a non-profit organization, not aimed at profit-oriented activity. Prominent features of the law include support of:

- The ability to form a multi-level RCCS system and to introduce the system of AIC financial provision.
- The right to mixed membership through participation of both individuals and organizations in credit cooperative societies.
- The capacity of cooperative societies to participate in the implementation of state programs.
- The formation of surplus funds.

Further development of rural credit cooperatives will be important in providing the credit access necessary to develop effective local governance mechanisms. To summarize, access to credit promotes economic development by helping to create jobs and by increasing the local tax base; it also leads to social development by providing resources for household needs and for the implementation of rural development programs. In addition, credit access is important in developing a middle class in the countryside by enabling rural inhabitants to accumulate resources through savings and investment activities. Rural credit cooperatives, in particular, are effective in promoting local empowerment. Through active participation, members develop new economic skills and individual initiative, which enables them to adapt to new market conditions and to play a more proactive role in their community.
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REDUCING RURAL POVERTY: THE ROLE OF MICRO-FINANCE

A. Maximov

ACCESS TO FINANCIAL RESOURCES FOR THE RURAL COMMUNITY

Despite the development of a stable financial market in Russia, current access to credit resources for the rural population remains quite limited. One solution is the development of micro-credit institutions in rural areas. As the experiences of Eastern and Central Europe and the Commonwealth of Independent States countries demonstrate, micro-finance institutions have become an effective means for promoting rural development, mobilizing public and private finances for investment, and promoting the development of demand-driven social services in rural areas. Furthermore, micro-finance institutions encourage the active involvement of villagers in local self-governance and the establishment of public control over local expenditures.

The most popular type of micro-finance institution in rural areas is the agricultural credit cooperative. Cooperatives emerge where the rural population has accumulated financial resources for savings and investment. They are aimed primarily at providing financial services for savings and investment of member funds, and at meeting member needs for loans. According to the Federal Fund for Credit Cooperation Support, credit cooperative members include the following: individual peasant farmers – 18.5%, small scale plot and garden owners – 42.7%, large scale agricultural producers and processors – 6.8%, individual entrepreneurs – 8.4%, and others – 22.3% (http://www.ruralcredit.ru).

The more depressed raions, however, often lack the basis from which to establish credit cooperatives. In these situations, the Municipal Fund for Rural Development Support (MFRDS) provides the most successful form of rural micro-finance in Russia. The MFRDS model attracts funds from a number of sources at the local, regional, and federal levels. These sources include: budgets, grants, and funds allocated for targeted rural development programs. The financial resources provided to loan recipients are used in a strictly targeted fashion and must be repaid. Unlike direct financing, MFRDSs provide a continuous source of credit for rural communities, also offering a sustainable way to increase rural employment and incomes.

The article begins with a detailed overview of the legal foundations and structures of a Municipal Fund for Rural Development Support. The next section explores financial aspects of Fund activity, including sources of funding and loan policy. The final section discusses the application of the MFRDS model to the rural raion of Lodeinoye Pole; reviews participant profiles, and analyzes program results.

LEGAL ASPECTS OF MFRDS ACTIVITY

The Municipal Fund for Rural Development Support is a non-governmental organization (NGO), which is aimed at increasing the employment rate, supporting rural producers, and improving the quality of life in rural areas. It accomplishes these goals by providing budget funds, operation revenues, and contributions from individuals and enterprises to rural areas in the form of loans.

64 The Micro-finance Center for Central and Eastern Europe and the CIS (http://www.mfc.org.pl).
Chapter 4: Private Financing

The legal framework for MFRDS is based on the following sources:

- The Constitution of the Russian Federation, which establishes the freedom of business and other economic activities (Articles 9, 36, 72).
- The Civil Code of the Russian Federation, which determines organizational and legal forms, and contains the norms that regulate the relationship between the creation and activities of non-profit organizations.
- The Federal Law “On Non-Profit Organizations” of 12.01.96, No. 7-FL (with modifications and amendments), which determines the following issues regarding non-profit organizations: legal status, clarification of activity, reorganization and liquidation of non-profit organizations, organizational structure and application of property, rights and responsibilities of their founders, as well as basic management principles and possible forms of support from the government and local authorities. The law requires the foundation of a board of trustees, determines the amount and the structure of funding, and also requires information on the size and structure of the entity, its expenditures, the number of staff, and the staff salary scale.
- The Federal Law “On State Support to Small Businesses in the Russian Federation” of 14.06.95, No. 88-FL, which determines the legal status of support funds for small business, the authority of these funds, and their basic activities and tasks.

SHAREHOLDERS

The shareholders of a MFRDS may include individuals and (or) legal persons. The number of shareholders is not restricted, and as few as one person may establish a MFRDS. In accordance with Article 41 and 42 of the Federal Law “On General Principles of Organization of Local Self-Government in the Russian Federation” No.154-FL of 28.08.95 (as amended in 17.03.2002), a body of local self-government may also participate in the founding of a MFRDS. This body can be represented as a shareholder through the committee on municipal property management.

Unlike other rural micro-credit organizations, a MFRDS can be a municipal (governmental) structure if the share of capital held by the municipal entity (the Russian Federation or its subjects) equals at least 50%. The income from the fund remains at the disposal of the municipal entity and is used for implementation of the objectives and activities specified by the legislation and charter of the Fund. The municipal bodies also determine the allocation and monitoring of fund resources, which are included under specified activities.

GOVERNING BODIES: BOARD OF TRUSTEES AND EXECUTIVE BOARD

In accordance with the Federal Law “On Non-Profit Organizations” and other federal acts, the organizational structure, authority, and term of service for the governing bodies, as well as the decision-making procedures and form of public representation, are established by the charter.

The Board of Trustees is the responsible body that: oversees fund activities, makes and executes decisions, searches for funding sources, and ensures that the fund fulfills its mission in accordance with the objectives of a non-profit organization. The Board executes its activities on a strictly voluntary basis. These activities are determined by the charter, which is, in turn, approved by its shareholders.
*The Executive Board* may be comprised of a management group and (or) individuals. It makes management decisions and is accountable to the Board of Trustees.

A separate *loan committee*, comprised of external, non-staff members, analyzes the submitted projects (loan applications) and prepares expert conclusions on these applications. The Board of Trustees through the MFRDS Director approves the composition of the loan committee.

The *charter* is the sole founding document of the MFRDS, and is subject to mandatory state registration. Amendments to the charter must be made by the Board of Trustees or by any other body envisaged in the charter.

**FINANCIAL ASPECTS OF MFRDS ACTIVITY**

Fund capital may be formed using budgetary resources of the Russian Federation if these resources are allocated for: 1) the development of depressed regions; 2) the development of agricultural organizations, individual peasant farms, and private household plots; and 3) the implementation of social programs. A representative of the administration of the Russian Federation may be a member of the Board of Trustees to provide oversight of funding expenditures. Resources may also be used from the district budget for the same purposes, through a decision by local legislative bodies.

Financing from the Federal, regional, and local budgets, as well as from external budgetary sources, which is allocated for the authorized activity of non-profit organizations is not subject to taxation. The taxpayers/beneficiaries of these targeted funds are, however, obligated to account for all revenues and expenditures received from the Fund.

Sponsors’ contributions (grants) are an important source of MFRDS funding. Funds that are granted by foreign sponsors for technical assistance are not subject to taxation, provided that they are duly registered. These funds are allocated through Account 86, “Target Financing,” and used according to the agreement on technical assistance. The recipients of technical assistance are to submit a grant report according to the prescribed format established by the donor organization. The grant report, which is based on the specified usage of donor resources, is also submitted to the tax authorities at the end of the fiscal year.

Target contributions granted for the implementation of charter activities are drawn up under an agreement on target financing. All taxpayers/beneficiaries, who receive property (including loans) or services, within the framework of charitable activities or targeted funds, must submit a report on the use of received funding. The report is filed with local tax authorities at the end of the tax payment period according to the prescribed format, as outlined by the Ministry for Tax and Duties of the Russian Federation.

**LOAN POLICY**

The main objectives for the loan policy formation of a MFRDS include:

- Mobilizing/attracting budgetary funds for investment in rural areas.
- Ensuring access to loans for targeted groups (rural population).
- Maintaining and increasing the volume of loan capital (achieved through the provision of loans on a repayment basis, and so on).
- Ensuring sustainability of the MFRDS.

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65 Par. 3, clause 2, of article 251 of the Tax Code of the Russian Federation.

66 "Order of registration for technical assistance projects and programs, issuance of certificates confirming ownership of funds, goods, works, and services for the purposes of technical assistance, as well as oversight over its targeted utilization" (from government resolution of the RF 09.06.2000, No. 659); Par. 6, clause 1, article 251 of the Tax code of the RF.

67 Tax Code of the Russian Federation (part II) 08.05.2000, No. 117-FL (as edited in 05.06.2003).
As a rule, loan policies should:

- Promote social development. The MFRDS should facilitate creation of mechanisms for public monitoring of budget funds, and promote rural development. The MFRDS itself should become an institution that directly promotes social and economic development, and provides social assistance in rural areas.
- Provide additional services to loan recipients. The MFRDS should provide a wide range of services, including: legal, financial, and technical consultation; business and strategic planning; and loan efficiency evaluation.
- Use a differentiated lending approach through the provision of loans to different categories of loan recipients based on their needs. In other words, loan products should be tailored to the specific needs of each target recipient group. This task can be accomplished by setting up target quotas, and determining different interest rates and collateral requirements for each specific category.
- Ensure risk management and targeted use of loan funds. Various activities should be conducted in parallel to the provision of loans that are aimed at efficient placement of funds, forming and satisfying rural investment needs, and ensuring targeted use of funds.

The most important elements of MFRDS financial management are the elaboration and review of accounting models, the selection of lending methods that minimize the tax burden for loan recipients, and ensure the effective use of loan resources. Proper, simplistic accounting methods are important for the loan recipient to avoid ambiguous interpretation by the tax authorities.

**EXPERIENCE IN SOLVING RURAL POVERTY**

A MFRDS was established in Lodeinoye Raion of Leningrad Oblast in order to provide access to financial resources for the rural population and to promote economic and social development within the region.

The loan capital of the MFRDS was formed through target financing from the oblast (regional) and raion (district) budgets, and from sponsors’ resources. To provide public control over the use of borrowed funds, a representative body of small-scale producers, individual peasant farmers, collective farm managers, legislative deputies, administrators, and grantors were included in the Fund’s Board of Trustees and Executive Board. Heads of rural administrations also actively participate in communicating with loan recipients, acting as representatives for their local community.

Through the MFRDS, recipients of small loans receive access to financial resources on the same conditions as larger producers. The Committee for the Agro-Industrial Complex of Leningrad Oblast subsidizes interest rates for all loan recipients regardless of status, for the purpose of developing agricultural production. Additionally, the MFRDS set up a quota to target small-scale agricultural producers; at least 30% of MFRDS loan capital must be lent to this category of recipients. The current mechanism of loan disbursement establishes a repayment schedule that is appropriate to the agricultural production cycle. Loan recipients may borrow up to 5,000 Rubles through the simplified...
procedure, and are not required to provide collateral. Up to 10,000 Rubles may be borrowed under a repeat loan.

As of today, the MFRDS in Lodeinoye Pole Raion has granted over 450 loans for a total of 10 million Rubles. Small-scale producers are the target audience, which accounts for 84% of the total number of granted loans (Figure 1).

![Figure 1: Loan Structure by Category of Loan Recipient, in % of total loans](image1)

Source: RosAgroFond

![Figure 2: Borrowers by Occupation](image2)

Source: RosAgroFond

Up to 25% of MFRDS borrowers are unemployed or have no permanent form of employment (Figure 2). In this respect, loans can also be considered a form of social assistance for the rural community. As opposed to methods of direct financing, the provision of loans leads to the growth of economic activities. As a result of these activities, unemployed loan recipients are able to repay the loan with interest and to improve the economic position of their families.

A survey of focus groups, conducted during November and December 2002, enables the categorization of loan recipients in four different groups according to their reasons for wanting a loan:

1. Low-income households that have become impoverished as a result of unemployment, wage non-payments, and wage declines. These families struggle to maintain a subsistence level. They aim to expand private plot production, which is used primarily for household consumption. The remainder of production is sold and the proceeds are used to repay the loan.

2. Households that can afford higher levels of consumption. These recipients not only seek to feed their families, but also to educate their children and acquire durable goods (furniture, TV, refrigerator). Such families strive to produce more and to sell a larger portion of their production.

3. Prospective entrepreneurs who are trying to start a business. These villagers attempt to sell the majority of their manufactured goods or services.

4. Established businessmen, in particular peasant farmers, who seek to expand their business through loans.

Borrowers gain valuable knowledge and experience from implementing the economic activities for which the loan is obtained. They engage in activities such as marketing, product diversification, and technological improvement.

The focus group participants have also noted the changes that occur in connection with receiving loans: family income grows, nutrition/level of consumption improves, business
culture develops, new knowledge and business experience accumulates, networks expand, and social status improves. All of these positive effects improve the ability of loan recipients in particular and rural communities in general to adapt to the new conditions of the market economy.

Loan monitoring for small loans has registered increased self-employment and growth of household income within the rural community. Out of 195 loans over 80% were profitable; the average loan size was 7,200 Rubles, and produced an average income of 14,500 Rubles. Production costs per loan accounted for an average of 35% of total revenues for agricultural households. The repayment rate on these loans was more than 98%.

The success of these micro-financing schemes is attributed to the range of support services that are provided to loan recipients in conjunction with the loans. These services include: preparation of business plans, calculation of cash flows, consulting services, training from the Rural Consultation Center, and legal protection through the Arbitration Court.

Micro-credit has increased the employment rate and incomes in many rural communities (Figure 3). Research conducted in two areas of Lodeinoye Pole Raion found that, at the beginning of the program, in 1999, household incomes for the 159 project participants were lower than that of the 373 non-participating households. However, by 2001, the situation had changed: only 21% of project participants had incomes below the minimum standard of living, or half as many as in 1999. Furthermore, the number of participants with incomes above the minimum standard of living had tripled since 1999, compared to an increase of 1.5 times for non-participants. Thus, the MFRDS in Lodeinoye Pole Raion promotes social and economic development, mobilizes budgetary and private resources for investment, and acts as an effective system of social assistance in the village. Just as importantly, the MFRDS promotes the active involvement of the rural community in the process of local governance.

Figure 3: Changes in Level of Incomes of Rural Households, %

<table>
<thead>
<tr>
<th>Participants of the project</th>
<th>Non-participants of the project</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>2001</td>
</tr>
<tr>
<td>Above living wage (LW)</td>
<td>Above living wage (LW)</td>
</tr>
<tr>
<td>14.3</td>
<td>22.8</td>
</tr>
<tr>
<td>47.2</td>
<td>42.1</td>
</tr>
<tr>
<td>38.4</td>
<td>35.4</td>
</tr>
<tr>
<td>Above CB, but below LW</td>
<td>Above CB, but below LW</td>
</tr>
<tr>
<td>20.8</td>
<td>30.3</td>
</tr>
<tr>
<td>35.1</td>
<td>34.3</td>
</tr>
<tr>
<td>Below consumer basket (CB)</td>
<td>Below consumer basket (CB)</td>
</tr>
<tr>
<td>35.1</td>
<td>42.8</td>
</tr>
</tbody>
</table>

Source: Fund for Rural Credit Cooperation Development

Chapter 4: Private Financing
REFERENCES


PROVIDING CONSULTING SERVICES:
THE ASSOCIATION OF FARMERS AND SMALL AGRICULTURAL ENTREPRENEURS (AKKOR) IN ROSTOV-ON-DON

A. Rodin

PROVISION OF CONSULTING SERVICES
The goal of the project was to provide consulting and other services to individual peasant farmers and small agro-businesses. These services include: 1) representation and defense of small agricultural entrepreneurs in government bodies and private organizations; and 2) provision of management and consulting services to producers of agricultural products through partnerships and consulting centers. The project was jointly undertaken by the raion-level Association of Farmers and Other Agricultural Small Business Entrepreneurs (AKKOR), the agricultural credit cooperative Farmer of the Don, and credit cooperatives at the raion (district) level.

The association was registered in 1997, and consists of:
- District non-commercial partnerships
- Sales and supply cooperative
- Southern Russia Farmer Fair
- A leasing company
- A leasing cooperative
- Regional and district credit cooperatives

The Association’s consulting service was started in 1997 with the assistance of the TACIS project Support of Individual Farms. It was based on the Dutch consulting model for agricultural and farmers’ organizations. In the beginning of 2003, 14 rural consulting services and one regional center were operating. According to the survey, 95% of farmers are interested in receiving services.

In 1999 an agreement on cooperation and partnership was signed between the Association and the Ministry for Food and Agriculture of Rostov Oblast (region).

MAIN RESULTS
457 farms are permanent customers for the accounting services provided by the established consulting agencies. In 2002 more than 22,000 consultations were provided for small agricultural entrepreneurs, 15 seminars were held for specialists from rural consulting centers and credit cooperatives, sowing demonstrations were given at 10 farms, and field seminars were held for 450 farms. Consulting specialists prepared 25 publications; and eight information bulletins issued.

The consulting service also disseminates information about the latest technologies and new

*“Field Day”, Consulting center, Rostov-on Don Oblast*
scientific achievements to agricultural producers, which provides these producers with effective tools for managing their farms. The provision of consulting services is based on the following principles:

1. Two-level service. Rural centers, where specialists are in direct contact with farmers, provide them with necessary information, provide on-site consultations, and disseminate know-how. The regional center provides the specialists of rural centers (first level) with information and methodological support.

2. Individual peasant farmers participate in the strategic development of consulting services.

3. The service is open and provides feedback and information exchange between center specialists and farmers.

4. Developed networks of rural consulting centers allow farmers to quickly obtain new knowledge and necessary information.

In the rural areas where consulting centers operate, credit cooperatives have been formed, commercial banks and leasing companies provide small agricultural businesses with investment funds, and new job opportunities have been created.
DEVELOPMENT OF A REGIONAL CREDIT COOPERATION SYSTEM

The main goal of establishing a credit cooperative system is to provide members with necessary financial and other services. The long-term goal is to improve the material well being of the cooperation system members.

To achieve this goal credit cooperatives offer the following services to members:

- Provision of loans to farmers, small scale plot producers, and other small business enterprises
- Provision of savings services
- Attraction of additional credit resources
- Depositing of temporarily free funds to the banks
- Provision of consulting services
- Financial leasing of agricultural machinery and equipment
- Insurance of property

The credit cooperation system in Rostov Oblast (region) has two levels, including a regional cooperative with district branches and rural cooperatives.

The system’s activities include:

- Preparation of qualified initiative groups in cooperative areas
- Attraction of shareholders
- Formation of a reliable credit portfolio
- Establishment of good relationships between cooperatives and heads of rural government authorities
- Establishment of positive public opinion concerning credit cooperation among farmers and other rural inhabitants

The initiation and development of a regional credit cooperative system has been undertaken by the Rostov Regional Association of Farmers and Small Agricultural Entrepreneurs (AKKOR) and its branches.

The agricultural credit cooperative The Don Farmer was established in 1996. In 2001-2002 the TACIS project Strategy for Rural Credit Cooperation Development played a significant role in training personnel. More than 100 specialists of cooperatives, farmers’ associations, and individual farmers participated in 15 seminars held within the framework of the project. The project also provided funds for the purchase of office equipment and furniture for the cooperatives.

MAIN RESULTS

The program established a two-level credit cooperation system. It includes the regional credit cooperative The Don Farmer and 14 independent rural cooperatives, as well as districts that have the legal right to put loan documents in order. The credit cooperation system has more than 900 members (in 1999 there were around 200), and involves more than half of the rural areas in Rostov Oblast.

The shareholders pool equaled 5.6 million rubles in 2002 (in 1999 it was 266 thousand rubles), with approximately 80 million rubles (including 36 million rubles in 2002) in loan disbursements. The main sources of funding are: personal funds (16%), regional budget funds (4.4%), and the Fund for Rural Credit Cooperation Development (FRCCD) (69.2%).

The legislative assembly and regional authorities have adopted a regional program for
small business development 2003-2005 that includes financial support for rural credit cooperatives.

There are around 17 thousand individual peasant farms and 532 thousand small scale plots. Demand for loans from small agricultural enterprises totals between 1.0-1.2 million rubles. The credit cooperation system provides the agricultural producers with the opportunity to attract financial resources under more or less advantageous conditions, and works to promote their development. Regional enterprises receive commercial bank loans of 43.5 million rubles, and credit cooperative loans of 36.5 million rubles. In those rural areas where credit cooperatives are already established, the situation is different. For example, in Orlov Raion (district) credits provided through banks equal 3.5 million rubles, and credits disbursed by the cooperative Orlovskii equal 12.0 million rubles; in Egorlyk Raion banks have loaned 2.5 million rubles, and the Egorlykskii Farmer cooperative has loaned 4.0 million rubles.

**Figure 1: Organizational Structure of the Two-Level Credit Cooperation System in Rostov-on-Don**
Local Solutions
30% of the total population of Russia lives in rural areas. As has been described previously, rural inhabitants represent a vulnerable segment of the population (see articles by Ovcharova and Pishnyak, and Ovchintseva in this volume). Throughout history, the village has often suffered the consequences of failed reform efforts.

The reforms at the end of the 20th century were no exception, as urban needs dominated the transition agenda. The marred track record of reform in the village makes it important to examine successful examples of rural revival and development. The case studies of this chapter are by no means exhaustive. However, they do provide a unique opportunity to view the successful application of modern approaches to rural development.

Each account of rural development differs greatly in its goals and scope of work, illustrating the diversity of rural problems and solutions. Thus, success must be viewed with caution. The approach to the development of each rural area demands case-by-case analysis, as well as the examination of other approaches. While some general lessons can be taken from the experiences presented here, it is important to remember that each covers the specialized needs of the communities in which they took place.

The case studies relate to a range of topics. The first set of examples explores public involvement in community development through empowerment and the promotion of citizen responsibility. These examples of local self-governance include a study of Lodeinoye Pole Raion, the construction of a house for the elderly in Zaozerie village, and the development of participatory decision-making in Kuliay village.

Other case studies discuss opportunities that local governments provide, such as the role of local self-governance for the inhabitants of Kirov Selskii Okrug (rural area). They also depict the importance of infrastructure development to the quality of rural life, such as the organization of the budget process in Gatchina Raion.

Work in rural areas demands thoroughness and tact. Those who begin to promote improvements in villages should be patient, prepared for slow development, sensitive to local needs and approaches, and determined to bring change. It is also important that efforts should strive to overcome traditional paternalism and to involve villagers in participatory development. Determining key goals and objectives may be one way to achieve this result.

The cases studies from the Ukraine and Moldova Foundations for Social Development are of particular interest because they demonstrate the use of various financial resources to promote civil society and participatory development, in which villagers are empowered to change their community.

We hope that the few case studies on rural development presented in this publication will help paint a clearer picture of the opportunities and obstacles prevalent in rural areas, and increase awareness of current efforts to promote rural self-governance.
SOCIAL PARTNERSHIP EXPERIENCE IN SMALL TOWNS AND RURAL AREAS

L. Avrorina

It is well known that social and economic transition in Russia started and developed in large urban centers. The provinces - small towns and especially villages - are the last to be exposed to change. This phenomenon is traditionally explained by a number of factors, which include: isolation from the center, poorly developed social infrastructure, lack of trained specialists, and traditional views and mentalities. Institutions that would promote new approaches and technologies during transition are few and are underdeveloped. Information on solutions to social problems that have been successful elsewhere is lacking. This delay is mainly connected with the collapse of traditional systems of social support and with the decline in state funding.

The transitions in social and economic spheres are dependent both on changes in legislation, and on the appearance of new government and non-government approaches. Social policy and protection is the most varied sphere of interaction between the State and society. Traditionally, social policy questions were decided by state and municipal bodies, whose activities were regulated by existing standards and limited by local budget resources. Today, these limitations still apply. However, the mechanisms for fund distribution and fundraising have changed. As Mikhail Dmitriev, First Deputy Minister for Economic Development and Trade of the Russian Federation, points out:

There are many forms of social protection and social services in the modern market economy that can be implemented outside state institutions. Nonetheless, these resources are underutilized, demonstrating a lack of public dialogue on social policies. Citizens and private organizations are ready to use methods of social protection, which are more diverse and effective than those suggested by state institutions… Within federal executive power structures it is already understood that a modern state cannot be effective without well-established dialogues between civil society institutions. Thus, we are now attempting to implement new mechanisms that will facilitate creation of this dialogue.70

DEVELOPING AN APPROACH

Transformation processes and their mechanisms differ in rural areas in pace, approach, objectives, available resources, and impetus. Who should be responsible for establishing a dialogue between authorities and society? Which issues are most pressing? How feasible are the objectives? Where does transformation begin? Which reforms can be completed more rapidly? How does one engage the population in solving community problems?

There are multiple ways to approach rural transformation. Demographic and migration processes, legislative and normative questions, and economic conditions must be reviewed. There have been attempts to establish a practical dialogue between the state and society. One of the most effective ways for launching a public initiative, establishing conditions for practical projects, and obtaining effective and sustainable results, is the distribution of limited resources on a competitive basis.

Box 2: Civic Engagement
There is substantial evidence that an effective and sound public sector depends on a high level of civic engagement. Civic engagement is defined as “the participation of private actors in the public sphere, conducted through direct and indirect interactions of civil society organizations and citizens-at-large with government, multi-lateral institutions and business establishments to influence decision-making or pursue common goals. Engagement of citizens and citizens’ organizations in public policy debate, or in delivering public services and contributing to the management of public goods, is a critical factor in making development policy and action responsive to the needs and aspirations of the people and potentially of the poor” (Reuben 2002). As the definition indicates, civic engagement establishes mechanisms of social accountability that can lead to significant changes in both the decisiveness and accountability of governments. Some specific impacts include:

- Improving public expenditure targeting of social programs through improved knowledge of citizen needs.
- Enhancing the quality of services delivered through citizens’ report cards.
- Improving the allocation of budget resources through the incorporation of citizen feedback on budget proposals.
- Enhancing public expenditure effectiveness through participatory tracking and monitoring systems.

Civic engagement is a particularly effective mechanism in reducing poverty. It enables the poor to access new resources and to allocate resources more effectively to address their needs. By empowering the poor to resolve their problems in the public sphere, civic engagement can promote impoverished individuals to take the initiative in other areas of life.

Adapted from Reuben 2002

Charities Aid Foundation (CAF) Experience
Many international donor organizations, one of which is CAF, are actively involved in the establishment of new approaches to implementing social partnership programs. Program specialists conduct preliminary research; pilot projects are implemented on the basis of research findings; and social partnership programs involving the community, business, and government are forged.

Volga Federal Okrug
The social partnership program in Volga Federal Okrug represents one example of the pioneering work that is being done in many regions of Russia today. The project aims to unite the federal government, local authorities, private associations, businesses, Russian and international charitable organizations, and mass media for the purpose of resolving pressing social problems in the region. The annual Social and Cultural Projects Fair is the core event of the program. Its goal is to promote social and economic development of Volga Federal Okrug, to strengthen civil society and state institutions, to develop local self-governance, and to improve civic engagement and local activism. The priorities and goals of the Fair differ from year to year. However, the social projects competition, in which different project proposals compete for seed funding, always takes place.

The competition is hosted by different international donor organizations each year on behalf of the Executive Committee of the Fair. In previous years, both the Eurasia
Foundation and the Urban Institute have managed the event. In 2001, the Charities Aid Foundation (CAF) hosted the initial competition, and later monitored the winning projects. This particular competition included a total of 871 projects from 14 Volga Federal Okrug regions. The applications came from 97 different areas, with 27 villages proposing almost one third of the total number of projects received. Eighty-six proposals were named winners, and received funds from the US $1,200,000 grant pool.

While setting priorities for social and economic programs for rural development, it is often difficult to identify: 1) the problems that are most urgent, 2) the ways in which these problems should be addressed, 3) the local resources that exist for implementing the project, and 4) the potential of the rural population for becoming involved. Through the implementation of a large-scale competition, proposals for rural projects helped identify replicable examples, and revealed resources and opportunities for rural economic development.

Projects in rural areas differed from projects that originated in regional centers and large cities in a number of ways. The main difference was that proposals from rural areas focused on practical, realistic changes that were to be implemented in the communities within a short period of time (one year). The expected results were clearly stated and quantifiable.

**Characteristics of Projects Implemented in Rural Areas**

- Sustainable improvements are achieved as a result of the project implementation, and project goals are achieved within a short period of time.
- Project administrative costs are low in comparison to regional and federal projects, as rural programs are implemented in small territories and involve local resources.
- Projects are often authored by schoolteachers, as schools typically function as community centers in rural areas.
- Projects search for ways to involve the public, suggest effective methods of management, and use locally available resources.
- Project objectives typically address the problem of creating and maintaining local employment opportunities and small business development.
- Projects use voluntary labor.
- Projects suggest reviving a set of former, and often lost, skills.

We now present two examples of effective methods of public involvement in community problems. The first project is located in Penza Oblast, and includes the towns Kuznetzk, Kamenka, Gorodishche, and Zametchino. The second program is located in the village Dedurovka in Orenburg Oblast.

**The School for Public Involvement Project**

The project was implemented in 16 schools in Penza Oblast by the regional branch of the NGO Russian Children's Fund. The grant sum awarded for the project was 600,000 Rubles. Eleven of the schools are located in small towns and five are in the city of Penza. Democratic changes in the region combined with reductions in budgetary funding led to public concerns about the management of local schools and fundraising for education. The Public Involvement School was a way to reestablish the school as a center of community life and as a mark of civic initiative by the local community. The
Public Involvement School is a general school that not only provides the community with educational services but also involves students’ parents and other members of the community in various school and community problems.

This example of public involvement in school development demonstrates how schools can become fully operating community resource centers. Decision-making and financial management processes involve not only the students’ parents, but also members of the local community, who learn to work together, pooling their resources. In addition, public foundations have been established and various programs have been implemented to assist community members such as the Week of Good Deeds and training sessions for the programs Democratization and Volunteerism.

The schools developed a program called Partnership: School and the Neighborhood. Its goal was to ‘increase the schools’ role and responsibility in the development of Russian civil society, based on practical action and public interest’. By establishing non-profit, charitable funds, the schools were able to purchase books, conduct repairs, and so on. As a result, both the school and the community received promising opportunities and practical skills to improve their situation and create a better environment for children.

**THE DEDUROVKA ROUND LOAF PROJECT**

The Dedurovka Middle School, which is located in Orenburg Oblast, developed a second approach through the Dedurovka Round Loaf project. Dedurovka suffered both from an exodus of young people due to the lack of jobs and other opportunities, and from alcoholism and drug use. Once a rich village boasting a long history and a strong sense of tradition, Dedurovka has become impoverished. Faced with a lack of bread for the village of 1500 people, high school students and teachers developed a project to restore previous bread production activities using traditional recipes. Through active participation from the school, the project embarked on the reconstruction of a mill and the production of bread at the local collective farm. The professional school has 300 hectares of land for crop cultivation, its own agricultural machines, as well as trained teachers and specialists. There is also a space for a bakery in the village. The project concentrated on accumulating locally available resources, both human and material, reviewing the youth employment problem from a new angle, and consolidating available financial resources. The project allowed them to organize bread production, to create new jobs, to reestablish generational ties, and to train professionals for employment, e.g., millers, bakers, and confectioners. Just as important, people started to believe that they could effect change and became involved in bringing about those changes. In the course of the project implementation, additional financial and material resources from local business and private donations were gathered. The public budget funds were also spent much more effectively than previously. The total
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project cost was approximately US $29,000; more than US $100,000 had been raised in additional funds.

Both projects demonstrate the importance of the school as a traditional center of public involvement, especially in small towns and villages, where adults and children collectively participate in the solution of community problems.

The experience of the project management of the Social Partnership Competition not only revealed strengths and weaknesses of the organizations, and the problems they came across, but also identified donor’s approach to those projects. To achieve the planned results, it is necessary to provide those implementing the projects with immediate consultations on complicated issues. Therefore, it is necessary either to closely supervise each project or to establish consulting centers. Involved monitoring of the projects helps the donor make appropriate decisions on adjustments to the project and assist the organization which is implementing it.

What conclusions can be drawn from the Social Partnership program held in Volga Federal Okrug? The school in a rural area is a community center, but it can also become a leader in community development. Therefore, one can view a school as an important center for social and economic development while implementing such programs.

ECO-TOURISM

One more interesting example of the development of public activism comes from the Altai Republic. The Siberia Center for Public Initiatives in Novosibirsk supported a small US $500 project. It seemed next to impossible to accomplish anything with such a small amount of money, yet the project became a success story.

What was the project idea and what problem was it to solve? At the beginning of the transition period, Altai villages became impoverished, and traditional production ceased. The population mostly lives in rural areas, where the unemployment rates have become extremely high. In fact, cash went out of use and the villagers exchanged commodities in lieu of currency. As some of the villagers said, they forgot what money looked like. Nevertheless, the main wealth of the Altai Republic is its pristine natural environment; Altai is known as Siberian Switzerland. Tourism provided one opportunity for the community to earn money. However, the destruction of previous facilities, and the lack of comfortable conditions, good roads, and other tourist services, deterred tourist companies and tourists from coming to the region. At the same time, the wealth of Altai’s natural environment, the relative proximity of Siberian urban centers, and the long distance to other tourist locations were recognized as an opportunity to develop the local market for rural tourism.

The Siberian Resource Center funded a series of seminars for villagers from Khemal Raion (one of the most beautiful places in Altai). The goal of the project was to build competence in transforming their villages into a tourist destination: to teach villagers how to make their houses attractive to tourists, to demonstrate what kinds of services they could offer, and to show how to provide quality services, as well as to teach basic accounting skills.

The grant money was spent on gasoline for the car used to tour villages and select participants, on paper and pens for the project participants, on informational materials, and on photographs for portfolios. The word ‘portfolio’ initially intimidated the future entrepreneurs, but when they saw an album with pictures of their own houses and gardens, prepared to accept guests, everything was settled. Each photograph was
followed by a description of the services that could be offered to the tourists. In addition to a description of the house, the portfolio contained additional information on the services each owner had to offer. For example, if the house owner was a hunter, the portfolio stated that the owner could organize hunting or fishing trips. Another could provide fresh whole milk and guide tourists to the best spot for picking mushrooms. The most difficult parts of the project were to persuade people of the project’s possible success, and to teach them to understand the importance of service provision. As most of the participants had worked as collective farm members, they were not experienced in entrepreneurial activities or customer service.

The project director brought the prepared photo album to Novosibirsk and showed it to a number of tourist firms. Some of them agreed to suggest such a tour to their clients as an experiment. By the end of the first summer, the villagers earned 50,000 Rubles (approximately US $1,500), an unbelievable amount of money for them. This was only the beginning. In the Altai Republic, as a result of the initiative and determination of several families to improve their lives, eco-tourism is now rapidly developing. A region that has been declining in population for years has begun to revive. People acquired new experience and started to earn money. But what is more important, they acquired faith that they could improve their lives.

POSSIBLE PITFALLS

Despite these success stories, organizations do confront problems during the project implementation. What are these problems? What obstacles typically get in the way of project success?

- Unforeseen, external circumstances - such as a bad harvest, a change of ownership, or an outflow of labor from rural areas - can lead to project instability.
- New approaches may be attempted that do not take into consideration the mentality and skills of the local population.
- Lack of technical knowledge in finance, accounting, and legislation.
- Communication difficulties due to the low quality or absence of modern communication services.
- Lack of motivation to implement change, lack of individual initiative, and dependence on government authorities to resolve problems.

LESSONS LEARNED

In addition to the obvious results from the project implementation, broader goals are achieved. People become motivated and involved in community development and recover lost skills. Participants learn new approaches, and, as the dissemination of experience takes place in the same areas, often the principle ‘not worse than your neighbor’ works as a good stimulus for change in other rural areas.

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DEVELOPING RURAL SELF-GOVERNMENT

L. Ovchintseva

The project Sustainable Rural Livelihoods promotes sustainable rural development through financial rehabilitation of agricultural enterprises. The program also provides consulting and micro-credit services to agricultural producers, including individual peasant farmers and small-scale plot producers. One of the project goals is to promote the development of self-governance as a system based on direct citizen involvement and new opportunities for community development.

LODEINOYE POLE

The project was implemented in Lodeinoye Pole Raion of Leningrad Oblast. The area is located in the northeast area of the oblast, 240 kilometers from St. Petersburg. The rural population numbers 11,000 people; the raion center, the town of Lodeinoye Pole, has a population of 28,000. When the project started the area was considered one of the most depressed in Leningrad Oblast; 92% of the rural population had incomes below the subsistence wage and 38% of the able-bodied population was officially unemployed. The town and the rural area combined make one municipal body that includes the town of Lodeinoye Pole, the settlement of Svirstroi, and eight volosts (districts). The volost governments include the rural government administrations. These administrations do not possess resources sufficient for rural development. As a rule, they unofficially rely on local enterprises to maintain the social infrastructure. The villagers are subsequently unaware of changes to the municipal system and do not have an adequate understanding of the local governments’ responsibilities and resources. There are also informal leaders and governing bodies in many of the villages. The house committee in Rassvet provides one such example.

Since 1999, the project has been managed by the Foundation for the Support of Agrarian Reform and Rural Development (RosAgroFond), an NGO established in 1996. The organization implements capacity-building projects, provides technical assistance through training and consulting services, and conducts in-depth research in the rural and agricultural sector of Russia.

The Sustainable Rural Livelihoods project is primarily funded by a grant from the British Government Department for International Development (DFID). Over the course of project implementation, additional funding was also provided from local sources in Leningrad Oblast and from rural budgets (Lodeinoye Pole, Tikhvin and Volkhov Raions). This portion of co-funding has increased constantly over time, and presently makes up about one half of the total budget.

The main activities of the development program for rural self-governance are:

- To inform the rural population of their rights and opportunities for local self-governance and the possibilities for involvement.
- To support informal leaders and the development of local self-governance.

Community outreach was conducted through rural libraries. Roundtables were held in the three largest villages. At these roundtables, villagers determined the types of information they were lacking. Lawyers and specialists then conducted informational sessions and materials were made available to the villagers. Two seminars on local self-governance were also held.
for local government heads and informal leaders. In some villages the Participatory Rural Appraisal method was used at community meetings to assist participants in determining existing problems and offer potential approaches to their solution.

**MAIN RESULTS**

A model charter for rural bodies of self-government was developed in accordance with regional legislation on local self-governance, and necessary changes were also made to the municipal charter. These changes regulated interaction between community groups and bodies of self-government. The legislative procedure for registering rural self-government was also developed.

By the end of 2002, ten territorial bodies of self-government (*teritorial'nye organy samoupravleniya*) were established in five *volости* of Lodeinoye Pole Raion. Similar groups were established in the town of Lodeinoye Pole as well. In 2002, rural community-based bodies of self-government implemented more than 100 projects related to rural life, including: well construction, building entrance repair, landscaping, children’s activities, and other cultural and information events. More than 1,500 rural inhabitants benefited from these activities.

Organs of local self-government provide an opportunity for interaction between local authorities, the population, and private enterprises in the rural social sphere. A municipal committee was created to work with the rural communities in formulating a municipal plan for rural development. The establishment of the committee strengthened relationships between the (rural) *volости* and the municipal authorities. The partnership also helped resolve a number of problems common to the municipality. These efforts include: provision of telephone communication, repair of deteriorated buildings, and initial evaluation of rural roads and electric lines. As a result of the evaluation, mismanaged items were identified and reassigned to the appropriate owner for more effective use.

The project led to the establishment of sustainable institutions and social ties that operate on a functional and legitimate basis. All work was completed in accordance with regional legislation and was specified in the municipal charter. The interaction between rural community-based bodies of self-government, heads of the *volость* governments, and the municipal committee proved to be an effective tool for rural development. The activities of rural informal leaders, the local processes of self-governance, and the local participants received public input through local media and annual area conferences. At the conferences, representatives from each body of local self-government shared their experience with villagers from their area and other areas of the region. Rural administrators appreciated the bodies of local self-government both as a feedback mechanism and as an effective means of community development. These local bodies were included in the Municipal Development Plan. The experience of Lodeinoye Pole Raion pilot project is now being used in neighboring Tikhvin Raion and is recommended for implementation in other regions (Oryol, Perm, Ivanovo and other Oblasts).

**HOUSE COMMITTEE OF THE RASSVET VILLAGE, DOMOZHIROV VOLOST**

The House Committee members of Rassvet village were aware of the problems of their village and were trying to find community-based solutions and to raise local support. In the spring of 2001, the House Committee members conducted a survey to discover:

- The extent to which people were informed about the activities of the House Committee and would support House Committee initiatives (for example, the celebration of the village’s 30th anniversary).
- What villagers felt was most necessary to improve life in the village.
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Approximately 83 people (more than 11% of inhabitants older than 16) responded to the survey. Results revealed that less than half of the inhabitants were even aware of the activities of the House Committee. This finding urged Committee members to disseminate information about their activities more vigorously to village inhabitants. The majority of those who knew about the Committee’s activities considered them to be valuable (almost 90%). Furthermore, a high proportion of respondents (80%) said they would be willing to provide assistance to the Committee, for example, in preparation of the village anniversary.

Even those who were unaware of the Committee’s activities beforehand said they would be willing to participate in the anniversary arrangements. In total, 54% of those surveyed were ready to provide assistance. Approximately 40% (more than 30 people) were ready to work on the necessary improvements. Several people expressed interest in gathering information on the history of the village. Many agreed to provide photos, diplomas, and historical newspapers for the anniversary exhibition.

The last portion of the survey helped reveal the needs of the local community. Only 10% of respondents failed to identify the needs of the community, or reported that they were completely satisfied with the current situation in the village. In general, respondents identified two basic needs: 1) physical improvements and repairs, and 2) development of social and consumer service infrastructure.

Two thirds of those surveyed reported that the village was lacking a playground and that building entrances needed repair. Half of respondents noted that the village needed more landscaping and greenery. In addition, many suggested installing trash receptacles and benches near houses, planting flower beds, adding clotheslines, building a parking lot, and relocating the sewage canal farther away from residences.

One fourth of respondents said they wanted public movie showings. Some villagers expressed interest in organized sports teams and sports facilities. Many desired the establishment of a neighborhood watch squad. And, because shoe repair and dry-cleaning services had been previously closed, the villagers expressed a desire to reopen them.

Guided by the results of the survey, the House Committee organized citizens to plant trees in the village. Much of the community participated in the lengthy preparation for the 30th anniversary of the village. Many local entrepreneurs and raion authorities provided funding for the event. The anniversary included a festival, public recognition of veterans, a concert, and a special display at the village history museum. In cooperation with the municipal service enterprise and the rural employment center, village entrances were also repaired. In accordance with villagers’ wishes, the rural administration used public funds to build a fire station. In addition, community tennis teams were organized. Some villagers also registered as entrepreneurs to provide personal services. For example, a hair salon, an electronics repair shop, and a furniture store were opened.

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The project aimed to promote the development of local self-governance and the active participation of citizens in community activities, and to empower people to overcome paternalistic attitudes, i.e. just waiting for ‘the authority to decide and to do’. The goal was to demonstrate that the village is capable of solving its own problems.

Zaozerie is a small village in Arkhangelsk Oblast. It has thirty homesteads located approximately twenty-five kilometers from the raion town center of Mezen, relatively close to the region. In Soviet times, the branch of a state farm operated in the village, employing most of its inhabitants. At the end of the 1990s, the branch was shut down because it was unprofitable. The cows were taken away, the farm buildings were boarded up, the workers were laid off, and the villagers found themselves without jobs and without prospects for making a living. Although the decline in agriculture and the closure of farms was not uncommon in Russia, the negative consequences of ‘big politics’ hit the Far North of Russia especially hard. Mezen is both the most northern area of Arkhangelsk Oblast, as well as one of the most northern areas in Russia as a whole. The highway (more than five hundred kilometers) is used only during winter. During the rest of the year, the raion has access to other parts of Arkhangelsk Oblast only by small planes, transportation unavailable to most villagers. A one-way plane ticket costs 1,200 Rubles. Where would most villagers get money of this kind? The answer is they cannot. Those villagers who could afford to leave have done so. The remaining villagers subsist through: small plot production, mushroom harvesting, berry picking, fishing, and hunting.

The current project was implemented by the Institute for Public and Humanitarian Initiatives (IPHI), Mezen Raion administration, and the Arkhangelsk Oblast Government.71

The active work in Mezen Raion started in the winter of 2001. Multiple meetings, speeches, and discussions were held to educate citizens on how they could participate in the revival of the village. People initially perceived the discussions with surprise and distrust as they did not have faith that they could accomplish what was suggested; their participation seemed unnecessary or, as they said, “nonsense.” These feelings eventually turned into hostility, resulting from years of built-up anger at the terrible conditions in which they were forced to live. Once emotions had subsided, and trust was built, a dialogue began.

Over time, progress was made. With the assistance of people such as Tatiana Korotaeva, a teacher at the small Zaozerie school, the town started to rebuild itself. Tatiana was sympathetic to the problems of the village; she was energetic and respected among Zaozerie inhabitants. She started to unite the villagers, convincing them that they played an important in Zaozerie’s future. Zaozerie inhabitants elected her Deputy to the raion Council of Deputies.

The joint efforts to unite people and to create a sense of community (the feeling that psychologists call the “WE-concept”) resonated with the traditional ideology of the village that had existed before the October Revolution. In the village council, people began to

71The Head of the Mezen Raion administration is I. L. Zaborskii; the Social Projects Fair was jointly implemented by the Arkhangelsk Oblast Government and the United States Agency for International Development (USAID).
gather and discuss community problems; they repaired the well, raised funds, repaired the medical center, and organized the exchange of passports. Villagers realized that the community could work to solve its own problems.

In the spring and summer of 2001, a series of seminars and training sessions were held to discuss the practical implementation of the project. A seminar was held for raion administrators on how to optimize the system of municipal government, conduct strategic planning, and involve citizens in community development. Another training session was held for the rural development group to brainstorm how to promote local development. More than twenty directions for rural development were suggested. The most important problems were selected and the first implementation steps were planned.

During the sessions, the idea emerged to establish a community center for the elderly. Due to the scope of the project, the implementation was planned in several stages. In the first year, the goals were to draft the architectural plan, to disassemble and relocate the chosen building, and to lay the foundation. The second year would be spent on reconstruction of the building.

The first stage of the project proposal was sent to a regional projects competition, where it received 24,600 Rubles (approximately US $800) in funding. During this period, in August 2001, the village council also decided to establish a local body of self-government. Everyone in the village participated in the construction and the first stage was finished ahead of schedule.

In 2002, under a new IPHI program called *Involving Everyone*, the next project stage was developed. It received 59,411 Rubles (approximately US $1,800) in funding at the regional competition Rural Development 2002; only a small portion of the necessary funding. Villagers provided most of the construction on a volunteer basis. Only the superintendent, a highly qualified specialist, received a salary from the project funds. Without his help it would have been impossible to implement the project, as he ensured that all work was done in accordance with government norms and standards. During the hay harvest, volunteer work was organized in shifts so that progress could continue. In addition, local students spent time gathering moss in the forest to insulate the walls of the community center.

When the construction was finished, members of the committee for local self-governance could hardly believe that they had managed to complete such a large project. Having finished the house, people began to enjoy the results. They decided to transport one more building from a former military spot without any funding support and to construct another house, as there was need for a school and a medical station in the village.

There was no nurse midwife in Zaozerie so inhabitants decided to address this problem as well. They posted an advertisement in regional newspapers, promising to provide housing for a qualified nurse midwife willing to move to the village. A charming woman answered the ad from Smolensk Oblast and moved to Zaozerie with her two children. At the village meeting it was decided that volunteers would bring her firewood on a regular basis so that she could concentrate on her work.

In the winter of 2003, the members of the local self-governance committee developed and submitted a new project to the regional competition *Rural Development 2003*. The project aimed to construct a home for the elderly, as an addition to the community center that had already been created. The project received support and the work in Zaozerie started again. The opening of the house is planned for January 2004.
MAIN RESULTS
Through the project, the villagers became empowered to promote change in the village. They learned the value of initiative, self-reliance, and partnerships. Igor Zaborskii, Head of Mezen Municipal Raion summed up the experience:

What happened in Zaozerie is fantastic, a real break-through. The villagers built a huge house themselves. People managed to unite, to identify a problem, to set a goal, and to implement it. They have created the new model of life that we are speaking about. People start to think, move, count money, and search for solutions. They start to think about the problems common to the whole village, as opposed to just their private lives. The experience acquired by the villagers is precious. It has helped rouse others. All raion inhabitants followed what was happening in Zaozerie closely. No one believed that this kind of mobilization was possible. People said, ‘Oh, those Zaozerie people, they will steal everything and will never achieve anything.’ But they did achieve something. I believe this experience has enormous significance for the preservation and development of our region. It was realized through the use of new approaches, new working technologies, and new efforts to work with people, brought by IPHI. We will definitely continue to work with the Institute, and to support it in the future.

A.N. Lebedeva, an insurance agent who lives in the neighboring village of Lampozhnya expressed:

Life in Zaozerie has become different. People left the village because of the hopelessness. When the committee for local self-governance appeared, people acquired hope. They see that life is gradually improving. A nurse midwife has come; the school is operating. The committee finds solutions to a number of local problems. People here were estranged. But now they know where to go with their problems. The current atmosphere makes people stay in the village. Even those who left are now thinking about returning.

The people who worked on the House of Hope have completely changed their perspective about participatory government. Today, they see themselves as the ones who can create change.

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LOCAL SELF-GOVERNMENT PARTICIPATION IN RURAL COMMUNITY DEVELOPMENT

V. Chernenko

The project aimed to promote sustainable rural development. To achieve this goal it was necessary to gain village trust and to develop partnerships between the population and the government.

Kirov Selskii Okrug (rural area) is located in the northeastern part of Maikop Raion in Krasnodar Krai. It includes nine villages, one of which was recently built for refugees from Kosovo. The rural villages are located in picturesque hills and lowlands, and the soil is rich. However, water from underground reservoirs often saturates the corn crops, and ruins them. The largest agricultural enterprise located in the area is a collective farm named after Engels. It has become dilapidated due to poor harvests, a rapid decline in the number of cattle, and poor livestock production. At the same time, the individual peasant farm Vozrozhdenie (Rebirth) achieves good harvests on just sixty hectares of land.

Raion infrastructure is underdeveloped. The average raion salary is 945 Rubles - 57.2% of the subsistence wage - and the average income per working age inhabitant is 1,500 Rubles.

The municipal government has been instrumental in initiating rural development. The government has facilitated local success by promoting transparency, providing local communities with access to budget resources, and creating opportunities for citizens to mobilize their own resources. Municipal authorities implemented these changes by:

- Opening all meetings to the public and making all reports available upon request - citizens could participate in meetings and/or read related reports.
- Introducing transparency into local government finances - the population was informed on all budget activity every month.
- Involving local inhabitants in the budget process and the management of public finances; people collected money, deposited it in the local self-government account, and monitored the allocation of funds and expenditures on the basis of monthly bank reports.

MAIN RESULTS

- Gas pipes were built in five villages, and two more villages will receive gas supply in the near future.
- Trade has been organized in all villages; during the last five years, bread has been delivered directly to homes.
- The central farm settlement of the okrug now has phone communication.
- Transportation has been organized.
- All roads now belong to road transportation enterprises, although some still require paving.

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ORGANIZING THE RURAL BUDGETING PROCESS

M. Mirzaliev

The project aimed at promoting further decentralization at the municipal level in order to implement more effective local self-governance and to form independent budgets for rural areas of the municipality.

The project was implemented in Gatchina Raion, a large municipality of Leningrad Oblast, with a population of 111,600 people and an area of 2850 square kilometers. The municipality includes 240 settlements located in fifteen volosts and six villages. The activities of local self-government are conducted by the Council of Deputies and the local authorities. In rural areas and villages, leaders are appointed by the Head of the municipality to represent the local authority. The municipal budgets are one-level, and include estimates of expenditures for each volost and village. The Municipal Department of Finance calculates the estimates of expenditures in accordance with requests from health, education, and other departments. Under this system, the main responsibility of local leaders is simply to control local expenditures.

The project began in 2000 with the creation of a ‘creative partnership’ between the Department of Leningrad Oblast and Gatchina Raion authorities. The implementing agencies included: The Department for the Economic Development of Local Self-Government, which is part of the Committee for Economics and Investment of Leningrad Oblast; and the Municipal Department for Economic Development in Gatchina Raion. Project results were achieved in 2001-2002.

MAIN RESULTS

- Power-sharing between municipal and rural levels of authority to promote more effective self-governance.
- Calculation of budget expenditures at the village level.
- Calculation of budget tax revenues for rural areas.
- Creation of a rural area database that helps authorities determine rural socio-economic conditions, as well as budget revenues and expenditures.

As a result, rural areas received independent control over local budgets (expenditures and, more importantly, revenue sources) and the right to allocate budget revenues independently.

In addition, rural administrators became interested in a more precise method of calculating the local tax base; the most active administrators are now involved in budget planning. Rural programs in the intermediate stages of development are run with active citizen involvement. The rural areas of the raion are now prepared for implementation of local self-government reform; they are ready to become independent municipal settlements.

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SUSTAINABLE DEVELOPMENT IN RUSSIAN NATIONAL PARKS AND BIOSPHERE RESERVES

A. Grigorian and S. Tarasov

The goal of the Sustainable Development program is to establish effective models of partnership between the inhabitants of the national park and other interested parties.

The local population living in and around the national parks and reserves does not benefit from the preservation of these areas. The low level of employment and of household income provoke exploitation of the surrounding natural resources, leading to environmental degradation and lack of socio-economic development.

According to federal legislation, the management of the national parks and reserves is not responsible for the social and economic development of these territories. Their main role is to ensure the preservation of nature.

The current model of interaction between Park management and local communities is ineffective because it is based on vertical management schemes. The natural reserves have always been managed centrally at the state level, and thus ties between regional and rural authorities have not been developed. As a result, the local population is not involved in managing the reserve.

The program was funded by the British Government Department for International Development (DFID) and was implemented by the Charitable Foundation Center for Wildlife Protection. The area of implementation includes the Ugra National Park (Kaluga Oblast), Smolensk Poozerie National Park (Smolensk Oblast), Katun (Altai Republic), and Central Forest (Tver Oblast) biosphere reserves. The main activities of the project were executed during 2000-2002.

The Sustainable Development Program had a number of components, the largest of which was to establish a system of micro-credit for local inhabitants. The nature and the approach of each individual project within the program were designed according to local needs and traditions.

Throughout the course of the program, the following subprojects were implemented:

- A micro-credit system was established for all local inhabitants of the target areas. The Center for Wildlife Protection provided each of the target reserves with US $5,000 in initial loan capital.
- A tender was organized to lease sites, and tourist routes in the national parks and reserves.
- Rural eco-tourism was developed in the reserves.
- Local arts and crafts were revived.
- The reserve logos were used to promote local production.
- Tourist excursions were developed that focused on fishing.
- Local program coordinators were trained.

MAIN RESULTS

The institutional mechanisms that have been established to provide micro-credit currently operate successfully and show potential for future development. Local resources have also been accumulated to enlarge the existing micro-credit funds.

The micro-crediting commissions (councils) are established to provide oversight of
fund management and operations. The commissions consist of reserve management, local authorities, and private community-based organizations. These councils make decisions on micro-credit, in addition to a wider range of issues connected to the social and economic development of the areas.

The organization of a Club of the National Park Smolenskoie Poozerie Friends provides one indirect indicator of the Sustainable Development Program’s success. The Club is a public association that was initiated by the local authorities to involve local inhabitants in the life of the reserves and to develop partnerships with them. A similar organization has been established in the Katun’ Biosphere Reserve. Through these organizations, Program participants demonstrate an active interest in resolving community problems.

The Program has also promoted new ways for local inhabitants to earn money. By providing accommodation for tourists in their own homes, villagers can support themselves while also eliminating the need to develop large tourist facilities that would degrade the natural environment. The profitability of providing these services is extremely high; inhabitants can often make 150% or more in profits, especially if they provide additional services such as cooking, transportation, tours, or boat rentals. On average, one two-person room can bring more than 6,000 Rubles of net profit in a season.

**FARM SHIPOVA**

Peasant Farm Shipova was established in 1992, and engages primarily in beekeeping and in production on household plots. The farm rented approximately thirty hectares of land to cultivate fields for pollination. The farm’s main product is honey and other beekeeping products: pollen, propolis, beeswax, and bee-poison. The partnership between the farm and the Kaluga Foundation for Small Business Entrepreneurs played a significant role in farm development. The micro-credit loan helped increase production; funds were spent for the purchase of bee colonies and the construction of a mobile apiary. The farm repaid the loan and its production activities became more sustainable as a result. Farm Shipova now sells products at agricultural fairs organized by the Kaluga Oblast

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**National Park Ugra**

The Program collected more than twenty applications, of which four received funding. Two prizes were awarded to initiate prospective partnerships between rural inhabitants and park management. As a result, a partnership between Ostozensk high school and the local gardeners’ society was established.

The main goals of the loans were to develop environmentally sustainable agriculture, and to establish tourist accommodations and services in local households. All loans were repaid on time, and program participants increased their income by about 30%.
Chapter 5: Local Solutions

Department of Agriculture, and in shops in Kaluga and Moscow Oblasts. The farm also cooperates with the Kolomna bee production complex and the Beekeeping pavilion at the Moscow exhibition.

**Tender for Lease of Sites, Units, and Tourist Routes**
The tender was approved in the national park *Ugra*. It was the first open tender for long-term lease of the national park and reserves in Russia.

The *Center for Wildlife Protection* prepared documentation for the tender, which was later approved by park management. Park employees obtained approval for holding the tender from landowners and users, and from the Ministry for Natural Resources of the Russian Federation.

Information regarding the tender was disseminated at the regional and federal level with the support of the Kaluga Chamber of Commerce and the *Center for Wildlife Protection*. The tender resulted in two leasing agreements, the first in the park’s history. The venture was extremely efficient; only one Ruble in organizational expenses was spent for every 30 Rubles received in investments for tourism infrastructure development (US $150,000 in total).

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The project aimed to facilitate more effective community-based local governance. The village of Kuliay is located in the western part of Lithuania, forty kilometers from the city of Klaipeda. The village was first mentioned in writing in the 13th century. In 1644, a cathedral was built. In the 18th century, it belonged to monks of the Order of Jesuits. In 1804, the first parish school was established. In the 19th century, Kuliay became famous for its large markets and animal fairs. The writer, Tumas Vaizhgantas, lived and worked as a Roman Catholic priest there. From 1949 until 1999, Kuliay was known as a leading state farm for its excellent processing facilities and a high quality breed of pigs that were exhibited multiple times at the Moscow Exhibition of National Economic Achievements.

Presently, approximately 1,000 people live in Kuliay. Almost 250 small-scale producers are unemployed. Only a few of the villagers have adapted successfully to modern economic conditions. A few families have developed rural tourist services. A handful of craftsmen make linen goods and furniture for export to Germany, others make a living through weaving and lacework. Overall, it is difficult for villagers to change their way of life, as they are isolated from modern technology.

A small elementary school serves as the community center. The 350 students of the school come from fourteen neighboring villages in Plungen and Klaipeda Raions. The school employs thirty teachers, and is open to the community as an information center. Men gather to play basketball in the gym, and women play volleyball. There is also a school hostel for tourists who are on their way to Klaipeda and Palanga.

The Kuliay obshina (community) also has a modern cultural center for 400 people. In the beginning of 2003, Kuliay and other nearby villages established a non-profit obshina. The obshina is operating in accordance with Lithuanian legislation on private organizations. It is a legal entity; it has independent accounts in Lithuania and abroad.

The goals and objectives of the obshina were to:

- Represent the interests of Kuliay and other villages and develop their mutual interaction.
- Unite employees of cultural and educational institutions, doctors, landowners, rural manufacturers, and other citizens to collectively resolve community problems.
- Improve and extend physical infrastructure (sewage system, roads, and drinking water delivery).
- Inform villagers about new technologies.
- Provide villagers with information on the European Union requirements and to organize travel to seminars and exhibitions.
- Encourage small business development and the creation of agricultural cooperatives.
- Create jobs.
- Provide more social services to village inhabitants.
- Encourage charitable work.
- Develop cultural life and preserve traditions, folklore, and historical sights.
- Improve social and psychological conditions for families and the environment.
Chapter 5: Local Solutions

- Develop organized sports teams.
- Develop care for the physical and spiritual health of the community.
- Defend the civic rights of the villagers.

The obshina promotes transparency in all of its activities. Any member of the community may gain access to financial information, council reports, public meeting notes, and member lists upon request. The obshina has the right to inquire about public activities, establish informational publications, disseminate information, organize meetings, protest and demonstrate, assist members in protecting their rights and interests, satisfy their social needs, represent its interests in court, purchase property and manage it, receive funding from donors, and found enterprises and register them in accordance with current state legislation. The obshina takes responsibility for its property, the community members pay fees, and an annual meeting is held to elect the community council and an auditing commission.

Under the Baltic-American Partnership program, the obshina developed a project called The Kuliay Obshina Partnership with Local Self-Government Institutions.

The obshina receives assistance from the Zhematiia Foundation of the Somagitiia Obshina. The foundation assists the obshina in organizing charitable activities, attracting business representatives, encouraging development of local and international networks, and providing support in the implementation of projects in towns and villages of the Zhematiia area.

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World Bank Experience and Community Driven Development in Post-Socialist Countries
Chapter 6: World Bank Experience
MOLDOVA SOCIAL INVESTMENT FUND: BUILDING LOCAL CAPACITY AND IMPROVING SERVICES

B. Popadyuk

The Moldova Social Investment Fund (MSIF) was created in 1997, operating first as a pilot project and later becoming effective in 1999. The Fund’s goal is to tackle deepening poverty, build community participation, and slow the rapid deterioration of basic infrastructure and services.

The MSIF stipulates that each community has a General Community Meeting with mandatory attendance of at least 25-30% of the adult population and a community election of a gender-balanced Implementing Agency (IA). Procurement, supervision, and other functions are delegated to the Implementing Agencies. Along with a regular technical appraisal carried out by MSIF engineers, this new procedure allows any willing community member, together with a MSIF representative and the members of the IAs, to participate in a verification process to ensure that IA-developed plans really meet the interests of the entire community, and/or to suggest improvements.

MLADINESTI SCHOOL PROJECT
The school in the village of Mladinesti in Lapusna Raion serves 253 students. The old boilers needed 200 tons of coal per heating season, but the temperature still did not rise higher than twelve degrees Centigrade. Often, the heating system did not function at all due to frequent electricity blackouts. A state inspection concluded that 30% of students fell in their academic standing during the year because of the low temperatures in the classrooms.

The MSIF provided a ray of hope to the desperate community. A grant of US $26,727 helped fix the school’s leaky roof, replaced the heating system, and implemented basic energy conservation measures. Coal consumption was reduced to 60 tons of coal per heating season and the estimated cost of savings was US $7,636. To put this figure into perspective, the annual salary fund for all school employees is equal to US $6,109. For the first time in many years, the students in the Mladinesti School could take their winter coats off in the classroom.

The impact of the changes was immediately evident. Absenteeism decreased from 12% to 5% percent. Education performance improved and student and teacher sickness due to low temperatures was reduced considerably. The recently created Parent Teacher Association managed to collect US $351 for the school fund and community members became more willing to participate in the solution of common problems.

PIRLITA PERFORMANCE CONTRACT
The village of Pirlita in Ungheni Raion entered into a contract with the NGO “Mostenitori.” The total cost of this two-year contract was US $2,000. The NGO has already deposited US $1,000 into its bank account and will use these funds to finance the following activities:

1. Procurement of modern didactic material, equipment for gym.
2. Teacher Retraining - twelve teachers will participate in the training course on critical skills development in reading and writing and facilitation techniques.
LESSONS LEARNED

Communities must “own” the project to make it successful. Communities must be the key partners in sub-project implementation. Their positive attitude, decisions, and actions matter and are the most important element for sub-project success.

Wider community consultation may be needed not only at the identification of a priority problem, but also while solving technical issues. In certain cases, community members were not consulted on the design of the proposed project, leading to conflict. Operational procedures should be designed to ensure that every community member could provide input at key stages of the sub-project cycle.

Communities may need help in priority identification. Social fund staff should play a pro-active role in helping communities identify their priorities by providing as much additional information as possible. Communities should be given an opportunity to make an informed choice and not simply to accept what is offered.

Partnerships improve development impact. Partnerships with other institutions that share common objectives creates positive synergies and achieves greater development impact at the local level.

Maintaining links with communities after sub-project implementation helps ensure sustainability. Communities should have technical assistance during project implementation. Operational innovations designed to sustain the rehabilitated facilities will have an impact on long-term development.

Additional information on MSIF can be obtained from:
Anush Bezhanyan (abezhanyan@worldbank.org) at the Headquarters in Washington,
or Alexei Ionascu (aionascu@worldbank.org) at the Resident Mission in Moldova
The Ukraine Social Investment Fund (USIF) was established by Regulation of the Ministers’ Cabinet of the Ukraine in 2000. It is financed under the World Bank’s loan, the Government contribution, local community contributions, and international donors’ funding.

The strategic goal of the Project is to improve the quality of life in the community and to reduce poverty.

Main goals of the Project are:
- improvement of living conditions for poorer and vulnerable groups of the population in targeted communities, mostly in rural areas, through provision of better quality social services and through ensuring access to these services.
- building up community capacities for addressing local social needs.
- promotion of social sphere reform by creating sustainable cost-efficient models of targeting and social care services provision.

One of the Project’s priority objectives is the formation of social capital as a prerequisite for sustainable social and economic development in rural communities. Such basic principles as targeting, orientation towards community needs, community involvement in decision-making, co-financing and disbursement of funds and, thus, responsibility sharing, are fundamental to the Project. A key factor to the Project’s success is the establishment of partnerships between the government and the communities based on the principles of mutual respect and understanding, i.e., all participants of social transformations not only possess the right to participate, but are also responsible for their actions.

The Project implementation period is 2002 - 2007. It is implemented in all regions of the Ukraine and the Autonomous Republic of Crimea.

The Project is composed of the following components:
- Community-based micro-projects (MPs):
  - quality improvement of basic social and communal services in villages and small towns.
  - Targeted social micro-projects (MPs) based on the principles of integration of vulnerable groups into the society, and decentralization and de-institutionalization in the provision of social care services.
- Capacity building.
- Project management, monitoring, and evaluation.

Community Involvement in Identifying Pressing Social Problems

The small town Ivankiv, located in Kyivska Oblast, has a population of 11,000. Meetings of community representatives identified the most pressing need of the small town - a potable water supply. To gauge public opinion, the Implementing Agency (IA) conducted a public opinion survey. IA members, with the help of the USIF consultants, developed dissemination methods, content, and approach for the survey. Volunteers were involved in conducting the survey as well. Approximately 4,284 people (more than 50% of the adult population of Ivankiv) expressed their agreement with the decision of the
Community representatives and confirmed the urgency of the problem. The next issue was how the community would execute the micro-project implementation, for which the total cost was about US $100,000. The idea arose to create a public association (Beneficiary Association), which on behalf of the community, would be authorized to control water quality, efficient use of MP funds, including a community contribution of US $2,000, as well as resolution of current problems. IA members developed operational documents, and registered the association as a non-governmental organization in August of 2002.

**Creating an Innovative Model for Social Service Delivery**

Recently, the number of disabled children in Khmelnytsky city has greatly increased. This fact has caused public anxiety. Previously, a child with learning disabilities was considered to be a reflection of the family. But medical research has found a whole range of factors that can lead to learning disabilities: genetic diseases, the environment, reactions to injections, unreliable detection of diseases, and post birth traumas. All children with learning disabilities were required to have medical certificates, on the basis of which they were placed in specialized educational institutions.

Parents of more than 20% of such children are obliged to send them to specialized boarding schools, which are situated in the outskirts of the *oblast*. The majority of parents didn’t want to part with their children and raised the question of keeping them at home. Eight years ago they succeeded and the first group for children with learning disabilities was educated in a pre-school home institution. Two rehabilitation classes then opened at the boarding-school No. 2 in Khmelnytsky city.

Establishment of the rehabilitation center “School Life” for children with learning disabilities in Khmelnytsky city has become a reliable alternative to traditional specialized institutions.

Budget money and a separate building (590 sq. m.) - part of a secondary school - were provided for the establishment of the center. But the grant money was insufficient for the center’s needs. At this time a unique possibility to cooperate with USIF appeared. The personnel of the center took advantage of the opportunity and applied to USIF jointly with parents. The USIF experts estimated the scope of the construction work, equipment cost, and conducted tenders. Now, construction work on the center is being completed and equipment is being purchased. With the purpose of raising the level of personnel skills, USIF organized a series of trainings and consultations for specialists of the center. The question of future MP sustainability and fund-raising was one of the main issues. The knowledge gained helped the personnel of the Center raise an additional US$8000. Khmelnytska Oblast State Administration and Khmelnytsky City Council gave considerable financial and administrative support to their efforts.

Presently, the personnel of the rehabilitation center for disabled children are learning about disabilities. “School Life” strives to become a methodological center; knowledge gained at trainings and field consultations can be disseminated to other centers that work with disabled children. Colleagues from Lutsk, Kharkiv, and Rivnenska Oblasts come to learn about the experience of the Center.

Results of work with such children are impressive. With the help of doctors, children became socialized, developed creative thinking, and learned to write, to read, and to count. Pupils participate in events such as circus plays, concerts, and festivals.
The work of the Center attracted the attention of international and national organizations. Representatives of these organizations repeatedly visited the institution to learn about the methods of its work.

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The Romania Social Development Fund (RSDF) was established in 1998 as a nonprofit organization with a twofold objective: to improve the livelihood of poor rural communities and disadvantaged groups, and to increase social capital in beneficiary groups by strengthening levels of trust and self-help capacities. Using the project mechanism, poor communities take the lead in articulating their priority needs and in designing and implementing demand-driven sub-projects. Communities are eligible to receive funding for small-scale infrastructure sub-projects, community-based social services, and income and employment generating activities. The community contribution for every sub-project is between 10-15% of the project cost.

For targeting poor communities RSDF uses poverty maps. Poor communities are identified according to the following criteria: isolation, level of access to water and electricity, distance from school for school-age children and distance from medical care for most villagers.

Community facilitation mechanisms are established in order to improve local access to information and to increase community participation among the targeting groups. Group facilitators are responsible for informing poor rural communities about project opportunities and specific eligibility criteria. They help communities to organize and to submit high-quality sub-project proposals.

The RSDF encourages community organizations to elect a Project Management Committee, which consists of a president, treasurer, and secretary. The Committee assumes responsibility for managing all aspects of the sub-project, including funding, and is accountable to both the community and the RSDF. The community monitors the process by checking the quality of contract work and by keeping track of the amount of funding that has been spent. As a result of this process, communities learn how to hold local authorities accountable for public resource management through monitoring and information dissemination.

**Main Results**

Over the course of two years more than 1,300 applications have been received, of which 800 have been appraised and 290 have been financed (195 infrastructure projects, 56 income generating projects, and 39 community-based services). Forty-eight villages received facilitator support. Also, 233 community-based organizations (CBOs) and 22 NGOs have been trained in project management, accounting, and procurement procedures. Beneficiary Assessment indicates that RSDF funding has directly contributed to improving the lives of the rural poor. It has also bolstered communities’ self-confidence in their abilities to address local needs themselves and has increased social capital. About 83% of villagers who participated in the project said that lasting relationships were formed among the inhabitants of their community (72% in the villages that didn’t collaborate with RSDF). Similar increases have been reported for trust (44% versus 33%).

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SELF-GOVERNANCE IN ARMENIA

N. Junge

For the southern Armenian village of Uyts the main concerns are the rehabilitation of the cultural club, the library, the church, and the establishment of an arts and music program. While most rural communities might have similar wishes, they are rarely a priority. What is different here? The answer is that Uyts has successfully addressed nearly all its other, more pressing, concerns.

In 1999 the local government initiated a 10-year plan - in addition to the legally mandated 3-year development plan - with the goals of improving education, infrastructure and employment conditions. (Like nearly every settlement in Armenia, Uyts has its own local government.) Since then, the financial assistance of various international NGOs and development agencies has allowed the community to fix the school, rehabilitate land for crop-growing and repair the irrigation system. Community members provided the labor and the irrigation project was completed in just four days. Recently, the mayor, tirelessly pursuing sponsors for new projects, made an agreement with a national gas company to install gas lines, splitting the costs half and half. Meanwhile, the population has almost doubled in just a few years, from 380 in 1999 to 680 today. Of Armenia’s rural communities, few can boast of even one such accomplishment.

The mayor says enthusiasm, hard work and a clear objective are the reasons for his community’s success. He also invokes belief in people, in government, and in God, a sure indication of social capital. But there is more to the story than that. The World Bank funded a two-year CDD project in this and nine other communities in the same region. The goals included creating awareness about the Law on Self-Governance, building the capacity of community authorities, and providing skills training. But only Uyts has so far been able to attract donors and systematically address concrete problems. The energetic mayor himself is one reason. Also the fact that many of its residents work outside the farming sector, the village lies ten minutes by foot from the small city of Sissian, enjoys the support of a diaspora in America, and has a special community committee, in existence since the 1930’s, to help the needy, and raise funds to cover the costs of funerals and other events. Very few of the other nine, targeted communities have a single one of these characteristics.

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Appendix 1
FEDERAL PROGRAMS IN RURAL DEVELOPMENT

COMMENTARY TO THE LIST OF FEDERAL PROGRAMS IN RURAL DEVELOPMENT IN RUSSIA
Currently in Russia, there is a breakdown in the administration of rural areas at the federal, regional, and local levels, which occurs in several different forms.

First, the government lacks a coherent strategy for promoting rural development. The guidelines and mechanisms for achieving such development remain undefined. There are currently thirteen different federal programs that address various economic and social problems in rural areas. According to the calculations of the Ministry for Economic Development, the total annual budget of these programs totals 36 billion Rubles, i.e. an amount comparable to the annual federal budget for the agro-industrial complex.

However, none of these programs, with the exception of a few special agricultural and rural programs, differentiates between the city and the village. The few programs include: 1) “Social Development of the Village to 2010”, 2) “Improved Soil Fertility” (2002-2005), 3) “Land and Property Registration: creation of an automated system for state land cadastre registration and state registration of property (2002-2007)”, and 4) the Federal Target Program “Energy efficiency” (2002-2005).


Second, there is no coordination of inter-departmental agreements for the resolution of rural problems. No official government body is mentioned either in the list of federal target programs (FTPs) or of federal experts that is responsible for integrating the individual approaches of different Ministries. The Ministry of Agriculture (MoA) plays a central role in executing FTPs that relate to rural development. The MoA is the primary manager of two programs - “Social Development of the Village” and “Improved Soil Fertility” - and co-executor of another program “Energy Efficiency”.

However, the focus of these federal programs does not address the most acute problems of the rural community, particularly the problem of rural poverty. The FTP “Closing the Gap in social and economic development in the regions of the Russian Federation (2002-2010) and up to 2015” establishes the goal to reduce the number people living below the poverty line by 15% before 2010. However, the government has set this goal as an aggregate for the population as a whole. The Program does not set out to reduce poverty in rural and urban areas in equal measure even though the poverty level in rural areas is much higher.

CONCLUSION
The elaboration and adoption of a national strategy for sustainable rural development is of primary importance. On the basis of this, coordination must be improved for existing FTPs and for the development of new programs. New priorities should include:
1) Overcoming rural poverty, 2) Raising rural employment and incomes, 3) Development
of rural self-governance, and 4) Promotion of non-agricultural business in the rural areas.

A strategy for sustainable rural development should be based on the following principles:

- Development of the village, as a unified socio-economic territory with a distinct natural environment and cultural and historical traditions.
- Overcoming the isolation of the village through expansion and intensification of urban-rural ties; integration of the village into a unified social system through agricultural and industrial integration and cooperation; creation of various rural-urban economic structures; development of road-transport, telephone, and other means of communication; creation of unified systems of social services; and gradual integration of city and village.
- Coordination of rural development efforts with the restructuring of agricultural production (main sector of employment for the rural population).
- Optimal utilization of natural, material, and human resources for the economic development of rural areas.
- Economic and territorial availability of social services for all members of the population, irrespective of occupation and residence.
- Combination of government support with the mobilization of local resources.
- Integration of economic and socio-cultural approaches to rural development.
- Democratization of rural communities and increased community participation in decision-making, in relation to industrial development, planning and development of settlements, and other aspects of social life; promotion of collective-contractual relations, local self-management, and non-governmental activities in the socio-economic sphere (consumer, trade, credit cooperation, etc.).
- Consideration of environmental issues and the depletion of natural resources.

To implement the national strategy for sustainable rural development, the following aspects should be incorporated:

- Coordination.
- Between federal ministries and departments.
- Between federal, regional and local bodies of authority.
- Between the bodies of state and municipal authority, and social and commercial organizations.
- Between the representatives of authority, businesses, and the local population.
- Creation of inter-departmental boards (committees) for rural development at various levels of administration.
- Optimization of budget relations between the Russian Federation, the regions, and municipalities in order to synchronize their powers, responsibilities, and budget opportunities.
- Implementation of pilot projects for rural development and dissemination of successful regional models.
- Application of strategic and interactive (with participating communities) planning.
# List of Federal Programs Operating in Rural Areas

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<th>Period</th>
<th>Subject Matter</th>
<th>State Program Coordinator</th>
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<td>2002-2010</td>
<td>Development of Market Mechanisms and Systems of Social Support to Ensure the Availability of Quality Housing</td>
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<td>2001-2005</td>
<td>Support to Youth Organizations; Development of Systems for Social Support to Youth; Increase Incomes and Employment Rates Among Youth</td>
<td>Ministry of Education</td>
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<td>Project Title</td>
<td>Timeframe</td>
<td>Description</td>
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<td>7</td>
<td>Social Development of the Village</td>
<td>2002-2010</td>
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<td>8</td>
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<td>2002-2010</td>
<td>Modernization of Transportation and Transportation System</td>
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<td>Ministry of Communication and Information</td>
</tr>
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Appendix 2
LIST OF AUTHORS

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