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Budget reforms in Russia: results and perspectives

The beginning of the budget reforms in the Russian Federation was connected with the USSR's transformation to the Russian Federation¹. Budget reform is not independent but is a core of a more extensive program of reforms, directly connected with administrative reform and other transformation processes.

For example, such areas of budget reform as implementation of the result-oriented method of budget planning and inventory of expenditure obligations of the state completely correspond to the program documents of administrative reform. They specify that the executive authorities shall implement the principles and procedures of management according to the results² that can be achieved by implementation of the budget reforms. The development of key measured indexes of effectiveness and the productivity of the executive authorities is referred to as a main direction of the administrative reform that corresponds to the objectives of budgetary and military reform.

It is impossible to prognosticate the end of the budget reforms as after the implementation of immediate tasks and achievement of goals, new tasks are bound to recur in the budget sphere. These tasks are connected, firstly, with the internal needs of the Russian Federation and, secondly, with global challenges, for which it is necessary to provide adequate answers. Processes of harmonization of rules and procedures in the world (mainly under the influence of the International Monetary Fund) require changes in the approach to budgetary control, accounting and reporting. And the appearance of new inter-state integrational relations³ raises the question of the regulation of budgetary

1 Legal succession of the Russian Federation in respect of the USSR is confirmed by a variety of circumstances including membership of the UN Security Council, assumption of the USSR's external debts, responsibility for many claims against the USSR from ex-union states and other subjects of international law.

2 Conception of administrative reform in the Russian Federation 2006–2010 and the Action Plan for administrative reform in the Russian Federation 2006–2010 approved by the order of the Government of the Russian Federation dated October 25, 2005 No 1789-r.

3 Union of Belarus and Russia, Eurasian Economic Union (EEU) and Customs Union created within its framework.

relations at supranational (supra-state) level. The constant motivating factors of Russian budget reform are the accumulation of national experience and the need to adopt and implement new technologies.

In this article the following issues concerning budget reform in Russia are examined:

- Analysis of changes in budget legislation. The key changes affecting the main financial law – the Budget Code of the Russian Federation and other laws which regulate budgetary relations.
- Analysis of reforms in the budget system. The budget system includes some groups of relations: between the Russian Federation as a whole and its parts (members of the Russian Federation); between the Russian Federation and municipalities; between the members of the Russian Federation and municipalities as well as internal relations between members of the Russian Federation and municipalities. All these relations are problematic in Russia and the history of decisions taken in this sphere can be instructive and useful for the foreign observer.
- Analysis of budgetary process reforms.
- Historical review of budget reforms in Russia from the period of Peter the Great's reign (17th century) to the end of the Soviet period (1991). Budget reforms are interconnected with the history of state administration and with Russian history in general and this explains the uniqueness of Russian budget legislation.
- Review of budget reforms in contemporary history (since 1991) which can be divided into several clear stages.

There has been no specific research carried out by Russian scholars which has focused on all budget reforms in Russia though some aspects and historical reviews were analyzed in the works of Bescherevnikh V.V., Sinitsin N.A.; Artiukhin R.E.; Nesterenko T.G. along with other scholars in the fields of law and economics.

What is budget reform in Russia? Reforming in the budget sphere (since 1991) should be divided into some coherent categories: changes in legislation, reform of inter-budgetary relations and reform of the budgetary process, which can be considered separately. Within these transformations, budgetary control, budget classification, budget accounting and reporting were reformed. The directions of budget reform stated above are interconnected as changes in budget legislation appear as a result of enhancement of the budget structure, budgetary process and other institutions of budgetary law.

Reform of budget legislation is ongoing⁴. Generally, the budget legislation of the Russian Federation can be characterized as consisting of two parts: the permanent law on public finance, which is now a codified act and is referred to as the Budget Code of the Russian Federation (hereinafter referred to as the BC RF) and yearly laws on bud-

⁴ The text of the official acts of the legislation is available on the official web-portal of legal information <http://pravo.gov.ru/>.

gets in the budget system adopted in accordance with it. The standards for regulating budgetary relations are included in a variety of other laws that shall be considered as the sources of budget law.

It is noted that only three articles from the original version of the BC FR are in force: Art. 4 “Budget Legislation and Standards of International Law”, Art. 37 “Principle of Budgetary Reliability”, Art. 307 “Enforcement of the Present Code”. The BC FR contains a lot of articles which have been cancelled and reenacted, leading to a difficult numbering system which leads to the question whether a new version of the BC would be preferable to more changes⁵.

It is interesting that measures were taken for protection of the BC RF against non-systemic and chaotic changes. In 2013, the BC RF and the Tax Code of the Russian Federation were included in a regulation according to which changes in these codes and suspension, cancellation and recognition of certain provisions as being invalid are made by separate federal laws and cannot be included in the texts of the federal laws changing the other legal acts⁶.

Changes and additions to the BC FR, first of all, are connected with the development of all categories of budget activities, and the enlargement of the BC RF to cover a greater range of legal relationships.

For example, in the BC RF was included:

- in 2004 – a new chapter 19.1 “Exercise of budget powers of public authorities of the subjects of the Russian Federation and local authorities during the introduction of temporary financial administration”⁷;
- in 2005 – a new chapter 24.1 “Execution of judicial acts for applications for recovery of public funds of the budget system of the Russian Federation”⁸;
- in 2007 – a new section 25.1 “Fundamentals of preparation, external inspection, consideration and approval of budget reporting” which consists of two chapters: 25.1 “Fundamentals of preparation, external inspection, consideration and approval of budget reporting” and 25.2 “Preparation, external inspection, consideration and approval of the budget reporting of the Russian Federation”⁹.

In addition, the federal law dated August 15, 1996 No. 115-FZ “On budget classification of the Russian Federation” with simultaneous transfer of its content to chapter 4 of the BC RF since January 1, 2008¹⁰.

5 R.E Artyukhin, *Problems of Budget Law Development*, “Public Finance and Financial Law” 2012. p. 183.

6 Federal Law dated 07.05.2013 No 104-FZ.

7 Federal Law dated 20.08.2004 No 120-FZ.

8 Federal Law dated 27.12.2005 No 197-FZ.

9 Federal Law dated 26.04.2007 No 63-FZ.

10 Federal Law dated 26.04.2007 No 63-FZ.

The prospect of the expansion of the legal regulations of the BC RF connected with its coverage of all subjects included in the public management sector is noticeable. In accordance with the International Monetary Fund's recommendations (hereinafter referred to as the IMF), according to the statistics of public finance it is necessary to include all state units and all non-market non-profit organizations (hereinafter referred to as NPO's) controlled and generally financed by state units in the reporting for transactions of the public management sector. From the legal point of view, such NPO's are non-state structures, however, it is considered that they pursue a state policy and actually are a part of the state's administrative bodies. When carrying out some measures of state policy the state administrative bodies can use non-profit organizations instead of public institutions. Examples of such fields are research and engineering development, health care, safety, environmental protection and education. According to the IMF recommendations, an NPO is under state control if the state bodies determine its general policy or the program of activities, for example, through the right to appoint heads or the use of financial leverage. An indicator of a controlled NPO is the sale of its goods, works or services at non-market prices¹¹.

But the inverse process also takes place: – clarification of the BC RF from legal norms not connected with the budgetary legal relations, with the exception of conflicts. The striking example of such a process is the long-expected changes and additions made in 2013 to the fourth section of the BC RF with a new title “Budget Violations and Budget Enforcement Measures”¹².

A new version of the fourth section of the RC RF eliminated the contradictions connected with the application of criminal and administrative liability for violations in the budget sphere. In particular, the former version of the BC contained 18 references to the RSFSR Code of Administrative Offences which have been invalid since 2002. A version of the Code of Administrative Offences of the Russian Federation (hereinafter referred to as the CAO), effective from 2002 to 2013, only determined responsibility for three of 18 types of violations of the budget legislation specified in the BC RF¹³. Today this situation has been corrected, the CAO includes all missing norms which are at the same time excluded from the BC RF.

After the changes to the fourth section of the BC RF, there are no obvious collisions and gaps, and its contents are quite adequate for the systemic requirements of the legislation and do not contradict other laws and normative legal acts.

11 . Manual on government finance statistics. - Washington. 2001. Available at <http://www.imf.org/external/pubs/ft/gfs/manual/rus/pdf/allr.pdf>.

12 Federal Law dated 23.07.2013 No 252-FZ.

13 *Vid.* D. L. Komyagin, *Grounds to apply enforcement measures for violations of the budget legislation and offences in the budget sphere*, “Financial Law” No. 2, 2007; D. L. Komyagin, *Commentary for the fourth section of the Budget Code of the Russian Federation*, [in:] *Commentary for the Budget Code of the Russian Federation*, 2002.

Of the other laws (excluding the BC RF and laws on budgets in the budgetary system of the Russian Federation), it is necessary to refer to several of the most important laws reflecting the reforms made in the budget sphere.

First of all, the next stage of the reform of budgetary control came to an end with the adoption of a new federal law dated April 5, 2013 “On the Chamber of Accounts of the Russian Federation” which replaced the federal law which had existed before, dated January 11, 1995 No. 4-FZ “On the Chamber of Accounts of the Russian Federation”. The reenacted law was developed together with the federal law dated June 23, 2013 No. 252-FZ “On Changes to the Budget Code of the Russian Federation and Separate Legislative Acts of the Russian Federation”. Earlier, the federal law dated February 7, 2011 No. 6-FZ “On General Principles of the Organization and Activity of the Bodies of Control and Accounts of the Subjects of the Russian Federation and Municipalities” was adopted. With the exception of these laws, the elements of budgetary control under the powers of parliament are regulated by the recently adopted federal law dated May 7, 2013 No. 77-FZ “On Parliamentary Control”. Generally, the provisions of the above-mentioned laws included the contents of the Lima Declaration of Leading Principles of Control accepted in 1977 by the 9th Congress of the International Organization of Supreme Audit Institutions (INTOSAI). Generally, the development of budgetary control is characterized by a transition from inspection of the legitimacy and reliability of the performed operations to inspection (audit) of the efficiency of budgetary funds use, where the achieved result is checked and evaluated.

The issues of formation of budget expenditure and its subsequent execution are directly connected with the reform of procurements of goods, works and services for public needs. The legislation of the Russian Federation on public procurements is based at the same time on the provisions of the BC RF and the Civil Code of the Russian Federation (hereinafter referred to as the CC RF). The results of reform in this sphere were reflected in the adoption of the federal law dated April 5, 2013 No. 44-FZ “On the Contract System in the Sphere of Procurements of Goods, Works, Services for State and Municipal Needs” (hereinafter referred to as the Law on the Contract System) which replaced an earlier federal law dated July 21, 2005 No. 94-FZ “On Placement of Orders for Deliveries of Goods, Performance of Work, Rendering of Services for State and Municipal Needs” (hereinafter referred to as the Law on Procurements).

The fundamental difference of the reenacted law from the law that was effective earlier is that all stages of public procurements are settled now: planning; definition of suppliers (contractors); conclusion of the contract on behalf of the Russian Federation, subject of the Russian Federation or municipality; specifics of execution of these contracts; monitoring, audit and control in the sphere of procurements. The problems which should be solved in the near future are the integration of the budgetary process and the procedure of government procurements, ensuring the mutual optimization of these processes.

The end of the next stage of the reform of the sector of public institutions is connected with the adoption of the federal law dated May 8, 2010 No. 83-FZ “On Changes to Separate Legislative Acts of the Russian Federation in Connection with Improvement of Legal Status of the Public (Municipal) Institutions” which changed the Civil Code of the Russian Federation, the federal law “On Non-profit Organizations” and several other laws regulating structural features of public institutions. The federal law dated November 3, 2006 No. 174-FZ “On Autonomous Institutions” was adopted earlier.

Public institutions, being participants in the budgetary process, directly carry out budget activities both in terms of implementation of expenditures and mobilization of budget revenues. Originally (at the beginning of the budget reforms), there was only one type of institution founded on public (state or municipal) property – budgetary institutions. After the reforms were carried out there were three types of public institution: state institutions, budgetary institutions and autonomous institutions. Thus, the state institutions correspond to those budgetary institutions which had existed earlier, prior to the transformations, and new budgetary institutions represent a transitional form for those institutions which do not quite fit the image determined for state or autonomous institutions.

The difference between the three types of organization consists, mainly, in the degree of autonomy in relation to the founder – the Russian Federation, a subject of the Russian Federation or a municipality. An autonomous institution, which has the right to open settlement accounts independently with commercial banks and to perform accounting according to the rules established for organizations in the production and economic spheres, has the greatest freedom. The founders do not bear subsidiary responsibility for the obligations of autonomous and budgetary institutions. The budgetary institutions are not vested with the right to open bank accounts and carry out their activities using personal accounts opened by them in bodies of the Federal Treasury. However, there is no strict control of budgetary institutions, they have the right to maneuver expenditures within a general remaining balance on a personal account. The subsidiary responsibility of the founder remains for the obligations of state institutions. The state institutions carry out activities using personal accounts opened by them in bodies of the Federal Treasury based on the budget estimate, which is the code of limits for assumption of liabilities in terms of the codes of budget classification.

State institutions, as a rule, are public authorities, and budgetary and autonomous institutions are institutions of science, culture, art, education and health care.

The planned result of the reform of public institutions was to increase their competitiveness and eliminate the situation where the founder becomes indebted because of the obligations of public institutions. It is difficult to talk about the results of this reform as it is ongoing.

One more element of the budget reforms which can be seen through a prism of legislative activity is the reform of state strategic planning. Inherently, the budget is a financial plan which is devised as part of the implementation of the general state strategic plan (economic plan, plan of social and economic development) and plays a secondary role in relation to the strategic plan. In the absence of a strategic planning system, the budget carries out unusual functions¹⁴. An understanding of this problem was reflected in the Decree of the President of the Russian Federation dated May 7, 2012 No. 596 “On Long-term State Economic Policy” which provides the preparation and introduction of the federal law draft about state strategic planning entering into the State Duma of the Russian Federation. This law shall provide for coordination of strategic management and measures of budget policy¹⁵. One of the basic documents of state strategic planning in the draft law is called a long-term budget strategy.

Changes in the budget legislation, as a rule, are consequences of implementation of the budget policy carried out by the President of the Russian Federation and the Government of the Russian Federation which is described hereinafter.

The Budget system

After changes in the legislation, the following aspect of budget reform is enhancement of inter-budgetary relations. The budget system of the Russian Federation, owing to its federal territorial structure, has a difficult nature¹⁶. The subjects of the Russian Federation are not uniform; the Russian Federation consists of national republics, areas, regions, autonomous regions and autonomous areas which differ territory by territory, and there are cities which have special status – Moscow and St. Petersburg. Also, owing to historical and geographical reasons, the subjects of the Russian Federation are economically unequal. Some of them have sufficient or even excessive profitable bases to cover their own expenditures, and can even serve as donors for other subjects of the Russian Federation, while other budgets cannot cover their own expenditures without the aid of the federal budget. Equalization of the level of profitable security for all budgets, ensur-

14 *Vid.* D. L. Komyagin, *Budget as an element of strategic planning*, “Financial Law” No 9, 2012; D.L. Komyagin Legal form of the budget policy, [in:] *Outlines of budget and legal science of modern time*, Moscow – Kharkov 2012, p. 27 – 44.

15 At the moment of writing the draft law “On state strategic planning” is under the consideration of the State Duma of the Assembly of the Russian Federation and is available on the official website of the State Duma URL: [http://asozd.duma.gov.ru/main.nsf/\(Spravka\)?OpenAgent&RN=143912-6](http://asozd.duma.gov.ru/main.nsf/(Spravka)?OpenAgent&RN=143912-6) , date of address 23.11.2013.

16 Subjects of the Russian Federation are listed in article 65 of the Constitution of the Russian Federation.

ing stability and balance in the budget system as a whole are tasks which are constantly on the agenda. All the above mentioned issues also concern local budgets, which have difficult relations with authorities as subjects of the Russian Federation in the territory where they are located, and with the federal authorities. Besides, the budget system of the Russian Federation includes independent elements: the Pension Fund of the Russian Federation, the Federal Fund of Compulsory Medical Insurance, the Federal Fund of Social Insurance and territorial social funds.

During the Soviet period there was a state budget for the USSR which included the state budgets of the union republics, the union (central) budget and the budget of social insurance. This system had a hierarchical nature and was strictly deficit-free. After the break-up of the Soviet Union, the balance of the budget system was destroyed, and it had to be recreated anew but on the condition of considerably greater independence of each budget than in the USSR¹⁷.

The experience of the reform of inter-budgetary relations in the Russian Federation represents a valuable source of information for such activity and was reflected in the following program documents:

For the period from 1999 to 2001 – in the Concept of reforming inter-budgetary relations in the Russian Federation in 1999 – 2001, the order of the Government of the Russian Federation dated July 30, 1998 No. 862 was approved. This document marked the transition from individual coordination of financial assistance for the subjects of the Russian Federation to unified rules for its distribution. Work on the fixing of account powers for each level of the budget system was begun.

For the period from 2002 to 2005 – in the Program of budget federalism development in the Russian Federation for the period till 2005, approved by the order of the Government of the Russian Federation dated August 15, 2001 No. 584. During this period, reform was concentrated on elimination of the contradiction between the high decentralization of budget resources and excessive centralization of tax and budget powers. The incompleteness of local self-government formation was noted. In the course of the program's implementation, the differentiation of account powers between the federal authority, regions and regional authorities was completed. The practice of federal powers delegation to the subjects of the Russian Federation and municipalities was considerably reduced without provision of adequate resources for their financial coverage.

For the period from 2006 to 2008 — in the Concept of increasing the efficiency of inter-budgetary relations and management of the quality of public and municipal finances in 2006–2008, approved by the order of the Government of the Russian Federation

¹⁷ *Vid.* D. L. Komyagin, *System of the Budget Law Principles (Russian Legislation and Scientific Dogmatics)* “Reforms and Law” No. 4, 2012; D. L. Komyagin, *Budget Law in Russia: Budget Structure and Budget System*, “Public Legal Investigations” No. 3/4, 2011, p. 115–135.

dated April 3, 2006 No. 467-r. During this period there was a further improvement in the quality of management of public finances and the efficiency of budget expenditures.

It is significant that for this and the following periods the inter-budgetary relations were reformed together with the budgetary process. Such integration happened within the Concept of reforming the budgetary process in 2004–2006, approved by the order of the Government of the Russian Federation dated May 22, 2004 No. 249 “On Measures for Productivity Increase of the Budget Expenditures”. Reforms were implemented at federal, regional and local levels.

For the period from 2010 to 2013 – in the Concept of the inter-budgetary relations and organization of the budgetary process in the subjects of the Russian Federation and municipalities till 2013, approved by the order of the Government of the Russian Federation dated August 8, 2009 No. 1123-r. It is obvious from the title of this program document that reform “went down” to the sub-federal level, enhancing the rendering of services by public authorities.

The listed program documents formed the basis for adoption of regional documents. Also, the development of the Russian code of best practice for the subjects of the Russian Federation and municipalities was commenced in the sphere of regional and municipal financial management, which includes the most efficient tools for regional and municipal financial management. The reforms were based not only on the Russian experience, but also the experience of different countries with both federal and unitary state structures and both Romano-Germanic and Anglo-Saxon legal systems. The experiences of the following countries were studied: Austria, Australia, India, Canada, Argentina, Mexico, the USA, Belgium, Germany, Switzerland, France, Italy, Spain, Denmark, Norway, Sweden, the countries of Central and Eastern Europe, Great Britain, Japan and New Zealand¹⁸.

The budgetary process

One more aspect of the budget reforms can be seen in the changes to the budgetary process. Reform of the budgetary process was mainly concentrated on increasing the efficiency (productivity, parsimony) of budget expenditures, and also the enhancement of budget planning. Within the reforms of the budgetary process, the following new instruments of budget planning appeared: account liabilities, target programs, sovereign funds; reorganisation of budget classification and a transition to a three-year budget. The experience of reforming the budgetary process was also based on processing the best world practices, taking into account domestic conditions, and this is reflected in the following program documents:

¹⁸ See official site of the Ministry of Finance of Russia http://www.minfin.ru/ru/budget/regions/best_practices/.

The concept of a single treasurer account was approved by the order of the Government of the Russian Federation dated January 23, 2000 No. 107-r. This document is connected with the creation of a single treasurer account for budgets.

The above mentioned concept of reforming the budgetary process covered the period 2004–2006.

The program of the Government of the Russian Federation for increasing the efficiency of budget expenditures for the period till 2012, was approved by the order of the Government of the Russian Federation dated June 30, 2010 No. 1101-r. Based on the achieved level of budget management, more complex tasks are set: coordination of strategic planning with budget planning, use of all tools (budget, tax, customs, tariffs, etc.) applied to the goal of achievement of state policy.

The concepts of the creation and development of the state integrated information system of public finance management - “Electronic budget” - was approved by the order of the Government of the Russian Federation dated July 20, 2011 No. 1275-r within which the creation of the “Electronic budget” system is ongoing.

Historical budget reforms

Modern budget reform is a continuation of the long evolution of the budget in Russia. Every time a reform of the public finances has happened in Russia, it was a reaction to external challenges, a kind of adaptation to changing conditions.

Noticeable budget reforms in Russia can be tracked from Peter the Great’s era. In 1708 the territorial structure of Russia was changed – it was divided into provinces¹⁹ headed by a Governor-General, and in 1717 new central authorities were founded to replace a mixed system of orders: nine boards, three of which were engaged in finance. A share of state expenditures for the army, fleet, and diplomacy was assigned to each province. For this purpose the revenues and expenditures were centralized at the level of governors, that is, the revenues collected in provinces were directly used there²⁰. It was probably an attempt to achieve fiscal unity at the regional level, “to merge state revenues and expenditures”²¹. State lists were drawn up but this activity was not systematic. Peter’s reforms can be as an extensive modernization, initiated by military requirements.

The problems of the unity of the state list (budget) were resolved during the following significant reforms dated 1801 - 1811²². In 1802, the Cabinets of ministers and ministries were founded, among which there was a Ministry of Finance, which had to, inter alia,

¹⁹ Originally there were 8 very big provinces.

²⁰ N.A. Sinitsyn, *Budget Law of Pre-revolutionary Russia*, Moscow 1998, p. 18.

²¹ *Vid.* O. V. Boltinova, *Budget Law*, Moscow 2013.

²² N.A. Sinitsyn, *op.cit.* p. 20

regularly prepare the state list of revenues and expenditures. This reform is connected with the name of the outstanding statesman of that era, Mikhail Mikhailovich Speransky, who created such a written monument as the 'Plan of Finance' representing the plan of state transformations in the financial sphere.

Budget rules, fiscal unity and the publicising of the budget appeared in Russia along with the extensive state transformations in approximately 1862. The budget reform of this period is connected with the name of the state controller, Valerian Alekseevich Tatarinov. The commission headed by him developed the Rules for preparation, consideration, approval and execution of the state list and financial estimates of the ministries and general departments, approved in 1862. The decision on the general publicising of the state list of revenues and expenditures was made in the same year. The plan of financial system transformations developed by Tatarinov included control of the strict execution of state estimates and achievement of fiscal unity. For this, all state revenues were concentrated in public cash offices, from where the expenditures were incurred²³.

The next period of significant changes in the budgeting of Russia also passed within the general reform of the state system. In 1906, the first representative institution was elected: the State Duma having legislative powers. The State Duma was entrusted with the powers to discuss and approve budget items (except for military and some other expenditures). From this moment the budget in Russia should be referred to as 'the budget' rather than the state list of revenues and expenditures.

During the Soviet period of budget development a new element was added to the results of the previous reforms: the budget's inclusion into the system of state planning. The ratio of state planning and market competition can be evaluated differently in economic terms. However, it is impossible to deny the nature of planning, that the budget itself is a plan of financial activity of the state (public legal education). The USSR state budget was based on indicators of the economic plan which were annually approved and had natural expression. Budgetary and economic planning represented two closely connected and mutually causal processes which proceeded at the same time. From 1956 discussion and approval of the economic plan and the budget took place at one of the sessions of the USSR Supreme Council²⁴. It was possible to predict that there would be a process of state strategic planning and a budgetary process to which the procedures of public procurements were integrated.

23 A.A. Yalbulganov, *State Controller and the Reform of Financial Control in Russia (1850 - 1860)*, "Public Financial Control in Russia: History, Theory, Practice" Kursk 2006, p. 6; Y. V. Ginzburg, *Legal Status of Province Treasuries in the Second Half of the 19th Century - Beginning of the 20th Century*, "Financial Law", No. 11, 2009.

24 V. V. Bescherevnykh, *Development of the Soviet Budget Law*, Moscow 1960, p. 6.

Stages of the modern reforms.

During the post-Soviet period, budget reform was subdivided into several chronologically consecutive stages connected with the achievement of different purposes.

Originally, after the period of general disorder of public management and financial economics connected with the revolutionary transformation of the state system (after 1991), there was a purpose to establish an elementary order or to reconstitute the system of public finances. It was necessary to considerably reduce budget deficits, to order the budgetary process, to balance the budget system and to regulate inter-budgetary relations. These problems were solved by the adoption of necessary laws and regulatory acts concerning budgetary relations, by the approval of the principle of fiscal unity and the creation of an infrastructure for bodies of the Federal Treasury²⁵. It is possible to say that the first stage of the budget reform came to an end in 2000 after the entry into force of the general financial law: the Budget Code of the Russian Federation accepted two years earlier in 1998. The BC RF was the foundation on which it was possible to continue with further development.

The BC RF approved the general principles of the budget system and the organization of the budgetary process including the principles of fiscal unity. It is necessary to mention fiscal unity separately, owing to its value as a basis for any budget activity.

The principle of fiscal unity is determined today in article 38.2 of the BC RF and means the entry of all receipts and all payments from a single budget account. Fiscal unity in the Russian Federation is expressed today in the existence of a single account for each budget in the budget system opened in the Bank of Russia. The revenues from all budgets in the budget system are originally credited to a single account of the Federal Treasury and then they are distributed into single budget accounts.

Fiscal unity reflects the constitutional principle of state unity in the budgetary process. World practice confirms the need for fiscal unity. The following main advantages can be referred to:

- up-to-date (daily) information on the condition of state cash (accounts) available to the government;
- available information on the movement of the funds of budget accounts, reliable knowledge of the amount of budget revenues received during any period, and, for a federal state - the amount of revenue entered for future budgets;

²⁵ Today, the Federal Treasury is an independent federal service, at the moment of creation and until the administrative reform in the Russian Federation in 2004 the General Department of Federal Treasury was a structural subdivision of the Ministry of Finance and led the system of bodies of the Federal Treasury by the subjects of the Russian Federation, cities and city districts.

- possibility of the government to predict cash flow in advance while executing the budget;
- complete transparency of financial flows arising while executing the budget.

The principle of fiscal unity began to be implemented in our country in the 19th century for the purposes of “greater safety of money and correctness of their issue” as “the less cash the less cases of plundering”²⁶. I.Kh. Ozerov considered three stages for establishing fiscal unity²⁷. The first stage is characterized by the creation of cash offices for the collection of revenues and expenditures in separate departments; the second stage is the centralization of all cash offices in one department: the Ministry of Finance; the third stage (the most perfect) is the creation of a banking system for the state’s cash offices²⁸. Development of the cash structure in imperial Russia stopped at the second stage, that is, on centralization of all cash offices in a single department.

In the early 1990s in Russia, public finances actually moved out of governmental control, mainly because of the destruction of fiscal unity. After abolition of the USSR State Bank, the execution of the state budget was made through numerous commercial banks via settlement accounts opened by the budgetary organizations independently. The consequence of such decentralization was the absolute non-transparency of the budget’s execution and many abuses regularly leading to non-execution of the planned expenditures.

The scheme for budget execution was such that when transferring funds to the bank accounts of budget beneficiaries at the beginning of a year (or in process of the revenue receipt), the Ministry of Finance of Russia no longer had access to these funds. As a result the financial body was forced to take credit from commercial banks to cover the cash rupture while executing the budget. Such credit generated enormous debts payable by the state. At the same time, budgetary loans were widely granted, and these loans were reflected in the public debt for many years. At the same time, certain beneficiaries of budget funds, taking advantage of newly granted freedoms, allocated these funds not to the stated purposes and “forgot” to pay according to the concluded agreements. As a result, huge debts appeared which turned into judgments of recovery of these amounts from the budget.

Today, the condition of public finances in the Russian Federation essentially differs from the situation described above: fiscal unity is fully implemented, budget funds are

26 *On transformation of State control and certain parts of financial administration in Russia*, [in:] “Maritime Collected Articles” No. 12, 1859, p. 2.

27 *Vid. I.Kh. Ozerov, Financial Law: Course of lectures given at the Moscow University*, Moscow 1905, p. 38.

28 *Vid. ibidem.*

transparent and under control throughout the whole budgetary cycle, and the most modern technologies are used in the budgetary process²⁹.

After reconstruction of the Federal Treasury, the establishment of fiscal unity and acceptance of the BC RF, it is necessary to refer to the confirmation of liabilities of public and legal institutions (of the Russian Federation, subjects of the Russian Federation, municipalities) with their financial opportunities.

The third stage is transition to medium-term budget planning; reporting of the financial position of the state based on an accrual method; implementation of procedures of internal control and audit, reorganization of the budget sector, program budget³⁰.

In general it is necessary to note that all the reforms carried out in Russia (after Peter the Great) differed in terms of depth and thoroughness. There was a clear vision of goals and objectives, preliminary studying of the best practices of other countries, subsequent adoption of laws and carrying out of the planned transformations based on these laws³¹. Thanks to such an approach, the main results of the reforms did not disappear completely during social cataclysms and the stage of higher level organization followed after a short-term period of disruption of public finances .

The striking example here is the principle of fiscal unity. In 1862 the decision on fiscal unity was made, and then execution of the state budget was transferred to the State Bank. The revolutionary events in 1917 caused chaos in the financial sphere. However, in just approximately ten years (1927 - 1928) the decision on the creation of the RSFSR State Bank was made, the principle of fiscal unity was approved by law, and its implementation was assigned to the State Bank instead of financial bodies. The principle of fiscal unity was consistently and strictly implemented up to 1991. The following social and economic shock (in the 1990s), was characterized by disruption of the public finances and abolition of the budget on a single account. However, in approximately ten years fiscal unity was approved by law (BC RF) and was implemented using the most up-to-date technologies. While executing the budget, fiscal powers are divided between the Central Bank of the Russian Federation and the Federal Treasury which today is becoming a full participant in a single payment system of the Bank of Russia³².

Generally, the budget reforms in Russia are the answers to the challenges of the time. They are based on studying the best world practices, but as a result the Russian Federation has a particular, and unique course of development.

29 On Fiscal Unity in Russia *vid.* D.L. Komyagin, *The Principle of Fiscal Unity: Experience of Comparative and Legal Research*, "Administrative and Financial law" vol. 1, 2007.

30 T.G. Nesterenko, *Prerequisites and General Directions of the Budget Reform in the Russian Federation*, "Reforms and Law" No. 1, 2007.

31 N.A. Sinitsyn, *op.cit.*, p. 48.

32 Concepts of payment system development of the Bank of Russia for the period till 2015 was approved by the decision of the Board of Directors of the Central Bank of the Russian Federation on 16.07.2010.

SUMMARY

Budget reforms in Russia: results and perspectives

The article covers budget reforms in Russia which have been taking place since 1991. It presents both a multi-perspective and retrospective glance at the modern reforms, and their continuity with regard to other Russian reforms from the historical past is discovered. Changes in the Russian legislation regulating budgetary relations and changes to inter-budgetary relations and the budgetary process are analyzed in details. The article contains a review of program documents describing the course of reform and a prediction of future changes.

Keywords: Public finance, budget, budget reform, budgetary process, budget system, inter-budgetary relations

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