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The papers study the following problems: sustainable development of local production systems, business strategies of LPS, innovativeness of clusters, critical infrastructure protection, corporate social responsibility, environmental protection, local production system management, governance of local production systems in Bulgaria, Poland, Ukraine and Russia, policy guidelines with some measures of general application, aimed at problems observed in all LPS, and some specific measures differentiated according to a typology of local production systems.

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FINANCIAL RESOURCES OF LOCAL GOVERNMENTS

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Russian legal environment concerning regulation of municipal units impedes cities and municipal districts in elaboration and implementation of their own development strategies. The correspondence between fiscal spending and their financial resources made by regional and municipal governments limits most municipalities in their independent fiscal policies both at present and in future.

INTRODUCTION

At present, there is a rare consensus of opinion among politics, scientists, and the public that high regional disparities in incomes and quality of life are undesirable and even harmful to the future development of the countries. A degree of heterogeneity of any national economic space could be regarded as an indicator of how effective government regional policy, even country development in whole, is. The highest spatial differentiation of economic indicators, conditions and standards of life can be observed in the developing countries of the world, especially in the poorest ones.

Spatial heterogeneity of the economy could not be considered as an inevitable consequence of its development. The causes of such a consequence, if they exist, are well known. They are geographic and climate factors, availability of natural resources, sectoral shifts, concentration and scale advantages, historical legacy, ethnic specifics of the local native population, and many others.

Any government, within its powers, makes efforts to smooth regional disparities according to its political, social, and economic considerations. Usually, measures of fiscal policy are effective in equalizing the provision of major social services like education and healthcare, maintenance of public order, support to disabled persons, and etc. To stimulate the development of depressed territories, other instruments such as those of regional policy like special funds, programs, and development institutions are required and applied. [1].

Most of the Russian studies on spatial disparities are devoted to measurement and analysis of the regional disparities within in a certain federal district or unit of the Russian Federation. Like in many other countries, the highest disparities in levels and rates of the socio-economic development can be observed between Russian municipal units. However, Russian economic space at the municipal level is so contrast and obvious that N. Zubarevich could specify four major systems of cities and their development models showing a striking difference [2].

The Russian studies on municipal problems usually deal with the issues observed within a certain subject of the Russian Federation and they analyze the issues of infrastructure, transportation accessibility, availability of basic public services to cities and areas, local budgets and their dynamics, and intergovernmental transfers. There are also certain achievements obtained by Russian sociologists with regard to assessing the degree

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and causes of territorial differentiation at the municipal level. The studies made by S. Artobolevsky, N. Zubarevich, T. Nefedova, L. Smirnyagin, A. Treivish, and others, among economists – E. Kolomak, V. Leksin, A. Marshalova, A. Novoselov, S. Suspitsin, A. Shvetsov, and some others are worthy of being noted.

REGULATORY ENVIRONMENT OF LOCAL SELF-GOVERNANCE

To solve the problems of municipal units and build more homogeneous economic space, the Russian constitutional and regulatory environment is necessary to be stable and its regional policy – consistent and supported with enough financial resources.

Russia has ratified the European Charter of Local Self-Government and thereby acknowledged its supremacy over national laws without reservation. The Charter directly writes that local self-governance is local authorities' right and real opportunity to regulate a great part of public affairs on their own responsibility and for benefit of the local population within the limits of the law. This implies that local people have an unconditional right to solve socio-economic problems of their communities independently and responsibly.

The federal acts on local self-governance were adopted by Russia in 1991, 1995, and 2003. The last one (Federal Act No. 131-ФЗ of 2003) came into force in 2009, but till nowadays it has been annually amended, sometimes very seriously. Local self-governance and its amendment in Russia are also governed by other federal acts such as the RF Tax Code, RF Budget Code, Federal Act No. 126-ФЗ on Financial Basis of Local Self-Governance in the Russian Federation, Federal Act No. 184-ФЗ on General Principles of the Legislative (Representative) and Executive Bodies in the Units of the Russian Federation, and many others. In addition to federal acts, each of the RF units also has its own legal environment, rather voluminous and constantly amended, as well a huge number of subordinate acts and regulations such as official letters, instructions, and methodical recommendations passed by different executive agencies. Despite such numerous amendments annually made, perhaps due to them, the legal basis for local self-governance has remained contradictory. Such unstable legislation has a negative impact on local authorities' ability to formulate and pursue long-term development policies for territories under their jurisdiction. Especially, this concerns small and medium cities and rural communities.

The last Federal Act enlarged the number of municipal units in Russia, but only formally [3]. Since only municipal areas (raions) and city districts among other municipal units have the right to set their local budget, own municipal property, and elect self-governance bodies, the above Act quite the contrary decreased the number of municipal units.

Under this Act, the following actions are classified as those under jurisdiction of local governments:

- to set, adopt, and implement the budget;
- fix, change, and abolish local taxes and duties;
- possess, enjoy, and dispose of the municipal property;
- provide the local population with energy, heating, water and fuel supply;
- maintain and build local roads, bridges, and other engineering constructions for transportation;
- provide public transport services;
- prevent and ensure emergency relief operation;
- provide primary measures of fire security and protect public order; and
- create conditions for local communities to be provided with communications, trade, public catering and community services.

In addition to them, the federal center has delegated to the municipal level a large portion of its functions concerning the provision of housing and benefits to certain categories of the local population and execution of federal decisions on providing certain kinds of education and healthcare. One would suppose that such volume of delegated powers should be supported by appropriate allocation of financial resources to the municipal level. Rather, an inverse process has taken place in fact – today, the most part of the Russian consolidated budget goes to the federal budget and extra-budgetary funds, and therefore, regional and local authorities have less money even together with intergovernmental transfers. The sources of local revenues are strictly regulated by the federal acts and their number drastically reduced. The expenditures of consolidated budgets of the RF units reduced from 50% in the early 2000-s to 35% in 2013.

These changes could be explained partly by a fast economic growth in Russia due to a favorable external economic situation, recovery growth after the crises of the 1990-s and of 1998, and the institutional reforms taken place in the beginning of the century. The conflicting goals set by the federal center also played a significant role – on the one hand, the Government has relieved of those social obligations and infrastructure expenditures which were difficult to fulfill and meet, and delegated them to authorities of the RF units and municipalities. On the other hand, realized its purpose to put under control more and more authorities in order to have a stronger ‘vertical of power’ by inclusion of the municipal level. It should be said that regional authorities has done the same in many aspects towards municipalities.

This resulted in fact that local authorities in most part of the country operate on a pro forma basis as those which carry out the government responsibilities delegated to the municipal level and financed by upper levels as transit through transfers to local budgets. The governments of all levels are well aware of this problem but the decisions to address it are of quite unforeseen character. For example, recently the federal center made a decision on funding pre-school educational institutions from budgets of the RF units while previously, a part of expenditures for education and healthcare were funded directly from local budgets.

The strategic documents adopted by the Russian Government describe the qualitative diagnostics of regional development problems and measures required to overcome disproportions. For example, the RF Long-Term Economic Development Concept [4], Part 7 “Regional Development” includes a list of measures required to build a sustainable regional settlement system. The following measures are suggested:

- to delegate more financial resources and powers to municipalities and, first of all, to their points of growth;
- enlarge the sphere of economic and financial activity where municipal authorities may operate independently;
- make the effectiveness of municipal economies higher;
- elaborate city development plans which are effective and harmonized with the environmental development, and make urban architecture and supply facilities more diverse and comfortable;
- make mono-cities more stable; enlarge their functions; assist to greater quality and mobility of the population; solve the problems of mono-cities and communities with an exhausted resource base; and build mechanisms to allow the resettlement of such mono-cities and communities; and
- form a new and modern image of Russian rural community.

However, having declared these sound objectives, no real actions followed them because the Concept was vague about methods, instruments, and resources for how to realize them.

The recent practice of elaborating strategies, programs, or medium-term plans in Russia has had a little impact on the practice of the decision-making and its mechanisms and it brought no stability to the economic development yet, especially at the municipal level. To have long- and medium-term plans is a sound measure, but our plans and budgets – even those for the current year – are seriously corrected in the course of their implementation. This affects our long-term forecasts and confidence in the information and methodological support for decision-making.

ECONOMIC GROWTH, FISCAL POLICY, AND FINANCIAL RESOURCES OF LOCAL SELF-GOVERNANCE

A significant drop of the Russian economic growth in 2013 was an unpleasant surprise to the RF Government, but not to independent analysts. Today, it is a generally recognized fact, and we witness a rather radical revision of not only our fiscal policy for next three years, but also of the long-term strategic documents. If such revision of other strategic documents has not happen yet, it will in the future. Along with a repeated correction of parameters of the forecast for 2013 during this year, the RF Ministry of Economic Development revised several times the long-term development forecast for Russia. Within previous six months, the expected annual GNP growth was corrected from 3.2 to 2.5% according to a conservative plan which is supposed to be the most liable and could be considered as a basis for our fiscal policy.

However, to have such a rate of growth will be difficult as the Russian economy in whole has lost its competitiveness and investment attractiveness to other countries.

The above conclusions were prompted by the following words from the Official Notes [5, p. 2] – to achieve this growth rate, it is necessary “to continue aggressive institutional transformations aimed at improving business climate and competitiveness, and making the quality and effectiveness of public and corporate management higher in Russia”.

At present, the macro-economic situation in Russia could be regarded stable and its budget system – rather well-balanced in the short run. However, the last report made by Gaydar Institute and the Academy of National Economy writes that a significant fiscal gap is highly expectable in the long run [6]. The trends towards a higher sovereign debt are also unfavorable since it grows much faster than the economy – only over 2013, it grew from 10 to 12% of GNP. Moreover, the external debt of Russian corporations and banks (especially, public ones and those with government participation) is high enough and close to 50% of GNP.

The stability of both economic growth and financial system in Russia depends on a resource character of the structure of its economy. Let me note that, the RF Ministry of Finance assesses our federal budget deficit, without oil and gas revenues, to be near 9.6 % of GNP in 2013 [7].

A growth of federal transfers to the RF Pension Fund became a great problem to the Russian fiscal system in the long- and medium run. Only in 2013, 2.82 trillion roubles are planning for this purpose [8] while the RF Pension Fund’s budget is approximately equal to a total budget of all RF units.

Our budget spending has grown due to numerous promises given on the eve of the presidential election of 2012 to improve living standards of different groups of the Russian population and to set defense expenditures higher in the years to come. In addition, the expenditures for public administration and mega-projects have annually grown. All these happened on the supposition of an expected 5% GNP growth annually. However, we

did not achieve the target parameters in 2012, and last year the growth rate reduced to 1.5% that is close to a statistical error. So, mounting concern of the country administration over both budget execution and possible growth of fiscal deficit and debt, especially in the medium- and long run, is quite explainable.

Over recent years, the fiscal gap of the Russian Federation has been step-by-step re-distributed to the regional and municipal levels. This resulted in a gap of the total consolidated budget of the RF units in 2013. At present, this is not alarming in general since a total debt at this level is equal to 1.5 trillion roubles (less than 2.5% of GNP), and a total deficit, as estimated by the RF Ministry of Finance, will be 0.3% of GNP in 2013 [9]. This means that the growth rate of debt of the RF units and municipalities will be near 12%, perhaps, even 15% in 2013.

It should be noted that the corporate and personal income taxes which are the key sources of revenues of regional and local budgets (in addition to transfers) have no trend to increase while corporate incomes merely decrease. Moreover, loans from financial markets are much cheaper to the federal budget than to regional and especially municipal ones. So, the current government policy towards regions should be considered as risky enough.

It is well known that reduction of expenditures does not assume their higher efficiency at all, as well as their increase does not guarantee the goals declared to be achieved. So, further debates on our budget and industrial policies will obviously become sharper.

As for the future of the Russian fiscal policy and distribution of resources between the federal, regional and local levels, the following information provides the Government document on the RF Long-Term Socio-Economic Development 2030 [5] (Table 1).

Table 1

Forecast of key parameters of the RF budgetary system, % of GNP

Parameters	2013	2014	2016	2020	2025	2030
The RF consolidated budget						
Revenues (without intergovernmental transfers)	36.9	35.1	34.4	34.6	33.6	32.7
Expenditures (without intergovernmental transfers)	37.6	35.8	34.9	34.7	33.6	33.0
Deficit (surplus)	-0.7	-0.7	-0.5	0.1	0.0	-0.3
Federal budget						
Revenues	19.3	18.2	17.4	16.6	15.4	14.2
<i>Including:</i>						
oil-and-gas revenues	9.0	8.0	7.2	6.9	5.9	4.7
non-oil-and- gas revenues	10.3	10.2	10.2	9.7	9.5	9.5
Expenditures	19.8	18.7	18.0	17.0	15.7	14.5
Deficit (surplus)	-0.5	-0.5	-0.6	-0.4	-0.3	-0.3
Non-oil-and-gas deficit	-9.6	-8.5	-7.8	-7.8	-7.0	-6.0
Reserve Fund and National Wealth Fund	9.0	8.8	8.4	9.8	10.2	9.9
The RF public debt	11.9	12.8	12.8	13.2	13.9	14.7
Consolidated budgets of the RF units						
Revenues	12.7	12.6	12.4	12.5	12.6	12.9
Expenditures	13.0	12.8	12.5	12.5	12.5	13.0
Deficit (surplus)	-0.3	-0.1	-0.02	0.0	0.1	-0.1

Source: [5, c.12]

The Government, as we can conclude from the above data, anticipates a significant reduction of its presence in the Russian economy and, therefore, a tax burden in the long run. This can be seen from the fact that consolidated budgets of the RF units are expected to be reduced from about 37% of GNP to 33% while revenues of regional and local budgets will be increased from 39.7 to 45.9% and expenditures – from 39.6% to 47.3% in the summarized revenues and expenditures, respectively, of budgets of all levels.

This also allows the conclusion that redistribution of the expenditure powers is expected to be faster than redistribution of financial resources. The started practice of project planning of budgets, which assumes that most of transfers are allocated through federal programs, will contribute to fact that the RF units and municipalities will have less real fiscal powers. In the medium run (2016), the federal expenditures will rise by 17% in nominal terms while those allocated through five regional programs – only by 13% [7, c.14].

Table 2

Key budgetary parameters of the RF budgetary system (billion roubles)

Parameters	2013	2014	2015	2016
Total revenues:	24,515.3	25,941.0	28,617.8	31,413.7
<i>Including:</i>				
Federal budget	12,865.9	13,485.5	14,767.5	15,908.1
Consolidated budgets of the RF units	8,592.7	9,332.1	10,233.1	11,342.1
<i>Including revenues without intergovernmental transfers</i>	7,199.2	8,023.3	8,929.2	10,033.1
Total expenditures:	24,992.4	26,450.7	29,046.0	31,857.2
<i>Including:</i>				
Federal budget, total:	13,387.3	13,847.0	15,235.7	16,451.8
<i>Including expenditures without intergovernmental transfers</i>	8,954.3	9,775.1	10,989.4	12,018.1
Consolidated budgets of the RF units, total	8,786.7	9,438.9	10,285.0	11,363.6
<i>Including expenditures without intergovernmental transfers</i>	8,404.1	8,960.6	9,649.4	10,727.4

Source: [7, c.24].

Table 3

Forecast of key parameters of the consolidated budgets of the RF units (billion roubles)

Parameters	2013	Growth rate as compared to that of previous year (%)	2014	Growth rate as compared to that of previous year (%)	2015	Growth rate as compared to that of previous year (%)	2016	Growth rate as compared to that of previous year (%)
Revenues, total	8,592.7	106.6	9,332.1	108.6	10 233.1	109.7	11,342.1	110.8
<i>including:</i>								
tax and non-tax revenues	7,199.2	112.8	8,023.3	111.4	8,929.2	111.3	10,033.1	112.4
intergovernmental transfers	1,393.5	96.8	1,308.8	93.9	1,303.9	99.6	1,309.0	100.4
Expenditures, total	8,786.7	105.4	9,438.9	107.4	10,285.0	109.0	11,363.6	110.5
Deficit	-194.0		-106.8		-51.9		-21.5	

Source: [7, c.98].

The Government is also planning the redistribution of sub-federal fiscal revenues in favor of regions. For example, the allocation of personal income taxes between regional and local budgets will be 70:30% in 2016 instead of 60:40% in 2013. (Table 2)

The additional grants in the amount of 350 billion roubles under the Presidential Order of May 7, 2012, which are planning to keep the budgets of the RF units well-balanced in 2014–2016, do not change the picture in whole – intergovernmental transfers are planning to be reduced as compared to the level reached even in nominal terms (Table 3).

All in all, we can state that in the context of the Russian decelerated economic growth and current priorities of fiscal policy, the economic and social differentiation at the municipal level will not become less in the foreseeable future and it probably will increase.

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