

Strategic planning at the municipal level: Russian challenges and Nordic practices

VLADIMIR DYADIK *Acting Head of Kirovsk City Administration, Ph. D. (Econ.), Senior Researcher, Luzin Institute for Economic Studies, Kola Science Centre of the Russian Academy of Sciences*

vdyadik2006@rambler.ru

ABSTRACT

The aim of the article is to identify challenges for strategic planning at the municipal level in Russia in the light of local self-government practices in the Nordic countries. Data for the study were collected from literature sources, as well as through analysis of legal documents and statistics, participatory observations of Russian municipal practices, and participation in the Presidential Program for the training of young managerial staff for the national economy of Russia in Norway in 2012. Municipal practices in Russia and the Nordic countries are examined and compared, and the problems which hinder the Russian municipalities in the elaboration and successful implementation of strategic plans for their development are indicated.

The study reveals that there are two major groups of problems: those that have an institutional origin and those that are related to the economic situation within which the local authorities in Russia must work. It is shown that formal institutions at the national level to stimulate strategic planning at the municipal level – especially, necessary laws and regulations – are lacking. The same applies to informal institutions such as traditions and the culture of strategic planning at the local level. A typical economic situation within which the local authorities have to work is extremely low budget security at the municipal level, which gives rise to the competition for funds from the regional consolidated budget between the regional and municipal administrations, prevents them from being partners in the process of municipal strategic planning. Taking Nordic experiences into account, policy suggestions for the improvement of strategic planning at the municipal level in Russia are made.

Keywords: local self-government, strategic planning, municipalities, state institutions

INTRODUCTION

The United Nations annually publishes the ratings of the Human Development Index (HDI), which is considered to be one of the widely recognized life quality indices in the world. In the 2012 rating (Human Development Index 2012), Norway is in the first position, Sweden in the seventh, and Finland in the twenty-first. All three states are classified as countries with a very high level of human development. The Russian Federation is in the 55th position in the rating and is included in the group of countries with a high level of human development. It is evident that, fundamentally, it is Norway's, Sweden's and Finland's welfare state ideology – the security of social benefits and of tax and budget legislation – which is behind the basic principles of territorial management and which is shared by the majority of the citizens (the most important factor of all) that has placed these countries among the top states in the world in terms of the life quality of the population for many years.

All the elements of the state governance mechanism participate in the formation of the life quality of the population. It should be emphasized, however, that one of the most significant institutions taking part in this process is local self-government, as it is the institution that provides the greatest share of social benefits to the population. According to O. Offerdal, the Norwegian political scientist, the Nordic welfare states can be referred to as municipal welfare states (Offerdal 1999). This idea is not exclusively a product of the value system generated under the conditions of the unitary state structure of Norway, Sweden and Finland, but it emphasizes the significance of local self-government among other state institutions in the Nordic countries.

Russian specialists, both researchers and practitioners, are greatly interested in the experiences of the Nordic countries in the field of municipal self-government. The need to noticeably improve the quality of life in our country has caused Russian researchers and practitioners to focus their attention on the local self-government practices in the welfare countries in order to reveal the most efficient elements and assess the possibilities for their application in Russia.

One of the prominent platforms for such an exchange of experiences is cooperation within the Barents Euro-Arctic Region (BEAR). In 2013 the Barents Region celebrated the 20th anniversary of its establishment. Two decades of cooperation have resulted in the creation of a unique platform for the countries and regional participants to engage in dialogues and exchange experiences in the development of public and state institutions. The active international cultural and scientific cooperation, as well as the some-

what less active business cooperation, form the basis for the cross-boundary exchange of the best administrative and business practices, as well as institutional methods and approaches that have proved their efficiency.

It is inconceivable to simply duplicate in Russia institutional models that have proved their efficiency in other countries. The mindless transplantation of institutions leads nowhere, and the negative consequences of such transplantation in practice have been widely recognized (Persky and Dubrovskaya 2012; Polterovich 2001). To comprehend good and efficient ideas and find appropriate ways to integrate them into the system of institutions in Russia are important scientific and practical problems.

Of particular interest are practices of strategic planning for the socio-economic development of the territories, which have become an essential attribute in the life of local communities in the Nordic countries¹, as well as the best experiences in the creation of the economic and institutional preconditions that are necessary for the implementation of strategic planning, which is also very prevalent in the Nordic countries. Though strategic planning in Russia is being increasingly integrated into the priorities of local administrations and municipal councils, less than half of the municipalities in the country are engaged in this process (Didyk 2012). On the other hand, the strategies of development that have been worked out and implemented by both the municipalities and the regions of the Federation have justifiably been the object of criticism by scientists and experts (Bochko 2005).

The aim of this article is to identify challenges for strategic planning at the municipal level in Russia in the light of local self-government practices in the Nordic countries. It presents the results of practice-led research concerned with the practice of municipal strategic planning in Russia and in the Nordic countries and findings that might have operational significance for municipal practices in Russia. The article focuses on institutional and economic problems which hinder the Russian municipalities in the elaboration and successful implementation of the strategic plans for their development.

The sources of the data are scientific publications, legislative and government documents, statistics, and media articles. Empirical data have also been collected through participatory observations during the practical work of the author in the Apatity and Kirovsk City Administrations in Murmansk Region, Russia. Information on local self-government practices in the Nordic countries was collected from written sources and in the course of the author's participation in the Presidential Program for the training

of young managerial staff for the national economy of Russia in Norway in April-May 2012 in Melhus Municipality organized by the Norwegian Association of Local and Regional Authorities and the North-West Institute of the Presidential Academy of National Economy and Public Administration in Russia.

The article is structured as follows: first, institutional challenges affecting the implementation of strategic planning in Russian municipalities are analyzed. Secondly, challenges related to the economic situation within which local authorities in Russia must work are discussed. Finally, some policy suggestions for improving strategic planning at the municipal level in Russia, taking the Nordic experiences into account, are presented.

INSTITUTIONAL CHALLENGES AFFECTING THE IMPLEMENTATION OF STRATEGIC PLANNING IN RUSSIAN MUNICIPALITIES

Following the collapse of the Soviet Union, in just two decades post-Soviet Russia went through profound systemic changes in all spheres of political, economic and societal life, and the country is still going through an intensive transformation that, among other things, is fundamentally changing the ways of managing territorial development. In recent years a greater number of Russian experts have understood that a significant instrument for managing the socio-economic development of territorial entities is strategic planning: the process of defining a strategy and making decisions on allocating resources to follow this strategy, including, in some cases, control mechanisms for managing its implementation. Strategic planning includes, as has been widely acknowledged, the establishment of purposes and goals, the identification of problems, the generation of objectives to address these problems, the appraisal of the objectives and the establishment of priorities among them, the generation of actions that support each objective, the preparation of an action plan that includes financial plans, and progress in monitoring and evaluating in order to provide feedback for correction and improvement. Though the principal output of strategic planning is a strategy, strategic planning is increasing in importance as a process, and at the municipal level, ideally, this process should be an important platform for the consolidation of local actors. The implementation of strategic planning practices in the everyday activities of administrations at all levels of public authority in Russia is gradually broadening.

The landmarks for such development at the national level are determined by the Strategy of National Security of the Russian Federation until 2020, approved by the

Decree of the President of the Russian Federation of May 12, 2009 №. 537, and by the Concept of Long-Term Socio-Economic Development of the Russian Federation until 2020, approved by the Decree of Government of the Russian Federation of November 17, 2008 №. 1662-p, as well as by a number of other national strategic documents.

All of the strategic plans for the development of territorial entities in Russia are presented as three sets of documents: federal acts on strategies of development for the macroregions (the federal districts, the Arctic zone), strategies for the socio-economic development of the regions of the Russian Federation, and strategic planning documents of municipalities. According to data from the rating agency “Expert RA” of 01/04/2013 (Issledovanie, 2013), 61 of the 83 subjects of the Russian Federation had elaborated documents for long-term strategies of social and economic development, accounting for 73.5% of the total number. The number of municipalities that had elaborated strategic planning documents in the early 2000s was low; during the last decade, however, there has been a significant increase. In 2004, about 300 municipalities in Russia (not more than 4% of the total number) were engaged in the strategic planning of their development (Bochko 2005). By 2010, the share of municipalities that had elaborated strategic planning documents was about 30% of the total number (Didyk 2012).

At the same time, the increase in the number of strategic documents does not mean that strategic planning is becoming a real instrument for the management of municipal development. One of the major reasons for this is that in many cases the quality of strategies developed is low. According to V.E. Seliverstov (Seliverstov 2009), the main shortcomings of strategic documents at the sub-federal level (republics, *krais*, regions, autonomous districts) are:

- formalism in the development of strategic documents, as well as in the development of long-term and medium-term plans (namely, strict conformity with standard models); the use of schemes and methods that are not fully suited to the complex nature of the strategic approach and to the current economic and political realities;
- unjustified ambitions that are not in line with the possibilities of the territories; attempts to include all possible programs and projects in the main strategic document;
- the lack of precisely formulated objectives and tasks; the lack of development scenarios and strategic alternatives.

These weaknesses may be found in many of the existing municipal documents on strategic planning as well. Having analyzed strategic documents for the regional and local levels in Russia, A.N. Shvetsov states that many of these are formal in nature; they contain many abstract statements that do not properly take territorial specificities into consideration. The documents lack reliably justified guidelines even for a medium-term period (3–5 years), not to mention longer periods of 10–20 years and more (Shvetsov 2009a).

The lack of attention paid by Russian local authorities to strategic instruments, as well as the weakness of many municipal strategic documents that have been elaborated, is obvious. This situation is caused by many problems, and the majority of them can be classified as being institutional in character and related to both formal and informal institutions. In the present discussion, institutions are understood as the formal and informal rules which regulate the behaviour of the members of society as they interact politically and economically. The formal institutions include laws and regulations as interpreted and enforced by political authorities; they are brought into use by state institutions and are incorporated in state activities based on laws. The informal institutions are shared beliefs about acceptable and unacceptable behaviour that are put into effect by the conscience based upon the actual and expected reactions of the members of the society.

Among the institutional problems that hinder the introduction of strategic planning into the practical activities of the Russian municipalities, the first one that should be mentioned is *a lack of formal institutions at the national level to promote strategic planning at the municipal level*. Discussion of this problem should begin with the issue which is usually left out of discussions on “municipal problems” in Russia and could be formulated as *a lack of conjunction between the national and local self-government strategic goals*. This problem concerns the strategically-oriented function played by local self-government within the system of state institutions². It is not simply a problem of the composition of the authorities and the sphere of responsibility of the local self-government bodies; it is a more fundamental problem concerning the realization of the key strategic goal which is expected of these bodies by the state from the point of view of the national strategic perspective. According to Article 1 of the Federal law of 06/10/2003 №. 131-FZ, “On the general principles of the organization of local self-government in the Russian Federation”, local self-government is a form of implementation by the people of their power which ensures independent solutions, for which they take responsibility, of problems that are of local significance. That is, in Russia, local self-

government is an instrument whose area of application is independently determined by the local community to solve local problems; a community should live and develop according to its own decisions – for example, as a science-oriented town, or an industrial centre or as an agrarian area – and even shut itself down in case it is not viable.

At the same time, considering that Russian democracy is in the early stages of development and that Russian civil institutions are not well-developed, it is possible to assume that making the choice to implement the strategic planning of local community development is, in many cases, a random process that does not always take place as a conscious act of the public will. This is true for the following reasons. As the author's own observations as a practitioner working in municipal administration have shown, on the one hand, the prevailing apathetic attitude of the population towards the search for locally-based solutions to local problems in many cases has been transformed into a firm belief that nothing can be changed and therefore one should not even try to do anything. On the other hand, even people with an active civic position, who are ready to participate in determining the strategic goals for the development of their town, settlement or area, do not always have sufficient legislative and economic knowledge to formulate competent and useful proposals. Finally, the local authorities – which are, in fact, authorized to organize and coordinate the process of development, public discussions, adoption and implementation of strategies – are not sufficiently motivated by existing national-level legislation. The reason for this is that solving the problem of securing comprehensive social and economic development for the territory (let alone strategic development) is not considered in the legislation to be a local task at present. The power to adopt and organize the implementation of plans and programmes for the comprehensive social and economic development of municipalities is provided by Federal law №. 131-FZ, but the law does not require the imperative implementation of this power.

These circumstances demand attention from the federal level to the issue of strategic planning at the municipal level and, first of all, conjunction between national strategic purposes and goals and those of municipalities. However, in present-day Russia, strategic goals for the development of municipalities are not incorporated into the nationwide system of strategic development goals through existing laws and regulations at the federal level, and are not synchronized with them.

In contrast, in Norway the goal of the local authorities' work is formulated by the central government. This goal is to maintain the traditional model of settlement in such

a way that the vital conditions are secured equally for everyone (Local Government in Norway 2008), and it is clearly strategically-oriented. Under conditions of economic stability and the availability of equitable instruments of budget equalization, this general goal organizes and synchronizes the activity of local mayors, councils and administrations, creating the organizational premises for scheduling strategic development. At the national level, this kind of municipal policy allows successful resistance to several interrelated social challenges. These challenges include, firstly, problems related to the different standards of living in different regions of the country and, secondly, the problem of migratory activity by the population along the “rural – urban” and “north – south” axes. Both problems are highly topical in Russia, so it is worth thinking seriously about the application of the Norwegian experience.

Of great significance is the idea that local self-government, as an institution of the public authority, can carry out certain state tasks that are integrated into the system of the purposes and goals of the national social and economic policy. It is expedient to discuss the following two basic points. Firstly, it is crucial to make the right choice concerning the level at which strategies should be elaborated in order to achieve the aims of the state. Unlike the territorially compact Nordic countries, which have implemented egalitarian principles of social development, Russia is characterized by a much higher degree of inhomogeneity of social and economic development in the territories. This circumstance hampers the formation at the national level of the over-arching strategic purposes of the development of municipalities, making it more appropriate to do this at the level of the federal districts and regions of the Federation. At the same time, local self-government, as an independent institution of public authority, can also participate in the implementation of some important purposes and goals at the national level, especially in cases where the national development goals are already clearly attached to a certain territory: for instance, Siberia, the Far East or the Arctic zone of the Russian Federation could be developed in accordance with such an approach. Secondly, irrespective of at what level (federal or regional) the goals of the local government activities are to be developed, the direct agent representing the state in the mutual relations with municipalities, by virtue of the specificity of the Russian administrative and territorial system and the accepted administrative practices, is the subject of the Federation (republic, region, *krai*, autonomous district). The coordination of activities between the regional and local authorities determines, in many respects, the correctness of interpretation and the subsequent implementation by the local governments of the goals established by the state.

An important problem related to the formal institutional setting which hinders the Russian municipalities in the elaboration and successful implementation of strategic plans for their development is *the absence of regulations and methodical recommendations developed at the federal level for the organization of strategic planning at the municipal level*. Neither basic principles of municipal strategic planning nor guidelines for the development and implementation of municipal strategies have been established legislatively. The documents adopted at the national level contain only general requirements for strategic planning, and methods for developing these strategies are not discussed. These basic documents include “Requirements for the strategy of social and economic development of the regions of the Russian Federation” approved by the order of the Ministry of Regional Development (*Minregionrazvitiya*) of 27/02/2007 No. 14, “Principles of strategic planning in the Russian Federation” approved by the decree of the President of the Russian Federation of 12/05/2009 No. 536, and the draft Federal law “On the state strategic planning” adopted following the first reading by the State Duma of 21/11/2012.

From the viewpoint of strategic planning methodology, these documents provide only a general framework. They state what the various strategic documents should contain and how these documents should be connected with each other, but there is no answer to the important question of what methods should (or could) be used in making forecasts and plans. Aside from regulating issues concerning the organization of state strategic planning, these acts do not take the municipal level into account. As a result, at present the municipalities (unlike the regions) have neither developed methodical recommendations for organizing strategic planning nor even the legislatively approved imperative to implement it.

Another problem related to the formal institutional setting can be formulated as *the contradictoriness of relations between the regions of the Federation and the municipalities*. It would not be an exaggeration to state that the problems arising within these relations are separate and extremely significant barriers preventing the formation of the kind of institutional environment that is necessary for local self-government to function in present-day Russia. This is also true of strategic planning practices to be implemented by municipalities. Any plan-making process is based on the subject having certain expectations regarding the dynamics of the environment; thus, consistency and the predictability of relations between the municipalities and the regional government are the corner-stones for the creation of a system of strategic plans at the local level. In fact, however, these relations are far from being non-contradictory and predictable.

The results of a survey conducted by the All-Russia Local Self-Government Council and the Higher School of Economics among representatives of local self-government bodies (Vzaimodejstvie vlasti i obshchestva 2010) show that, in the opinion of 8% of the authorities interviewed, the problem of the conflict in relations between local and regional authorities is of particular significance. Related to this problem is the lack of clearly outlined norms determining the size of interbudgetary transfers, which was mentioned by 16.9% of the respondents, and, as a consequence, the shortage of local budgets, which was mentioned by 60.7% of those interviewed. The scale and urgency of these problems are nearly equal for most areas of Russia and obviously point to institutional reasons for such a situation.

In the opinion of the present author, relations between the local self-government bodies and the regional governmental bodies have been spoiled by two factors. The first is that regional officials are quite often motivated to use formal state institutions in a corrupt and opportunistic way. The second factor is that there are systemic defects in the formal state institutions which allow these motivations to work.

As for the first factor, it is generally known that, according to the Constitution, local self-government in Russia should ensure the independent solution of local problems by the local communities themselves. The list of problems and – what is especially significant – the responsibility of local self-government bodies for the decisions that are made are prescribed by Federal law 131-FZ. The local self-government bodies, which are recognized *de jure* as being independent of the regional government bodies, are responsible for the solution of the issues specified by law and are independent in the process of executing the given tasks. According to the Constitution of the Russian Federation and the Federal law of 6/10/1999 №. 184-FZ, “On the general principles of the organization of legislative (representative) and executive bodies of state power of the subjects of the Russian Federation”, regions must delimit in their charters and in agreements with the Russian Federation which spheres of responsibility are to be jointly managed by the central government and the region and which are to fall under the responsibility of the region and the municipalities. Based on these agreements, the state government bodies of the subjects of the Federation (the regional governments) as well as the municipalities have their own authority and bear responsibility for carrying out certain duties. The separation of spheres of responsibility between officials of these two levels of public authority results in divergence of the goals set by the regional and municipal administrations. With the overall budget shortage, the decision of each administrative level to give priority to its “own” problems leads to the competition for

money from the consolidated regional budget. The conflicts become aggravated when the officials of some region, *krai* or republic seek to subordinate their relations with the local self-government in order to achieve the state and bureaucratic goal of improving the manageability of the territories.

Regions are usually victorious in the competition for consolidated budget money, and this is evidence of the influence of the second factor mentioned above. The fact is that the minimum rates of taxation and charges specified by Chapter 9 of the Budgetary Code of the Russian Federation of 31/07/1998 №. 145-FZ, are absolutely insufficient for most communities to secure proper performance of the municipal governments' responsibilities, and, according to Article 58 of the Budgetary Code, these rates and charges can be raised only by the regional governmental authorities.

Research shows that the governments of the regions of the Russian Federation are extremely reluctant to use the possibility to increase the minimum level of income tax receipts allotted to the municipal budget by law, preferring to keep municipalities dependent on regional subsidies and grants. This means that local authorities are in some kind of institutional trap because the responsibility for solutions to local problems is imposed on municipalities, but the money for these solutions is controlled at the regional level, and mechanisms which could compel the regional administrations to realize the necessity of supplying finances in a fair manner to the local governments are, in fact, non-existent. As a result, according to A.I. Tatarkin and V.S. Bochko, "the economic independence of municipalities regarding income generation is, in reality, wholly limited by the authorities of higher levels, which converts the independence of municipalities into an ornamental dressing" (Tatarkin and Bochko 2008).

In the Nordic countries, as in Russia, the relations between the central authorities and the local governments have been considered for a long time solely in terms of the local bodies' autonomy in managing their own affairs. In recent decades, however, in Sweden, Norway and, to a certain extent, in Denmark, the integration model has gradually replaced the model of autonomy. At present, local government affairs are no longer considered to be exclusively local issues; they are treated as national issues, rather than exclusively local problems, and are under the responsibility of both local and central government. With such an approach, conflicts between the local and central levels of authority are minimized and they are partners in the implementation of state policy (Offerdal 1999).

The next problem is related to the influence of informal institutions, and this is *a lack of culture and traditions of strategic planning at the local level*. Issues of medium-term and long-term planning are singled out among other problems to be solved by the governmental bodies of Russian municipalities and have been actualized relatively recently. It is widely recognized that the basic impetus for including strategic planning in the “toolkits” of municipal officials was the shift from the priorities of the survival of the territories to the priorities of their socio-economic development, which took place in Russia in the late 1990s – early 2000s (Shvetsov 2009b). This period was marked by the strengthening of financial possibilities at all levels of public authority, and strong Soviet traditions in economic and territorial planning helped officials understand the expediency and necessity of planning work in the territorial units. However, the former planning practices were based on the assumption of a high level of probability and the predictability of the dynamics of the socio-economic political and institutional environment and no longer corresponded to the tasks of the authorities in the new market conditions. Today, the problems of forecasting the alternating social and economic, political and institutional environment and the task of formulating of polyvariant strategies for socio-economic development at the local level have been placed in the foreground, with the possibilities, risks, benefits and costs of every possible way of development to be estimated.

The lack of ready-made solutions to problems of local development has encouraged Russian researchers to confine their attention to analyzing the experience of corporate strategic management and estimating the possibilities of transplanting experience gained by companies into the strategic planning practices of territorial units. It should be noted that such development of a methodological apparatus for strategic planning at the local level is subject to certain risks. The problem is that the application of strategic management theory to the development of organizations is, in itself, of recent origin (the works of the founders of this field of research were published only about 40 years ago), and has been intensively developed in a multi-faceted way. According to V.S. Kat'kalo, one of the leading Russian researchers in the field of the theory and practice of strategic management, the current theory of strategic management is extremely eclectic, with up to ten separate schools (Kat'kalo 2002) being distinguished within the theory. Moreover, at present the theory of strategic management is not consolidated by a common paradigm that could combine the approaches and incorporate the theoretical viewpoints of most leading specialists. The basis for the development of the theory is formed by the results of the generalization of the best practical experiences. For these reasons scientists and practitioners who develop approaches to strategic planning in

the public sector on the basis of the experiences of companies should be very careful when borrowing methodologies.

The problems in adapting strategic management methods used by enterprises to the realities of the public sector determine the format of the corporate experience transfer to the normative documents serving as methodical training manuals for the regional and municipal strategic planning. Since, from a legal point of view, strategic planning is not obligatory among the tasks to be carried out by local self-governments (administrations and councils), and, as has been discussed above, there is no relevant methodology recommended and approved by the “centre” (which is extremely important in the Russian administrative paradigm), strategic plans are often perceived by the municipal governments only as a tribute to a common fashion. Such a situation provides weak motivation for local self-government to introduce strategic planning and develop strategies.

The problem is aggravated by the weak financial basis of most Russian municipalities and a shortage of qualified municipal managers. Strategic planning requires municipalities to concentrate their essential intellectual potential and have qualified managers on the staff of local administrations who are specially trained and highly skilled. Large companies applying strategic approaches in their work normally organize special administrative subdivisions for these purposes. Municipalities do not have such a possibility because they have no chance to compete in the labour market against private businesses, which are able to offer higher salaries. One alternative is to purchase strategy development services on the market. Therefore, at present it is a widely recognized practice to invite an outside party – a research and consulting organization – to develop strategic plans for municipalities (Didyk 2012). At the same time, the outsourcing of strategy development services can give positive results only if both the municipal authorities and the local community – including the representatives of the business community, research institutions, higher schools and public organizations – are actively involved in the process of developing and implementing strategic plans. The conditions listed above are not always fulfilled in practice, discrediting the very idea of strategic planning as a platform for the consolidation of local actors. Furthermore, the purchase of scientific and consulting services is very costly, so only municipalities which are rather well-off, from the point of view of their financial situation, are able to acquire these services.

ECONOMIC CHALLENGES IMPEDING STRATEGIC PLANNING IN THE RUSSIAN MUNICIPALITIES

The second group of problems is related to the economic situation within which the local authorities in Russia have to work. The major precondition for strategic planning is to understand where the money to be allocated in the implementation of plans is coming from. Empirical data show that over 60% of politicians and economic top managers in the Russian municipalities consider the lack of financial means in the municipalities to be the main source of all municipal problems (Vzaimodejstvie vlasti i obshchestva 2010).

A comparison of the costs of municipal consolidated budgets per inhabitant with the analogous index in other countries could serve as an illustration of the insufficient budget receipts in the municipalities in Russia. Such a comparison, however, either requires the development of a special technology in order to be sufficiently informative. As the different systems of local self-government create different zones of responsibility, any methodical developments in this field would result only in the possibility to compare the budgetary “prices” of some municipality’s services. For this reason, it is more useful to make international comparisons of the consolidated costs of all levels of the budget system per inhabitant of the country. The results of such a comparison between the member states of the Barents Euro-Arctic Region are presented in Table 1.

CONSOLIDATED NATIONAL BUDGET COSTS OF THE MEMBER STATES OF THE BEAR, THOUSANDS OF EUROS PER CAPITA, 2005-2010						
STATE	2005	2006	2007	2008	2009	2010
Finland	15.14	15.52	16.15	17.24	18.16	18.63
Sweden	17.83	18.54	18.89	18.78	17.36	19.61
Norway	22.19	23.38	24.79	26.13	26.29	29.55
Russia	1.39	1.69	2.23	2.39	2.61	3.02

Table 1. References: (Eurostat 2012; The Ministry of Finance of the Russian Federation 2012)

The figures speak for themselves. At present, in Russia there is a six fold gap in the level of budget security compared with Sweden and Finland, and a tenfold gap in comparison with Norway. It is obvious that such a financial basis in the Russian municipalities limits possibilities for strategic planning and development.

Closely related to the problem of insufficient budget security is the problem of the formation of adequate institutions for the allocation of interbudgetary financial resources. On the whole, the tasks and problems which Russian and Nordic municipalities face in this field seem to be similar. The main challenge faced by the budget systems of these countries is a result, on the one hand, of the municipalities' highly heterogeneous economic potentials and, on the other hand, the necessity to unify their revenue sources and spending responsibilities. The only way to overcome this problem is to equalize both horizontally – that is, between the budgets of municipalities belonging to one region of the Federation (in Russia) or the province (in Norway, Sweden and Finland) – and vertically – that is, between the budgets of municipalities and the budget of a territorial unit at a higher level. At the same time, the approaches to the reallocation of budget receipts may be different. It is possible to reallocate receipts on the basis of data showing the objective needs of municipalities for money to provide municipal services of an established standard of quality to their inhabitants. As an alternative, a certain set of criteria could be established: for example, criteria showing the efficiency of the work of local self-government bodies, using interbudgetary transfers to stimulate them to meet these criteria.

For example, the first variant of interbudgetary equalization has been successfully implemented in Norway. In fact, it is based on the idea of social standards. To implement it, two mutually complementary mechanisms have been developed and introduced into the practical activity of state institutions. The first one is financial and is referred to as the General Purpose Grant Scheme. The second one is the system of acquisition, processing, storage and application of the statistics in financial estimates, which is referred to as KOSTRA (Local Government in Norway 2008). The algorithm of their joint operation is as follows. Based on the statistical data from the KOSTRA system, analysis is made of the tax potential, quantitative and qualitative composition of customers of all aspects of municipal services in each community, as well as a calculation of the costs which municipalities must meet in order to render those services, with the local geographical, social and demographic features taken into account. Then the data are aggregated, and a decision is made on the allotment of non-purpose interbudgetary transfers from the national budget through GPGS (General or Block Grants). These

transfers are allocated by the government bodies between municipalities and provinces for the reimbursement of costs connected with the solution of local problems. The general grants are an analogue of subsidies in the Russian budgetary practice. The principal difference is the nation-wide scale of the transfer allocation. Through GPGS, the municipal budgets receive 17%, and the provincial budgets receive 33% of the total amount of incomes (Local Government in Norway 2008). The equalization procedure is formalized and absolutely transparent, and strictly oriented towards the satisfaction of the demand of the population for municipal services.

In Russia, with the generally weak financial basis of local self-governments, there are two tendencies in the dynamics of the evolution of the institution of interbudgetary relations (relations between the federal centre and the regions and between the regions and municipalities) which weaken the financial potential of both types of territorial units.

The first tendency is the uncertain position of the Federal government (and as a consequence, that of the majority of the regional governments) concerning “equalization or stimulation” (Yakobson 2006). This is expressed in frequent changes in the Federal government’s rhetoric concerning the basic principles of the allocation of interbudgetary transfers. There are two polar viewpoints on this topic: to allocate grants on the basis of the demand for municipal services, considering municipalities’ financial possibilities, or to stimulate them with interbudgetary transfers to fit criteria of efficiency established by the Federal government. The list of such criteria for municipalities was approved by the Decree of the President of the Russian Federation of 28/04/2008 №. 607, “On evaluation of local governments in urban districts and municipal areas”.

The second problematic tendency is the low quality of formal techniques of budget security equalization, which are not oriented towards clearly defined social standards and are quite often non-transparent³. These problems become more complicated due to the weak compatibility between the financial system and the state statistics system.

CONCLUSIONS AND SOME POLICY SUGGESTIONS

In spite of the fact that the problems discussed in this article essentially decrease the possibilities for the successful implementation of strategic planning at the municipal level in Russia, practices of use by the municipalities of this promising instrument for the social and economic development of local communities are increasingly extending.

This, in turn, indicates that municipal officials increasingly realize the necessity to work for a perspective they recognize and to try to solve long-term issues consistently. To make this activity efficient, all levels of public authority in Russia should combine their efforts to solve problems which hinder the Russian municipalities in the elaboration and successful implementation of strategic plans for their development.

It has been argued that the lack of attention paid by Russian local authorities to strategic instruments, as well as the shortcomings of elaborated municipal strategies, are caused by two major groups of problems: institutional ones and economic ones. There has been a lack of stimulation by formal institutions at the national level for the implementation of strategic planning at the municipal level, starting with the lack of relevant laws and regulations. In contrast to the experiences of the Nordic countries, there is a lack of conjunction between national strategic goals and those of municipalities. Strategic goals for the development of municipalities are not incorporated into the nation-wide system of strategic goals through existing laws and regulations at the federal level, and thus are not synchronized with the latter. Regulations and methodical recommendations from the federal level for the organization of strategic planning at the municipal level are not being developed. Neither are the basic principles of municipal strategic planning nor guidelines for the development and implementation of municipal strategies stipulated in legislation, and even the need to implement strategic planning at the municipal level has not been legislatively approved.

An extremely important problem is the contradictoriness of relations between the regions of the Federation and municipalities. At present local authorities are in some kind of institutional trap. The existing formal institutions – first of all, those of state budgetary legislation and state law and regulations on local government – overload municipalities with tasks but provide insufficient resources for their implementation. The tasks of municipalities and their revenue sources are secured by federal laws, and the municipalities themselves have no right to change these regulations. The responsibility for the solutions of local problems is imposed on municipalities, but funds for solving these problems are accumulated at the regional level, and mechanisms which could compel the regions to realize the necessity of providing fair financial support for local self-government are lacking. It is one of the most important institutional problems of local self-government in Russia and simultaneously the reason for a wide variety of problems for municipalities which would like to implement strategic planning. One possible way of solving this problem would be to include local issues in the list of regional responsibilities. Such measures might transform the current relations between

regions and municipalities from competition into partnership, as has happened in the Nordic countries.

Since one of the most important reasons for the lack of attention of municipal managers to strategic planning is a lack of appropriate culture and traditions, there is a need to put efforts into the creation of such a culture. In this context, the federal government definitely could play a positive role working in two directions: (1) legislatively stating the necessity for and establishing a general nation-wide framework for strategic planning at the municipal level, and (2) elaborating methodical recommendations for municipal authorities to work out strategies.

The second group of problems affecting strategic planning in Russian municipalities is related to the economic situation within which the local authorities in Russia must work and, particularly, the challenges of extremely low budget security at the municipal level. Budget security in Russia is 6-10 times lower than in the Nordic countries. This creates a tension in the work of management bodies at all administrative levels and gives rise to the phenomenon of competition for funds from the regional consolidated budget between the regional and municipal administrations, instead of educating them to be partners in the process of municipal strategic planning.

Thus, another point which both central and regional governmental bodies should focus on is increasing the security of municipal budgets. This work should focus on efforts to create a fair and effective system for the distribution of duties and the allocation of funds between the various levels of public authority. In this respect, the Norwegian experience of interbudgetary equalization based on the idea of social standards could be useful: when two mutually complementary mechanisms – a financial system (the General Purpose Grant Scheme) and a system of acquisition, processing, storage and application of statistics in financial estimates (KOSTRA) – make the equalization procedure absolutely transparent and strictly oriented towards the satisfaction of the demands of the population for municipal services.

ACKNOWLEDGEMENTS

This work has been carried out with financial support from the Russian Foundation for Humanities in the framework of Project №14-12-510007 “Strategic planning and management in the municipalities of the Russian North: Problems and perspectives”. The author is grateful to his colleagues at the Luzin Institute for Economic Studies of

the Kola Science Centre of the Russian Academy of Sciences – Larissa Riabova, Head of the Department of Social Policy in the North, and Vladimir Didyk, Vice Director – for their valuable comments and advice.

NOTES

¹ For instance, according to Norwegian legislation, each municipality must develop and implement simultaneously three interrelated plans: a 12-year plan for the development of municipal formation, a 4-year economic plan, and an annual budget, with a 4-year economic plan that is coordinated with the electoral cycle and adopted during the term of the city council (Local Government in Norway 2008).

² Despite the fact that Russian local self-government is separated from the system of state government bodies by the Constitution, local self-government bodies are in charge of implementing state policy. This is due to the dual nature of local government. It is the result of the self-determination of local communities, on the one hand, and the fact that local government is an element of the state system, on the other.

³ The lack of clearly outlined norms to determine the size of interbudgetary transfers is referred to as an independent problem by 16.9% of the respondents interviewed by the All-Russia Council of Local Self-Government and the Higher School of Economics (Vzaimodejstvie vlasti i obshchestva 2010).

REFERENCES

- Bochko, V.S., 2005. Strategicheskoe planirovanie razvitiya territorii – narozhdajushchajasja ekonomicheskaja forma otveta na vyzovy rynka i globalizatsii [Strategic planning of the territorial development – A rising economic form of the solution to challenges of the market and globalization]. *Ekonomika regiona*, 1, pp. 20-38.
- Budgetary Code of the Russian Federation No. 145-FZ of July 31, 1998*. Available at: http://www1.worldbank.org/publicsector/pe/BudgetLaws/Budget-_Code_Russia_Eng1998.pdf (Accessed 15 December 2013).
- Constitution of the Russian Federation*. 1993. Available at: <http://www.constitution.ru/en/10003000-01.htm> (Accessed 2 April 2014).
- Decree of the President of the Russian Federation of 12/05/2009 No. 536 "On the principles of strategic planning in the Russian Federation"*. (Ob osnovah strategicheskogo planirovaniya v Rossijskoj Federatsii: Ukaz Prezidenta RF ot 12.05.2009 № 536). Available at: <http://www.rg.ru/2009/05/19/strategia-dok.html> (Accessed 25 August 2014).
- Decree of the President of the Russian Federation of 12/05/2009 No. 537 "On the strategy of national security of the Russian Federation until 2020"*. (O Strategii natsional'noj bezopasnosti Rossijskoj Federatsii do 2020 goda: Ukaz Prezidenta RF ot 12.05.2009 № 537). Available at: <http://www.rg.ru/2009/05/19/strategia-dok.html> (Accessed 25 August 2014).
- Didyk, V.V., 2012. Issledovanie praktiki strategicheskogo planirovaniya i upravleniya v munitsipal'nyh obrazovaniyah Severa Rossii [The study of the practice of strategic planning and management in municipalities in the Russian North]. *Regional'naja Ekonomika: Teorija i Praktika*, 23, pp. 31-38.
- European Statistical Agency EUROSTAT*. Available at <http://appsso.eurostat.ec.europa.eu> (Accessed 9 December 2013).
- Federal law of 06/10/1999 No. 184-FZ "On the general principles of the organization of legislative (representative) and executive bodies of state power of the subjects of the Russian Federation"*. (Ob obshchih principakh organizatsii zakonodatel'nyh (predstavitel'nyh) i ispolnitel'nyh organov gosudarstvennoj vlasti sub'ktov Rossijskoj Federatsii: Federal'nyj zakon ot 06.10.1999 № 184-FZ). Available at: <http://www.rg.ru/2009/05/19/strategia-dok.html> (Accessed 25 August 2014).
- Federal law of 06/10/2003 No. 131-FZ "On the general principles of the organization of local self-government in the Russian Federation"*. (Ob obshchikh principakh organizatsii mestnogo samoupravleniya v Rossijskoj Federatsii: Federal'nyj zakon ot 06.10.2003 № 131-FZ). Available at: <http://www.rg.ru/2009/05/19/strategia-dok.html> (Accessed 25 August 2014).
- Human Development Index (HDI), 2012 Rankings. 2012. Available at: <http://hdr.undp.org/en/statistics/> (Accessed 9 December 2013).
- Vzaimodejstvie vlasti i obshchestva na mestnom urovne. Issledovanie Obshherossijskoj obshchestvennoj organizatsii «Vserossijskij sovet mestnogo samoupravleniya» pri uchastii GU «Vysshaja shkola ekonomiki», 2010*. [Interaction between the authority and society at the local level. Research of the all-Russian public organization "The All-Russian Council of Local Self-Government" with the participation of SU "Higher School of Economics"]. Available at: <http://www.vsmsinfo.ru/files/research.ppt> (Accessed 4 November 2013).
- Kač'kalo, V.S., 2002. *Teorija strategicheskogo upravlenija: etapy razvitiya i osnovnye paradigmy* [The theory of strategic management: Stages of development and the main paradigms]. *Vestnik Sankt-Peterburgskogo Universiteta*, 8, 2, 16, pp. 3–21.
- Local Government in Norway, 2008 Norwegian Ministry of Local Government and Regional Development*. Available at: http://www.regjeringen.no/upload/KRD/Vedlegg/KOMM/internasjonal/H224_red160908.pdf (Accessed 9 January 2014).

Ministry of Finance of the Russian Federation.
Available at: <http://www.minfin.ru> (Accessed 5 January 2014).

Offerdal, O., 1999. Mestnoye samoupravlenie v Skandinavii: Dostizheniya i perspektivy [Local self-government in Scandinavia: Achievements and prospects]. *Polis (Politicheskie issledovaniya)*, 2, pp. 155-167.

Order of the Government of the Russian Federation of 17/11/2008 №. 1662-r (ed. 08/08/2009) "On the concept of long-term socio-economic development of the Russian Federation until 2020". (O Kontseptsii dolgosrochnogo social'nogo i ekonomicheskogo razvitiya Rossijskoj Federatsii na period do 2020 goda: rasporyazhenie Pravitel'stva RF ot 17.11.2008 № 1662-r (red. ot 08.08.2009)). Available at: <http://www.rg.ru/2009/05/19/strategia-dok.html> (Accessed 25 August 2014).

Order of the Minregion (Ministry of Regional Development) of the Russian Federation of 27/02/2007 No. 14 "Requirements for the strategy of social and economic development of the regions of the Russian Federation". (Ob utverzhdenii Trebovanij k strategii social'nogo i ekonomicheskogo razvitiya sub'ekta Rossijskoj Federatsii: prikaz Minregiona RF ot 27.02.2007 № 14). Available at: <http://www.gosthelp.ru/text/Prikaz14ObutverzhdeniiTre.html> (Accessed 25 August 2014).

Persky, Yu.K. and Dubrovskaya, Yu.V., 2012. Institutionalizatsiya mestnogo samoupravleniya kak faktor regional'nogo razvitiya: ierarkhicheskiy podkhod. [Institutionalization of local self-government as a factor of regional development: The hierarchical approach]. *Byulleten' Permskogo Universiteta. Spetsial'nyi vypusk*, pp. 27-34.

Polterovich, V.M., 2001. Transplantatsiya ekonomicheskikh institutov [Transplantation of economic institutions]. *Ekonomicheskaja Nauka Sovremennoj Rossii*, 3, pp. 24–50.

Issledovanie «Rejting kachestva strategij social'nogo i ekonomicheskogo razvitiya regionov Rossii, aprel' 2013 goda». [Study "The assessment of the quality of strategies for the social and economic development of the Russian regions, April 2013"]. Available at: http://www.raexpert.ru/editions/bulletin/19_04_13/bul_regions2013.pdf (Accessed 5 January 2014).

Seliverstov, V.E., 2009. Formirovanie mnogourovnevoj sistemy strategicheskogo upravleniya: Metodologija, instrumentarij, instituty (na primere Sibiri) [Formation of a multilevel system for strategic management: The methodology, instruments, institutions (Case study of Siberia)]. *Region: Ekonomika i Sociologija*, 2, pp. 207-218.

Shvetsov, A.N., 2009a. Sistematizatsija instrumentov perspektivnogo planirovanija territorial'nogo razvitiya: Nastojatel'naja neobkhodimost' i konkretnye predlozhenija. [Systematization of instruments for perspective territorial development planning: An imperative need and specific proposals]. *Rossijskij Ekonomicheskij Zhurnal*, 5, pp. 12-47.

Shvetsov, A.N., 2009b. Sistematizatsija instrumentov perspektivnogo planirovanija territorial'nogo razvitiya: Nastojatel'naja neobkhodimost' i konkretnye predlozhenija [Systematization of instruments for perspective territorial development planning: An imperative need and specific proposals]. *Rossijskij Ekonomicheskij Zhurnal*, 1–2, pp. 49–60.

Tatarkin, A.I. and Bochko, V.S., 2008. Problemy i napravlenija dal'nejshego sovershenstvovanija mestnogo samoupravleniya. [Problems and means of further perfection of local self-government]. *Ekonomika Regiona*, 8, pp. 42–50.

Yakobson, L., 2006. Bjudzhetnaja reforma: federalizm ili upravlenie po rezul'tatam? [Budgetary reform: Federalism or management by results?] *Voprosy Ekonomiki*, 8, pp. 31-45.