

# Federalism and the COVID-19 crisis: “Emergency Federalism” Russian Style



Author: Galina Kurlyandskaya

**Galina Kurlyandskaya** is a Director of the Center for Fiscal Policy, Russian NGO, Moscow.

Over the past two decades the Russian Federation has gradually become a rather centralized country. Nevertheless, the public sector still consists of three independent government layers: federal, regional (state in U.S. terminology), and municipal. Russian legislation provides for quite clear assignment of revenues and powers across levels of government and intergovernmental transfers are allocated according to a formula. One distinct feature of the system is that reassignment of revenues and powers, as well as modifications to the transfer formula, are always initiated by the federal center and happen fairly frequently. Also, regional governments are accountable for their performance to the federal center, while municipal governments report to the regional governor.

To better understand how the COVID-19 crisis impacted intergovernmental relations in Russia one can examine power assignment in healthcare. Since 2012 the absolute majority of healthcare institutions have become the responsibility of regional governments (previously they had been under the jurisdiction of municipalities). However, less than 30% of healthcare funding is provided by regional governments (only for TB, narcology, psychiatry, and palliative hospitals); the rest is provided by the Federal Medical Insurance Fund (FMIF). FMIF revenues originate from payroll taxes and contributions from regional governments in the form of insurance premiums for unemployed citizens (including children and seniors). Recently, FMIF has begun to allocate money to regional healthcare clusters on per capita terms (adjusted for regional cost of living coefficients). Alongside

distributing funding, FMIF issues very particular regulations on management of public healthcare in regions. As a result, funding for regional medical institutions and delivery of services has been considerably equalized across the country.

This equalization was achieved through, among other means, redistribution of available resources from ‘richer’ to ‘poorer’ regions. As a consequence, those ‘richer’ regions (including first of all the city of Moscow, Moscow Oblast, and the city of Saint Petersburg) were in mid-2010 pushed to optimize (reduce in number) their medical institutions to make the healthcare sector “more economically efficient”. Today these particular regions have become the epicenters of COVID-19 in Russia due to their high population density and status as transit hubs. At the outbreak of the epidemic Moscow lacked at least half of the hospital beds needed for coronavirus patients before its government started, at its own discretion, to reassign hospitals used for other purposes to treat COVID patients and urgently build new isolation hospitals.





In mid-March the federal government created the National Coordination Council to fight the spread of new coronavirus infections. Alongside top federal officials the council also includes the mayor of Moscow and the governor of Moscow Oblast. The Government of Russia (GOR) developed a national plan for the prevention of the spread of COVID-19. This plan imposes a number of specific steps to be undertaken by regional governments and introduces adjustments to FMIF procedures in its interaction with regional medical institutions. In accordance with this plan, the federal government undertook a series of paternalistic actions to aid regional governments by delivering them in-kind support: the federal government purchased and distributed among the regions ambulances, medical personal protective equipment, medical ventilators, ECMO equipment, and medicines. On top of this, the federal government made additional intergovernmental transfers to the regions to be spent on increasing the salaries of doctors and nurses providing treatment to COVID patients.

All of the federal government actions noted above reconfirm the traditional Russian “top-down” approach to intergovernmental relations. And following the old tradition

of unfunded or partially funded federal mandates, these new federal regulations request more resources than actually were transferred by the federal government to the regions.

COVID-19 requires the Russian government not only to make decisions regarding healthcare provision, but also inevitably presents the challenge of protecting the population from new infections and taking action against economic slowdown. And as in other countries, the GOR faced a difficult dilemma: either introduce a strict quarantine resulting in significant economic damage to businesses and citizens; or impose soft restrictions resulting in high morbidity and mortality from the virus. Both options would be unpopular and socially unacceptable for the federal center and the President. It appears this particular concern explains the spirit of the Presidential Decree issued April 2 2020, which introduced the nationwide ‘non-working week’ through mid-May, leaving regional governors to decide independently on the implementation of any additional anti-coronavirus measures. In this context, quite a number of experts in Russia began talking about new federalization and long-awaited autonomy for regions.

Yet the Decree implies that if the coronavirus situation deteriorates in a region, the regional leader will be blamed personally. In response, regional governors began to implement severe restrictions, so that the center would not blame them for being 'soft'.

However, the current federal legislation already provided regional governments with an opportunity to establish restrictive regimes in emergency situations, and many regional governors (primarily the mayor of Moscow) introduced restrictions of varying severity even before the Presidential Decree was issued. Rather, the Decree transformed the opportunity into a duty and reminded regions of their accountability to the center.

Under these circumstances a new type of relations between levels of government was established, which could be called "emergency federalism": regional governors are striving to distinguish themselves by competing with each other in the severity of the anti-epidemic control and bans they introduce. The regions are announcing self-isolation regimes, limiting citizen mobility by introducing control systems requiring them to have special passes and QR codes in order to move around, and limiting the sale of alcohol. Some regional governments plan to completely close their borders for entry and exit. In one of the regions residents are informed about the restrictions every hour by an alarm signal. In two other regions the mayor of the capital city declared a state of emergency.

In response, the federal government has intervened on excessively severe control measures by criticizing regional authorities for blocking administrative borders and for limiting the sale of alcohol. The federal government is also working on providing uniform national passes (i.e. that can be used across the whole country) for freight transportation because of the threat of disruption to food supplies.

Another challenge the government faces is to compensate for the negative economic consequences of the pandemic caused by business closures. In Russia, the damaging effect of COVID-19 is aggravated by a 30% drop in oil prices, as oil and gas revenues account for more than 40% of the federal budget. This may partially explain the fact that the volume of federal direct monetary aid allocated to citizens and businesses in Russia is several times less than that allocated

in other countries (USA, countries in Europe, China). Direct payments to elderly citizens have been introduced by only a few regional governments (in different amounts). The Russian anti-crisis program demonstrates how the federal authorities are shifting the burden to regional and municipal governments. Federally-announced tax reliefs and tax rate cuts primarily affect revenues assigned to sub-national budgets.

The total regional governments' revenue losses as a result of the COVID-19 crisis are estimated to equate to 1.5% of GDP. However, according to the federal anti-crisis plan only 0.2% of GDP is assigned (to date) to be transferred to regions as general purpose financial assistance. At the same time most federal budget losses will be compensated from the national reserve/stabilization fund (which is sustained through revenues from oil and gas). This means that the federal government will provide support only to the most affected and most problematic regions, while the rest are likely to finance losses out of their internal reserves or borrowings, and partly through cost optimization.

Post-coronavirus, decentralization will depend on the economic security of the federal center – that is on world oil prices. In the event that prices are high enough to restore the federal budget and provide sufficient intergovernmental transfers to the regions, the center will not give away its powers to regions. If the federal budget cannot be restored, the center will be forced to deepen federalization by allowing the regional governments to - at their own expense – take decisions on difficult issues, the outcomes of which may be unpopular with citizens.

