

# STANDARD COST MODEL IN RUSSIA: BETWEEN INSTITUTIONAL BUILDUNG ALONG 'DUTCH MODEL' AND WEAKNESS OF IMPLEMENTATION

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I. Standard cost model: rapid development around the world

# The “War on Red Tape”

- ❑ USA
  - ❑ Paperwork reduction act (1980)
- ❑ Since the 1990s – several initiatives for reducing red tape in the Netherlands
  - ❑ prototype of the SCM – special work-package called Mistral (*MeetInSTRument Administratieve Lastendruck*)
  - ❑ official adoption the SCM Methodology to measure administrative burdens / set up an independent watchdog – ACTAL
- ❑ Other front-runner European governments – Great Britain and Denmark (since 2005), Germany (since 2006)
- ❑ European Commission (since 2002)
  - ❑ Developing common EU Net Cost Model (2005)
  - ❑ REFIT programme (2011)

## II. Stages of RIA development in Russia and the progress in the SCM implementation

# Strengthening and expansion of RIA in Russia

- ❑ A decade of leisurely discussions (2000-2009) → six years of RIA strengthening (since 2010)
- ❑ At the central level RIA is conducted by:
  - ❑ executive power bodies
  - ❑ partly - the Central Bank and the Parliament of the Russian Federation
- ❑ The use of RIA also has expanded to:
  - ❑ supranational level (Commission of the Eurasian Economic Union)
  - ❑ sub-national und partly municipal level
- ❑ Most OECD's better regulation instruments are discussed and introduced



# Three stages of RIA development and SCM implementation

## STAGE 1

May 2000 – December 2009

Administrative reform, NPM tools introduction, increased expert discussion on RIA; [little attention to SCM](#)

## STAGE 2

January 2010 – June 2013

Implementation of minimum necessary RIA elements, RIA procedures expanded broad and deep; [SCM researches](#), [start of SCM implementation](#)

## STAGE 3

July 2013 – 2016

Implementation of 'RIA classic mode' at the federal level, expansion of RIA procedures to new policy areas, introduction of better regulation tools: ex-post law evaluation, sunseting, [SCM](#), ['One In - One Out'](#)

# Stage 1: May 2000 – December 2009

## Stage description

- began under the sign of the ‘liberal project’ of Vladimir Putin’s first presidential term
- New Public Management tools have been introduced: performance-based budgeting, targeted program management, agencification, privatization and outsourcing of government functions, private-public partnership, and e-government

## Key developments

- since 2007 RIA has been viewed as a new mechanism for interaction between business and government aimed at balancing economic decisions;
- huge expert capacity has been accumulated, some ideas have been tested
- resistance of the Government’s Executive Office

## Progress in SCM implementation

- SCM percolates expert discussions, but is not considered as one of priorities

## Stage 2: January 2010 – June 2013 (1)

### Stage description

- rapid formation of RIA mechanism and fragments of regulatory policy;
- minimum necessary RIA elements were laid into the basis

### Key developments

- implementing de facto pilot RIA procedures;
- moderate expert support, retraining of officials, increasing and expanding contacts with international organizations – OECD and APEC;
- preparation to RIA transfer to the ‘early stage’, regional and municipal levels;
- advocating RIA mechanisms introduction into the work of the Eurasian Economic Commission, the Central Bank and the Parliament



## Stage 2: January 2010 – June 2013 (2)

### Progress in SCM implementation

- SCM researches were carried out on request of Russian Ministry of Economic Development in 2011 and 2013;
- introduction of the SCM under the implementation of the road map 'Improving the Quality of Regulatory Environment for Business' (2013);
  - paragraph 40 of the road map sets figures to reduce the volume of administrative costs for entrepreneurs (measured as a decrease in the share of administrative costs associated with the presence of regulation in relation to the revenue the simulated company relative to the base year);
  - administrative costs reduction goals (in relation to 2013, baseline = 1,0): by 2015 - to 0,8, by 2018 – to 0.6.

## Stage 3: July 2013 – 2016 (1)

### Stage description

- implementation of 'RIA classic mode' at the federal level ;
- virtually unlimited expansion of RIA procedures to all new areas;
- great number of new initiatives from better regulation portfolio.

### Key developments

- the resistance of the bureaucracy has been growing;
- officials from federal RIA Department form a coalition with business associations but often ignore the comments of the leading academic experts;
- **as a result - RIA institute is experiencing ups and downs, but cannot become a tool for generating optimal economic decisions and reducing compliance costs.**

## Stage 3: July 2013 – 2016 (2)

### Progress in SCM implementation

- In January 2015 - changes to RIA Guidelines: gradual introduction of ex-post evaluation, SCM and 'One In - One Out' rule in 2016-2017;
- 2 new SCM researches are conducted on request of Ministry of Economic Development:
  - *2015 - 'Determination of requirements to draft legal acts in terms of impact on business caused by compliance costs';*
  - *2016 - 'Development of proposals for the improvement of toolkit, which provides automatic calculation of standard costs within procedures of regulatory impact assessment and ex-post evaluation, as well as the identification of legislation sectors (sub-sectors) with high potential for reducing administrative burden for entrepreneurs'*

III. Stage 3: more focused view at  
the dynamics of the  
SCM implementation

## Document on measuring compliance costs (2014)

- ❑ published by Russian Ministry of Economic Development in November 2014;
- ❑ costs were assessed in **ten areas of state regulation**, including:
  - *Labor and employment; Sanitary and epidemiological well-being; Technical regulation; Pension issues; Migration legislation; Social insurance; State registration of rights to immovable property and transactions with it, state cadastral registration of real estate, land management; State and municipal procurement; Consumer protection; Tourism;*
- ❑ **30** experts were surveyed, **30** business representatives were interviewed, **973** regulatory legal acts were analyzed, **1598** information obligations and **2950** information elements were identified
- ❑ it is planned to prepare sectoral plans of red tape reduction

Annual administrative costs in 10 areas - 789 billion RUR




## SCM methodology (2015)


- ❑ published by Russian Ministry of Economic Development in September 2015
- ❑ includes the structure of indicators, calculation formulas and information sources
- ❑ follows the basic provisions of SCM international practice, **BUT**: in Russia SCM becomes one of regulatory impact assessment tools, which is not associated with consistent policy of red tape cutting
- ❑ practical application of SCM is integrated into the process of preliminary RIA reports preparation by regulators (available on a web-portal <http://regulation.gov.ru/>)
- ❑ further development of 'One In - One Out' rule in Russia will depend on the success of SCM implementation



# SCM on-line calculator on Regulation.gov.ru (1)


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 Официальный сайт для размещения информации о подготовке федеральными органами исполнительной власти проектов нормативных правовых актов и результатах их общественного обсуждения

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**ПРОВЕРИТЬ**


Оцените эффективность действующих законов

Активные проекты на портале по этапам




- Уведомление
- Текст
- Оценка
- Завершение
- Принятие

Количество заключений об ОРВ




- Положительное
- Отрицательное

Рассчитать издержки



- Информационные издержки
- Содержательные издержки



Самые обсуждаемые проекты

9

**ПОПРАВКИ** к проекту федерального закона № 1036078-6 «О...

Проект поправок к проекту федерального закона

Launched by Russian Ministry of Economic Development in May 2016

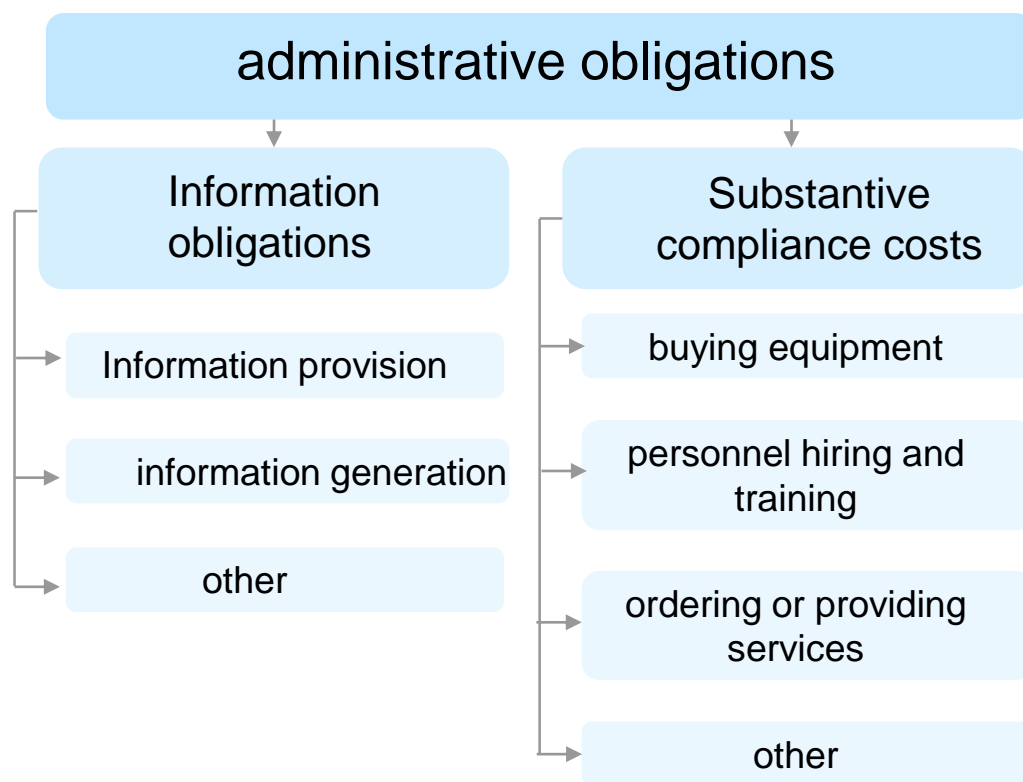
## SCM on-line calculator on Regulation.gov.ru (2)

- ❑ available for regulators as well as for experts taking part in public consultations
- ❑ includes several data sets for calculating:
  - ❑ material costs
  - ❑ time costs
  - ❑ budget expenditures
- ❑ in case of absence of needed data, calculations can be proceeded using expert estimates or official statistical data





# SCM calculator: types of administrative obligations and data sets



Calculator includes data on number of businesses, amount of operations (provided declarations, reports), frequency of violations in certain areas

state registration of rights

public and municipal procurements

social insurance

pension system

labor and employment

sanitary measures

consumer rights protection

technical regulation

migration legislation

tourism

Regulator or expert have to input frequency of actions, current average payment rate, and choose the population of firms affected from available statistical data sets



## Key findings: potential risks of SCM implementation

- ❑ *(international)* SCM partly destroys the logic of RIA (based on cost-**benefit** analysis)
- ❑ little use of evidence-based approach by regulators – while SCM methodology is more complex
- ❑ SCM is implemented without the involvement of the Russian Statistics Service (risk of ‘garbage in, garbage out’ effect);
- ❑ implementation of “One In – One Out” rule in the 2017 is likely to face the ignorance from regulators:
  - abolition of proportionate requirements should be accompanied by the first results of ex-post evaluation
  - BUT in 2016 ex-post evaluation is introduced only in a pilot mode, first results – minimum by the middle of 2017
- ❑ filters for carrying out RIA in Russia do not contain quantitative (monetized) thresholds

**! The chance to overcome partly these risks: Finalize SCM, incl. central-based watch dog, for Russia’s strategic development program until 2035 (*pro-reformist part of officials and experts - under former finance minister Alexey KUDRIN - are preparing it by May 2017*).**

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