## Appendix 7. The Progress in the Administrative Reform Area

By 2002 the extremely inefficient public administration system was viewed as one of the most serious institutional barriers to acceleration of economic growth.

The current system of budgetary expenditures constrained the possibility for lowering the tax burden and improvement of socio-economic efficiency of services delivered by the budget sector of the economy. The inefficiency of the government regulation system led to the entrepreneurial sector's additional costs that were associated both with observance with excessive administrative barriers and a direct corruption 'tax' levied by regulative and supervision agencies.

Form the perspective of creating incentives to efficient performance of federal agencies' staff, the civil service continuously led to a low, and in the number of cases, unsatisfactory performance of the state machinery.

Such conditions necessitated implementation of a comprehensive administrative reform which has de-facto been already launched in certain areas (the civil service, the state regulatory system), while the work on reforming the structure of executive agencies and the one of public expenditures still was at the initial stage in 2002[1].

Though it was the 1997 Presidential Address to the Federal Assembly that stated the need in implementation of an administrative reform (at the time a special commission on public administration building was established), until recently there have not been any program document, legal acts associated with its implementation. Furthermore, the section on administrative reform initially drafted for the 2000 Program of long–term socio-economic development of the country was then excluded from the last version, and the Government actually neglected this area.

The 2002 Presidential Address once again cited the administrative reform among officially recognized priority actions. The document sets its major tasks as follows: a qualitative transformation of the executive power's structure and a revision (towards a substantial contraction) of government functions. A fundamental move in this regard was an official presentation of a concept for administrative reform in the governmental report to President Putin 'On fundamental guidelines of administrative reform in the Russian Federation'[2], the drafting of which was included in the government action plan as per the presidential Address. It is envisaged that practical steps on implementation of the administrative reform, including a drastic change in the structure and functions of executive agencies should be complete as early as by the 2004 presidential lections.

### The reform of the federal executive agencies

It is the nature of executive agencies' functions, with every ministry and agency exercising both political, regulative, control functions, and those of delivery of public service functions that form one of the most crucial causes for the inefficiency of the current public

[1] The administrative reform is complemented (or it comprises) the reform of government agencies and municipal self-governance bodies' powers. This particular work is carried out by the Commission under the RF President on developing proposals on separating powers between federal agencies, those of RF Subjects and local self-governance bodies. The Commission is headed by Mr. D. Kozak. More specifically, the Commission drafted bills 'On general fundamentals of organization of local self governance in the Russian Federation' and 'On general fundamentals of organization of legislative and executive agencies of government power of Subjects of the Russian Federation'.

[2] The report has not been published

administration system. The situation in which sectoral ministries exercise control over themselves forms organizational grounds for corruption. Government agencies lobby 'their' enterprises' interests in the budget and legislative processes. The great number and functional' 'mixture' of their functions and powers creates a complex reconciliation mechanism that start working once the Government makes decisions that fall beyond the framework of the 'government function circle coincidence' of each agency.

In addition, the civil service still exercises technical and provision functions which leads to an intolerable rise in its staff along with a simultaneous fall in their performance efficiency ( as it always occurred without competition)[3] .

In such conditions the reform of the structure of executive agencies should lead to a division of their functions between their different types. Such an approach generally matches the Concept for reforming the civil service of the Russian Federation[4] that suggests specification and classification of executive agencies:

- by the nature of functions (political, resource-administrative, control, enforcement, analytical, personnel, etc.);
- as long as another aspect is concerned, the functions should be divided into basic and infrastructural, and in the light of the latter – into exclusively governmental and fully or partly delegated.

N the basis of concrete functions it is intended to single out four types of public administration agencies:

- ministries – the agencies that exercise functions of developing state policies and coordinating operations of public bodies and supervisory agencies involved in the respective areas (such as, the Ministry of Finance, the Ministry of Justice, the Ministry of Defense);
- services- the agencies that provide services associated with realization of the government power functions and funded exclusively out of the budget or through compulsory payments of economic subjects and the population as per the law (the court marshal service, the tax service, and the customs service);
- agencies that exercise the government control functions towards economic agents and the population;
- agencies that deliver public services both at the expense of budget funds and on the commercial basis ( such as, for instance, the airspace agency, the statistical agency).
- It is envisaged that rationalizing of the structure of government agencies would be accompanied by rationalization of their inner structure, including transition to a module principle which implies department with its certain mandate as a main structural unit.

In compliance with the Concept it is intended to carry on a stage-by-stage introduction of productivity administration, performance planning and evaluation methods that would allow an objective measurement of public agencies, their divisions and single civil servants' performance. At the same time, that would ensure an extension of agencies' heads' powers

[3] 'Reforma vlasti v Rossii: sostiyanie i perspektivy', report of the Higher School of the Economy - http://www.hse.ru/temp/2002/preskonf1009.htm

[4] the Concept for reforming the civil service of the Russian Federation was approved by President's order # Pr-1496 of August 15, 2001

with regard to a justified reallocation of funds between spending items, shaping staff lists and use of the labor compensation fund.

Once Planning and performance evaluation methods are developed, it is intended to ensure a partial substitution of the estimate expenditure financing with result-oriented budgeting. That should contribute to promotion of contract relations, including outsourcing of many kinds of operations that have no political nature.

The Federal Program on Public Service Reform suggests certain practical steps in this particular area, including conducting experiments and pilot projects on identification of duties, powers and responsibility of federal civil servants basing on research into the nature and volume of their actual functions, and developing contracts to be used by the civil service.

### The civil service reform

The civil service reform was launched with the approval of the respective Concept by the presidential Decree of August 15, 2001. The first major step in this area was developing the Federal Program on Public Service Reform for 2002-2005 approved by Presidential Decree of November 19, 2002[5].

The Program should ensure the following outcomes:

- establishment of a civil servant account and performance evaluation system;
- introduction of an institution of civil service operational procedures that should specify their duties with regard to their delivering public services to organizations and citizens;
- ensuring the conditions of informational openness of operations of government agencies and civil servants and due control over them on the part of the civil society;
- introduction of identification and conflict solving mechanisms within the civil service;
- enhancement of the professional level and optimization of the number of civil servants and the efficiency of the staff management system

The Program is coordinated by the presidential Administration, public customers: the RF Ministries of Labor, Economic Development and Trade, Finance, Interior, and Defense Ministry. Despite its relatively modest level of funding – Rb. 539.1 mln., the implementation of the Program should create the basis for substantial institutional changes. The Program implies the following major steps:

- conduct of experiments and pilot projects on applying new approaches towards the structure of the federal civil service and ensuring federal civil servants' operations;
- improvement of training, re-training and raising civil servants' skills;
- creation of material and technical conditions for an efficient functioning of the civil service; and
- development of the respective legislative and legal base and shaping the civil service management system.

Other important innovations envisaged by the program are: introduction of the institution of a civil service (duty) procedures, including a set of duties and responsibilities specified

[5] Decree of the President of the Russian Federation # 1336 of November 19, 2002 "On Federal Program "Reforming the civil service of the Russian Federation" (2003-2005)".

specified according to the respective position and operational area; the list of decisions they are entitled to make independently, including deadlines for considerations and procedures of decision making; strictly formulated penalties for a failure to exercise or an unduly exercising of the respective duties. Establishment of such a regulation and procedural system should ensure a considerable enhancement in transparency of civil servants' activity by means of public formalization of the circle of their duties and powers, thus promoting debureaucratization and lowering the level of corruption.

At the same time, to ensure a considerable expansion of citizens' rights to appeal government agencies' decisions in the court, there should arise a system of specialized administrative courts that would be dealing exclusively with lawsuits filed against government agencies of different tiers. The decision on creation of such an institution was put into a draft Code on Administrative Procedures that should be submitted to the State Duma in 2003 as a part of the court reform package.

The Concept for civil service reform has already resulted in some legislative initiatives: more specifically, it is worth noting the bill ' On the civil service system n the Russian Federation' by President Putin has already submitted to the Duma.

In compliance with the bill, it is envisaged to unify the civil service system: more specifically, to regulate conditions for conducting the civil service, the one of RF Subjects of the Federation, law enforcement service, and the military service. Though establishing important basic characteristics of the civil service system, the bill contains a very few direct provisions and just lays foundations for the further development of the legal base.

Ensuring openness of public agencies' operations and their interaction with the civil society.

The said overall objective of the administrative reform effort, i.e. to enhance the public administration agencies' efficiency, implies tackling both purely 'technocratic' challenges associated with the task of increasing the state machinery's effectiveness and political ones. As concerns the latter, the priorities are ensuring transparency of the public administration system for citizens and its fruitful interaction with civil society organizations.

More specifically, the Concept provided securing for citizens and civil society structures the possibility to take part in the process of developing decisions, objective informing of government agencies and civil servants' operations, as per the federal law on public agencies, debureaucratization of relationships between civil servants, citizens of RF and civil society structures.

In compliance with the governmental Action Plan on implementation in 2002 basic provisions of the medium-term Program of Russia's socio-economic development (2002-04)[6], the RF Ministry of Economic Development and Trade has developed the bill 'On facilitation of access to information of operations of public agencies and local self-governance bodies'. The document suggests fixing the obligation of government agencies to provide citizens and organizations with information of their operations, except for the data falls under the category of restricted information.

In the process of reconciliation, there arose disagreements between Minecon, the RF Ministry of Justice and the Ministry of Communication, which resulted in certain delays in the progress with the bill. That is why, along with holding the reconciliatory procedures, Minecon drafted a government Resolution that regulates information disclosure procedures

[6] Government Resolution # 314-p of March 16, 2002, amended on August 20, 2002

for executive power agencies. Basing on the best foreign practices, the draft Resolution entitled 'On ensuring access to information of operations of the Government of the Russian Federation and federal bodies of executive power' cited a wide list of data whose posting on the Internet is a must. Such materials particularly comprise texts of draft legal acts, information on effected state procurements, and results of inspections[7].

The first step on securing an efficient interaction between executive power bodies and civil society institution became RF Government Resolution # 278-p of march 7, 2002, that comprises the list of measures of the Government on implementation of outcomes of the Civil Forum, as follows:

- establishment of joint task forces with public associations;
- introduction of representatives of public associations to advisory boards under federal executive power bodies;
- creation of public councils to monitor implementation of federal targeted programs;
- developing solutions to the problem of securing access of non-governmental non-for-the-profit organizations to competition procedures related to the use of budget funds.

At the same time, it should be noted that the Resolution contains de-facto recommendations and does not indicate any timelines for its implementation. Considering the experience of its implementation, it would be appropriate to ensure an adoption of more detailed and transparent for control legal acts. More specifically, the Federal Program on reforming the civil service suggests developing legal acts to ensure the civil service's openness in the interests of fostering civil society's development.

## The budget expenditure system reform

The current budget expenditure planning system is based upon indicators of standard operational costs of the existing budget institution network and ongoing investment programs. The system does not consider actual performance outcomes of government-funded works.[8] As a result, under the current budget planning mechanism both ministries and budget institutions have no incentives both to lower costs (as they are driven by the fear to have the volume of the respective funds decreased) and to improve their performance.

In such a situation it is the reform of the budget planning and control system, its re-orientation to ensuring maximal performance that forms a crucial objective for the administrative reform that suggests establishing institutional prerequisites of improvement of the public administration system[9].

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[7] Resolution of the RF Government "On securing access to information on operations of the Government of RF and federal bodies of executive power" # 98, approved on February 12, 2003

[8] So far there has not been any formalized evaluation of efficiency of funded projects. It has not been used even while planning expenditures under federal targeted programs, where the law provides the existence of requirements to justification of their efficiency.

[9] There are a number of OECD nations whose success records in terms of shaping fairly adequate legal bases over last two decades can be cited as examples of implementation of the budget expenditure system reform towards improvement of their efficiency and effectiveness: for instance, the US – Government Performance Results Act (1993), New Zealand – the Public Finance Act (1998), among others.

The main conceptual approaches towards reforming the budget expenditure management system were stipulated in the presidential Address to the Federal Assembly 'On the budget policy in 2003'. More specifically, the Address emphasizes the need in creation of a planning and monitoring system of performance results in the area of socio-economic budget expenditures using qualitative and quantitative indicators. Such a system should be applied both to budgets of all tiers and concrete budget recipients.

However, in 2002 the federal government practically has failed to adopt a single legal act which would determine the respective changes in the budget planning system. The only exception is in this regard became the noted federal Program of reforming the civil service that suggested an actual implementation of measures on introduction "new methods of planning and financing the federal government agencies' operations, the system of indices and criteria of evaluation of federal government agencies and their divisions' staff's performance".

The Program particularly suggests conducting experiments and carrying out pilot projects to test new planning methods and apply program-targeted financing methods to the federal civil service in single federal government agencies. Basing on monitoring these experiments and pilot projects' outcomes, it is intended to introduce modern management technologies to the civil service as a whole.

In addition to the above, one should note the establishment in late December 2002 of a special government commission on optimization of budget expenditures[10] which ay form an instrumental means to intensify the government's efforts to reform the budget planning system on the eve of next budget cycle.

## The reform of public regulation system

### The state of the problem

High administrative barriers – innumerous control and permit procedures and other forms of the state influence on businesses – fall under the group of major obstacles to small and medium-size businesses. The latter estimate their costs on overcoming the obstacles at the level of USD 8-8.5 bln. a year, or equivalent to 2.4- 2.6% of GDP. As well, the group of costs related to businesses' de-facto compulsory financing these or those projects launched by government structures, where it is administrative levers that form an enforcement instruments, stands for another USD 4 bln., or some 1.2% of GDP.

The legislative package on licensing, enterprise registration and protection of entrepreneurs' rights in the course of control inspections[11] promulgated in 2001 has formed one of the crucial avenues of debureaucratization reform and lowering administrative barriers as per the so-called 'Gref's Program'. It was envisaged that the legal package was to ensure considerable qualitative cuts of the noted costs, however, the effect proved to be substantially lower than the possible (and much-needed) one. That can be attribute to serious compromises made

[10] Set by RF Government Resolution # 1838-p of December 25, 2002

[11] In 2001, the following federal laws were promulgated: 'On state registration of legal entities', 'On bringing legislative statutes in line with the federal law "On state registration of legal entities', 'On procedures of exercising the sate control (supervision) over production of goods, works, services and their sales', 'On introducing amendments to the federal laws "On licensing of single kinds of activity'

first in the course of the conciliation within the Government and consequently at the State Duma.

More specifically, promulgated then amended draft law 'On licensing of single kinds of activity' has failed to reach the main pre-set objectives: that is, a radical contraction of licensed kinds of operations to a few dozens of them, which should have met clear criteria (the existence of a direct careless actions on the part of a producer and/or seller of the given goods or services in the absence of alternative control systems and possibilities for ensuring a necessary safety and quality standard). As a result, the list still comprises over 110 kinds of activity – far a greater number compared with the EU nations.

It was envisaged that the new draft law would exclude references to other legal acts and make the licensing control procedure a universal one. That has also failed to happen: a whole range(over 15) of licensed kinds of activity remained non-formalized (including control over electronic media). The sphere of effect of the law has no longer embraced many crucial kinds of activity towards which the former principle of issuing licensing documents is applied. Needless to say, such documents present an absolute freedom of 'departmental legal creativity' with regard to such areas as communication and educational services.

Some of operations subject to licensing were poorly specified (such as running fire-susceptible and chemically dangerous production facilities, among others) and allow the outspread of licensing over dozens and hundreds new kinds of activities by means of by-statutory acts, which would not solve challenges related to an actual provision of safety of enterprises' operations nonetheless. As concerns positive innovations, the law sets a lower licensing fee – from Rb. 3,000 to 1,500 and extends a minimal term for validity of licenses from 3 to 5 years.

The adopted draft of the law 'On protection of rights of legal entities and individual entrepreneurs in the course of conduct of the state control (supervision)', which was designated to limit the frequency of inspections in order to lower a direct extortion on the part of inspectors, has served as a partial remedy to the problem. The law sets a strict limit with regard to planned inspections for a single government agency – just once biannually. However, the number of out-of-schedule inspections is not limited, though procedures for their conduct became more complex.

At the same time, the law does not embrace such key, dangerous for an entrepreneur, kinds of inspections as those arranged by police, tax police, and tax office, almost all law enforcement agencies, and, which is especially unpleasant – by the licensing control bodies. Pursuing their own interests or those of an executive power agency of any level, any of them can inspect an entrepreneur around the clock and all year.

Overall, because of a great number of earlier made compromises, the volume of challenges associated with administrative barriers is still huge.

## Law enforcement practices and changes in the legislation

### Certification

Speaking about indisputably significant results in the debureauctarization area in 2002, it was the promulgation of the law 'On technical regulation' that appeared a success. More specifically, the Government has managed to initiate a revision of the effective technical regulation (certification) standards and set significant barriers to creating and multiplying new mandatory standards.

As of the moment of adoption of the law, the respective system was an unchanged legacy of the Soviet era. It did not have clear procedures of introduction of new standards, nor it provided efficient procedures of, at least, checking any potential conflict nature of newly adopted norms, thus creating the bullion for administrative abuse and extortion generated by inevitable numerous violations of an immeasurable number of standards.

In compliance with the recently promulgated law, mandatory state standards (technical regulations) may be established by federal laws and- only in an emergency situation, for the sake of citizens' health and safety – by presidential decrees or Government Resolutions. This increases the level of requirements to development of a draft technical regulation standards, for it is due to be considered in every detail in both Chambers of the federal Assembly. As per the law, the technical regulation may come into force not earlier than in 6 months following the day of its official publication, which should substantially lower risks for entrepreneurs and facilitates their work on getting themselves ready for observance with it.

The majority of technical regulation standards will imply a voluntary compliance regime. Indeed, as the respective experiences in the most of developed nations show, in the overwhelming majority of cases even the most sophisticated standards emerge due to market requirements, while their evasion results in spoiling the given goods' (especially technically sophisticated ones) consumer qualities. As market incentives dictate to companies a strict compliance with standards, they rigidly limit the sphere of compulsory technical regulation.

However, the law suffers some serious deficiencies: more specifically, a greater volume of powers on implementation of the law and development of legal acts are delegated to the Government, rather than the Federal Assembly. These powers determine:

- procedures of accreditation of agencies dealing with certification and test laboratories (centers) that work on confirmation of compliance (in the course of preliminary discussions, the proposal to introduce these provisions to the law and set strictly formal procedures based upon the presence of the respective experts who acquire accreditation following already developed procedures);
- methodology of calculation of cost of a work on a mandatory confirmation of meeting the standards;
- procedures of conduct of a register of compliance declarations, those of provision of the data contained therein, and procedures of payments for the provision of such data, and other important procedures.

It should also be noted that the communication sphere was excluded from the area of the effect of the law. At the same time, delegating the powers on setting requirements in the area of compulsory certification of communication means to the departmental, rather than the government, level, amendments to the law 'On communication' proposed by the Government and approved by the Duma in 2002 conflict the principles underlying the law 'On technical regulation'. Considering an extremely excessive number of effective provisions on certification of communication means set at the very departmental level, this particular provision clearly appears a mistake.

### Licensing

The results of a survey on 2,000 companies held in the second half 2002 to study into administrative costs associated with entrepreneurial activity[12] showed that the said law on licensing had a limited effect. Thus particularly the proportion of enterprises that applied for a license over the year fell by one-third – from 29 to 19%. The average cost of the license dropped roughly by one-fourth – from 10,500 to 8,000 Rb., while the average timing to obtain that contracted from 37 to 33 days on average.

At the same time, not all the provisions of the law were implemented: the average costs associated with acquisition of the license still are far greater than 1,300 Rb. as per the law, while the validity of almost 50% of all licenses issued after the promulgation of the law on kinds of activities provided by the new legislation was under 5 years. The proportion of 'illicit' licenses, i.e. those issued after the law came into force and covering kinds of activities that are not subject to licensing, accounted for 33% of their overall number.

One can draw a conclusion that at least at the first stage of implementation of the law that came into force starting from February 2002, the problem of an efficient control over its observance has practically remained unresolved.

In 2002, the law 'On licensing' underwent just cosmetic changes. The licensing of sales of oil, gas, and oil and gas products, as well as arbitration managers' activity was canceled. The need in these amendments was evident: for instance, the effective procedures of licensing arbitration managers had led to monopolization of management of large corporations by FSFO staff, given that the letter constrained the issuance of such license. However, overall, the list of kinds of operations subject to mandatory licensing still appears non-rational and too big, while the present withdrawal of a number of activities out of the law's incidence is unjustified.

Protection of the entrepreneurial sector's rights in the course of inspections.

As shown by results of enforcement of the law 'On legal entities and individual entrepreneurs' rights in the course of conduct of state control' that came into force in August 2001, its effect appeared not quite satisfactory. While, on the one hand, in the first half 2002 the number inspections fell by 21% on average, over 6% of entrepreneurs faced numerous illicit inspections conducted by fire departments and over 5% - by santitary staff.

It is the problem of inspections of economic agents conducted by police that poses, perhaps, the most pressing challenge. The form the first cohort of civil servants that practice money extortion and are cited as such both by entrepreneurs and even the Prime Minister.[13]

In compliance with the law 'On militia', not only were the interior staff granted with the right to inspect any private individuals and legal entities' permits on certain kinds of activity, obtain any references, copies and documents, requisite material values, seal the cashier box, but furthermore – in an following extra-judicial procedures – to suspend enterprise's operations whenever they suspect any breach of the law. Notably enough, the law does not state any term for requisition of values or sealing the cashier box or offices.

Using such provisions of the law, militia staff conduct inspections at any enterprise; for instance at a local marketplace, as a rule, they raid on a good one-third of sellers. The law

[12] See: 'Monitoring urovnya izderzhek malogo predprinimatelstva, svayzannykh s gosudarstvennym regulirovaniem" TSEFIR, the World Bank – http://www.worldbank.org.ru/rus/statistics/, http://www.cefir.ru/p_dereg.html
[13] Auzan A., Kruchkova P. Administrativnye baryery v ekonomike: zadachi deregulirovania. Mimeo. M., 2001

does not contain any provision stipulating formal grounds for such inspections of economic operations.

The law needs to be amended in such a fashion, so that to limit the term of requisition of values; as well, there should be a provision necessitating the existence of a formal ground for conducting an inspection. That could be a senior's order, which should clearly state where and for what purpose the police officer is sent to inspect and which data police has about the suspected enterprise's misdeed. Such a practice has been introduced to the majority of law enforcement agencies, particularly FSB and the tax service, and the fact that the Interior Ministry is not guided by that appears absolutely unjustified.

The year of 2002 saw no substantial changes in the area of legal regulation of entrepreneurs' rights in the course of inspections, except for an exclusion from the incidence of the law activity on protecting the state secrets.

At the same time, a notable step towards a more sound inspecting activity became a package of amendments to the law 'On legal entities and individual entrepreneurs' rights in the course of conduct of state control (supervision)' that the RF ministry of Economic Development and Trade developed as per the Government action plan. The bill provides restriction of planned inspections of small businesses for the period of 3 years from the moment of their registration.

With all due appreciation of the right spirit of the bill, the introduction of a timeline for restricting the number of inspections and small businesses as an only category eligible or such a regime do not appear justified. It would be more efficient to tighten the unified framework of inspection operations along with the development of a more efficient system of control over compliance with it. In conjunction with that, the current rights of supervisory services for an extra-judicial cease of inspected enterprises' operations should be seriously limited, for they form a crucial direct extortion device.

### Registration of legal entities

The provisions of the law 'On state registration of legal entities' came in force in mid-2002. They allowed transition towards the 'single window' registration mode through territorial offices of the Ministry of Taxes and levies. The first experiences revealed possibilities for creating administrative barriers and an extortion system even in the course of implementation of this fairly thoroughly drafted statute. For instance, tax officers practice issuance of certificates without seals, and they consequently charge an additional, illegal payment for duly certified copies of the certificate. With the account of such conditions, the law needs to be specified from the perspective of regulation of procedures of issuing registration documents.

### Developing the system of management of state regulation

The state of the system of state regulation n the country and control over efficiency of the drafted and currently effective legal acts appears extremely underdeveloped compared with world practices.

Ministries and departments do not conduct standardized evaluation of newly adopted regulatory provisions form the perspective of their socio-economic efficiency and minimization of costs enterprises may incur due to their implementation. There is no worldwide accepted practice in place of preliminary control over socio-economic efficiency of departmental regulation provisions on the part of an authorized government agency.

The set of measures on revision of a great number of ministerial instructions and directives implemented in the course of adoption of the 'economy debureaucratization' law package left untouched the *principles* underlying the functioning of the departmental law-creation system.

The establishment of a governmental commission on reduction of the number administrative constraints in the entrepreneurial area and optimization of federal budget expenditures on public administration[14] has failed to create a monitoring system of measures on regulation of corporations and organizations' economic operations.

The sole mechanism of control over departmental directives and acts is the institution of their mandatory registration with the RF Ministry of Justice, which at best secures their juridical validity, though it is not at all related to their economic efficiency[15].

A shining example of maintenance and reproduction of extremely excessive and often unrealistic (in the complete form) by-law acts is law-creating activity of fire and sanitary control agencies. Not falling under the procedural requirements of the law 'On technical regulation' that demands legislative approval of technical regulations, the powers to set sanitary and fire safety measures still fall under the departmental level. The natural result of a minimal level of costs associated with adoption of new regulative standards at the departmental level with no public independent examination is approval of ultimately inefficient (in terms of costs/benefits ratio) regulations and instructions.

At the same time, the risks of an unexpected rise in costs associated with introduction of new, tougher regulative requirements are very high. At the same time, some of them *apriori* appear hardly complied with, which forms a natural precondition of extortion by supervisory agencies' inspecting staff, as well as government bodies of different levels exercising the 'administrative' pressure on entrepreneurs by means of the said supervisory agencies.

Such a situation appears fairly characteristic of the departmental law-creation as a whole, and this challenge is far from being small. In such conditions it is necessary to undertake a comprehensive revision of the national legal regulative base from the perspective of evaluation of socio-economic efficiency of each concrete legal act and proceeding from the cost/benefit ratio associated with implementation of each project in its monetary equivalent across all the sectors of the economy.

An annual evaluation of the cost/benefit ratio along with a breakdown by each legal act would look fairly convincing and stimulate a strong pressure towards minimization (wherever it appears appropriate) of costs associated with regulation[16].

Overall it appears necessary to implement, as a component of the administrative reform, the complex of measures on modernization of the state regulation system[17], particularly including:

[14] Established by Resolution of the RF Government # 452 of June 8, 2001

[15] Interdepartmental commissions on overcoming administrative barriers created in dozens of regions so far has proved to be relatively inefficient. That can be explained both by the absence of a compulsory status of their rulings and efficient support of their operations from the federal center. See, for example: Mezhvedomstvennye kommissii po preodoleniyu administrativnykh baryerov. Resoursny centr malogo predprinimatelstva. M., 2000.

[16] Such practices were set, for instance, in the US, in the frame of the Unfunded Mandates Reform Act (1995) program

[17] By mid-1990s, the OECD nations have already mobilized consensus with regard to the set of basic requirements to institutions of the state regulation system. Those justified by the need in a constant monitoring of effective and newly adopted regulative provisions from the perspective of maximization of costs associated with their application. See: Recommendation of the Council of the OECD on Improving the Quality of Government Regu-

- approval of uniform mechanisms of development, application and amending of by-laws in the regulation area, including procedures of interdepartmental coordination of planned legal acts and public discussion of their drafts with account of the OECD nations;
- forging mechanisms of evaluation of socio-economic efficiency of draft legal acts in the regulation area (basing on cost-benefit analysis), including their impact on small businesses;
- identification of the federal agency (for instance, the RF Ministry of Economic Development and Trade or a department under the Cabinet office – in the part of general regulative guidelines, and the RF Ministry of Anti-monopoly Policy – in the part of regulative provisions concerning small businesses), which would have the power of vetoing inefficient departmental regulative provisions[18];
- introduction of clear procedures of private individuals and organizations' appealing against new regulative provisions following the administrative proceedings or to the court;
- introduction of the position of the ombudsmen on small business (in the key federal ministries, as well as on the regional and local levels), whose mission would be to secure the protection of small businesses' interests in ministries' operations;
- developing a system of support of regional and municipal programs in the regulation system modernization area, including development of standard statutes, methodological support of territorial interdepartmental commissions' operations aimed at lowering administrative barriers;
- extension of the list of requirements to the RF Subjects in the area of lowering administrative barriers used as criteria of allocation of funds out of the Fund of Reforming Regional Finance.

lation, Paris. 1995; The OECD Report on Regulatory Reform Paris. 1997; The Regulatory Impact Analysis: Best Practices in OECD Countries. Paris. 1997.

As an example of a national law mirroring the said requirements, see the US statutes, , The Regulatory Flexibility Act (1980), The Paperwork Reduction Act (1980), The Unfunded Mandates Reform Act (1995). For a greater detail, see: *Mau V., Zhavoronkov S., Shadrin A., Yanovsky K.*. Deregulirovanie rossiyskoy ekonomiki: mekhanizm vosporizvodstava izbytochnogo regulirovania i institutsionalnaya podderrzhka konkurentsii na tovarnykh rynkakh..M.,IEPP, 2003 – http://www.iet.ru/papers/48/index.htm

[18] At the same time, considering formal criteria (for instance, the size of envisaged costs incurred by businesses) a considerable part of regulative acts should be transferred from the departmental level to the level of the federal government and the Parliament.