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Russian Federation
Administrative and Regulatory Reform in Russia
Addressing Potential Sources of Corruption

POLICY NOTE

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ABBREVIATIONS AND ACRONYMS

BEEPS	Business Environment and Enterprise Performance Surveys
CEFIR	Center for Economic and Financial Research
CIS	Commonwealth of Independent States
COFEMER	Commission for Regulatory Improvement
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
EOS	Executive Opinion Survey
GCR	Global Competitiveness Report
GRICS	Governance Research Indicator Country Snapshot
MoEDT	Ministry of Economic Development and Trade
NGO	Non-governmental Organization
OECD	Organization for Economic Co-operation and Development
OPEN	Online Procedures Enhancement for Civil Applications
RIA	Regulatory Impact Analysis
SCA	School Construction Authority
SMG	Seoul Metropolitan Government
UDE	Economic Deregulation Unit
UNDESA	United Nations Department of Economic and Social Affairs
WB	World Bank
WEF	World Economic Forum

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INTRODUCTION

1. Corruption is a complex matter, whose multiple aspects are often not so easily identified. As underlined in the “Anticorruption in transition” report¹, it is now widely recognized that corruption goes beyond the realm of the administrative functioning of the Government and extends itself to “the internal organization of the political system, relationships among core state institutions, the interactions between the state and firms and the relationship between the state and civil society²”. While corruption may take different forms and shapes and originate from a variety of sources, its impact can also be perceived at many different levels.

2. For example, the type of corruption usually known as “state capture”, involving the monopolization of the policy process by special interests, mainly affects competitiveness, as it poses an obstacle for market entry and tends to favor powerful players. Administrative corruption, on the other hand, affects the implementation of the rule of law and weakens the overall credibility of the legal system. As corruption stretches along multiple dimensions, it is important to focus both on the analysis of factors that hinder institutional quality, and on potential remedies. The multi-aspect strategy of fighting corruption outlined by the World Bank in “Anti-corruption in Transition” highlights the multi-dimensional nature of corruption and the consequent need to address a large number of interlinked factors:

- i. Increasing political accountability
- ii. Strengthening institutional restraints within the state
- iii. Strengthening civil society participation
- iv. Fostering an independent media
- v. Reforming public sector management
- vi. Creating a competitive private sector

3. This policy note is aimed at exploring the last two elements of this strategy, namely the linkages between the quality of governance, corruption and doing business in Russia. An earlier World Bank discussion paper and accompanying annotation on “Governance and Growth (2005)” pointed out the importance of improved public sector governance in ensuring long term sustainable economic growth, providing further arguments on why this issue should be an important point on the agenda of the Russian government.

4. The interrelation between economic growth, state governance, and anticorruption is well understood by the Ministry of Economic Development and Trade (MoEDT), which introduced anticorruption as a separate element of the Administrative Reform Concept (2006 – 2008). Moreover, public services standards has become one of the

¹ Anticorruption in transition 1 2, and 3, The World Bank

² Anticorruption in transition 1, The World Bank, p. xxi

priorities of the administrative reform, and many such services are offered to businesses and not individuals. In fact, in the recently conducted competition among regions and federal executive authorities to receive additional funding for administrative reform, extra points were given if projects were aimed at public services offered to businesses. And this is understandable, since “creating comfortable environment for business” is one of the goals of the Ministry.

5. Taking into account all of the above, it is understandably important to pay special attention to the link between administrative reform, business environment, and anticorruption.

6. Based on the authoritative surveys which will be reviewed in the second part of this Note, it is noted that corruption in Russia has significantly grown in recent years, both in terms of state capture and administrative corruption. An increase in the levels of corruption will affect both the ability of the state to complete the ambitious Institutional and Administrative Reform, as well as negatively affect the development of a vibrant private sector, and thus endanger the sustainable economic growth Russia has experienced in the last few years.

7. These risks are exacerbated by the recent trend of centralization of economic power through the re-nationalization of part of the oil and gas sectors, which enhances risks of growing state capture. A final problem raised in this context is the conflict between centralized policy-making and the lack of capacity and resources for local implementation, which means that corruption at regional and local level is likely to undo the impact of any reforms designed at the Federal level, especially since the Federal authorities do not have sufficient means to effectively control regional level policy implementation.

8. The importance of this issue is further illustrated by the reversals on key aspects of the business environment in Russia, as exemplified in the recently published Business Environment and Enterprise Performance Survey (European Bank for Reconstruction and Development (EBRD) and The World Bank (WB) 2005). The main results of the survey showed Russia in a relative decline on policies related to the business environment when compared to other states in Central and Eastern Europe and the Commonwealth of Independent States (CIS) region. While many states in the region have made significant progress in the last two years, Russia has fallen back on key indicators, and runs contrary to Russia’s ambitious role in the G-8.

9. It is encouraging that the Government is showing increasing awareness on this issue and its potential implications for economic growth and development. The Concept for Administrative Reform in Russia and its dated Action Plan (2006-2008) highlight Russia’s poor performance on international indicators on governance and corruption as the key rationale for the design of the program. The Action Plan explicitly includes anti-corruption as a component of administrative reform, as well as a set of actions to improve regulatory policy and set standards for public services as important tools for preventing corruption.

10. Recently, the issue of fighting corruption has received renewed attention, as President Putin highlighted the importance of fighting corruption in his annual “State of the Nation Address” in May 2006, which was followed by major changes in staff and structures at the Federal Customs Service on the grounds of alleged corruption. High-level corruption was also one of the issues during the last G-8 Summit which Russia hosted and chaired.

11. All of the above are encouraging signs of political recognition of the issue, as well as a starting point for enhanced initiatives to address key sources of corruption related to the business environment.

12. In order to shed some light on the impact of corruption on the way of doing business in Russia, the underlying note provides a review of the results of several major surveys that were carried out in Russia and other CIS states, by the World Bank and other organizations. We particularly relied on two recent surveys: the previously mentioned EBRD-World Bank Business Environment and Enterprise Performance Survey (or BEEPS 2005) and the Doing Business survey. The Doing Business Report collected a wide range of indicators, gathered through a number of professionals in each country. They were constructed as indicators of a specific country’s laws, regulations and policy. The BEEPS, on the other hand, aimed at measuring the evolution of the business environment assessed directly by the firms operating in each country. The focus of the BEEPS is therefore more on the *implementation* of the rules and procedures that the Doing Business Reports evaluate.

13. In this context, the note will be structured as follows:

- i. The first part will outline the rationale for the approach taken in this note, which is to review corruption risks in Russia through the lens of the quality of regulatory management. Whereas there are many angles from which corruption can be studied, a review from this perspective is in line with the policies and approaches initiated in recent years by the Russian Government and State Duma, and also build on earlier approaches on analytical work conducted by the World Bank.
- ii. The second part will review the overall trends on the levels of corruption in Russia, as brought out by the surveys mentioned above, and will highlight issues related to inspections, permits and licensing, management of government contracts and tax administration.
- iii. Based on the analysis above, the third part of the paper will provide an overview of selected international “best practices” that could help improve Russia’s record on its business environment, including measures related to enhancing the quality of the regulatory management process and “quick win” solutions for some of the specific problems identified.

PART 1. THE IMPORTANCE OF STRONG REGULATORY INSTRUMENTS IN DETERRING CORRUPTION

1. A healthy and growing private sector is not only shaped by the market in which it operates, but also by the regulatory and administrative atmosphere established by government. Government intervention in the form of regulations is a normal and essential method for governments to carry out public policies and protect citizens' interests. In fact, government regulations are a fact of life for firms throughout the world. From the moment of establishment, firms are required to abide by governmental rules relating to business registration, licensing and certification, health and sanitation, and environmental protection.

2. Regulation as a government intervention acts to control the behavior of individuals or groups which comes under its authority. When governments use excessive, arbitrary or outdated regulations, the costs may impede innovation. This may result in the creation of barriers to trade and investment. In countries suffering under destructive regulatory systems, officials are largely unrestrained in the regulation they choose to impose and operate with relative impunity in their enforcement actions. In this environment, private parties experience great difficulties in knowing how to comply with their official obligations and have strong motivation to either operate unofficially to avoid government regulators, or come to private agreements with individual officials concerning compliance. Such systems often act as incubators of corruption, and work to destroy the possibility of economic growth.

3. Such practices, often called administrative corruption, offer opportunities for public officials to use their positions to enhance personal wealth. When regulations are non-transparent, redundant or outdated, complying and understanding the regulation becomes difficult for the entrepreneur. When enforcement of such regulations is left up to individuals with the ability to hinder the functioning of the business or, at worst, close the business (as when frequent and unnecessary inspections of businesses occur), the incentive to offer private payments to the public official becomes greater. When such officials slow the process of business start-up in anticipation of private payment, there is also incentive for the entrepreneur to make such private payments to expedite the establishment of their business.

Regulatory Drafting and Development

4. When public officials view regulations as a rent-seeking opportunity, the perverse incentives are to encourage such unpredictability in policy-making. In such a system, officials may impose regulations at their discretion. In worst case, such regulations are viewed to be the primary motivation for public officials to function. Government

officials, for example, inspections officials will compete with each other to enforce such bad regulations to seek revenues. Regulations that are poorly drafted encourage the use of discretion in how they are applied.

5. A clearly defined regulation on the other hand decreases discretion in application, reduces opportunities for corruption and encourages firms to operate within legal parameters. Common elements of well functioning regulatory systems include transparent drafting techniques such as regulatory impact assessments, or cost-benefit assessment on draft legislative acts, publicly available draft acts and a notice and comment period for the public to give its input during the process. It also includes accepted definitions for terms such as licenses, permits, certificates, etc. When there is ambiguity over these terms, they provide space for officials to substitute one regulatory instrument over another, and to re-regulate an area of activity that may have been abolished. Without clear definitions of regulatory instruments, as well as implementing regulations and instructions on how to comply with these rules, firms are at a disadvantage in understanding their obligations to follow the law.³ In the Russian Federation, the 2005 BEEPS data reviewed in the next section of this study, suggests that the situation has in fact worsened between 2002 and 2005. Bribery has in fact grown in the area of obtaining licenses and permits, indicating a worsening situation of effective regulatory instruments and mechanisms for recourse against public sector abuse.

Preventing the scope for corrupt behavior: The importance to high quality Regulatory Impact Assessment

6. A critical aspect of good regulation is the ability to assess the market impacts of such regulation prior to its adoption. The most common method used by the Organization for Economic Co-operation and Development (OECD) countries in cost benefit analysis of potential regulations in the Regulatory Impact Analysis (RIA). One of the goals of the RIA is to ensure that the benefits of government action justify the costs and that the options chosen maximize benefits and minimizes costs. It also determines whether state intervention is necessary in regulating the proposed activity.

7. The RIA comes in many forms which are tailored to the needs and policy objectives of governments. Some countries use RIA to assess business impacts, while others use full fledged cost-benefit analysis based on social welfare theories. Other regulators may choose to assess how proposed regulations would affect international

³ The importance of easily accessible, well defined and understandable regulations is demonstrated in the Russian Federation. After the law on licensing was introduced in 2002, the number of activities subject to licensing was cut significantly and improvements in securing licenses were evident. After several years of consistent surveying, it was found that in 2004 a large share of permissive documents (e.g. documents that regulate economic activities such as licenses or permits) were legitimate. Almost half, however, were for either activities not specified in the law, or were permits given by local governments with questionable validity. Firms, particularly those at the local levels, must have access to appropriate information and understand their obligations under the law. Small businesses in particular may have difficulty in absorbing and understanding complex and awkward legislative acts. Clear and transparent rules are one of the critical steps in achieving successful regulatory management. "Monitoring the Administrative Barriers to Small Business Development in Russia: The Fifth Round" CEFIR, November 2005, p. 7

trade, regulatory impacts on employment, or environmental impact assessments to identify potential impacts of regulations on environmental quality.

8. However RIA is structured, the institutional setting for successful regulatory management is essential. Experience has shown that RIA will work, only, if it is not entirely self-regulated. A system of shared responsibility between an oversight body and the regulators encourages quality control and uniformity of how regulations are drafted. The division of labor between the two units is important as RIA will not succeed if left to the devices of the regulators, nor will it succeed if completely centrally organized (see Mexico experience).

What happens when regulations are not enforced?

9. State institutions (and government in general) are supposed to serve there people and protect there citizens. State institutions provide services such as education, health care, security (in the police and military), welfare services, judicial services, etc. These institutions are required to fulfill their obligations to the citizenry by following the rules and regulations, adhering to oversight arrangements and practices accountable for. When such mechanisms break down and government institutions fail to fulfill their obligations, public trust is eroded, and the integrity in government is weakened

10. Regulations that protect citizens' rights when applied correctly, and regulations that govern the health and safety of the public are often called "technical regulations". They are regulations inspectors enforce when monitoring the functioning of businesses, public institutions or private structures. Governments have the responsibility to set and enforce standards pertaining to public health and safety, to ensure that product information provided by industry is sufficient and accurate, and to provide health and safety information to consumers.

11. What happens when the system breaks down? When professional competence is weak, regulations are unpredictable and opportunities for corruption are great, the losers are not only those who interface with public officials in running and establishing their businesses but also those who depend on the system for their well being. Inspections for example are a public good and a necessary service. When there are regulatory violations and businesses or institutions do not comply, the result may be health or safety hazards. An inspector for a public building, for example, is required to protect the safety of the users of the building by ensuring that it is structurally sound, has the necessary escape routes and are equipped to handle fires. Inspectors who do not perform their function, either due to professional incompetence or the incentive to solicit private payments, generate results that may be disastrous.⁴

⁴ The earthquake in Pakistan in 2005, for example, killed upwards of 30,000 people. Many observers believed that half of those deaths were preventable had houses which were constructed of badly construed materials and in violation of housing regulations not been built. www.opendemocracy.net writes that "building inspectors are easily bought out by those determined to bend rules or circumvent them completely. Moreover, in mountainous areas prone to earthquakes, existing building regulations hardly

12. BEEPS data indicates that in the Russian Federation, the problem with unofficial payments to tax inspectors is on an upward trend (see Box 2-1). In 2005, the percent of firms who claim that unofficial payments to fire and building inspectors has increased by 5% from 2002, and the percent of firms who claim to pay unofficial payments to occupational health and safety inspectors has also increased in this time period.⁵

Conclusion

13. Progress in the Russian Federation's regulatory landscape has been substantial over the past few years. Since 2001 a number of new laws came into effect to regulate the licensing and inspections framework, as well as taxation, registration, and technical regulation. The improvements in regulatory management that have been accomplished to date will lay the foundation for an effective and transparent regulatory system.

14. The system is not without its flaws though. Enforcement and implementation of such rules are weak in the Russian Federation, and reportedly have mixed effect⁶. This provides opportunities for abuse of power, enhanced by non-transparent decision and policy making and lack of adequate information given to the public. Institutional capacity to undertake the harmonization, review and monitoring functions that distinguishes a properly functioning regulatory system continues to be a challenge. A weakness throughout the regulatory system indicates that these aspects are challenging the business environment's ability to function without making private payments to public officials.

15. Building effective regulatory institutions is an iterative process that will need adjustment and circumspection during its development, and should be based on country-specific needs. Maintaining good regulatory management is also an ongoing process in training public officials, continuous review of regulation, as well as updating information techniques to advance the flow of information to the public. Political backing is also a must for this process to succeed to adequately develop the institutional structures and provide the right incentives to rule makers to develop high quality regulations. A thoughtful and well planned system of regulatory management will assist the Russian Federation government in reducing the governance weaknesses in the interface between the public and private sectors. A successful system may also encourage the development of the private sector, particularly small businesses at the local level who may be feeling more acutely the regulatory burden.

ever take into account the instability of the land and the suitability of heavy building materials like steel and concrete lintels and slabs." See

<http://www.opendemocracy.net/debates/article.jsp?id=2&debateId=43&articleId=2912>

⁵ The CEFIR study corroborates this information. It states that, "...the share of firms which had to pay "fines" not based on the official scale (or simply bribes) in the last two rounds significantly increased. In the fifth round [2004] the share of firms having financial losses increased for the following inspecting agencies – environmental protection, AT protection, fire inspection. The frequency of penalties, which are not based on the official scale, increased for the majority of inspections." "Monitoring the Administrative Barriers to Small Business Development in Russia: The Fifth Round". CEFIR, November 2005. p.6

⁶ Monitoring the Administrative Barriers, CEFIR, November 2005

PART 2. CORRUPTION IN RUSSIA: INDICATOR-BASED REVIEW OF TRENDS

1. This section will present an analysis of the trends related to the levels of corruption in Russia in the context outlined above, and will focus on aspects of regulatory management. The analysis is based on a set of key recent surveys, which measures the trends in corruption at different levels and serve a variety of purposes.

2. The main composite global governance measurement tool, the Governance Research Indicator Country Snapshot (GRICS), provides an aggregate measurement of indicators on six areas of governance⁷ that are seen as the determining underlying factors for the levels of corruption. However, as discussed by Arndt and Oman,⁸ the GRICS indicators have limited value in terms of comparability (between countries and over time) because; (a) the measurement error makes it possible to place countries in the bottom half of the sample erroneously, and (b) because there are less sources of information on the underlying sub-indicators for poorer countries, which further aggravates the risk of countries being mistakenly ranked, especially if it concerns poor countries. However, since the latest GRICS surveys were widely quoted in Russia, we will briefly highlight these conclusions.

3. In view of the limitations of GRICS in comparative analysis, the main emphasis in this study will be on material provided by four other recent surveys, the Executive Opinion Survey (EOS) by the World Economic Forum (WEF), which reviews trends on key aspects of governance, and the BEEPS, Doing Business and the Center for Economic and Financial Research (CEFIR) surveys, which analyses barriers to business with a strong emphasis on the impact of corruption. The latter instruments are more suitable for identifying trends, as they use primary survey data and are in first instance country based rather than comparative.

⁷ 1) voice and external accountability (government's preparedness to be externally accountable through citizen feedback, democratic institutions, and a competitive press); 2) political stability and absence of violence, crime and terrorism; 3) government effectiveness (including quality of policy-making, bureaucracy and public service delivery); 4) lack of regulatory burden; 5) rule of law (protection of property rights, judicial independence, etc.); and 6) control of corruption.

⁸ "Uses and Misuses of Governance Indicators", OECD 2006, p. 11

Box 2-1: Comparing Corruption Indicators

The typology and scope of corruption indicators vary greatly. First, corruption indicators vary by methodology: there are expert assessment (EOS and DB) and composite indicators (TI, WBI-GRICS). Second, they vary in their definition of corruption (firm level bribery versus negative impact on investment) and in their comparability. Composite indicators are usually widely used for comparisons across countries (TI-CPI is an example) because of their wide coverage they cannot be used for comparisons over time. They are - in fact - based on a set of sub-indicators (for example the EOS is an input for the WBI-GRICS) that changes every year, because of the underlying assumption that the entity and impact of corruption also changes over time. Most of these corruption and governance indicator are complementary, as they measure very different angles of the same problem. In particular, the Doing Business and the BEEPS are two key sets of indicators that aim at answering different, but intertwined, questions. The BEEPS are firm level surveys that capture a specific angle of the governance issues related to corruption, they focus on the impact of anti-corruption efforts on businesses. The BEEPS can be interpreted as a set of indicators of corruption on the *implementation* of policies and reforms while the Doing Business, on the other hand, are compiled, asking lawyers, accountants and other professionals residing in the country about the changes in rules and laws that impact business. The Doing Business can be considered as a series of indicators on the actual laws, rules and procedures of a certain country, and not on their impact in practice. *For more details, please see Anti Corruption in Transition 3 (ACT-3) and Knack (2006)*

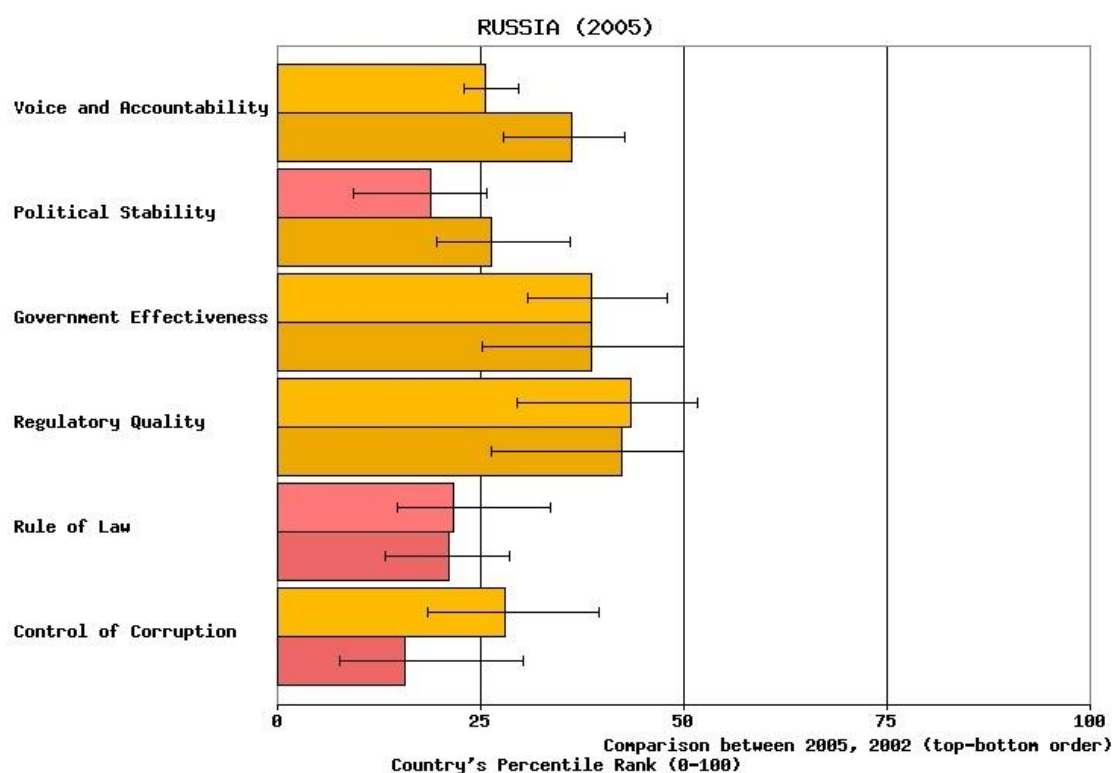
Improvement and decline: Indicators from Governance Research Indicator Country Snapshot (GRICS) and the Executive Opinion Survey (EOS) and BEEPS 2005.

4. A review of the general indicators assessed by comparative surveys that measure the quality of governance, such as GRICS and EOS, appear to show contradictory trends when it comes to developments in Russia. While Russia is doing well on some of the comparative GRICS indicators, the picture is less convincing when reviewing specific country data from the EOS survey, which recently showed a downward trend.

GRICS Comparative indicators and Russia: A mixed picture?

5. As a framework for the analysis of the linkages between corruption and the rest of the government, the World Bank's Governance Research Indicator Country Snapshot measures six components of governance and creates a comparative score of individual countries: (1) voice and external accountability (government's preparedness to be externally accountable through citizen feedback, democratic institutions, and a competitive press); (2) political stability and absence of violence, crime and terrorism; (3) government effectiveness (including quality of policy-making, bureaucracy and public service delivery); (4) lack of regulatory burden; (5) the rule of law (protection of property rights, judicial independence, etc.); and (6) control of corruption. Though the limitations of the GRICS methodology have been highlighted previously, we briefly present the most recent scores of Russia on these six areas, while noting that the scores below only express the relative position of Russia vis à vis other states.

Figure 2-1: Governance Research Indicator Country Snapshot, Russia, 2002-2005



Source: Governance Matters V⁹

Note: The thin line along each bar represents the statistical margin of error (based on a single standard deviation) calculated for each country within the sample.

6. A review of GRICS results would indicate that Russia has improved in relative terms on indicators related to *control of corruption*, but shown a decrease or stabilization on all other indicators. It should be noted that the previous 1996-2004 comparison¹⁰ has also shown a worsening rating on *regulatory quality* and *political stability*. Thus, whereas the ratings on these two issues appear to have stabilized, they are still inferior to the ones recorded in earlier surveys in 2000 and the years before.

Evidence from the EOS survey: Burden on business is increasing, due to failing judicial system, low protection of property rights and organized crime

7. The analysis of the data from the EOS carried out annually by the World Economic Forum (WEF) for the *Global Competitiveness Report* (GCR) further provides general indications about trends in the development of the governance system and

⁹ Governance Matters V: Governance Indicators for 1996-2005 by D. Kaufmann A. Kraay, and M. Mastruzzi (2006)

¹⁰ Governance Matters IV: Governance Indicators for 1996-2004 by D. Kaufmann A. Kraay, and M. Mastruzzi (2005)

corruption control in Russia¹¹. The surveys also help to get a first assessment of the impact of corruption on business practices. The EOS captures the expert opinions of over 10,000 business leaders and entrepreneurs from 117 major and emerging economies. The EOS conducted in 2005 covered more than 450 business organizations in Russia. The survey revealed extremely low ratings in several key areas related to governance and business environment. Table 2-1 provides a summary of the results of the Public Institutions Sub-Index of a survey conducted in 2004 and 2005.

Table 2-1: Growth Competitiveness Index, World Economic Forum 2004-2005
World Economic Forum¹²

Sub-index: Public Institutions, Contracts and law.	Rating as of 2004 (out of 104 countries)	Rating as of 2005 (out of 117 countries)
Judicial independence	84	102
Efficiency of legislation	80	95
Protection of property rights	88	108
Protection of intellectual rights	84	105
Favoritism of government officials	85	106
Efficiency of law-making	63	80
Bureaucracy	89	90
Reliability of law-enforcement	90	99
Burden of organized crime on business	88	101
Quality of audit institutions and accounting standards	81	89
Role of taxes as incentives for work and investment	73	81
Freedom of press	84	96

Source: World Economic Forum

8. The EOS survey shows that *judicial independence* and *protection of property rights* are areas of greatest concern for business. A weak legal base on property rights and an unsteady judiciary, continue to follow a downward trend (judicial independence – 18 points decrease; protection of property rights - 20 points decrease). The high level of organized crime and corruption creates a further significant burden for firms (rankings 101 and 106 out of 117 countries).

9. An analysis of these two surveys, even if slightly different in tone, highlights critical flaws in the quality of the institutional system of the country, which appears to leave plenty of opportunities for corruption.

How does Russia compare to other European and Central Asia (ECA) countries: The results of BEEPS 2005?

10. While the indicators explored above provide a broad comparative but mostly indicative picture of Russia, the BEEPS survey was specifically designed to allow over

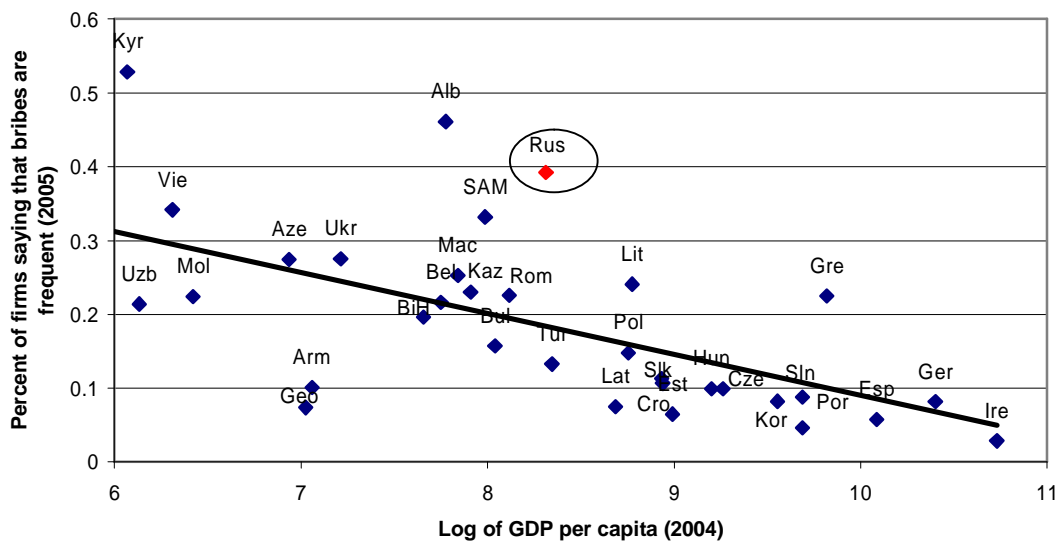
¹¹<http://www.weforum.org/site/homepublic.nsf/Content/Global+Competitiveness+Programme>

¹²<http://www.weforum.org/site/homepublic.nsf/Content/Global+Competitiveness+Programme%5CGlobal+Competitiveness+Report>

time comparison among Europe and CIS states, and thus allows to take into account the different economic structure of ECA countries.

11. Following Anti Corruption in Transition 3 (hereafter ACT-3), we would like to investigate how does Russia compare to other ECA countries, given its level of development, as proxied by the GDP per capita. Based on the data presented in Graph 1 below, Russia's level of bribe frequency is far above the level of other ECA countries and states with a comparable GDP per capita. This means that Russia would be an exception to the expected trend, i.e. as countries grow richer; the expectation is that the level of corruption would go down¹³.

Figure 2-2: Frequency of bribes as compared to GDP



Source: World Bank, ACT-3

The Corruption-Business nexus: Key issues arising from the BEEPS, Doing Business and CEFIR surveys

12. In the previous section we looked at the trends of various governance and institutional indicators that were considered predictors of levels of corruption. In this section, we will consider some of the sub-indicators in the areas which were highlighted above as potential risk areas for Russia.

13. The results and conclusions will be drawing mainly on the BEEPS. This survey is carried out among managers and owners of firms across Eastern European and Central Asian countries and it is designed to generate comparative measurements of the quality of governance, the investment climate and the competitive environment. Up to now, there

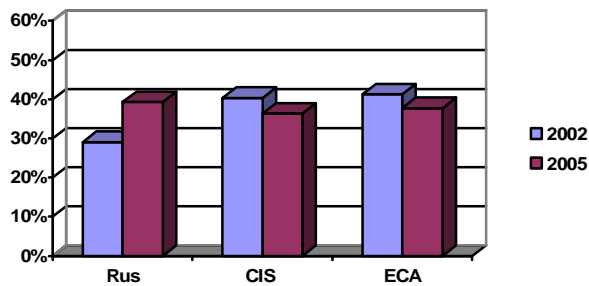
¹³ For more details, please refer to Anticorruption in Transition 3, The World Bank, 2006

have been three rounds of the BEEPS: in 1999, 2002 and 2005. Some of the methodological aspects of the BEEPS surveys are described in Annex 1.

14. According to preliminary results from the BEEPS, corruption has become an increasing obstacle to doing business between 2002 and 2005. This sets Russia apart from other CIS or ECA countries, which show a more positive trend¹⁴.

Figure 2-3: Corruption as a Problem Doing Business BEEPS

(Percentage of firms saying corruption is a problem for the operation of their business)



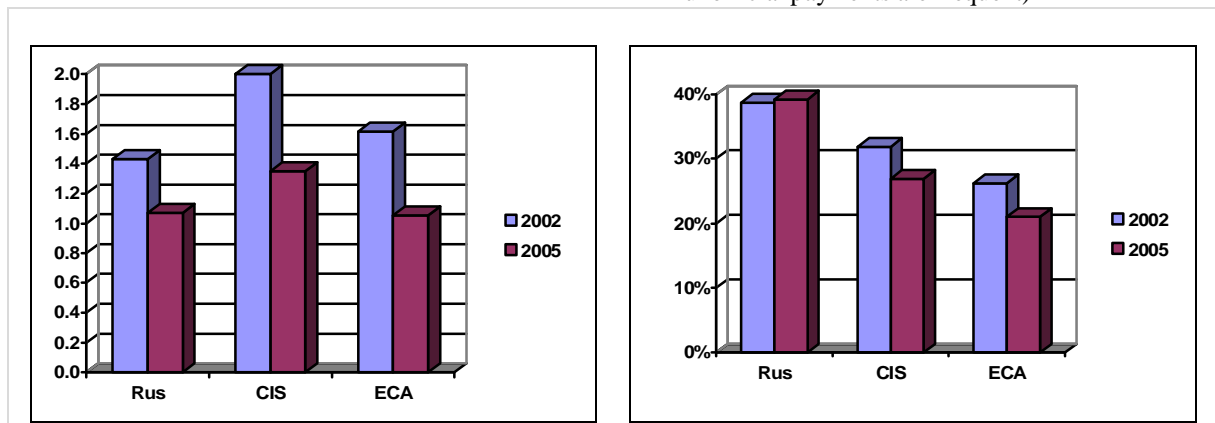
Source: BEEPS 2005

15. It should be noted that while the perceived impact of corruption on the operation of businesses increase, and that performance on this BEEPS indicator was negative, on another key indicator - the 'bribe tax' - situation improved, as firms reported fewer bribes as a percentage of annual sales. Regarding the frequency of bribes, the third main indicators, there is no significant change in rating between 2002 and 2005.

Figure 2-4: Bribing

Bribe Tax (Bribes as a share of annual sales)

Bribe Frequency (Percent of firms saying unofficial payments are frequent)



Source: BEEPS 2005

16. We would like to emphasize, however, that a decrease in the 'bribe tax' does not necessarily translate in a decrease in the absolute amount of bribes paid by firms. The

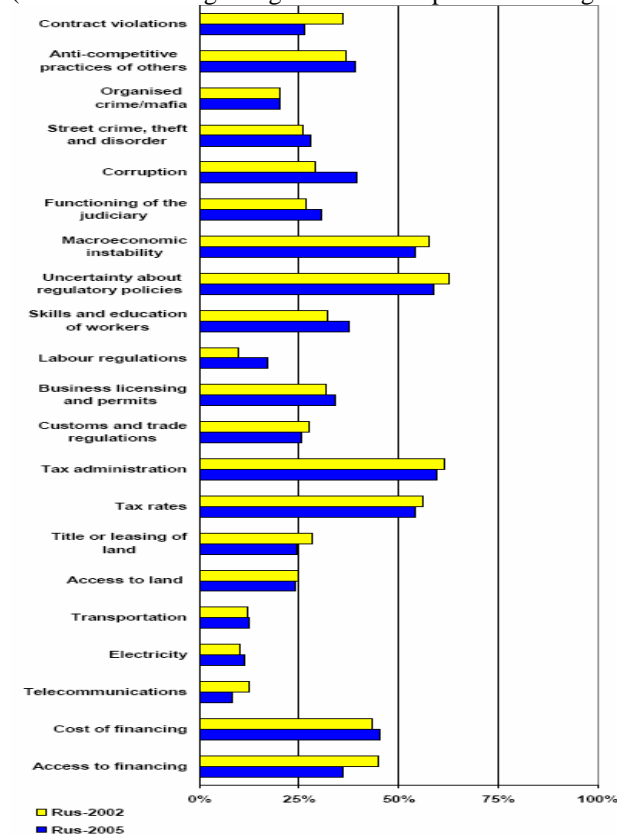
¹⁴ This change is statistically significant.

Russian think-tank INDEM reported last year that between 2001 and 2005, the amount paid in bribes increased tenfold. Given the rapid expansion of the Russian economy and the appreciation of the ruble, the volume of sales for firms has probably been increasing faster than the volume of bribes. The faster growth could then be amplified by the rapid appreciation of the Russian Ruble, which would translate in a larger amount of dollars paid in bribes for the same amount of rubles. Even though INDEM and BEEPS may point in the same direction - to an increase in the volume of bribes - the surveys do not agree on the magnitude of the increase.

17. The scope and impact of corruption can also be measured by unofficial payments in specific areas, or when compared to other potential problems for doing business, as illustrated below. While some issues that were considered “problems doing business in 2002” seem now less problematic (like macroeconomic instability for instance), corruption is following a negative trend.

Figure 2-5: Problems Doing Business in Russia - Over time.

(Percent of firms agreeing that these are problems doing business...)



Source: BEEPS 2005

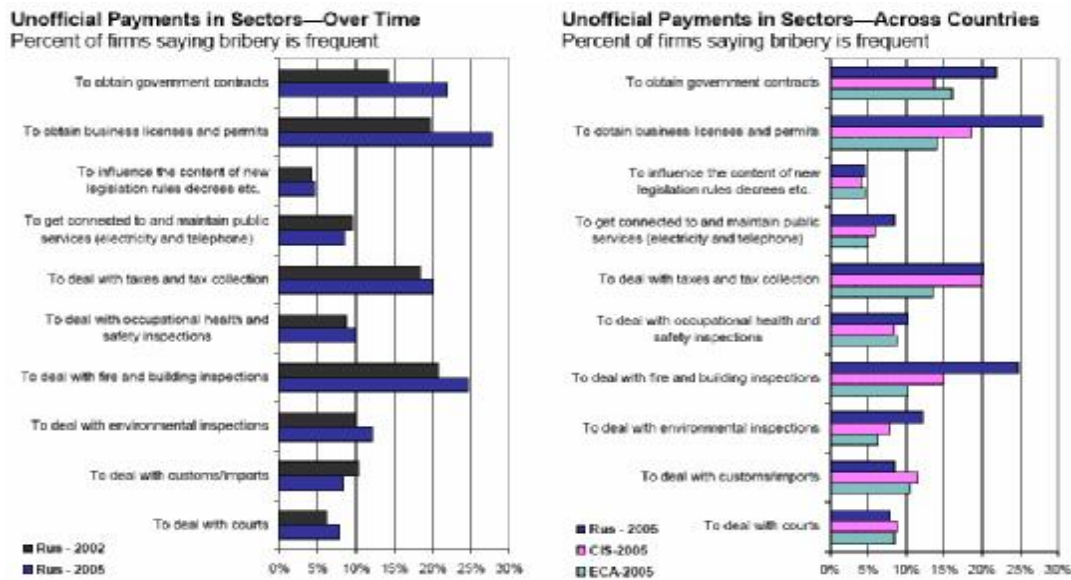
18. When breaking down the level of corruption by areas, the most affected processes, especially in comparative terms are:

1. Obtaining government contracts

2. Obtaining business licenses and contracts
3. Dealing with fire and building inspections.
4. Unofficial payments when dealing with taxes and tax collection

19. Figure 2-6 presents a snapshot of unofficial payments in various sectors over time and across countries, and shows that in the four areas identified there is significant increase in the level of unofficial payments, both over time and in comparison with other countries.¹⁵

Figure 2-6: Unofficial Payments



Source: BEEPS 2005

20. This overall assessment is confirmed by a study aimed at monitoring the level of regulatory burden imposed by the Russian Government agencies on small business conducted by the CEFIR. The survey covers 2000 firms in 20 regions of the Russian Federation. Further evidence of an increase in corruption is provided by the latest INDEM's study¹⁶, which reports that "on average amount bribed increased by 13 times and its average annual value - by 11 times respectively".

21. Data reflecting the overall perceptions of the business climate in Russia among entrepreneurs is presented in Table 2-2 below. These findings confirm that the perceived level of corruption in 2004 increased and highlights frequent changes in legislation and regulations as a key factor for doing business and a potential source of abuse of office by government officials. At the same time, the quality of regulation is seen as having slightly improved and the indicator reflecting the burden of tax administration on business in 2004 remained at the same level in comparison with 2003.

¹⁵ Only in the area of Tax Administration the trend is similar to other CIS states, it is worse on the other three

¹⁶ Corruption process in Russia: level, structure, trends.

Table 2-2: General perception of business climate

	1	2	3	4	5
	2001 - II	2002-I	2002-II	2003-II	2004-II
Frequent change in laws					2.99
Macro instability	3.28	3.00 **	2.78 *	2.60 **	2.89 **
Competition	2.62	2.73 **	2.69	2.78 **	2.86 **
Tax level	3.52	3.30 **	3.06 **	2.80 **	2.78
Tax administration	3.10	2.82 **	2.67 *	2.59 *	2.59
Regulation	2.90	2.64 **	2.51 *	2.52	2.45
Difficulties with access to capital	2.63	2.40 **	2.39	2.33	2.42 *
Anticompetitive barriers	2.26	2.17 **	2.09	2.19 *	2.3 **
Corruption	2.10	1.87 **	1.87	1.93	2.03 **
Racket	1.34	1.27 **	1.21 *	1.25 *	1.21

5 – threatens the existence of the firm, 4- a very serious problem, 3 –a serious problem, 2 – a slight problem, 1 – not a problem

Source: CEFIR

22. Based on the data drawn from the CEFIR survey, the marked improvement in perceptions of the business climate in the first four rounds of the survey (2001-2003) was followed by a decline in the fifth round conducted in 2004, and scores on some factors significantly worsened.

23. Following this overall assessment, we will now turn to a more detailed analysis of sources for corruption in the areas identified above, focusing in particular on taxation, customs, the judiciary, government procurement and the regulatory environment.

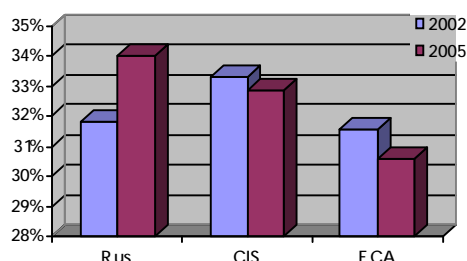
Reforms in Business Licenses and Permits

24. Business Licenses and permits continue to constitute some of the biggest barriers to business development in Russia, as highlighted in Figure 2-7¹⁷.

25. In 2002, a new law was introduced on licensing, which significantly reduced the number of activities subject to licensing, cutting down the license fee to 1400 rubles and extended the terms of validity of a license to at least 5 years (under the old law the fee was 3000 rubles and the validity was 3 years). Immediately after the approval of the new law, Russian firms recorded marked improvements in the field of licensing. The number of firms that needed to apply for licenses and permits indeed dropped from 31% in the second half of 2001 to 14% in the first half of 2004. After 2004, though, CEFIR reports that the initial positive trend has been reversed and the impact of the reform difficult is difficult to assess.

¹⁷ A simple t-test highlights that the change in Unofficial Payments is statistically significant.

Figure 2-7: Business Licenses - Unofficial Payments for business licensing
(Percent of firms that stated that bribery is frequent for business licensing)



Source: BEEPS 2005

26. The above ratings are further confirmed in the “Doing Business in Russia” report (2005), which rates the overall “ease of Doing Business” in Russia 79th out of 155 countries, and ranks Russia 143 out of 155 countries in the category “Dealing with Licenses”, the worst ranking for the country, after “ease of getting credit”¹⁸.

27. While the number of procedures (22) is in line with the general trend in the region (21 for CIS countries),¹⁹ the cost and especially the time required to deal with licenses are viewed as highly taxing. Obtaining licenses in Russia costs (on average) 5 times more than the prevailing amount in OECD countries²⁰. The time required to comply with licensing procedures is 528 days, and Russia is referred to, in the Doing Business report, as one of the worst performer in the sample.

28. Given that the new legislation adopted in February 2002 substantially cut the number of activities that required licensing and significantly lowered the cost of obtaining licenses²¹, it is somewhat puzzling to observe that business licensing remains an area perceived as most problematic for doing business. According to the survey carried out by CEFIR, the problems appear to stem mostly from the mode of implementation of the legislation, though elements of its design have also been challenged. The CEFIR data in particular, underline how, until recently, the biggest portion of business licenses that were awarded “don’t seem to be legitimate licenses²²”. Even though business licenses have become much cheaper than in the past, local authorities still seem to be willing to reduce the costs further by issuing illegitimate business licenses. The problem seems to be particularly relevant at the municipal and regional level.

¹⁸ Doing Business in 2006.

¹⁹ the OECD, however, though has an average of 14 procedures,

²⁰ 354 % of income per capita in Russia versus 68 % in OECD. Source: Doing Business in 2006.

²¹ Monitoring the Administrative Barriers to Small Business Development in Russia, CEFIR, November 2005, p.7

²² Monitoring the Administrative Barriers to Small Business Development in Russia, CEFIR, November 2005

29. The last round of the CEFIR survey on Administrative barriers highlights some of the specific issues related to the problems issuing licenses and permits. Despite the fact that the number of illegal or “illegitimate” business licenses is decreasing, CEFIR reports that about 70 of the licenses issued by local authorities are invalid. The problem with these “illegitimate licenses” is that they are issued for the wrong type of activity - for example retail, which does not require licenses - or for the wrong term of validity - usually they are issued for a shorter term of validity than the prescribed five years. The problem is probably amplified by the fact that authorities - especially at the regional and municipal level - are issuing “illegitimate licenses” at a cheaper price, which increases the incentives of firms to apply for such licenses.

Table 2-3: CEFIR Survey results on Licenses

	<i>Round 2</i>	<i>Round 3</i>	<i>Round 4</i>	<i>Round 5</i>
	<i>2002:I</i>	<i>2002:II</i>	<i>2003:II</i>	<i>2004:II</i>
Share of firms applying	21%	21%	15%	14%
Payment, rubles (mean)	13525	24346	56611	25778
Payment, rubles (median)	3000	4000	5000	6750
Waiting time, days (mean)	39	44	54	61
Waiting time, days (med.)	30	30	30	30
Effort, person days (mean)	19	20	25	29
Effort, person days (median)	9	7	10	10
Term of validity, months (mean)	32.7	30	35	34
Term of validity, months (median)	36	36	36	36

Source: CEFIR: *Monitoring Barriers, 2005*

Government Contracts and Inspections

30. Two of the other main issues that emerge from the BEEPS survey are the increase in bribes to obtain government contracts²³ and the increase in problems related to inspections.

31. In relation to the first point, problems in the application of the procurement legislation are highlighted not only in the BEEPS results, but also in the OECD Review of Regulatory Reform.²⁴

As outlined by the OECD, the lack of transparency of legislation²⁵ and the subsequent uncertainty about rules and procedures concerning government contracts seems to have seriously hamper business opportunities in Russia. A survey conducted in 2004 by the OECD shows that “more than 40% of interviewed firms consider information on rules

²³ The change in Unofficial Payments for Government Contracts is statistically significant,

²⁴ Regulatory Reform In Russia: Enhancing Market Openness Through Regulatory Reform, OECD (2005), <http://www.oecd.org/dataoecd/14/32/34984465.pdf>

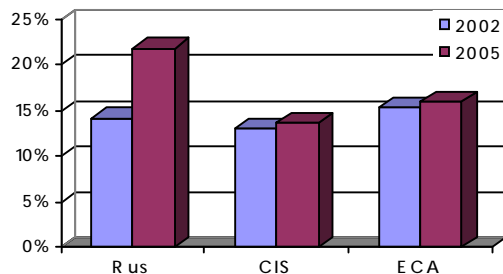
²⁵ Federal law No. 97-FZ of 6 May 1999

“On Tenders for the Placement of Orders for Deliveries of Goods, Performance of Works and Provision of Services for State Needs”, as sourced by the OECD, see above.

and requirements of tenders as inadequate and untimely and see transparency in this area as a very serious problems”. The OECD further reports that “access to relevant information is even more difficult within the regions, given that dissatisfaction in this area is higher among regional respondents (60%)”. Finally, the report underlines that “more than half of the firms surveyed (57%) complained about the lack of transparency of tender procedures; especially among transportation companies (almost 75% of them view this issue as a very serious problems).”

32. These findings are supported by the BEEPS results, which showed an increase in the unofficial payments for government contracts (see Figure 2-8).

Figure 2-8: Unofficial Payments for Government Contracts
(Percent of firms that said bribery is frequent for Government contracts)



Source: BEEPS 2005

33. It should be noted that in July 2005, the new Federal Law, *Placement of Orders for the Supply of Goods, Execution of Works and the Rendering of Services for Government and Municipal Needs* was adopted. The new Law became effective January 1, 2006, and it aims to address some problems and shortcomings of the previous law, which were some of the causes of corruption related to the management of government contracts, as reviewed above. The new Law attempted to unify previously fragmented elements of procurement legislation, to further open access to bidding, to improve transparency through the use of e-Government solutions, and enhanced mechanisms of control and review of complaints.

34. However, since the Law took effect, number of shortcomings has already emerged:

- The emphasis on control and simplification of procurement methods, which at times is detrimental to competition;
- The use of reverse auction for large contracts, together with absence of other evaluation criteria, except for the price, and the absence of prequalification;
- Excessively high and unjustified requirements placed on bidders, such as 5% bid security and 30% performance security;

- The lack of method for the selection of consultants' services, etc.²⁶

35. As far as the second point, the frequency and quality of inspections is concerned, new legislation was approved in August 2001, which stipulated that, “any state agency can carry out no more than one inspection in one firm within two years²⁷”. The aim of the new law was to protect small business from an excessive number of inspections and from the consequent opportunities for unofficial payments. CEFIR reports that after the introduction of that new law, the number of inspections decreased substantially and that although “the number of unplanned inspections remains unlimited, the procedure of carrying them out has streamlined²⁸”.

36. Moreover, CEFIR underlines that there are still series of drawbacks in the actual execution of inspections. First, even though the time spent dealing with inspectors decreased in 2005, these results greatly vary depending on the region. For instance, in Primorskiy Krai, 70% of the firms surveyed said they spent less than 5% of their time dealing with inspections, while in Moscow oblast only 30% of firms could make the same statement²⁹.

37. Second, the share of firms reporting an increase in the number of “fines not based on the official scale (or simply bribes)³⁰” increased in 2004 and 2005. This suggests that perhaps, even though the frequency of inspections is decreasing, the overall incentives to “obtain the most bribes” in fewer rounds may be resilient to the change in legislation and needs to be addressed. These results are confirmed by the trends showed in the BEEPS charts presented Figure 2-6 to 2-8.

38. In this case, the information gathered, especially among small businesses, seems to challenge both the *design* and the *implementation* of the new inspection laws³¹. While at first, the rules seemed to promote greater transparency and manageability, it is now emerging that probably a stronger regulatory reform is needed in order to assign a definite, business-friendly role to this area³².

Tax Administration

39. The Doing Business report ranks Russia 52nd for the ease of paying taxes, which is somewhat more favorable than the overall assessment of the BEEPS. The reason, The Doing Business report measures predominantly, tax payments metrics and not the overall

²⁶ Speech by Mr. Jesus Renzoli, Procurement Specialist at the World Bank Moscow Office, at the plenary of the forum-exposition “Goszakaz-2006”, Moscow, March 14-16, 2006. Development of State Procurement Systems. World Practice and Russia.

²⁷ Monitoring the Administrative Barriers to Small Business Development in Russia, CEFIR, November 2005, p.5

²⁸ Monitoring the Administrative Barriers to Small Business Development in Russia, CEFIR, November 2005, p.5

²⁹ Monitoring the Administrative Barriers, CEFIR, November 2005, p.5

³⁰ Monitoring the Administrative Barriers, CEFIR, November 2005, p.5

³¹ CEFIR: Monitoring Administrative Barriers.

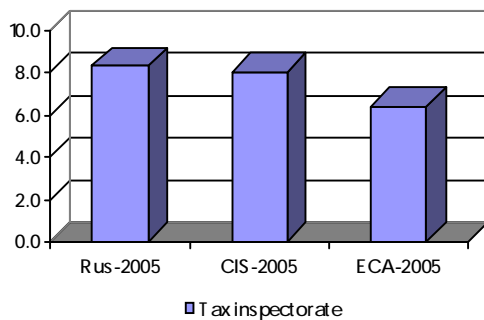
³² See also CEFIR: Monitoring Administrative Barriers.

tax administration system³³. The BEEPS focus on the functioning of the administration, from tax collection to tax inspections.

40. Corruption in tax administration is an aspect of administrative corruption and it can prove particularly destructive for the private sector. Widespread bribery in the tax administration system affects both the levels of competition of the market, the market's margins of profitability and its capacity to attract investment, by skewing its revenues artificially³⁴.

Figure 2-9: Duration of Inspections - Taxes

What was the average duration of these inspections/meetings? (Hours/visit)



Source: BEEPS 2005

41. In 2001, Russia systematized and unified a number of business taxes, therefore decreasing their number from 20 to 15, even though some now seem to be re-introduced. As a consequence, corporate tax rates dropped from 35% to 24%. Tax revenues increased (on average, by 14% over the following three years). A recent study (Ivanova, Keen and Klemm, 2005) showed that increased revenues were in fact correlated with a greater degree of compliance³⁵. The BEEPS results also show that Russian firms say they are reporting a larger percentage of their revenues to the tax authorities. The percentage of total annual sales reported for tax purposes went up from 82% to 84.5%.

42. Restructuring corporate taxes is not sufficient to engage effectively in the fight against corruption in tax administration³⁶. According to the study, it is also central to decrease to a minimum the interactions between taxpayers and officials, to ensure a higher level of transparency and to rely on periodic surveys, which would constitute a credible deterrent to potential bribers.

43. This hypothesis is supported by CEFIR, which underlines how “more than half of the eligible firms did not adopt the simplified system and 38% of them still have not

³³ The Doing Business measures: Times (hours), Number of procedures and Total tax payable (% gross profit), source: <http://www.doingbusiness.org/ExploreEconomies/Default.aspx?economyid=159>

³⁴ Anticorruption in transition 1, p. 54

³⁵ Doing Business in 2006 Report p. 50-1

³⁶ Anticorruption in transition 1, p. 54

switched, although this system enables firms to reduce their costs³⁷”. The reasons behind the apparent dismissal of the newly simplified system revolved around a certain degree of “stickiness” in business transactions and around the alleged clarity of the old system compared to the new one.

44. While it is still not completely clear what makes firms prefer the old system, it is unambiguously recognized that they lack a new set of incentives to step from one mechanism to the other.

The Russian Regulatory management system: Why solutions included in the new regulatory policies have not worked so far.

45. Regulatory reform has been a policy priority in Russia since 2001, as highlighted in the above sections. In the last four years the Russian government has taken a series of laws and initiatives to reduce the costs related to administrative regulation and to simplify licensing and inspection procedures.³⁸ In addition, in order to improve the system of tax administration, corporate taxes have been reformed and the tax burden for small firms lessened (while the eligibility was extended to a wider base).³⁹ However, regardless of these initiatives, uncertainty of the regulatory policies and problems with their implementation, focusing on licensing, procurement, permits, inspections and tax administration continue to be raised as the key areas that are problematic for doing business.

46. The OECD Regulatory Review of Russia (2005) highlights the issue of the Regulatory environment as one of the key problems in Russian economic competitiveness and a key underlying cause for the aggravation in corruption levels. In particular, it highlights the main characteristics of the regulatory environment that undermine the effective implementation of laws and regulations:

- *Prescriptive approach to regulation* that seeks to determine and control economic activity down to the smallest details;
- *Inconsistency of implementing regulations with framework acts;*
- *Complexity of regulatory standards;*
- *A highly sequential system;*
- *Weak enforcement and spotty compliance.*

47. According to the review, the problems identified stem from a number of causes, including historical lack of respect for the rule of law, weakness of administrative and

³⁷ Monitoring the Administrative Barriers to Small Business Development in Russia, CEFIR, November 2005, p.10

³⁸ As part of regulatory reform, several laws came into force during 2001-2003, including the law on inspections (August 2001), the law on licensing (February 2002), the law on registration (July 2002), the law on simplified taxation system (January 2003), and the law on technical regulation (June 2003).

³⁹ CEFIR, the Administrative Barriers to Small Business Development in Russia, p. 10. The firms eligible for the simplified system went from firms with only 20 employees to 100 employees firms.

judicial bodies, lack of rational application of penalties and sanctions for failure to comply with regulations. These circumstances make it possible for public officials to engage in corruption through the discretionary enforcement of regulatory policy.

48. The findings of the OECD study also corroborate the findings in the BEEPS survey, that the greatest shortcoming of regulatory policy in Russia is the widespread uncertainty about which laws and regulations are implemented and observed. According to the review, the following problems are the reasons for unpredictable enforcement of regulations in Russia and can be identified⁴⁰:

- i. *Multiple layers of administration.* Russia's regulatory enforcement system is highly decentralized and poses formidable problems of co-ordination and consistency. The degree of decentralization in regulatory enforcement in Russia is greater than that in any federal country in the OECD, thus posing very specific problems for policy implementation, especially considering the size of the country.
- ii. *Regional governments have regulatory and enforcement powers in most policy areas,* including the approval of investment projects, safety standards, tax compliance, labor codes and environmental regulations. Many local inspectorates are funded locally, and this fact further diminishes control from the centre.
- iii. *Local protectionism and "capture" of the enforcement process.*
- iv. *Inadequate checks and balances on enforcement actions.* One major problem is that regional and municipal administrations exercise very broad discretionary powers in the interpretation of regulatory requirements.
- v. *Inadequate judicial supervision.* Despite recent reforms, judicial review of administrative actions is still very limited in Russia compared to that in OECD countries.
- vi. *Intrusive and excessive regulation.* Paradoxically, the Russian legal system is characterized both by too much detail and by too much individual discretion. On the contrary: it has been observed that in OECD countries an accumulation of procedures actually *increases* the arbitrary nature of administration. It becomes impossible to know or comply with all requirements; so administrators are left to decide which rules to enforce, and how.

49. Findings of the OECD review of regulatory policies in Russia confirm that the laws and rules that bureaucrats administer can be made more corruption-resistant. Rules should be simple, transparent and standardized, with few exceptions and as little reliance as possible on bureaucratic discretion. Where discretion is required, the criteria that

⁴⁰ Government Capacity to Produce High Quality Regulation in Russia, OECD, June 2005, <http://www.oecd.org/dataoecd/14/45/34985412.pdf>

determine officials' choices should be explicitly set out. Their actions should be subject to some form of administrative or judicial review⁴¹.

Conclusion: Russian Trends

50. The analysis of the governance environment and corruption in Russia based on the results of the various surveys reveals several trends related to the wider institutional and political environment in Russia:

- i. *Country-specific data from BEEPS and EOS indicate that the actual burden of corruption on business in 2005 significantly increased in comparison with 2002 (BEEPS, EOS).*
- ii. *At the same time, regardless of reforms initiated in the early years of the decade, the quality of regulation is seen as declining in both relative and absolute terms (GRICS, EOS) and 60% of firms indicate that uncertainty about regulatory policy is a problem for doing business. These findings may suggest that while certain efforts have been made to address the underlying causes of corruption in Russia, this approach has not effectively addressed underlying sources of corruption. This suggests that reforms need to go beyond the substance of regulation into policy implementation mechanisms. Measures such as the introduction of service standards, which are foreseen as part of the Administrative Reform Concept and Action Plan, will hopefully have a more significant impact than re-drafting regulations.*
- iii. *Government effectiveness in Russia shows an absolute decline based on EOS, BEEPS and Doing Business surveys. The results of the Executive Opinion Survey show the same level or a drop in ranking along indicators of bureaucracy and reliability of law-enforcement, though in the latter area data are inconsistent, with EOS showing a drop in the indicator while according to BEEPS data for 2005 around 37% of firms report that law enforcement is consistent and predictable (up more than 10% compared to 2002).*
- iv. *Implementation of new laws and regulation seems to be the biggest obstacle in fighting widespread corruption in business practices. For business licenses and tax administration in particular, new laws and regulation have not been fully implemented. Exploring further the reasons behind this lag will probably shed some light on the underlying drivers of corruption and will lessen its impact on doing business.*
- v. *Transparency of procurement legislation appears as one of the most relevant obstacles in business transactions. The lack of precise guidelines and rules in public procurement contributes to the general perception of uncertainty about regulations and regulatory policies. Whereas the new Federal Law adopted in 2005 attempts to address some of the identified problems, the solutions have not proven to be satisfactory.*
- vi. *In the case of inspections, the information gathered, especially among small businesses, seems to challenge both the design and the implementation of the*

⁴¹ Government Capacity to Produce High Quality Regulation in Russia, OECD, June 2005, <http://www.oecd.org/dataoecd/14/45/34985412.pdf>

new inspection laws. Actual practices do not match written rules and businesses do not have the tools to protect their regular activities.

51. In a nut shell, the data from governance indicators and other business environment surveys reviewed above provided a nuanced picture of the institutional and political context in which opportunities for corruption arise. The survey brings out the need to look into the structures and management systems that are responsible for the implementation of regulations as well as into the substance of the regulations. The emphasis on the latter emerges as one of the possible reasons why progress has not been made in creating a more business friendly institutional and policy environment.

PART 3. APPROACHES TO ADDRESS UNDERLYING CAUSES OF CORRUPTION

1. The analysis in the preceding sections demonstrates the complexity of institutional factors associated with the scope and scale of corruption in Russia. Several aspects of regulatory management were highlighted as key barriers to business and main sources of demands for informal payments; licensing, state contracts, tax administration and inspections in particular. Whereas in the first three areas reforms have been designed and problems appear to relate mostly to their implementation, in the area of inspections the substance of new regulations is additionally perceived as problematic.

2. Since many barriers to business and related sources of corruption are directly related to the regulatory management system, this section will focus mainly on potential measures to address problems in this area. This is a particularly timely issue in view of the recent adoption of the Administrative Reform Concept and Action Plan, which aims to address key weaknesses in the regulatory management system as one of its key priorities.

3. This section will present two potential sets of tools for addressing potential causes for corruption. First, the design of an institutionalized review process of proposed regulations, based on OECD methodologies, and, second, a review of some specific potential tools based on international practice that can help address problems related to issuing licenses and permits, state contracts and tax administration, with a focus on accessibility and transparency.

Addressing corruption through permanent regulatory review processes

4. In the context of OECD cooperation a methodology for regulatory review was designed to address problems in the regulatory management systems of the member states. In view of the conclusions of the OECD regulatory review process for Russia, as presented in the previous section, the design of a more permanent review process of the quality and implementation of regulations, built on the Review of Regulatory Reform, would be an interesting tool to address some of the issues raised. Two alternative approaches to such a process are those initiated in Mexico and Latvia. The creation of such mechanisms may help putting in place both a quality control mechanism on the substance of regulatory instruments, as well as a review process for their implementation.

*Institutionalized Regulatory Review: Lessons from Mexico*⁴²

5. In 1989 Mexico created an Economic Deregulation Unit (UDE) to reduce the heavy regulatory burden on private business whose origins dated back to the 1930s and whose cumulative effects were to impede market entry, reduce competitiveness, and foster corruption; consequently hindering entrepreneurial initiative, innovation, job creation, and the rule of law.

6. As a first step toward formal regulatory reviews, a 1995 presidential decree ordered federal agencies to compile an inventory of business regulations and procedures as well as proposals for reform, using a standard template. In 1996 UDE and the council introduced the more systematic regulatory impact assessment, based on cost-benefit concepts, as a tool to evaluate regulatory proposals. Federal agencies were required to submit such an assessment with any proposed regulation. UDE could then publish, within 30 days, a nonbinding opinion of the proposal and its assessment - a big break from the past practice of showing proposals only to selected interest groups. The sponsoring agency would then redraft or withdraw its proposal, and Congress or the president would issue final approval.

7. In 2000, the Federal Administration Procedures Act was passed to deepen regulatory improvement. The Act transformed the UDE into the Commission for Regulatory Improvement (COFEMER) under the Secretariat of Trade and Industry (now Economy).

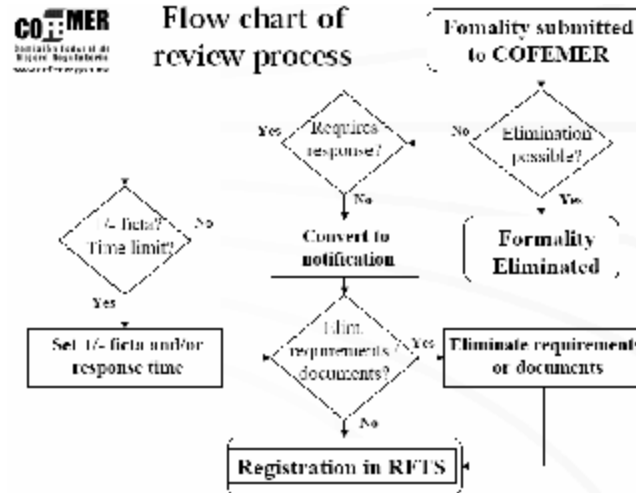
8. The regulatory reviewed the Mexico strategy and focused on administrative formalities and procedures, particularly licenses, permits and concessions and was implemented along the following directions⁴³:

- i. *Establishing general horizontal rules governing the creation of formalities*, including creation of rules in law on general characteristics of formalities (administrative procedures law); and creating registry of users to avoid duplication of information requirements (single ID number);
- ii. *Establishing the procedures for a review process of particular formalities*, including identification/inventory of all existing formalities (Figure 14); systematic review of new formalities;
- iii. *Establishing specific goals by which the success is measured*, including percent of reduction of goals of limited value; focus on highest impact formalities; and emphasis on the results to be achieved (rapid business creation).

⁴² Analysis is based on the following background materials that provide more detailed information: Institution Building: Lessons from Mexico, Public Policy for the Private Sector, The World Bank, January 2005, <http://rru.worldbank.org/Documents/PublicPolicyJournal/282salas.pdf>; Institutionalizing Regulatory Improvement: the Mexican Experiment (1989 - 2004), Fernando J. Salas, Strategic Solutions Consulting, <http://scid.stanford.edu/events/2004-5%20lunch%20papers/fsalas.pdf>; Cutting Red Tape: Lessons from Formalities - Regulatory Reform in Mexico, Ali Haddou-Ruiz, OECD meeting on administrative simplification, <http://www.oecd.org/dataoecd/37/17/2673651.pdf>

⁴³ Cutting Red Tape: Lessons from Formalities - Regulatory Reform in Mexico, Ali Haddou-Ruiz, OECD meeting on administrative simplification, <http://www.oecd.org/dataoecd/37/17/2673651.pdf>

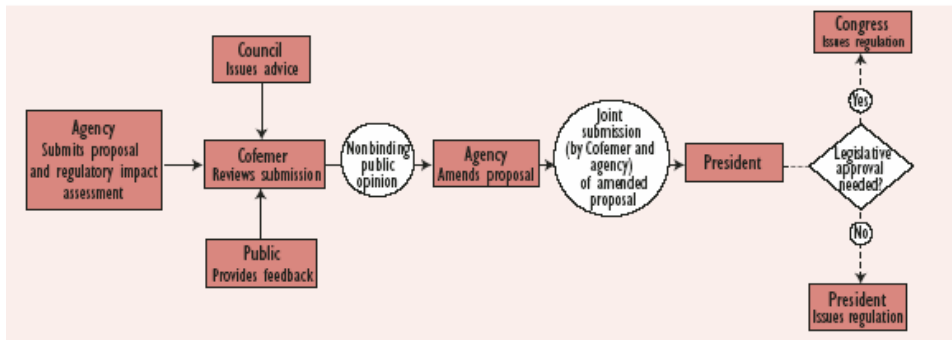
Figure 3-1: Regulatory review process in Mexico



Source: *Cutting Red Tape: Lessons from Formalities - Regulatory Reform in Mexico*, Ali Haddou-Ruiz, OECD meeting on administrative simplification, <http://www.oecd.org/dataoecd/37/17/2673651.pdf>

9. At the same time, systematic review of new formalities was introduced that included the use of regulatory impact assessment and public consultation procedures. The focus of the review was on highest impact formalities, including, consultation, transparency and accountability (Figure 3-2).

Figure 3-2: Review Process for Proposed Federal Regulations



Source: *Cutting Red Tape: Lessons from Formalities - Regulatory Reform in Mexico*, Ali Haddou-Ruiz, OECD meeting on administrative simplification, <http://www.oecd.org/dataoecd/37/17/2673651.pdf>

10. COFEMER proposed further transparency measures by drafting a 2002 law requiring federal agencies to open their files to the public. A one-year “regulatory moratorium” to discourage agencies from proposing new regulations unless clearly needed has cut submissions by a third. And a powerful new law designed to reduce bureaucratic discretion and abuses, requires automatic cancellation of any new regulatory procedures not published in the federal register by the implementing agency.

11. Many of the circumstances are specific to Mexico, but some lessons could be drawn that are relevant to the Russian context:

- i. the institutions and procedures were created early in the regulatory reform process and supported reform implementation and helped to sustain reform over a long period of time;
- ii. an institution like COFEMER with broad legal mandate to address both, causes and consequences of a flawed regulatory framework was needed to achieve fundamental change in procedures;
- iii. political support for this agency proved crucial;
- iv. a strong credibility of COFEMER was achieved through: an oversight body with broad stakeholder participation to review results and compliance by federal agencies; active and sustained commitment to the private sector; a track record of well publicized successes;
- v. Promotion of regulatory improvement programs through all levels and branches of government.

12. Thus, a first step to reduce opportunities for corruption in administrative regulation is re-engineering regulatory procedures. The Mexico experience provides a good example of implementation of such reviews in a multi-level governance system. This is particularly relevant to Russia, taking into account their highly decentralized regulatory enforcement system. Based on the results of the review, certain measures could be implemented to ensure application of new regulations. While some lessons from the Mexico experience are also relevant in this respect, further measures introduced in other countries to improve enforcement and compliance with newly introduced regulatory procedures will be considered in the next section.

Developing better regulations: from separate initiatives to a comprehensive action program: The case of Finland.

13. Finland has a strong tradition of improving its regulatory management systems. For example, the 1999 Act on Openness of Government Activities, provides citizens access to regulations that are still being drafted, is often considered a model among European states.

14. The law states the right to access information contained in official documents. Among other things, this creates the necessary condition for social consultation before decision making. According to the Act, citizens have the right to access draft laws and regulations even at the preliminary stage. Moreover, according to the act, it is obligatory that authorities provide access to the drafts and pending documents by means of creating a project register.

15. Another example of early access to regulations/decisions by authorities is the Land Extraction Act, whereby if an organization applies for a land extraction permit; this application is posted on the municipal notice board. This gives an opportunity to the interested parties to state their complaints. In case a large number of stakeholders are

likely to be affected by the land extraction, the notice will also be published in the local press.

16. In terms of tools, by which access to regulations and legal acts are realized, one example is the Register on Projects and Legal Preparatory Documents of the Finnish Government. This includes information on projects launched by the Government as well as information on draft legislation. It is interesting to note that this Register is used for both external and internal purposes, i.e. by and for the ministries, as well as by the citizens. The information is on the internet, and can be seen in the same format by both information providers (government agencies) and users.

17. In the later years, better regulation has been subject of many projects in Finland, including, for example, the Project for assessment of the regulatory impacts on business, which is operated by the Ministry of Trade and Industry of Finland.

18. At present, Finland is following a comprehensive strategy for improving the regulatory environment. Better regulation is one of the priorities of the Finnish Presidency, in view of improving and simplifying regulations in cooperation with European Parliament. The program on improving regulations includes several ministries, such as the Ministry of Justice, the Ministry of Commerce and Trade, and the Ministry of Finance.

19. In August 2006, a new comprehensive Better Regulation Action Program was submitted to the Prime Minister of Finland⁴⁴. The drafting of the Action program was done by the project group, which included experts on legislative processes and representatives of industrial and labor organizations, ministries, the Association of Finnish Municipalities, the Association of Finnish Lawyers, and the National Research Institute on Legal Policy. The steering committee was chaired by the Minister of Justice and the project group was chaired by the Permanent Secretary of the Ministry of Justice. Thus, the Program was the result of wide-range stakeholder participation. The main goal was to develop a program which would spell out principles of legislative policy, as well as procedures related to adoption of legislation.

20. One of the key points of the Program was that, the volume of regulation was going up while the circle of stakeholders involved in the process of drafting was increasingly getting narrow and more and more regulations were drafted by only a small number of officials within one unit of a ministry. Other problems with regulations included poor quality of background materials used for drafting legislation, as well as of impact assessments.

21. The general principles of the Program included predictability and transparency of legislative drafting and legislation, stakeholder participation, and stakeholder influence. The intentions are also to enhance the clarity and comprehensibility of legislation. There must be consistency between provisions covering different fields. Regulations must not be seen as an end in itself, and other means of influence must be actively used.

⁴⁴ The information about the Program is based on Finnish Government Documentation.

Legislation must promote innovation, market access and productivity, and must enhance good working conditions and well-being at work.

22. The authors of the Program recommended that each government institution should adopt a legislative agenda which should include a strategic plan, which should include measures to streamline regulations and minimise assess to the administrative burden on companies.

23. The Program also proposes the establishment of a Better Regulation Ministerial Group or Committee for the next electoral term. This would be headed by the Prime Minister or the Minister of Justice, and would serve the purpose of improving the quality of drafted legislation, as well as developing a good legislative environment in general. A Legislative Policy Secretariat should be set up to support the work of the Ministerial Group or Committee. The Secretariat would function as part of the Prime Minister's Office.

24. The Program also proposes that a broad-based Consultative Committee be established to support and assess implementation of the Better Regulation Programme for 2007-10, as well as to submit initiatives to the Government for regulatory development.

25. In addition, the Program recommends that more attention be paid to preparatory legislative work, consideration of alternatives and impact assessment. It proposes the establishment of a joint Expert Service for the Government. The Expert Service would promote the use of alternatives to regulation and impact assessment.

26. The Program further proposes that the Ministries introduce quality-management systems for legislative drafting and for drafters, a new database providing easier access to drafting instructions and background material. It would be the duty of the ministries as of the next electoral term to include in their annual reports an account of what legislative streamlining measures they had taken.

Participatory approaches to designing regulations: Latvia

27. A case of the Cabinet of Ministers of the Republic of Latvia is a vivid example of how transparency in the policy making process in general, and developing regulations in particular, helps to prevent corruption by increasing possibility of Non-governmental Organization (NGO) involvement in the process.

28. On its website (www.mk.gov.lv), the Cabinet of Ministers has a special section called “Public Involvement”. It familiarizes the reader with the policy making process in Latvia and explicitly describes opportunities for NGO involvement at each stage.

29. The website provides description of the four stages of policy planning cycle (agenda setting, policy creation, decision making, and implementation). At the stage of agenda setting, transparency for civil society is implemented through availability of the Government Action Plan at the Cabinet of Ministers homepage. NGOs in turn can attract the attention of politicians and the mass media on issues of importance to them, as well as

communicate with relevant officials on development and implementation of the Government Action Plan.

30. At the stage of policy creation (draft policy planning, as it is put on the website), ministries prepare drafts of legal acts, including regulations. Participation of civil society at this stage can take various forms. For example, several ministries have set up councils including NGO representatives who participate in developing legal acts and policy documents, or at least provide comments on them. Besides, NGOs can be involved through various working groups which participate in drafting legal documents and regulations. Early drafts of documents are also posted on the website, so that interested parties can provide comments and objections. Each draft has a special section (or rather, an annex) called Annotation for Draft, which in turn has specific columns, such as “public opinion”, “expert’s opinion”, and “international expert’s opinion”.

31. At the stage of decision making, an NGO can be involved as a so-called “cooperation partner” of ministries. This capacity can be obtained either by invitation from a ministry, or upon NGO’s own initiative. In this capacity, NGOs can serve as:

- a. additional source of expertise;
- b. cooperation partner for formulating, implementing, and assessing policy;
- c. whistle-blower (the first one who warns about potential pitfalls of the policy);
- d. mediator between the general public and officials

32. Further, the website provides detailed descriptions of opportunities for NGOs at different stages of drafting legal documents. This is what the process looks like, including NGO involvement:

- i. A ministry prepares a legal act draft and submits to the State Chancellery. Meeting of state secretaries announces the new draft to receive the opinions of ministries and NGOs.
- ii. Ministries and NGOs give their proposals or objections to the responsible ministry.
- iii. The responsible ministry develops a coordinated plan.
- iv. If the legal act is coordinated without any objections, the Cabinet of Ministers considers and approves the document.
- v. If the document is not coordinated, the meeting of state secretaries agrees on the document at an administrative level.
- vi. The Cabinet Committee agrees on the draft at a political level.
- vii. The Cabinet of Ministers approves and adopts the document.

33. At the stage of policy implementation, NGOs can participate in impact assessments, express their opinions to relevant ministries, and facilitate discussions with mass media.

34. Transparency of the policy making process ensures representation of various interests at different stages of the process.

“Quick win” measures to enforce implementation of regulatory policies: Licensing government contracts and tax administration

35. Apart from the design of review mechanisms that can enhance the quality and transparency of regulations which can be done in the context of the Administrative Reform Concept and Action Plan, it is also important to design some short term “quick win” reforms that can serve as good practice examples of reforms. We will focus on a few examples of measures that could be replicable in the Russian context, that relate to licensing, government contracts and tax administration issues.

Building Transparent Tracking Systems for Permits and License Applications: Seoul’s OPEN System⁴⁵

36. The Online Procedures Enhancement for civil applications (OPEN), system designed and implemented by Seoul Metropolitan Government is an interesting example of a potential measure to enhance transparency in the system of issuing permits and licenses. Though this is an example of a system implemented at the local level, a similar approach could be relevant to enforce regulations at the regional level in Russia and enhance transparency at this level of government, which is responsible for most aspects of service delivery.

37. The Metropolitan Government of Seoul adopted a systematic approach to corruption that includes preventive, punitive measures as well as public-private partnership and transparency arrangements (See Figure 3-3).

⁴⁵ Recognizing the OPEN system to be a successful example of an innovative approach to increasing transparency, deterring corruption, and bringing services closer to the citizen in public administration, the United Nations Department of Economic and Social Affairs (UNDESA), through its Division for Public Economics and Public Administration, has signed a Joint Statement of Cooperation with the Seoul Metropolitan Government (SMG) and designed a training module on development of an OPEN system. Seoul Online Procedures Enhancement for Civil Applications (OPEN) System: Manual on On-line Procedures for Civil Applications (also available in Russian), UNPAN, <http://www.unpan.org/training-open-manual.asp>

Figure 3-3: Anti-corruption measures of the Seoul Metropolitan Government: A Systematic Approach



Source: <http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN003377.pdf>

38. The Online Procedures Enhancement for civil applications (OPEN) system includes the following features⁴⁶:

- i. *The system covers 54 public services* (in such areas as housing/building, construction, traffic/transportation, environment, culture/tourism, industrial economy);
- ii. *The Cyber Applications Processing Office* which accepts and processes applications through the Internet (www.cyber.seoul.kr);
- iii. *Information on regulations* and regulation search system are available on-line;
- iv. *Detailed information on the 54 services along with the required documents* for applications, administrative procedures, and related regulations are listed for each service;
- v. *A People's Voice page*, which processes surveys on the overall quality of management/service of the OPEN System;
- vi. *Statistics and report*. Statistical data on 10 areas categorized by service areas and tasks are available through the OPEN System. Deleted data can also be recovered. Various methods of statistical data, including those of a specific period as well as specific number of cases processed by departments can be printed out.

39. IT based application and processing systems could potentially make a significant contribution to improving the regulatory management system in Russia in the area of issuing licenses and permits, particularly if the substance of regulations in this area is of good quality (as reviews would appear to imply). The introduction of one or more pilots in the context of the Administrative Reform Action Plan in Russia could test the feasibility of introducing this approach in the Russian context, preferably at the level of the Regions.

⁴⁶ <http://unpan1.un.org/intradoc/groups/public/documents/un/unpan002393.pdf>

Eliminating Corruption in Government Contracts - The New York City 'Contract Model' Approach⁴⁷

40. One of the key mechanisms to counter corruption in the area of Government contracts is to make the procurement process as open as possible and use public exposure as a tool to create public awareness. One of the well-known examples where such approach was developed is a “contract model” approach used in a New York City construction industry.

41. For generations, New York City suffered from endemic corruption in its construction industry. The problem was so severe that the New York State Legislature refused to provide billions of dollars in funding to the New York City Board of Education for capital improvements to city’s crumbling school infrastructure, the country’s largest, with more than 1,100 schools. State officials were convinced that a major portion of any moneys allocated to the Board of Education would be used inappropriately.

42. In order to overcome this impasse, the city agreed in 1988 to create a new agency, the School Construction Authority (SCA), with a well-funded Office of Inspector General to protect the critical investment in the school system. In 1989, the SCA was given \$5 billion for new construction and major repairs; the budget of the Inspector General was just over \$2 million annually (i.e. less than 0.05 per cent of the total SCA budget).

43. The Inspector General used existing state law and the concept of civil contract to accomplish its goals, together with simple monitoring and oversight measures to insure compliance, including:

- a. *Full disclosure of ownership and performance history* by each bidder (sub-contractors as well as contractors)
- b. *Disclosure of details of previous arrests and convictions*, and of the payment of any bribes, participation in any frauds or bid rigging, and association with any organized crime figures
- c. *Commitment to a code of business ethics* by each bidder
- d. *Certification that all information provided* was true and correct, as well as an acknowledgement that it was submitted for the express purpose of inducing the SCA to award a contract.

44. The information supplied by each contractor was subject to careful scrutiny by the Inspector General’s Office, which also performed extensive background checks. Whenever concerns arose, a bidder or contractor was summoned to the Inspector General’s Office to answer questions under oath.

45. Within the first five years of the SCA’s existence, several hundred contractors were barred from bidding for SCA contracts. Several dozen contracts were terminated, and contractors forfeited millions of dollars as a result. All of this was achieved through

⁴⁷ Source: Best Practices in Combating Corruption, OSCE

the ordinary civil law process with very few court challenges. In addition, more than a dozen contractors were convicted of perjury as a result of false information provided to the Inspector General. In addition, the pool of available construction firms increased substantially with the addition of law-abiding and competent contractors who had previously declined to bid on school construction work because of the prevalence of corruption and racketeering. This increased competition resulted in further reduced costs and even higher quality work overall.

46. The above example shows the importance of transparency and effective enforcement in creating an effective market for state contracts, and provides straightforward tools for process reform that can be used especially at regional and city level in Russia, where much of state procurement takes place.

Anti-Corruption measures in Revenue Administration – Latvia’s Vigilance Unit⁴⁸

47. Tax simplification is perhaps the most important method of limiting opportunity for corruption in tax administration, and can also increase economic efficiency for other reasons.

48. Tax reforms in many countries focus on lowering tax rates, broadening the tax base, eliminating special exemptions and simplification of procedures, as well as making tax obligations transparent and reducing compliance costs for honest taxpayers. Presumptive taxation of small businesses, which may not keep extensive books and records, can also reduce the discretionary power of tax inspectors and make tax calculations simpler and clearer. In addition, the creation of a system of internal and external controls is crucial. Internal audit divisions and anticorruption units are the most important anticorruption bodies within revenue administrations. Important institutional safeguards outside the revenue administration include an independent and effective judiciary, external reviews by government agencies (such as independent external audits), and taxpayer associations that strengthen citizens’ voice.

49. Latvia’s anticorruption strategy for revenue administration was part of a broad national strategy guided by a Vigilance Unit. International experience had shown that in transition economies revenue administration is severely tested by corrupt taxpayers and officials, high volumes of cash and cross border transactions, high evasion and arrears, and growth of the informal economy.

50. The organizational structure of the State Revenue Service was improved to integrate tax, customs, and social security collections, and create strong internal control and anticorruption functions. The *Vigilance Unit* operating independently of the financial police was to:

- i. Monitor and educate staff based on a code of ethics.
- ii. Investigate cases of illicit enrichment.

⁴⁸ For more information, please see An Anti-corruption Strategy for Revenue Administration, PREM Note 33, the World Bank, October 1999

- iii. Conduct disciplinary proceedings.
- iv. Develop guidelines for managers dealing with corruption.
- v. Redesign business processes to reduce discretion and, where discretion must be retained, establish systems to monitor its exercise.
- vi. Develop incentives to foster integrity and good conduct.
- vii. Monitor declarations of income and assets by parliamentarians, ministers, and public servants.

51. Lessons for which there is already evidence include the importance of high-level political commitment, good pre-project diagnostic work, participatory project design, and strong data recording ability. There is also evidence on the effectiveness of computerization combined with personnel, organizational, and managerial reform, and the ineffectiveness of computerization without institutional strengthening.

PART 4. LESSONS FROM INTERNATIONAL EXPERIENCE AND IMPLICATIONS FOR THE RUSSIAN FEDERATION

1. The identification of priorities to address sources of corruption in Russia is a challenging task given the complexity of issues and extent of corruption. Currently, several institutional and structural reforms are underway in Russia. It is important to recognize that the challenge of fighting corruption should not be used as an opportunity to expand the reform agenda beyond what is feasible, but rather to prioritize that agenda more effectively. The review of international experience in implementing anti-corruption policies suggest that a combination of structural measures, such as regulatory review systems, and quick win solutions could be considered by the Russian Government to address some of the key underlying causes of corruption identified in the first part of this Note. It is therefore recommended that the Government consider the following potential measures in the context of implementing the Administrative Reform Concept and Action Plan.

A. Mainstreaming anti-corruption measures in ongoing institutional reforms and prioritizing regulatory management issues

- i. According to the data from governance indicators and other business environment surveys the implementation of regulatory policy is one of the major obstacles to doing business in Russia. The survey data brought out the need to look into the quality and effectiveness of the structures and management systems that are responsible for the implementation of regulations, with priority for aspects of regulatory management that are particularly problematic, such as licensing, inspection, government contracting and tax administration. The Action Plan to implement the Administrative Reform Concept should prioritize the development of service standards and administrative regulations in these areas.
- ii. Currently a number of institutional reforms include direct and indirect measures to improve the regulatory environment and reduce administrative corruption, in administrative, civil service and tax reforms. In this respect, it is important to design and implement specific measures that would help enhance the quality of the regulatory management process. This could include, for example, the establishment of a regulatory review system based on the principles included in successful cases such as Mexico, Finland and Latvia, and involving key actors such as the State Duma Anti-Corruption Commission, the Government Commission for Administrative Reform and the Ministry for Economic Development and Trade in its design.

- iii. The importance of involving the public and the business community in anti-corruption activities to sustain the reform process should not be underestimated. This could involve making the review process of existing and planned regulations more transparent (for example, draft regulations of administrative procedures of executive bodies, though usually available for comments at the websites of the relevant bodies, are sometimes outdated or not easy to track down), by providing instructions to state institutions as to how this should be done. Increasing public awareness and ensuring accountability of the executive branch for effective implementation of the reform could, for instance, be implemented by the State Duma Anti-Corruption Commission in cooperation with the Ministry for Economic development and Trade and the Government Commission for Administrative Reform in Russia.
- iv. Taking into account that some programmatic measures to combat corruption are envisaged within the framework of the Concept and an Action Plan for Public Administration reform in Russia (2006 – 2008), including the creation of departmental and sub-regional anti-corruption programs, these measures should have a specific focus linked to implementation of ongoing regulatory reforms and aim to achieve specific results rather than creating declarative anti-corruption strategies.

B. Reforms need to go beyond the substance of regulation into the design, at their formulation stage, of adequate and effective implementation mechanisms

- v. Findings of the CEFIR studies and the OECD Regulatory review reveal problems related to implementation of newly introduced laws and regulations. This lead to an increase in corruption levels even in a situation where the substance of regulations has improved. In the Russian context, strong emphasis should be placed on designing strategies for the implementation of new regulatory policies at the national, regional and local levels. The model of OPEN Seoul Metropolitan Government provides a good example on how information technology could be used to implement simplified and re-engineered work processes, to ensure transparency of procedures and effective communication with citizens.
- vi. Taking into account the specific nature of Russia’s multi-level governance system, special attention should be made to create mechanisms to ensure enforcement at the regional and local government levels. The example of COFEMER in Mexico (which also has a multi-level governance system) could be used to design and set up such mechanism.
- vii. Transparency is a key mechanism to improve implementation of newly introduced policies in most areas prone to corruption, including regulation, public procurement, and tax administration. Taking into account that a Draft Law on Access to Information is being prepared, there is a need to design effective strategies to avoid formal application of transparency procedures and not only ensure access to information, but also design measures to facilitate public participation to reduce corruption.

C. *Monitoring Results of Implementation of Anti-corruption Activities*

- viii. While there is a need to monitor the implementation of anti-corruption activities by individual government structures and subjects of the RF within the framework of administrative reform in Russia, the State Duma Commission for Anti-Corruption could plan to conduct monitoring of the implementation of anti-corruption activities at the federal and regional levels involving experts and non-governmental organizations to discuss plans and results of anti-corruption activities at the federal and regional levels.

ANNEX 1: BEEPS METHODOLOGICAL ISSUES

The BEEPS used an identical sampling approach in all years. More specifically:

- Sector: In each country, the sectoral composition of the sample in terms of manufacturing (including agro processing) versus services (including commerce) was determined by their relative contribution to GDP. Firms that operate in sectors subject to government price regulation and prudential supervision, such as banking, electric power, rail transport, and water and waste water, were excluded from the design of the sample
- Size: At least 10% of the sample was to be in the small (2-49 employees) and 10% in the large (250-9,999 employees) categories. Firms with only one employee or more than 10,000 employees were excluded
- Ownership: At least 10% of the firms were to have foreign control and 10% state control
- Exporters: At least 10% of the firms were to be exporters (firms that exports 20% or more of total sales)
- Location: At least 10% of firms were to be in the category “small city/countryside” (i.e., population under 50,000)
- Age: Enterprises which began operations in the three years prior to the survey were excluded.

In this round of the BEEPS, 599 firms were interviewed in Russia. In 2002, the sample was 506. The questions were identical in both years. The same firm (Synovate) did the survey in both years, following identical processes of survey administration.