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Institutional Reform in Russia

Moving From Design to Implementation

in a Multi-Level Governance Context

Study

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ABBREVIATIONS AND ACRONYMS

CAF	Common Assessment Framework
CEE	Central and Eastern European
CIS	Commonwealth of Independent States
COAG	Council of Australian Governments
CONFAZ	Council of Secretaries of Public Administration of the Federated States
CSR	Civil Service Reform
DFID	Department for International Development
EMU	Economic and Monetary Unions
EU	European Union
HR	Human Resources
HSE	Higher School of Economics
IDB	Inter-American Development Bank
IFI	International Financial Institution
IT	Information Technology
MoEDT	Ministry of Economic Development and Trade
OECD	Organization for Economic Co-operation and Development
PNAGE	National Program for Planning Modernization for the States and the Federal District in Brazil
RF	Russian Federation
SBP	Subject of Budget Planning
SIGMA	Support for Improving Governance and Management in Central and Eastern Europe
SPP	Specific Purpose Payment
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Program
WB	World Bank
WG	Working Group
WTO	World Trade Organization

Vice President	Shigeo Katsu
Country Director	Kristalina I. Georgieva
Sector Director	Cheryl Gray
Sector Manager	Deborah Wetzel
Task Team Leader	Tony Verheijen

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EXECUTIVE SUMMARY

1. The Russian Federation embarked on a complex and ambitious institutional reform program in 2000, combining Budget Reform, Civil Service Reform and Administrative Reform.¹ Whereas progress had been made in budget system reform in the 1990s, progress in the other two strands had previously been limited, implying that this is a largely new agenda for Russia. The implementation of reform is complicated by the multi-level governance system, which divides the responsibility for reform design and reform implementation between the Federal government and 88 regional governments, vastly disparate in their fiscal and administrative capacity.²

2. Whereas the functional delineation of authority between the Federal government and the Subject of the Federation, and the modalities for cooperation between levels of government have largely been settled³, the reform and policy implementation that involves more than one level of government remain complex. In order to facilitate implementation, the President established in 2001 seven de-concentrated coordination units at the Federal District level (Federal Okrug Administrations) that oversee Federal policy implementation in the regions and are managed by Presidential Plenipotentiaries. The Okrug administrations give the Federal government a further coordination arm but also add further complexity to the already elaborate governance structure.

3. As regards the reform process itself, the legal and programmatic instruments used to implement reform differ, between a Federal Targeted Program in Civil Service Reform, which implies a more centralized form of implementation, and Concepts and Action Plans in Budget and Administrative Reform, which implies a more decentralized and voluntary form of reform implementation. Finally, different strands of reform are managed by different government institutions, posing additional complexity.

Institutional reforms: At a critical but potentially promising juncture

4. Institutional reforms in the public sector are at a critical stage. Whereas much has been done in terms of putting in place the building blocks of a modern public management system, especially in the area of Budget Reform, there have been limited visible results in terms of improved service delivery and general administrative performance. This is to some degree due to the nature of the reforms, which require a long lead time to put in place basic structures and procedures, but is also due to flaws in the implementation process. The next stage of institutional reform includes mostly second generation reforms, based on performance logic, and will need to generate visible results.

¹ While interesting and important reform efforts are also ongoing at the sub-national level, in particular the reform of the system of municipal governance, and the reform of intergovernmental fiscal relations at these reforms are beyond the scope of this study.

² The recent HSE (2006) initial capacity assessment (based on regional self-assessment) on administrative reform highlighted only 3-4 regions with excellent capacity, while some 70 regions were classified as low capacity regions

³ Discussions on the reallocation of functions have been ongoing, but they are more about fine-tuning the system than about principles.

A second chance for institutional reform in the public sector may not come soon if the current process does not show satisfactory results, especially considering the political cycle and the forthcoming Duma and Presidential elections in 2007-08.

5. There are several factors favorable for the successful implementation of second generation public sector reforms in Russia. First, all three programs have entered a new stage in 2006. The Administrative Reform Concept (2006-08) has just been launched, the Budget Reform process is entering a new stage and the Civil Service Reform Targeted Program has been extended for an additional two-year period. In addition, there is greater substantive coherence than before, with the emphasis now clearly placed on performance as the organizing principle, reflected in the performance-based budgeting initiative and, the predominance of performance management and service delivery in the Administrative Reform Concept. Other elements of reform, such as the reform of intergovernmental fiscal relations, though not discussed in detail in this report, have also been based on performance logic. However, the Civil Service Reform Program continues to be somewhat separated from the other strands of reform, including in its substance, which has a strong emphasis on legislation and which has so far not moved significantly, overall from the status quo.

6. Those designing the administrative and budget system reforms have placed the bar high by focusing on complex approaches that will eventually require radical changes to the modus operandi of the state administration. However, the fact that the substance of at least two of the different strands of reform is now firmly based on similar principles means that the conditions for successful results are better than before.

The need to focus on reform implementation management

7. Although the conditions for successful reform implementation have improved because of the increasing consistency in reform substance, implementation management continues to pose serious challenges. This is due to the complexity of the Russian governance system, the novelty of the substance of the planned reforms in the Russian context and the complex dynamics of Russian politics. Thus, consideration of the tools for implementation is crucial. The main objective of this study is therefore to provide advice and input to the authorities on framing effective approaches to reform implementation. In this regard, we note that the context of the Russian political system and the political economy of reform, though very important for understanding reform progress, will not be a main focus of this study, which will concentrate on how to frame effective processes to manage reform implementation across levels of government.

8. In order to provide appropriate and contextual advice, three main issues have to be considered. First, what are the possible tools for reform implementation and how can these best be applied? Second, what has been tried in Russia over the last five years and what has worked best? Finally, what approaches are used, and used successfully, in states with similar multi-level governance systems? For a review of this last, six different cases were studied, Australia, Austria, Brazil, Canada, Germany and Spain. Each of these

cases, though providing a diverse picture of reform substance and approaches, provided relevant comparative material for Russian policy-makers.

Possible tools for reform implementation: Legislative and programmatic tools, developmental and change management tools, fiscal incentive instruments

9. *Legislation* is a widely used tool in the implementation of institutional reforms in multi-level government systems. Provided the central government has the authority to legislate on institutional issues through prescriptive or framework legislation (for example directives that are binding as to the results to be achieved), this is a potentially powerful tool for achieving institutional change. Legislation can be effective in particular in changing civil service systems, as well as in the area of budget management, as an indirect tool for stimulating reform through enforcing fiscal discipline. However, even when considering Civil Service Reform, for which legislative change is generally essential, framing high quality human resource management systems and building incentives for performance are as important as having a good law. For example, the experience of Central European states has shown the limitation of civil service laws as reform instruments in the absence of accompanying training and capacity building initiatives and reform of the incentive systems (see Verheijen, 2001; Verheijen and Rabrenovic, 2005). Legislation by itself is even less likely to be effective in areas such as service standards, performance management and enhancing transparency, which are highly sensitive to interpretation and require a strong change management approach for successful implementation. Finally, in complex reform contexts such as in Russia, they use mainly legislation carries the additional risk of mismatch with other reform initiatives, such as budget and administrative reform, which by their nature require more interactive and innovative reform management tools.

10. *Methodological support* can be an excellent supplement to legislation, especially where legislation is complex and aims to introduce new concepts in public management. It can also supplement other reform tools, such as competitions and budget support, if it is provided to sub-national authorities for the preparation of applications or reform plans. It is clear that in the context of Russia the implementation of legislation without methodological support, especially in weak capacity regions, is unlikely to bring the expected results.

11. Methodological support can be provided by the government directly or by the subcontracting of such support to academic institutions or other bodies with an advisory capacity. However, even where methodological support is subcontracted, the central state authority will continue to need to provide a strong hands-on approach to its monitoring to ensure that the support provided is tailor made as well as adequate.

12. *Change management approaches* come in various forms and are especially effective in conceptually more difficult reform areas, such as performance management and performance standards, service standards, the use of citizen feed-back mechanisms, etc. Like methodological support, the use of change management instruments requires a pro-active approach by the central government authorities. Important elements of change

management approaches include networking and coalition building (identifying and nurturing change agents), interactive training and knowledge exchange meetings, rotation and placement schemes, and also functional reviews processes, etc. Logically, change management approaches have to be a part of a reform process from the design stage, as the identification of those officials and experts at the sub-national level that can absorb and transfer expertise and advocate for change should best be done as early as possible. This would ensure that networks of change agents can be made operational as soon as a reform program is adopted by the government.

13. The Russian system of Federal Districts (Okrugs) is in principle well suited to facilitate the development of change networks, provided these units themselves include officials that have been engaged in reform program design. In a system with a large number of sub-national authorities, using representative units of the Federal authorities would seem a necessity. If Okrug offices are equipped to support reform initiatives, they could be the ideal intermediaries for the government in identifying, at the sub-national level, those officials that would be effective potential counterparts in advocating for reform. Bringing together such officials on a regular basis in working groups would help to generate the exchange of experience and would help to build a support network for those engaged in moving a reform agenda forward. Expert networks and to a lesser degree political party structures, can supplement change management systems by serving as additional forums for discussion on substantive aspects of the government reform programs.

14. A final change management instrument, training and capacity building, is in part linked to the previously discussed funding of pilot reform initiatives, which often include the provision of advisory services and training. Training can also be an element of a change management strategy. However, training has generally been an underused tool in reform management in the CIS as well as other Central and Eastern European states. This has to do with the fairly conservative approach that has often dominated the provision of training in the region, as well as with the perception of training as a “benefit” or an “obligation” rather than as an integrated part of career management (in the civil service). Training programs, if rightly designed and tailored to the substance of reform programs, can help overcome the tendency to resist any confrontation with new approaches and management instruments in an institutional environment, and can also smooth the implementation of reform measures, as civil servants will be more comfortable with their application. This is especially important in the more innovative aspects of institutional reform, such as the introduction of performance management systems, the introduction of competency-based civil service management approaches and the introduction of service standards.

15. Whereas legislation, methodological support and change networks can be used as instruments in both multi-level governance systems and unitary systems, *the use of financial incentives* is in many instances a more suitable tool in multi-level systems. The complexity of fiscal relations that characterizes virtually all multi-level governance systems, with many of them having a large array of shared competencies, makes the fiscal transfer system an important potential tool in the hands of federal authorities. Fiscal

instruments can be used in two ways, which are often combined: (i) driving reforms by enhancing fiscal discipline, which tends to force sub-national authorities into cost reductions, often translated into cutback exercises in the civil service, and; (ii) providing fiscal incentives for reform, either by setting up funding mechanisms for designing and implementing reforms, or by providing budget support in exchange for the implementation of reforms.

16. The first type of use of fiscal instruments is traditionally the best known. However, pushing for cost-cutting measures at the sub-national level by curtailing fiscal transfers is unlikely to have a permanent impact, as it often leads to knee jerk reactions in the form of across the board cuts.⁴ The creation of federal funding mechanisms for reform pilots in sub-national authorities take place frequently, including in Russia. One of the main questions in this regard is whether the resources are allocated on a competitive basis or through the pre-selection of “promising” regions by the federal authorities. The former obviously has greater credibility but is hard to design, as outside the area of budget reform it is difficult to define objective indicators for assessing proposed reform initiatives. However, this can be counterbalanced by introducing transparency into the selection process, as well as by working with the regions in defining mutually acceptable indicators. At the same time, mechanisms that support the design of reform examples that can have a demonstration effect are very important when it comes to complex reforms such as performance-based budgeting and administrative reform.

17. Finally, linking increased (one time or permanent) transfers to performance in specific reform areas is a further possible fiscal incentive tool for reforms. Whereas this is an excellent tool for bringing about competition between regions to start and implement institutional reforms, it has two potential drawbacks. First, as with funding pilots, there are difficulties in designing indicators to assess reform proposals. Transparency in allocating of resources and transparency in defining criteria can help mitigate this problem. Second, this method poses some risks of creating twin-track approaches to reform implementation, as low capacity regions tend to be excluded from competitions, which reduces the incentive for them to engage in reform design.⁵ This in turn, could increase the risk of deepening the already strong differences in performance between regions. Whereas in our view the need to create best practice examples in complex reform areas outweighs these risks, it would be important to consider the creation of special support mechanisms for low capacity regions that show a commitment to reform but do not have the capacity or resources to participate in competitions.

Experience from Russia: Features of reform implementation to date?

18. The discussion of the first phase of Russian reforms, presented in Chapter 2, draws the following conclusions on the approach to reform implementation thus far.

⁴ Similar to the staff cuts often demanded by IFIs in exchange for budget support, which are rarely permanent and which even more rarely lead to changes in the way public administration systems function.

⁵ Discussions with Russian regions on the Administrative Reform Program in a series of workshops held in 2006 confirmed that there is widespread skepticism among poorer, low capacity regions regarding their ability to access Federal resources to support reform implementation.

19. The first key feature of reform management is the dominance of the Federal authorities in the design processes and their relative one-sidedness. Reform design appears to have been largely carried out by the Federal authorities, in some instances with consultations at the high political level through the State Council and with the support of Moscow-based experts and/or international donor projects. The fact that the involvement of regions in strategy formulation was limited is highly surprising considering the dependence of the Federal authorities on the regional authorities for reform implementation. As noted in the first section Chapter 2, most of the elements of public sector management reform have been implemented through non-mandatory programs or through concepts of a recommendatory nature for the regions. Only Civil Service Reform was implemented through mandatory Federal legislation. This is all the more striking considering that the effective monitoring of implementation in 88 regions is highly complex, even in the presence of the Federal Okrug offices.

20. A second feature is the often closed nature of reform design efforts. With the exception of the Federal Administrative Reform, where business and civil society input has been sought during the first stage of institutional restructuring, and currently, in the context of the design of service standards, many of the reform initiatives discussed in this Chapter 2 were designed largely in isolation from those most affected, by them whether civil servants or client groups. This has posed obvious problems at the implementation stage of reform. Transparency and communication mechanisms should be part of the reform strategy, affecting both the substance of reform activities and the nature of reform management. It is highly advisable that the results of the reform program along with progress reports, are regularly published and that external and internal awareness campaigns are conducted to inform both civil servants and the public about reform achievements and future plans.

21. A third key feature is the problem of the design of pilots and methodological support. In most instances the decision to allocate resources for pilots was tied to the use of expert resources assigned by the Federal authorities, and objective criteria for deciding on pilots are difficult to establish. Where such criteria were applied, in particular to regional level fiscal reform, they were well designed, without, however, taking into account one key question - - namely regional capacity - -, thus automatically excluding most of the weak capacity regions.⁶ Methodological support was usually tied to the implementation of reform pilots and not a universally available facility.

22. Where legislation was used significant problems of implementation sequencing arose. Regions that were willing to move forward faster were held back by delays in implementation at the federal level, while little or no incentive mechanisms were in place to entice less reform minded regions to come on board (no carrots and difficulty in wielding sticks), a problem exacerbated by delays at the Federal level, which did little to encourage reluctant regions to move forward. In case of civil service reform a central

⁶ Whereas there is no direct correlation between low capacity and level of poverty, most low capacity regions are also poor regions, with the exception of such regions Kalmykia and a few others.

civil service coordination structure should be established to support at the operational level introduction of all changes envisaged in the legislation.

23. The use of competitive approaches in stimulating reforms was applied successfully in the regional fiscal reform area, but this approach has had problematic side effects in terms of excluding low capacity regions, there by risking the creation of a multi-speed reform process, which could aggravate the already deep disparities between advanced regions and low capacity regions.

24. As a fifth point, design measures have to date taken little account of the capacity and resource constraints in the regions, especially in remote, sparsely populated and low capacity regions. None of the reform initiatives and programs launched thus far has included relevant mechanisms to address this key aspect of reform implementation.

25. Capacity building efforts in enhancing reform implementation structures have been limited thus far. This has posed problems, particularly in Civil Service Reform, where the obvious need to build capacity in human resource management units was not acted upon, as well as in budget reform, where the needs of line ministries for capacity building to implement new tasks and approaches were largely left unaddressed. There should be a shift from general legal acts to specific methodologies that have been piloted and adjusted based on verifiable pilot results, from general courses for upgrading skills to specific courses aimed at introducing new practices. Training and expert support to date have been implemented under international technical assistance projects. In order to sustain the results and ensure the implementation of the reform in all Federal executive institutions, it would be important to institutionalize capacity building mechanisms.

26. Finally, monitoring mechanisms remain weak. They consist of either formal reporting by regions, with limited possibilities for verification, or contracting arrangements with Moscow-based institutions, which face obvious difficulties in covering the entire territory in a comprehensive manner. In addition to the existing statistics, an additional civil service monitoring system should be developed to reflect the actual status of the civil service at both the federal and regional levels.

International experience, a contrasting picture

27. The international experience reviewed in Chapter 3 provides the following conclusions on what could be an effective approach to institutional reform in a multi-level governance context.

A. The effectiveness of legal instruments depends on the accompanying tools, and over-reliance on such tools poses risks of freezing the systems

28. The discussion on legal instruments as applied in the six comparative cases helps to explain why “reform by law” in many instances has led to sub-optimal results, including in Russia. The successful use of framework legislation entails demanding requirements, as is shown especially in the Spanish and German cases. This instrument to

succeed requires a very clear vision and strong design process at the Federal level, as well as an intensive and hands-on training process at all levels. In this regard, pre-design is crucial, especially when it comes to secondary legislation. The presumption that the use of framework legislation automatically creates a unified civil service/public management/budget management system is also incorrect, as has been exemplified in the case of Germany and the slow and cumbersome integration of the former East German Laender. The more successful Brazilian case highlights two other issues. First, the use of constitutional instruments can help overcome some of the hierarchy issues involved in framework legislation but, at the same time, what are needed are time, patience and coalition building. The main reason why Brazilian reforms(also to a significant degree based on legal instruments) fared well where others did not (completely) succeed is that the designers of the reforms made a conscious effort to build broad coalitions for reform and were ready to accept the fact that the work might take a prolonged period of up to five years. The most interesting element of the Brazilian reforms in this regard is that when commitment waned at federal level owing to the change in political leadership, the momentum at the sub-national level continued.

B. Coalition building and networking are key factors in successful implementation

29. Two of the three systems that make the greatest use of institutionalized consultation mechanisms between levels of government also stand out as the most successful in achieving results, thereby emphasizing the importance of this tool, which has seen little application in Russia. Australia, through the COAG system, Brazil, through CONFAZ is among the most successful reform cases discussed in this volume, and have drawn heavily on consultative structures. The Australian competitiveness policy design and implementation process provides a further textbook example of how such processes can be designed. Spanish consultative structures have been less instrumental in the process, but this was largely a result of the drawn out dialogue on the role of the federal government and communities in general. This has stifled the consultative system, exemplifying the importance of settling the system of intergovernmental (fiscal) relations as an element for successful institutional reform. Canada and Austria both draw heavily on best practice and leading by example approaches. Whereas the implementation of reforms at the sub-national level has been far from even in both cases (though in Austria this appears to be a matter of time rather than of principle), this is not perceived as a key issue in these states.

C. Fiscal incentive systems contain risks that warrant caution

30. Fiscal incentive systems are potentially attractive tools for stimulating reforms, both institutional and sectoral. However, the discussion on the comparator states shows the potential drawbacks of such systems, which includes the following:

- The risk of a detrimental impact on social services (with negative incentives)
- The risk of subjectivity in decisions, especially in areas related to administrative reform
- The risk of excluding low (administrative and fiscal) capacity regions.

31. Nevertheless, both the Brazilian and Russian cases have shown that fiscal incentive systems can have strong positive results in terms of fiscal stabilization and the drive for innovations in budget management, and can change the financial management culture in government. Thus, further use of such mechanisms is certainly not to be discouraged. At the same time, the consideration of such mechanisms should be subject to certain mitigating measures, including the following:

- Special allocations for vulnerable and low capacity regions (to prevent an increase in enhancing disparities), preferably included in a special facility and allocated on the basis of clear rules and minimum requirements
- A check against the ability of states to continue to deliver key social services (in case of sanctions)
- The use, as much as possible, of clear and verifiable criteria, especially on ‘softer’ reforms such as service standards, etc.

D. Comprehensive capacity building facilities are essential

32. Without adequately funded and universally accessible capacity building programs, no complex reform can succeed. This is all the more true for states in transition, where the required skills to implement reforms are simply not present. The Brazilian and Spanish cases, in particular, both transition environments at the outset of reforms, highlight the need for access to capacity development and the presence of change management structures (such as training institutions). It is not conceivable for reforms in multi-level governance systems to be successful without these key facilitating factors.

E. Comprehensive reforms need integrated management and a multi-instrument approach

33. The lack of an integrated approach to related reforms is a key risk factor in reform implementation. Comprehensive reform processes, such as those in Australia and Brazil, and to a lesser degree in Canada, require single management or at least single oversight, especially if they are to be successfully implemented at the sub-national level. The risks related to this issue grow with the number of sub-national units that need to be covered. In addition, no single aspect of reform can be expected to be achieved with only one (or mainly one) instrument. The combination of at least strong consultative structures with legislation and capacity building would seem to constitute the minimum package; incentive systems in this regard can only be of an additional nature, as these will fail without the other three instruments and would risk aggravating the existing problems.

Conclusions and Recommendations

34. The following are some of the key conclusions and recommendations for the Russian authorities as the reform process enters its next, critical, phase (see also Box 1).

A. Integrated planning and sequencing at the regional level is essential

35. The fragmentation of reform efforts poses serious risks for implementation results. The cases of Brazil and Australia discussed in this volume show the significant benefits that arise from having a single entity responsible for the design and implementation of all aspects of the public and financial management reform programs, or at least those dealing with central management systems.

36. A division of responsibility among different stakeholders for different aspects of reform is often dictated by political realities, and this is a fact that has to be accepted. However, even in Russia, where reform management is divided over four different entities, there are some mitigating measures that can be taken, especially now that the implementation period for all three main parts of the reform agenda is more or less aligned.

37. One first key recommendation in this regard is to set up consultative structures between the regions and the central government that will allow for regular discussions on reform implementation issues, thus increasing the buy-in at the regional level and facilitating the exchange of experience between regions. The Offices of the Presidential Representatives may play a pivotal role in this regard, as they could facilitate the putting in place of consultative mechanisms at the regional level, especially in view of the large number of subjects of the Federation. The consultative structures would need to address all three main aspects of reform,⁷ so that better coordination of reform implementation at the regional level would be ensured.

38. A second recommendation is that better integration among different strands of reform at the regional level should be stimulated. At a minimum this would require programs in separate reform areas to be cross-referenced. This would help prevent negative effects that might arise due to the areas of overlap that exist between the two programs. Ideally, the creation of single and integrated programs for the Civil Service, Administrative and Budget Reform at the regional level should be encouraged by the Federal authorities through the Federal District Offices. The Integrated Program and Action Plan of the Republic of Kalmykia could provide a template for an integrated approach to reform design.

B. Integrated and permanent consultative structures should be created as a tool for change management

39. The idea of building integrated consultative structures for change management has been raised above. Virtually all the comparative cases discussed have instituted such practices, though some with more success than others. Russia had a consultative mechanism in place during the initial design phase of the governance reforms, but did not continue this practice in the subsequent reform implementation.

⁷ Possibly also including local government reform.

40. While the initial cost of setting up consultative mechanisms might be significant, especially in terms of design and implementation, the benefits would be significant. It is difficult to imagine how in the current Russian context reforms of the complexity of those foreseen (especially in the Administrative Reform and Budget Reform concepts) will be successfully implemented without the presence of a permanent structure for dialogue between the Federal authorities and the regions.

C. Balancing support for advanced and lagging regions is necessary to ensure more comprehensive reform implementation

41. Finding solutions that will ensure broader participation in the reform program will be critical as the reform moves into a phase in which reform measures should begin to have a direct and visible effect in terms of better access for citizens to higher quality services. Russia is in a particularly complex situation in this regard, with a high level of disparity between regions in both economic development and reform capacity, a very large number of sub-national entities and the presence of a number of post-conflict regions. Building program implementation solely on competition between the best regions in this case will not lead to the desired impact across the state. Whereas international practice has limited lessons to offer in this regard, the Brazilian case in particular shows that mitigating measures in some form must be part of the implementation of the reform agenda.

42. Therefore recommendation is to create a specific fund for lagging regions, access to which would be based on economic indicators (lower than a threshold level of economic development), the presence of significant conflict over the past five years, and the willingness to undertake reforms, which would be assessed on the basis of an initial reform program statement. Selection of the regions could include three phases:

- The first phase would include screening according to the three main criteria outlined above
- The second phase would consist of a capacity assessment⁸ (according to an agreed methodology) which would identify some initial actions that the government would need to undertake to be eligible to obtain funds
- The third phase would be an assessment of the application based on a specific set of criteria for lagging and/or post-conflict regions.

43. Dedicated funds would need to be secured in the 2007 state budget, with regions preparing their applications in the second half of 2006. In our view, the development of this kind of mechanism is a sine qua non for the successful completion of the reform process.

⁸ Governance assessments undertaken in the Southern Okrug over the last year based on an agreed methodology could provide a model for this.

D. The diffusion of best practices to enhance methodological support should be stepped up

44. Best practice diffusion is a powerful tool for stimulating reforms. The Canadian experience of using academic and expert networks has been mentioned, but an example closer to home would include the competition between Central European and Eastern European candidate states to the EU during the recent accession process, which included both competition and significant best-practice exchange, in particular through the OECD SIGMA program.

45. The success of two donor-funded best practice networks, one on Civil Service Reform and one on Administrative and Budget Reform, shows that there is a demand for such approaches as well as a clear pay-off. The central government could play a much more proactive role in stimulating the establishment of such networks... for example by organizing a specific competition for groups of regions that come forward with proposals. This is also a way to ensure that the limited resources available to the Government would be used in a way that would achieve a multiplier effect.

46. Finally, the limited investments in best practice networks would also in part take care of the need for methodological support from the central government; as such networks might generate sufficient methodological support between regions to enable them to move forward in reform implementation on their own.

E. Capacity building programs should be comprehensive and integrated

47. The comparative cases provided in this study include several good examples that could easily be replicated in Russia. The PNAGE program in Brazil which is, part government funded and part donor funded, provides a good example of a comprehensive capacity building program that assists regions in overcoming critical hurdles in the implementation of their reform programs. The in-house training program that the Austrian government put in place to ensure the effective implementation of reforms is a further interesting example, although it would be more difficult to replicate in Russia owing to the large number of sub-national entities.

48. The design of a single pooled program for capacity building, including mainly Russian budget funds but possibly also donor contributions, modeled on the Brazilian program, would appear to be the most appropriate way forward, and the design of such an initiative will become increasingly critical as the reform substance becomes increasingly sophisticated and complex.

F. Monitoring: An outcome-oriented system should be built

49. The development of outcome-oriented monitoring systems is critical to the ability of the government to adapt implementation approaches along the way. Whereas this is a relatively new aspect of reform management, and thus less international practice is available, there are several tools available on which to build, including the existing Public

Officials Surveys (for Civil Service Reform), the recent Ministry of Economic Development and Trade (MoEDT) survey on Administrative Reform, and the monitoring methodologies developed under the Budget Management Reform. However, thus far the data generated through these survey instruments are not being used to conduct outcome-based monitoring of the reform process. Again, building such systems will become increasingly critical as the government moves forward on reforms that are more complex in nature and are expected to bring visible results to citizens.

Box 1: Summary of Recommendations

1. Ensure Integrated planning and sequencing of reform measures at the regional level

Initial assessments estimate that up to 80 percent of Russian regions have a low capacity to implement administrative, civil service and budget reforms (HSE, 2006). Thus, regions will be unable to service competing and conflicting demands from the center lowercase. Efforts should be made to achieve integrated action plans for reform implementation. One good example of such an approach is the recently approved Governance Action Plan for Kalmykia, which could serve as an example for other low capacity regions.

2. Coalition building and networking are the key factors in success

Too little has been invested in consultations with the regions on reform implementation. Review of international practice highlights this as a key success factor in reform implementation in multi-level governance systems. Thus, Russian policymakers could draw on the experience of countries such as Brazil, Australia, Canada and Spain to develop institutionalized consultation models.

3. Fiscal incentive systems need to take into account the wide disparity in reform and fiscal capacity in Russia

Competition and fiscal incentives are important potential drivers for reform, but in a federal context with a high level of disparity (fiscally and capacity-wise) such as that in Russia a multi-faceted approach is required. This would include a continuation of merit-based competitions to draw out best practice demonstration examples of reform, along with a parallel facility which would target low capacity regions only, built on the following principles:

- Allocation that is based on clear rules and is made only if the regions adhere to certain minimum rules and standards and take certain agreed basic initial steps based on an independent diagnostic
- Criteria for the review of applications that are based on specific characteristics of disadvantaged and post-conflict regions.

4. Stepping up diffusion of best practices to enhance methodological support

The establishment of best practice networks on civil service reform and performance management over the last year has demonstrated the huge potential that such relatively inexpensive reform tools have for disseminating best practice and moving forward in reform implementation. Thus, it is proposed that these tools be expanded to address a broader set of issues. The Canadian experience in using best practice dissemination could provide useful inputs in this regard, as could the less formalized Austrian approach.

5. Capacity building programs: The need to be comprehensive and integrated

Investment in capacity building in Russia has been limited largely to donor-funded programs. In view of the large number of low capacity regions and the complexity of the next stages of the reform program (performance-based budgeting and performance management as well as service standards improvement), the design of a budget funded capacity building program (integrating other donor support) is an urgent and essential step to take. The Brazilian FNAGE program could provide particularly useful input in this regard.

6. Monitoring: Building an outcome-oriented system

The development of outcome-oriented monitoring systems is critical to the ability of the government to adapt implementation approaches along the way. Whereas this is a relatively new aspect of reform management, and thus less international practice is available, there are several tools available to build on, including the existing Public Officials Surveys (for Civil Service Reform), the recent MoEDT survey on Administrative Reform, and the monitoring methodologies developed under the Budget Management Reform.

INTRODUCTION AND CONTEXT

1. Institutional reform is one of the cornerstones of the policy agenda of the current Russian government. Over the last five years successive governments have consistently pursued the modernization of governance structures and mechanisms in Russia, with mixed success to date. Budget system reforms have led to improved fiscal discipline at both the Federal and the regional levels, and changes have been made to the system of fiscal relations between the Federation and the regions. The functional delineation of powers between the Federal government and the regions has also been clarified. In contrast, the impact of Civil Service and Administrative Reforms is thus far seen as disappointing. Reforms in the public service delivery system, in particular the attempted rationalization of benefits in early 2005 led to widespread public protests and a reversal of part of the reform measures. The postponement of the completion of local government reform, which had been scheduled for the end of 2005 but now will not be completed until the end of 2008, was a further example of the difficulties inherent in the implementation of reforms in a complex multi-level governance system, with large differences in both the economic and the institutional capacity for reform implementation.

2. At the same time, the adoption of the Administrative Reform Concept and Action Plan in October 2005, and the initiation of the Performance-based budgeting Initiative, indicates new steps and directions in the overhaul of the public sector management system of the Russian Federation. The extension of the Civil Service Reform Program, which had been expected to be completed in 2005, and the allocation of funding to its further implementation, is an additional indication that, regardless of setbacks in reform implementation, institutional reform is still an important aspect of the government's agenda. The emphasis on anti-corruption measures and related public sector reform measures in President Putin's May 2006 Address to the Federal Assembly provides further confirmation of this trend. The main theme of the next stage of reforms is to make the results of reforms visible to citizens, and both the direction set out in the Administrative Reform Concept and the Performance-based Budgeting Initiative are based on this principle. However, achieving the results of administrative and civil service reforms in 88 regions will be a steep challenge for those who have designed the reforms, while at the same time it is essential to generating support for the further implementation of the reform agenda after the 2008 Presidential elections.

3. The underlying study focuses on four main aspects of the management of reform implementation in the multi-level governance context of the Russian Federation, reflecting the main perceived stumbling blocks to successful reform implementation. These aspects are: (i) the diversity in the capacity of individual regions; (ii) the complexity of managing the implementation of centrally designed reforms in a large number of regions over a widely spread territory with fundamentally different economic and geographic features; (iii) the problem of generating country-wide political consensus over the direction and pace of reforms; and (iv) the fragmentation of reform design,

especially at the level of the Federation, where different reform initiatives are managed by different institutions and in some instances even by different parts of the executive branch.

4. The main hypothesis underlying the analysis in this study is that attempts at bringing about fundamental reforms in the institutional system have to date not brought the desired results, mainly because of the failure of policy-makers to address the four main features of the Russian governance system highlighted above. Reform attempts thus far have relied mainly on three types of mechanisms:

1. The Federal prescriptive design of legislation as a key reform instrument, to be replicated in the regions, especially in the Civil Service Reform area but also in the area of reforming the system of local government
2. Competition for additional resources, either in a general or a targeted form, as a stimulus for reforms, applied especially in the Budget Reform area and also planned in the context of the Administrative Reform Concept
3. The Federal design of methodologies and policy directions for reform with a mix of directive implementation (in areas where Federal competencies are strongest, such as health and education) and stimuli for reform through methodological assistance, such as were applied in the first phase of the organizational reform of the structure of the state administration.

5. Whereas reforms based on the above mechanisms have generated certain results, such as the stabilization of federal-regional intergovernmental fiscal relations, the adoption of new civil service laws in a large number of regions, the successful piloting of local government reforms in selected regions, and some degree of rationalization of administrative structures at the Federal level and in selected regions, the reform methods applied have also shown some serious drawbacks.

6. The first main drawback is the focus on legislation and not implementation. Particularly in the area of Civil Service Reform, the adoption of formal legal instruments has in many instances not been followed by full implementation. Even at the level of the Federation, a large quantity of secondary legislation is still to be adopted. Furthermore, those regions that have attempted to be ahead of the game by designing implementation tools in advance of the adoption of relevant decrees at the Federal level have often found that the number of procedures and management mechanisms foreseen in legislation are so complex and cumbersome that full implementation is extremely difficult. This is due not only to the design aspects of the Civil Service Law but also to capacity constraints in individual regions, which were not well taken into account during the design phase of the legislation.

7. The second main drawback is that whereas the focus on competition has brought some regions success in reform implementation and has also profiled some good examples of reform success especially where additional Federal funds were made available, the focus on generating flagship projects has at the same time increased the gap

between a small group of strong regions⁹ in reform implementation and a growing group of lagging regions, many of which do not have the minimum capacity to participate in competitions¹⁰. Thus, whereas good performers were rewarded, which is important in terms of building a popular and political support base for reforms, regions with limited capacity, which are often most in need of assistance, have come to lag further behind. Whereas there are obvious advantages to stimulating reform through competition, the risk of creating more lagging regions for national stability is apparent. Thus, consideration would need to be given to the design of special mechanisms to stimulate reforms in lagging regions, along with a continuation of more traditional competitive approaches.

8. The third serious drawback of the instruments used is that the design of methodologies without the necessary support and coaching in their application is likely to lead to mechanical replication of Federal reforms, without taking into account regional specificity. Recent attempts by the Presidential Envoy to the Southern Federal Okrug to design a more tailor-made assessment system for the performance of the governments in the regions of that Okrug is an interesting attempt to find ways of localizing reform management approaches, although the system is yet to be tested.

9. Finally, the fragmentation of Federal design places serious additional burdens on regions, which receive different messages from different Federal counterparts and need to accommodate them at the regional level. Whereas coordination capacity is logically greater at the regional level, as administrations tend to be relatively small in size, at the same time the need to deal with multiple elements of an institutional reform program that contains a certain degree of overlap has posed a serious challenge to regional authorities. The recent dispute between the Ministry of Economic Development and Trade, the Ministry of Finance and the Ministry of Regional Development on issues of leadership on reforms related to strategic planning, performance indicators, and performance-based budgeting is one example of the issues posed by the fragmentation of the management of the reform agenda.

10. The focus of this study is to provide inputs and advice as to what measures Russian policymakers may consider to address the current weaknesses in reform implementation management, and using in particular what newer programs, such as the Administrative Reform Action Plan, could do to avoid the outcome of some of the lessons learned from previous and ongoing reform attempts. In this regard, the study will focus on two main issues:

1. The first is detailed review of the experience of various elements of institutional reform introduced so far, focusing on the interrelated elements of Civil Service Reform, Budget Process Reform and Administrative Reform. This review will include case study material based on the reform implementation experience in

⁹ It is important to note that these not exclusively economically strong regions, (for example Chuvashia are an example of an economically relatively weak region that has performed well in public sector reform. However, there are very few if any participants in competitions among the poorest Russian regions.

¹⁰ A recently published rating of regions on administrative reform capacity classifies capacity in key aspects of administrative reform as weak for more than 80 percent of all regions (HSE, 2006).

individual regions or groups of regions that have participated most actively in reform implementation and which thus have the most significant experience to offer in assessing the pros and cons of applied reform tools. In addition, the review will use the results of recent surveys on reform implementation in Administrative and Civil Service Reform in Russia. This review will be the main subject of the second chapter of the study.

2. The second issue is a review of the international experience of other multi-level governance systems in managing reform implementation. This is in recognition of the fact that multi-level governance systems have several important specific features that make consistent reform implementation significantly more complex than in unitary states. Based on the initial review of reform experience, the cases of Australia, Austria, Brazil, Canada, Germany and Spain were reviewed on the basis of studies conducted by national experts. Whereas there are obviously differences in both the nature of the states presented (from advanced OECD states to transition states such as Brazil) and the nature of the reform processes conducted in them (from comprehensive reforms to partial approaches) important lessons can be derived for the design and implementation of reforms in Russia. The third chapter of the study will thus focus on the review of the international experience.

11. The study will not focus on political economy questions related to reform design and implementation. While this is clearly an important issue, it is beyond the scope of this study and has been addressed at length in previous World Bank publications on reform design issues in Russia, such as “building effective government” (2005).

12. The conclusions of the study aim to provide input for the managers of ongoing reform programs in Russia, who will be looking for ways to most effectively, achieve the objectives of the individual programs they have been tasked with, and for the Russian expert community providing support in the design of reform substance. Most of all, the study aims to be of benefit to policymakers in the Russian regions who are faced with the difficult task of ensuring effective reform implementation, and who thus carry the main responsibility for making the impact of reforms tangible to Russian citizens, who are expecting to see the benefits of the ongoing reform process.

CHAPTER 1. THE INSTITUTIONAL REFORM AGENDA IN RUSSIA: COMPLEX AND AS YET FRAGMENTED

1. Institutional reform in the Russian Federation remains a highly complex issue. The scope and the magnitude of the reform agenda, much neglected in the 1990s, pose serious challenges for policymakers and those in charge of reform implementation. Reforms in the 1990s, which created a decentralized federal system of government, also generated a strong diversity in institutional and economic development throughout Russia. The reforms implemented over the last five years have partially reversed this trend, but have at the same time shown some of the pitfalls inherent in an over-emphasis on the central design-local (vertical) implementation mode. As Russia embarks on the next stage of institutional reform, with a focus on delivery systems and performance-based management, as reflected in the Administrative Reform Concept and the Performance-based Budgeting Initiative, it is important to reflect on ways of avoiding the drawbacks of reform management methods applied in the past. A mechanical continuation of the previous reform methods is unlikely to lead to the results that the government envisages, which include tangible improvements in the quality of public services throughout Russia¹¹ and improvements in the business and investment climate that would generate alternative and non-oil-based sources for economic growth.

The nature of reforms: Complexity and time pressures

2. The history of institutional reforms in Russia has been documented in a recent publication on administrative reform history, published in 2004.¹² While this study does not intend to repeat the material in the above volume, it is important to consider two features of the Russian reform agenda; first, the comprehensive nature and complexity of reforms, and second; the relatively short time frame set out for their design and implementation.

3. As in many other CEE and CIS states, institutional reforms began to feature on the political agenda of the Russian government at a relatively late date. In the 1990s attention was focused on designing the architecture of the Russian state, with an emphasis on relations between the Federal authorities and the regions, and on designing better budget management systems. As in most other CEE and CIS states, the influence of neo-

¹¹ The Administrative Reform Concept and Action Plan set a target of a 40 percent improvement in satisfaction in the quality of public services in the first two years of the program.

¹² Civil Service Reform in Russia: History of Reform Attempts in 1992 – 2000. Ves Mir. 2004

liberal economic advisers led, to a relative neglect of other aspects of the institutional reform agenda. Some unsuccessful attempts to initiate civil service and organizational reforms were made in the 1990s (Kotchegura, in Verheijen, 1999), but overall the administrative structure of the Federal government was largely unchanged. Initiatives to reform the civil service system during the 1990s were focused mainly on the creation of the legislative framework for the state service, including the Federal and regional levels. By the end of the 1990s there was a vacuum in terms of the development of a uniform approach to the legal regulation of the civil service, and the need for framework legislation and a comprehensive reform strategy had become obvious.

4. The relative lack of attention to institutional reform issues in the 1990s has had serious implications for reform efforts during the last five years. With the change of political leadership in 2000, institutional changes were given increased priority, which led to a shift in the approach to the management of the Federal institutional system (from decentralization to increased centralization in Federal-regional relations) and to a new impetus for institutional change.

5. The level of priority allocated to institutional reform has been reflected in a broad set of reform initiatives launched by the Federal government. These include the delineation of functions performed at the Federal and regional levels, budget management reform (as reflected in the Concept for the Reform of the Budget Process, 2004-2006); Civil Service Reform (reflected in the Federal Targeted Program on Civil Service Reform, 2003-2005, now extended to 2006-2007); the first phase of Administrative Reform, set out in the Presidential Decree on the reorganization of the central state administration (Decree 314/2004); and other related reform initiatives, such as the reform of the system of local self-government. This has been followed by second generation reform initiatives under the Administrative Reform Concept and Action Plan (2006-2008) and the Performance-Based Budgeting Initiative.

6. The various reform initiatives mentioned above together constitute a comprehensive package of measures, that when applied in a consistent and mutually reinforcing way would create a strong drive for reforming a previously highly entrenched governance system. It reflects the need to focus on people, processes and resources in a holistic manner, and sends a strong message to regional and sub-regional authorities that reforms are both a priority and a necessity. However, what at first may seem to be a coherent program of reform has become in reality a rather dispersed set of initiatives implemented under serious time pressures, thus posing risks of reform failure. If reforms are perceived as ineffective, and if citizens do not see tangible results in terms of improved access to and quality of public services, reforms are certain to falter after the next round of elections. A next chance to address the deep-seated structural problems in the Russian public management system may not arise in the near future. This, in turn, would negatively affect the medium term competitiveness of the Russian economy, especially as the economy will open up further after WTO membership.¹³

¹³ Reforms in other CIS states that have recently joined the WTO, such as Armenia, are driven by the need to improve administrative quality as a key element of economic competitiveness.

7. As regards the implementation of the reform agenda outlined above, all initiatives are led by different government institutions, including the Ministry of Finance, the Ministry of Economic Development and Trade, the Ministry of Health and Social Development, the Office of the Government and the President's Administration. Whereas at the level of the Government coordination mechanisms have been put in place, through the governmental Administrative Reform Commission, this does not capture reforms led by the President's Administration. At the level of the Office of the Government an institutional distinction is made between Budget System Reform and Administrative Reform. In addition, reform coordination until recently did not involve the regions in a structural way. However, under the two latest reform initiatives (Administrative Reform and Performance-based Budgeting) mechanisms are being tested to create a more institutionalized form of dialogue with the regional authorities, in particular through the special working group on Performance-based Budgeting at the regional level.

8. As regards time pressure, the drive to create results has in some instances led to form overruling substance. One particular example of this was the implementation of the horizontal functional review of central government structures, designed and implemented in 2003-2004, with an ambitious timetable driven by the need to complete the review before the Presidential elections. The need to deliver results by set deadlines led to mechanical mergers of government institutions and the creation of implementation systems that were not fully thought through, thus creating resistance in the administration and among citizens. When the second phase of organizational reform, covered under the Administrative Reform agenda, was subsequently postponed, much of the potentially positive impact of the rationalization of central government structures was lost. In a similar way, the push for the rapid implementation of civil service reforms without sufficient progress on business process re-engineering in ministries also created a situation in which human resource management reforms were implemented in isolation, thus not generating much of their expected positive impact on the quality of human resource management.

9. Although at the regional level some more positive examples of integrated approaches to reform can be observed, they are few and far between. Again, multiple and sometimes conflicting pressures from the Federal government have made it difficult for regions to perceive institutional reforms as a mutually reinforcing package of measures, and have also driven regional authorities to think in terms an ad hoc approach to reform implementation based on responses to the center, rather than developing a needs-based approach. Some regions such as Chuvasia, Kalmykia, St. Petersburg and Murmansk have taken an interest in building more comprehensive reform programs, encompassing the different elements of federal reforms,. However, these regions remain exceptions and are still at an early phase of implementation.

10. The diversity and dispersion of reform initiatives, combined with their comprehensive nature, create significant risks of reform overload, at the Federal level and in particular, at the regional level, and thus of partiality in results, at best.

Possible success factors for 2006-08: A more uniform agenda?

11. Reforms in Russia have reached to a point in time where there are real possibilities to for rethinking some of the reform implementation approaches that have contributed to the so as yet sub-optimal results of reforms.

12. First, important elements of the initial phase of reform, focused on creating building blocks for a reformed institutional system, have been completed. Basic legislation on the civil service system is in place, albeit without much of the implementing secondary legislation. An initial overhaul of the organizational structure of the central state administration has been completed, followed in some of the regions by similar reform processes. The budget management system has been reformed, in terms of both central level budgeting and federal-regional intergovernmental fiscal relations. Whereas some of the design and implementation processes of these initial reforms leave much to be desired, they have created a new framework for the operation of the public administration system.

13. Second, much of the ideology underlying the next phase of reform is consistently based on performance logic. The Administrative Reform Concept and Action Plan borrow strongly from Northern European and Anglo-Saxon principles of performance management, service standards and transparency. While this is a radical departure from traditional administrative values, it does present a clear and unambiguous direction for reform. The Performance-based Budgeting Initiative follows similar principles of transparency of resource allocation; performance-based reporting on the use of budget resources by budget users, and new accounting methods. In this case some questions remain as to the sequencing of measures, and especially on the links between service standards, strategic planning and budget allocation, and accounting and reporting, but from the point of view of substance, the reforms to be pursued are aligned with those under the Administrative Reform Concept.

14. Third, a new approach to working with the regions can be noted, consisting of competition (which was an earlier feature of budget reform); a focus on changes to management approaches, in both the Administrative Reform and Performance-based Budgeting initiatives; and, to some extent, a move away from legalist approaches to reform. This could create a more conducive environment for successful reform implementation at the regional level provided it is followed by the recognition that regional diversity in administrative and fiscal capacity also requires differentiation in reform implementation.

15. Finally, the parallel nature of reform programs creates a possibility of more integration. Whereas in past years reforms moved on separate tracks (partially because they were designed to move forward at different points in time), the next phases of both Civil Service Reform and Administrative Reform will move forward starting from early 2006, and the Performance-based Budgeting initiative is also in its initial phase. This situation is accompanied by reforms that may put relations between the federation and regions on a more diverse track, as can be seen in the initiative of Presidential

Plenipotentiary Kozak Initiative to design more tailor-made performance indicators for the regions of the Southern Okrug.

16. The answer to the question of whether more auspicious conditions will lead to better results thus depends to a large degree on how the Federal authorities handle their relations with the regions when it comes to the use of reform tools and the provision of implementation support, and on whether a better integrated approach to implementation in the various aspects of institutional reform can be achieved.

Contextual risks for successful reform implementation

17. The complexity of the Russian public sector reform agenda, as well as the capacity constraints faced especially at the regional level pose a serious challenge for effective reform management. On the basis of international practice, strategies for the implementation of complex reform processes need to consider the following factors: (i) the *instrumental-structural features* of political systems, involving political and administrative leaders at different levels of government with the necessary authority to manage change processes, the capacity to develop reform efforts, and the attention and efforts allocated to such a policy area (March and Olsen, 1983); (ii) the *historical-institutional context* or cultural traditions, norms and values in a country which have a major impact on instrumental features (Christensen and Peters 1999; Peters 1999; Selznick 1957; Thelen and Steinmo 1992; and (iii) the *environmental characteristics* that have the potential to increase pressures for change (Christensen, Laegreid, Wise, 2002).

18. Certain aspects of instrumental-structural features in the context of public administration reform in Russia create potential risks for reform implementation. As was discussed earlier, the approach of reform adopted in Russia constitutes a comprehensive package of reform with a tight time frame for reform implementation under conditions of socioeconomic and administrative capacity differences between the regions and among the levels of government. The aim of implementing several reform directions at the same time at different levels of government requires a strong emphasis on the approach the management of reform implementation.

19. First, taking into account the multiple directions of reform in the area of governance simultaneously implemented in Russia, as well as the governance aspects of sectoral reforms, a mechanism is needed to sequence reform steps within each reform direction and correlate different reform directions. This becomes highly important at the moment when the framework for the implementation of all three reform directions is in place. While each government counterpart is responsible for the implementation of specific reform direction, this create risks of disconnect in the implementation of interdependent reform components. Thus, an approach is needed that would give each partner a sense of responsibility for the overall reform implementation.

20. Table 1.1 shows the timing and priorities of the three main strands of reform in Russia: Administrative, Civil Service, and Budget Reform, according to the relevant Action Plans. The complexity of reform, and therefore, the necessity to coordinate actions, is clearly seen, since many reform areas are closely interrelated. This is the case, for example, with the implementation of performance management principles

(administrative reform priority for 2006-08) and the procedures development of targeted programs, which are supposed to be based on programmatic principles (budget reform priorities for 2005). Other strands of reform, such as local government reform, do not have a clearly elaborated program, and interrelations between local government reform and the strands of reform discussed in this study are thus more difficult to capture. Future studies will attempt to address this particular issue.

21. A second issue is the adequacy of the capacity for the implementation of comprehensive reform. This involves the human and financial resources needed to implement reform as well as the administrative and technical capacity to manage reform implementation at the regional and Federal levels. Considering the scale of the constraints associated with the introduction of radical changes to government structures, functions, internal organization and budget processes significant support will be required in terms of development reform strategies. This would involve support from Federal and regional counterparts, methodological and expert support, public information campaigns, and efforts to build support for reform implementation.

Table 1.1: Complexity of Public Administration Reform in Russia: Priorities and Timing for the Three Main Strands of Reform

	2003				2004				2005				2006				2007				2008				
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Administrative Reform																									
Loosening Government Regulation of Economy																									
Avoiding Functions Duplication																									
Developing Self-Regulating Organizations																									
Division of Functions																									
Division of Powers: Federation and Regions																									
Performance management																									
Standardization and Regulation																									
Optimization of Functions and Anticorruption																									
Improving Cooperation with Civil Society																									
Modernization of the System of Information Support																									
Managing Administrative Reform																									
Civil Service Reform																									
Organizational and legal support of the public service																									
Drafting job descriptions (regulations)																									
New techniques for planning, financing, stimulating, assessing performance, and using resources efficiently																									
Ensuring openness (transparency) of the public service																									

Adding complexities in multi-level systems: Lessons from other federal and semi-federal systems

22. Multi-level governance systems¹⁴ suffer from added complications in the implementation of institutional reforms. On the one hand there is generally a strong interest on the part of federal or central authorities to achieve certain uniformity in the qualitative standards of public services, as well as to ensure a relatively similar level of economic and social development throughout the territory's economic standards. The quality of public administration is a means of achieving the first, and an important factor influencing the second. At the same time, multi-level governance systems face additional constraints in taking measures to enforce standards or to implement reform measures. The organization of the state administration and the principles of human resource management are in many instances in multi-level systems either shared between the central level and the sub-national levels of government or are an exclusive competence of the sub-national authorities, contrary to the situation in unitary states, where rules as well as reforms are usually centrally designed and defined.

23. The review of six different multi-level governance systems in this study illustrates the diversity of the solutions that states have sought in marrying the principles of federalism/multi-level governance and achieving common standards in administrative quality. The examples show that multi-level governance systems show a wide variation in the way in which competencies are divided across levels of government as well as varying approaches to managing the implementation of administrative reforms across levels of government.

24. As regards the division of competencies, options range from the virtual federal monopoly on rule definition and reform design in Germany, through the Australian combination of legislation and change management, to a "managed" laissez-faire approach in states such as Austria and Canada. However, even in the latter two cases, some form of intervention of central authorities in the form of the facilitation of the exchange of experience in reform attempts is usually applied, even if sub-national authorities are largely free to decide what rules and regulations they adopt as long as they do not relate to policy areas (read, areas of the public service) where federal norms need to be guaranteed.¹⁵

25. The approaches to managing the implementation of an administrative reform agenda are determined in part (but not only) by the formal allocation of responsibility between central and sub-national authorities. The experience in multi-level systems

¹⁴ Traditionally meant to be federal, semi-federal and confederal systems, but more recently also including "hybrids" such as the EU, which is not a state, but which nevertheless increasingly shows all of or all the main features of, a multi-level governance system.

¹⁵ Which, for instance, is often the case in the area of education, where even in states with a high degree of sub-national autonomy, such as Austria, many aspects of teacher employment conditions are centrally regulated, unlike civil service employment conditions?

shows that it is rarely if ever possible to rely on rule definition alone. If central authorities want sub-national authorities to follow centrally defined reform programs or objectives, intervention will generally need to go beyond legislation.

26. A first option is using legislation or programmatic approaches, which can be especially effective in those systems in which competencies in institutional matters are vested mainly in the central level, or in which there is a tradition of centrally driven reforms, such as in Germany. This approach was also used in Brazil in the area of budget management reform (fiscal reform legislation), though it was accompanied by change management tools, in particular by the use of training programs, to ensure the even implementation of legislation throughout the system. However, this presumes a relatively even level of capacity throughout the system, in addition to a strong discipline in the multi-level governance system as well as a sense of common purpose. If either of these conditions is absent, the use of legislation and methodological guidance alone is likely to lead at best to uneven implementation and at worst to failure of implementation.

27. A second important tool for driving reform implementation is the use of the party political machinery, especially where central authorities can rely on those leaders of sub-national authorities who represent the same political party, in most instances, to implement centrally defined reforms at the sub-national level. Here, implementation can follow party political lines. However, it is still quite rare for administrative and civil service reforms to have the kind of profile that pushes them to the highest levels of political debate, though there are exceptions.¹⁶ The use of political party lines requires strong and disciplined party structures, and may therefore not be applicable everywhere. Two of the European systems reviewed in this study appear to have used this method quite frequently.

28. A third and related option is the use of institutionalized consultation structures for policy dialogue between central and sub-national authorities. This is useful mainly in multi-level governance systems with a relatively manageable number of sub-national authorities, which allows consensus building over the substance of and approach to reforms. In such systems, creating institutionalized discussion forums between central and sub-national authorities appears to have been a highly effective tool, exemplified in the Australian case and also in Brazil. Both states have strong institutionalized consultation mechanisms. However, the larger the number of sub-national authorities and the more diverse they are, the less applicable this tool is likely to be.

29. The fourth option that emerges from the case studies is the use of change management (or the building of coalitions for reform) and networking techniques, through both policy network and expert networks. This requires a well established professional network infrastructure, in the latter case, or the creation of regular discussion forums in the former. Most cases covered in this study have applied these tools, though Canada is a particularly good example.

¹⁶ The case of the United Kingdom is one in which administrative reform has on several occasions, had a high priority for government, though with the decentralization of the United Kingdom different patterns of reform have started emerging in England and Scotland, in particular.

30. The use of incentive systems is a fifth option. This requires the central government to have sufficiently strong financial or fiscal leverage over sub-national governments to provide positive or negative incentives for states to pursue centrally defined reform objectives. This is a method that is frequently quoted for substantive policy reform initiatives, though much less often for institutional reforms. In addition, especially in the case of institutional reforms, where creating consistency in service delivery standards is often an important reform objective, the use of incentive mechanisms can be counterproductive in that it can push weaker regions even further back than they already are and can thereby bring improvements in some parts of the state while increasing the gap in service quality. The main case discussed in this study is the case of Brazil, which used its transfer system to enhance fiscal discipline at the sub-national level without, however, adding fiscal stimuli for successful regions.

31. The experience of other multi-level governance systems will be discussed at length in the Chapter 3 and will be placed in the context of the Russian institutional reform experience, which will be analyzed in detail in the next Chapter 2. Implementation tools for institutional reforms are by no means automatically transferable, not even between systems that share similar features, such as state systems built on multi-level governance principles. Size, coherence, number of subjects and disparities are all factors that are important in determining the relevance of external experience, as well as similarities and differences in the substance of reform agendas, as outlined in the above section on the characteristics of reform processes. Nevertheless, if the next steps in institutional reform in Russia are to yield the expected results of better and more accessible public services and a more coherent and competitive economy, it is essential to be open and creative in finding new ways of moving reform implementation forward over the vast and diverse territory of the state.

CHAPTER 2. RUSSIAN INSTITUTIONAL REFORM: A MIXTURE OF APPROACHES TO IMPLEMENTATION

INTRODUCTION

1. This chapter reviews the approaches to the implementation of institutional reform applied in Russia until 2006. The discussions will focus on the different elements of the reform process as well as on implementation at different levels of the multi-level governance system, Federal and regional. Whereas analytical work has been done in recent years to assess ongoing reforms in Russia, these studies have usually been single issue studies (focusing on budget reform, civil service reform or other reform aspects) single level studies (focusing mostly on the Federal level) or studies focusing on political economy questions. The Russian government conducts its own internal assessments of the implementation of Federal targeted reform programs on a regular basis, but these reviews do not assess the institutional reform process holistically, as the substance of reform is divided between different institutions. Furthermore, these reviews mostly consider outputs produced rather than outcomes achieved.

2. With the move from the design to the implementation of reforms in virtually all reform areas, the need to understand which methods of implementation have been successful and which have not is essential, as is the need to determine what possible “externalities” have been caused by the implementation methods. In addition, as indicated in the introduction to this study, the next phase of institutional reform implementation, with its focus on public service quality and results-based budgeting, is likely to determine whether Russia moves forward on its reform agenda, or whether it will reverse its course, away from the institutional modernization process that has been set out over the recent years.

REFORM INSTRUMENTS AND APPROACHES

3. As highlighted in Chapter 1 multi-level governance systems face specific challenges in the implementation of institutional reforms, as competencies are usually divided and often not clearly spelled out. Interests and approaches of different sub-national governments, as well as their capacities, are also likely to vary significantly. Before moving to a discussion of the experience of implementing different reform programs at the Federal and sub-national levels, it is important to briefly review the types

of instruments generally applied in implementing institutional reform in multi-level governance systems.

The Russian Federal context and its implications for designing reform implementation structures and mechanisms

4. The Russian Federal system has a specific approach to the allocation of competencies in institutional design and management, which imposes significant constraints on regions to design their own reform policies, and also limits the extent to which the government can realistically be expected to use a complex and multi-faceted set of tools for reform implementation. The main constraints lie in the nature of the multi-level system itself and in the severe capacity and resource constraints in many of the regions.

5. One of the key principles of the Russian Federal system is unified governance, which envisages “close organizational and legal links, accountability of structures, joint delegation of responsibilities... unified system of information, a unified ‘legal space’ and a mandatory nature of all orders along the vertical line of power.”¹⁷. The norm allows the influence of Federal government structures on those of the Subjects of the Federation in relation to the powers within the jurisdiction of the Russian Federation and on those with joint responsibility of the Subject of the Federation and the Federal Center.

6. In this context, there are several programmatic and legislative mechanisms through which reform implementation is organized in Russia, including Federal laws, the adoption of reform strategies and concepts, and the development and adoption of Presidential and Federal targeted programs. While Federal laws can have direct application at the regional level, or can establish the framework within which regions should introduce reforms, program mechanisms are mandatory for Federal government structures, but usually not for the regions.

7. Reform strategies are designed at the Federal level. They reflect the views of the regions through various formal consultation mechanisms, such as the State Council of the Russian Federation (RF), a consultative structure to ensure coordinated functioning and interactions between Federal government structures and government structures of the Subjects of the Federation. In the course of the formulation of the state governance reform strategy during 2000 – 02, a Working Group of the Presidium of the State Council on State Governance Reform¹⁸ analyzed the status of state governance in Russia and prepared a report for the President, “A Way to the Effective State: Plan for Changing the System of State Structure and Governance.”¹⁹

¹⁷ Constitution of the Russian Federation (RF) art 5; art; 77 (part 2); Scientific and applied comments to the Constitution of the editor B.B. Lazarev. Moscow, 2004, p. 387.

¹⁸ Following the request of the President of the RF from 29 September 2000 “On the system of government structure and governance in the RF”

¹⁹ Information on the work of this group can be found at: <http://www.niiss.ru/gso1.shtml>, some proposals for the reform included in the report are available at: <http://www.niiss.ru/adminref.shtml>

8. Regional authorities are responsible for the design and implementation of regional reform programs from their own budgets. Several factors influence these decisions of regional authorities on reform implementation, including the perceived priority of the suggested reform for the region the fiscal affordability of the reform, and the availability of technical and administrative capacity to implement the reform.

9. The Offices of Presidential Representatives in the Federal Districts are responsible for the monitoring of and support for reform implementation at the regional level. The Offices have a variety of tools and mechanisms at their disposal in this regard, including the formation of advisory and consultative councils on key aspects of institutional reform.²⁰ The latter function was recently enhanced through the formation of permanent Advisory Councils for the Offices of Presidential Representatives with the mandate to discuss problems related to interactions between Federal and regional authorities, state building and issues of federalism, personnel policy issues in the regions/Federal District, and the implementation of relevant Federal laws.²¹

10. The next section will briefly review possible instruments for ensuring effective reform implementation in the Russian context described above.

Traditional/hierarchical instruments: Legislation and methodologies

Legislation and mandatory programs

11. Legislation is a widely used tool in the implementation of institutional reforms in multi-level government systems. Provided the central government has the authority to legislate on institutional issues through prescriptive or framework legislation (for example directives that are binding as to the results to be achieved), this is a potentially powerful tool for achieving institutional change. Legislation can be effective, in particular, in changing civil service systems, as well as in the area of budget management, as an indirect tool for stimulating reform through enforcing fiscal discipline. However, legislation is less likely to be effective in areas such as service standards, performance management and the enhancing of transparency, which are highly sensitive to interpretation and require a strong change management approach for successful implementation.

12. It is important to stress that whereas the adoption of legislation in the Russian as well as the continental European context is often a condition for reform implementation, legislation at the same time has only *potential* value when it comes to ensuring effective reform implementation. The experience of Central European states in particular has shown the limitation of civil service laws as reform instruments in the absence of accompanying training and capacity building initiatives and reforms in incentive systems

²⁰ Including "Organizing control over implementation of federal laws, Decrees and Decisions of the President of the RF, Resolutions and Decisions of the Government of the RF, as well as over implementation of federal programs in the federal district", Decree of the President of the RF #849 of 13 May 2000 (edition of 21.03.2005 #316). Para. 6.

²¹ Presidential Decree #337 of 24 March 2005

(see Verheijen, 2001; Verheijen and Rabrenovic, 2005). In complex reform contexts, such as that of Russia, the use of mainly legislation carries the additional risk of mismatch with other reform initiatives, such as budget and administrative reform, which by their nature require more interactive and innovative reform management tools. Based on the discussion in the previous chapter, it is particularly important to have some degree of consistency in the application of reform tools between different reform areas in order to prevent problems in one area from blocking progress in a different area.

Methodological support

13. Methodological support can be an excellent supplement to legislation, especially where legislation is complex and aims to introduce new concepts in public management. It can also supplement other reform tools, such as competitions and budget support, if it is provided to sub-national authorities to prepare applications or reform plans. It is clear that in the context of Russia the implementation of legislation without methodological support, especially in weak capacity regions, is unlikely to bring the expected results.

14. Methodological support can be provided by the government directly or by the subcontracting of such support to academic institutions or other bodies with advisory capacity. However, even where methodological support is subcontracted, the central state authority will continue to need to maintain a strong hands-on approach in its monitoring to ensure that the support provided is tailor-made as well as adequate.

Developmental and change management approaches

Networking and coalition building

15. Change management approaches come in various forms, and are especially effective in conceptually more difficult reform areas such as performance management and performance standards, service standards, the use of citizen feed-back mechanisms, etc. Like methodological support, the use of change management instruments requires a pro-active approach on the part of the central government authorities. Important elements of change management approaches include networking and coalition building (identifying and nurturing change agents), interactive training and knowledge exchange meetings, rotation and placement schemes, etc. Logically, change management approaches must be part of a reform process from the design stage, as the identification of those officials and experts at the sub-national level who can absorb and transfer expertise and advocate for change should best be undertaken as early as possible. This would ensure that networks of change agents can be made operational as soon as a reform program is adopted by government.

16. The Russian system of Federal Districts (Okrugs) is in principle well suited to facilitate the development of change networks, provided these units include officials who have been engaged in reform program design. In a system with a large number of sub-national authorities, using representative units would seem a necessity. If Okrug offices are equipped to support reform initiatives, they could serve as the ideal intermediary for the government in identifying at a sub-national level those officials who would be

effective potential counterparts in advocating for reform. Bringing together such officials on a regular basis in working groups would help to generate exchanges of experience and build a support network for those engaged in moving forward with a reform agenda. Political party structures and expert networks can supplement change management systems by serving as additional forums for discussions on substantive aspects of government reform programs.

Training and capacity building

17. A final instrument, training and capacity building, is in part linked to the previously discussed funding of pilot reform initiatives, which often include the provision of advisory services and training. Training can also be an element in a change management strategy. However, training has generally been an underused tool in reform management in the CIS as well as in other CEE states. This has to do with the rather conservative approach that has often dominated the provision of training in the region, as well as with the perception of training as a “benefit” or an “obligation” rather than as an integrated part of career management (in the civil service). Training programs, if rightly designed and tailored to the substance of reform programs, can both help overcome the resistance that may confront new approaches and management instruments in an institutional environment, which program can also smooth the implementation of reform measures, as civil servants will be more comfortable with their application. This is especially important for the more innovative aspects of institutional reform, such as the introduction of performance management systems competency based civil service management approaches, and service standards.

Fiscal incentives and other financial instruments

18. Whereas legislation, methodological support and change networks can be used as instruments in multi-level governance systems and in unitary systems, the use of financial incentives is in many instances a more suitable tool in multi-level systems. The complexity of fiscal relations that characterizes virtually all multi-level governance systems, with many of them having a large array of shared competencies, makes the fiscal transfer system an important potential tool in the hands of federal authorities. Fiscal instruments can be used in two ways, which are often combined: (i) to drive reforms by enhancing fiscal discipline, which tends to force sub-national authorities into cost reductions, often translated into cutback exercises in the civil service; and (ii) to provide fiscal incentives for reform, either by setting up funding mechanisms for designing and implementing reforms or by providing of budget support in exchange for the implementation of reforms.

19. The first use of fiscal instruments is traditionally the best known. However, pushing for cost-cutting measures at the sub-national level by curtailing fiscal transfers is not likely to have a permanent impact, as it often leads to “knee-jerk” reactions in the form of across the board cuts, which rarely become permanent. The creation of federal funding mechanisms for reform pilots in sub-national authorities is also practiced

relatively frequently, including in Russia. One of the main questions in this regard is whether resources are allocated on a competitive basis or through the pre-selection of 'promising' regions by the federal authorities. The former situation has obviously greater credibility but is hard to design, as outside of the area of budget reform it is difficult to define objective indicators to assess proposed reform initiatives. However, this can be counterbalanced by introducing transparency into the selection process as well as by working with the regions in defining mutually acceptable indicators.

20. Finally, linking increased (one time or permanent) transfers to performance in specific reform areas is a further possible fiscal incentive tool for reform. Whereas this is an excellent tool for bringing about competition between regions in starting and implementing institutional reforms, it has two potential drawbacks. First, as with the use of funding for pilots, there are difficulties in designing indicators to assess reform proposals. Transparency in the allocation of resources and transparency in defining criteria can help mitigate this problem. The second drawback to this method is that there is a risk that it would interfere with a different policy objective, such as the attempt to promote an even economic development across the state unless measures to include lagging regions are designed along with competitions based on quality and merit.

Russian approaches to reform implementation: A summary

21. The review of Russian approaches to reform in the next section, based on the classification of the instruments above, reveals the picture of reform instruments shown in Table 2.1.

Table 2.1: Summary of the Management Instruments Applied and the Effect Achieved for Main Reform Directions

Reform Directions	Civil Service Reform (2003-2005)		Administrative Reform (2003-2005, suggested for 2006-2008)		Budget Process Reform (2003-2005)	
	Tools Applied/planned	Effect	Tools	Effect achieved/expected	Tools	Effect
Framework legislation for reform implementation	Framework laws and secondary legislation at the federal and regional levels; mandatory for all regions	Adoption is lagging behind at the federal level preventing regions from moving ahead with reform implementation	Not applied during 2003-2004; Envisaged for main reform components for 2006-2008	Reform was partially followed at the regional level; Expected to ensure unified approach to main reform components	Government statutory acts - advisory nature for regions, amendments to the Budget Code - mandatory	Change was taken forward at the federal and regional levels
Reform programs and concepts	Federal program: mandatory for the federal government and recommended for the regions	Partial, no follow through in low capacity regions	Concept for 2006-2008 recommended for use by the regions	Establishes reform directions and includes program management mechanisms	Concept recommended for use by the regions; Programs required under competitive mechanism	Facilitated change in the regions-winners of the competition; effect in other regions – depends on local capacity
Engaging in strategy formulation, communication strategy	Input at high political level through State Council; Advisory Councils for the Offices of Presidential Representatives in Federal Districts	Assessment and proposals formulated for the President; Advisory Councils established in 2005 and results from their involvement to be determined	Through WGs of the Government Commission on Administrative reform; expert seminars at the federal level; seminars with the regions and federal government structures on reform implementation	Comprehensive reform strategy drafted with input from experts; High interest and participation from the regions	Consultations with the regions on the draft conceptual documents	Observed at a later stage, but accelerating Effect to be determined
Expert and methodological support	Limited application Provided to selected pilot institutions and regions	Built expert capacity at the federal level and in pilot regions; lack of involvement of other regions	Training programs being designed and planned for application during the first quarter of 2006 at the federal and regional levels	Expected to build capacity at the federal and regional levels and support unified approach to methodologies applied	Federal methodologies /expert support through competitive mechanisms	Facilitated change mainly in the regions that emerged as winners in competitions

Incentives	Limited application only for 6 pilot regions during 2003-2004;	Created strong motivation in 6 pilot regions	Competition for federal support both for federal authorities and regions planned for application on an annual basis	High interest from regional and federal authorities; effect to be determined	Competitive distribution of Regional Finance Reformation Fund resources applied on a wide scale	Facilitated change mainly in the regions-winners of the competition
Diffusion of best practices	Information sharing on results of pilots through limited publications; No information on replication of pilots and experiments in other regions or at the federal level		Envisaged in the concept; strategies and instruments to be identified	Effect to be determined	Codes of best practice for regional and municipal levels (through donor assistance initiatives); Publicly accessible (web-site), broad application	Useful tool for all regions
Monitoring and evaluation	Through formal reporting and contracting out of analyses applied; Monitoring of public opinion; Legislative monitoring through Offices of Presidential Representatives	High degree of formality; higher reporting requirements for implementing partners; introduction of working seminars during fall of 2005; changes for overall reform strategy for the next stage were not introduced	Envisaged in the concept; baseline survey carried out by MoEDT in November 2005	High level of participation of regions; results to be determined	Through monitoring of fiscal indicators (launched under the donor assistance initiatives, but further developed and applied by the Ministry of Finance)	Effective in terms of change monitoring

INSTITUTIONAL REFORM IN PUBLIC SECTOR MANAGEMENT IN RUSSIA: DESIGN, IMPLEMENTATION AND REFORM INSTRUMENTS AT THE FEDERAL LEVEL

21. The next sections will review in more detail the design and implementation mechanisms used thus far in three key aspects of public sector management reform: Civil Service Reform, Budget Management Reform and Administrative Reform.

Implementing Civil Service Reform at the Federal level: An example of reform by legislation

22. Between 1992 and 2003, Russia attempted unsuccessfully to initiate Civil Service Reform on several occasions. As a consequence, the contrast between the internal world of the state machinery and the external conditions of a market-oriented economy has increased significantly. A review of the attempts to reform the Russian civil service between 1992 and 2000²² identified *the lack of operational mechanisms and tools to implement the proposed reforms* as one of the main reasons for failure. This section reviews the approach to managing and implementing Civil Service Reform in 2003 – 05 and indicates how the mechanisms and tools used for implementing Civil Service Reform affected progress in reform implementation at the Federal level.

Strategy for Civil Service Reform implementation

23. Civil Service Reform is based on the Federal program “Reform of the Civil Service of the RF (2003-2005).”²³ This program targets mainly Federal government structures (Box 2.1). The Presidential Administration is responsible for organizing the implementation and monitoring the progress of the reform, including the coordination of approved Federal and regional programs. Some of the aspects of implementation management have recently been transferred to the Ministry of Health and Social Development.

Box 2.1: Principal Measures Envisaged by the Civil Service Reform Program

- Improving the legislative and regulatory framework for civil service reform issues;
- Experimenting and implementing pilot projects aimed at applying new approaches to federal civil service organization and support of federal public servants' activities;
- Improving training, retraining, and professional development of federal civil servants;
- Creating a material and technical environment for efficient functioning of the federal civil service;

²² See Civil Service Reform in Russia: History of Reform Attempts in 1992 – 2000. Ves Mir. 2004.

²³ Approved by the Decree of the President of the Russian Federation No. 1336 of November 19, 2002

- Forming a civil service administration system.

Source: Decree of the President of the Russian Federation No. 1336 of November 19, 2002 “On Federal Program “Reform of the Public Service of The Russian Federation (2003-2005).”

Reliance on legal instruments with limited attention to capacity building

24. The Federal Program for Civil Service Reform outlines a range of tools for reform implementation at the Federal level, including legislative development, training and piloting. However, to date the results achieved by the reform have been measured mainly in terms of the number of adopted laws and secondary legislation. The main pieces of legislation adopted thus far, the Federal Law *On the State Service of the Russian Federation* approved in 2003 and the Federal Law *On the Civilian Public Service of the Russian Federation* adopted in 2004 reflect a series of compromises reached between those supporting the continental Civil Service Model and those encouraging the implementation of an Anglo-Saxon civil service model, and as a consequence the law represents an incremental change compared to the status quo. Thus, whereas both legal acts represent a step forward in terms of strengthening the unity of the public service of Russia (be it military, civilian, or law enforcement), they do not represent a significant enough departure from the previous system regarding merit-based recruitment, career management practices and performance incentives.

25. The main problems that have arisen with the implementation of legislation are: (i) the slow process of the adoption and implementation of secondary legislation, thus reducing the impact of the new laws; (ii) the weaknesses in ministerial implementation capacity (see Box 2.2), which have thus far not been addressed and which limits the impact of innovations in recruitment and promotion systems; and (iii) the postponement of the creation of a central management structure for the Civil Service, which has led to inconsistent implementation of the laws. Recently, more attention has been devoted to implementation issues, in particular since the transfer of part of the responsibility for the implementation of the Law on Civilian State Service to the Ministry of Health and Social Development.²⁴ However, the slow rate of implementation of the last two years highlights the risk that without supplementary measures the implementation in the Law is not likely to have the desired impact in terms of modernizing the Civil Service.

Box 2.2: Human Resource Management Function at the Federal Level in Russia

The results of the HR management diagnostic conducted at 12 executive bodies in Russia in early 2004 (before the restructuring of the government) demonstrated that the quality of HR management in Russian federal executive bodies (average rating 0.52 out of 5 based on Common Assessment Framework) was much lower than HR management in the EU countries (average rating 2.5 out of 5). Moreover, the variation of HR management quality in Russia (from 0.1 to 1.1) suggested the absence of centralized HR management coordination, methodological support, and monitoring that leads to “different rules of the game” in different agencies. This assessment also partially reflects the readiness of HR units to assume advanced HR management functions characteristic of advanced civil service systems.

Source: Diagnostic of HR Management Units at the Federal Executive Bodies in the Russian Federation. 2004 (unpublished)

²⁴ Which has also established an expert advisory council

26. One example of the impact of the slow implementation of legislation relates to Presidential Decree 159/2005, *On the Suggested Official Contract for Employment by Public Civil Service of the RF and Appointment to Public Civil Service Positions in the RF*. This Decree required the adoption of job-specific regulations for Civil Service positions in the respective public authority within three months. However, since no methodological guidelines were created to assist ministries in drafting new job regulations, Federal bodies in reality transformed existing job instructions into job regulations without any substantive changes. The Ministry of Health and Social Development issued guidelines on the development of job regulations for civil servants at the Federal level²⁵ only in August 2005, when the three-month deadline had already expired.

Limited incentives for reform implementation: Stick without carrot?

27. Low pay levels in the Civil Service²⁶ were considered a key cause of the difficulty in attracting and retaining qualified personnel. Civil Service pay suffered from a low compression ratio (lower than 1:4²⁷), thus reducing incentives for staff to seek a Civil Service career. Last but not least, the structure of Civil Service remuneration was highly complex, with a low share of base pay and a large number of increments. In this regard, Civil Service pay issues were central to the reform agenda.

28. Even though the issue was recognized as a priority, the government adopted a partial and eventually inadequate solution, mainly for reasons of fiscal risk and fear of the effect an across the board raise in base pay might have on other areas of the public sector (see Box 2.3). In May 2004, the President issued a decree that asymmetrically increased base pay to Federal headquarter based civil servants, with those employed in federal ministries receiving higher pay increases than those employed in Federal services and agencies.²⁸ The increase covered mostly civil servants at the deputy head of unit level and above, and did not significantly affect other groups of civil servants. *Thus, while the issue of retaining key management staff was partially resolved, the issue of attracting young qualified employees to the civil service was not fully addressed, while conditions for staff at the deconcentrated units of the Federal administration were left largely unchanged, thus enhancing the risk of corruption at the service delivery level.*

²⁵ Letter of the Ministry of Health and Social Development from 10 August 2005 #3855-BC

²⁶ In accordance with the Federal Program *Reforming Civil Service of the Russian Federation (2003 – 2005)*, “Public servants employed in comparable-level positions are paid 10–15 times less than executives (CEOs and deputy CEOs), 7-10 times less than senior managers (division heads), 3-7 times less than managers (specialists, project managers), and 1.5-3 times less than administrators (project implementers) [in the non-state sector of the economy].”

²⁷ A 1:6 ratio between the lowest and highest paid officials is usually considered the minimum necessary to provide incentives for civil servants to aspire to take on posts at a higher level of responsibility

²⁸ Not addressing pay issues for civil servants working in de-concentrated units of Federal ministries at the regional level, which has created a wage gap between those officials and those working for regional authorities. This is particularly worrying for those officials working in deconcentrated revenue administration units, which poses a greater risk of corruption.

Box 2.3: Fiscal Costs of Civil Service Reform in Russia

At the request of the government, in 2004 the Bank estimated the potential fiscal costs of Civil Service Reform in Russia. Based on analysis of over 40 scenarios, the team concluded that only partial closure of the existing public-private pay gap is affordable in the medium to long term perspective with average civil service pay twice as low as the one for comparative posts in the private sector.

The selected scenarios assumed significant decompression (with the compression ratio changing from 3.7 in the Federal executive bodies in 2002 [including de-concentrated units] to 9.9 – 13.2 by 2010), significant staff adjustments in the executive branch (13 percent for federal executive bodies and 17 percent for sub-national ones) as well as quite high attrition rates in the civilian public sector overall (in the range of 10 – 25 percent, linked to demographic trends). Based on these assumptions, the annual reform costs accounted for some 1.2 – 2.3 percentage points (p.p.) of GDP depending on the dynamics of the share of wages in GDP.

The simulations also demonstrated that full-scale implementation of pay reform without staff adjustment would trigger annual fiscal costs of the reform to an additional 3.5 p.p. of GDP as compared to the 2002 baseline which could not be considered acceptable given the budget constraints. The costs of not carrying out staff adjustments in the civilian public sector are even higher: up to 4.2 p.p. of GDP compared to the 2002 baseline.

Source: Russia: Fiscal Costs of Structural Reforms. World Bank. 2005.

29. In addition to the above issue, the core issues of complicated pay structures and the link between pay and performance were also not properly addressed. The new Federal Law *On Civilian Public Service* replicated the previously existing pay structure comprising base pay and six pay increments. As an alternative, the law provided the basis for establishing pay levels in accordance with a special procedure involving performance contracts. While performance-based pay is not yet applied at the Federal level, the preliminary results of a partial application of a similar system at the regional level (e.g. in Chuvasia) demonstrate the high risks that such a system may be discredited owing to the lack of an objective basis for performance awards.

30. Overall, the reform team did not adequately address the core issue of Civil Service pay at the early stages of the reform process. Thus, the internal incentive structure in the Civil Service did not change and, hence, there was no additional motivation to support the reform agenda.

Managing change: Enhancing transparency and communication in the reform process

31. Civil Service Reform in Russia was designed behind the scenes by a small group of experts, mostly representing higher academic institutions dependent on the government or Presidential Administration. An early Civil Service Reform Concept approved by the President of the Federation in 2001 was not published until 2004.²⁹ Even after the approval and publication of the Civil Service Reform Program, the level of awareness regarding the reform in the Civil Service and public awareness of the reform remained low (Box 2.4), even among civil servants. The Public Officials Survey of 2003

²⁹ However, this Concept was sent to all Federal executive bodies as a classified document.

demonstrated that most civil servants were indecisive about whether they supported the reform agenda.³⁰

Box 2.4: Awareness about Civil Service Reform

The results of public officials and general population polls conducted in 2003 (i.e. after the Federal Program for Civil Service Reform was approved and published) consistently demonstrated that awareness about objectives and content of civil service reform was insufficient.

The Public Officials' survey conducted at the Federal level and in four regions that participated in pilot activities under the Civil Service Reform Program in 2003 demonstrated that only 20 percent of civil servants were "quite well informed about the reform" while 68percent thought they knew something about the reform and 11percent were not aware about it at all. The distribution was consistent across levels of government; the lowest extent of awareness was found in the territorial branches of federal executive bodies. The sample included civil servants at all levels; the survey found that civil servants at higher levels were better informed about the reform compared to their more junior colleagues.

Similar results were obtained from the survey conducted by the Russian Academy for Civil Service in October 2003 in 20 regions of Russia. Only 76 percent of "experts" (i.e. civil servants holding management positions in regional executive bodies) admitted that they understood the idea and objectives of civil service reforms while only 11.7 percent of the population admitted to the same understanding. Notably, Civil Service Reform proved to be less understood by the population than housing (22.2 percent), pension (22.1percent), education (20.3 percent), military (17.5 percent) and other reforms which may be due to the nature of the reform but may also reflect that the public relations component was not very successful.

Sources: Russia Civil Service Reform: Public Officials Survey. 2003 (unpublished); Boykov V.E. *Civil Service Reform: Pre-conditions and Problems*. 2003

32. Communication on reform implementation has been inconsistent. Over the last three years only one ministry (out of five responsible for the implementation of the Federal Program on Civil Service Reform) has published an interim report on its progress in program implementation³¹ and has commissioned a series of publications containing outputs of the activities it managed. Annual reports prepared for the Presidential Administration (the formal coordinator of the program) were never made publicly available.

33. The implementation record of planned transparency measures in the Civil Service is equally disappointing. For example, secondary legislation for establishing ethics commissions aimed at resolving conflict of interest situations in the Civil Service is long overdue. Overall, the lack of transparency in the reform process resulted in low visibility of the reform and in a lack of interest in reform activities on the best of both from civil servants and the general public.

Monitoring and evaluation of the reform process: Outputs instead of outcomes

34. Though the structure established for managing the reform process was quite complex,³² insufficient attention was given to monitoring, evaluating, and correcting

³⁰ In accordance with the civil servants survey, 46 percent of federal headquarters based civil servants were indecisive in their attitude to the reform: they provided either controversial answers or could not answer relevant questions from the survey. Source: Russia Civil Service Reform: Public Officials Survey. 2003 (unpublished)

³¹ The Ministry for Economic Development and Trade published a *Report on Implementation of Activities of the Ministry under the Federal Program "Reforming Civil Service of the Russian Federation (2003-2005)"* in 2003.

³² Including a special Presidential Commission, an Interagency Working Group, the Civil Service Directorate in the President's Administration and the Civil Service Department in the Ministry of Health and Social Development.

reform approaches. Despite the fact that monitoring indicators for tracking the reform process were proposed by both the Higher School of Economics (HSE) and the World Bank in late 2003, there is no evidence that any of these indicators have been applied in practice. On the positive side, some monitoring of outputs produced under the program was undertaken by the HSE in 2005.

35. The situation is exacerbated by the fact that official statistics on the Civil Service are scarce and do not allow for in-depth research; thus, a separate significant effort was required to assess the extent of the implementation of the Civil Service Reform on the ground. In practice, assessments were limited to requests sent to federal and regional executive bodies to collect information on progress made in the adoption of regional civil service laws and regional civil service reform programs. There is no evidence that the qualitative data collected were processed, and no methodological guidelines or recommendations have been issued based on the data collected.³³ A draft checklist for tracking the implementation of legal acts at the regional level was prepared only in the autumn of 2005 (i.e. a year after the Civil Service legislation was adopted).

36. The lack of a well-designed approach to monitoring the impact of reform partly explains the formalistic approach to reform implementation. The lack of objective data on reform trends did not allow the reformers to address operational issues in a timely manner; thus, the reform is still largely on paper and has failed to have a significant impact on the institutional culture and the internal incentive structure of the Civil Service.

37. The Presidential Program on Civil Service Reform in the Russian Federation (2003-2005) was a first attempt to approach this issue in a comprehensive way. However, while the design of the program was comprehensive, the implementation was not, and therefore the reforms have had a limited impact. The four key deficiencies that have militated against the expected impact include: (i) a heavy reliance on legal instruments without adequate attention to the use of methodological, expert support and capacity building tools; (ii) the limited incentives for successful reform implementation; (iii) a lack of transparency and communication in the reform process; and (iv) reliance on input-level monitoring rather than outcome-level monitoring, thereby preventing the introduction of corrections in the reform process when implementation was not progressing in a satisfactory manner.

Budget Reform at the Federal level

38. Russia embarked on second generation budget process reforms in 2004, with the aim of moving from fiscal stabilization to a performance-based budget management system. This step reflects the significant progress achieved in the area of fiscal management after the 1997 fiscal crisis through the adoption of the Budget Code (1998), the reform of the system of inter-budgetary relations between the Federal and regional

³³ A notable exception is the series of publications commissioned by MoEDT based on the results of pilot projects conducted at the Federal level (in the MoEDT) and at the regional level.

level,³⁴ and the transfer to Treasury-based execution of the Federal budget. These reforms served as a prerequisite to the further improvements in the management of the budget process which are the main subject of this section.

Strategy development: Laying out the roadmap

39. The *Reform of the Budget Process* is intertwined with the Administrative Reform agenda and was initiated at the Federal level through the *Plan of Public Sector Restructuring*, adopted in 2003. The Plan included the objective of increasing the effectiveness of budget expenditures, which was further elaborated in the *Concept and Action Plan for Budget Process Reform (2004-2006)*. The Concept included the introduction of multi-year budget planning, the transfer from cost-driven budgeting to results-based budgeting and the expansion of budget managers' authority. The adoption of a conceptually new budget management model required changes in the budget process, which were formulated in the Concept. These are presented in Box 2.5.

Box 2.5: Concept for Budget Process Reform (2004-2006) – Key Objectives

- Reform of the budget classification and budget accounting – modernization of the budget classification and introduction of accrual accounting, which allow budget reporting on functions and programs
- Separation of current obligations from new proposed obligations – increasing the reliability of mid-term forecasts in terms of availability to the budget administrator's resources
- Improvement of mid-term budgeting – introduction of three-year budget forecasts into the budget process;
- Development and expansion of the program approach and performance-based budgeting practice – introduction of new elements and tools into the budget process, allowing reliable mid-term budgeting
- Improvement and streamlining of budget formulation and approval procedures – revision of the budget process, taking into account new performance-based budgeting tools and procedures.

Source: Concept for Budget Process Reform (2004-2006), part 2

40. Approximately 300 million RRU was earmarked from the Federal Budget to fund the introduction of performance-based budgeting elements into the Budget process. The resources were to be distributed on a competitive basis among the Federal bodies of the executive authorities participating in the experiment.

Key mechanisms for strategy implementation: Going beyond legislative tools

41. As in other areas of institutional reform, *Federal legislation* has been an important mechanism for reform implementation.³⁵ In addition, the Ministry of Finance and the Ministry of Economic Development and Trade provided *methodological guidance* and also encouraged *training* and *expert advice* to support reform implementation in federal executive bodies. In addition *piloting* and the *competitive allocation of resources* to support reform were also used, as well as *public communications* tools.

³⁴ The key reform documents of that stage included: *Concept for Fiscal Intergovernmental Relations Reform in the Russian Federation (1999-2001)*, accepted by the Government Statutory Act # 862 of July 30, 1998, and *Program of Budget Federalism Development in the Russian Federation until 2005*, accepted by the Government Statutory Act # 584 of August 15, 2001. Since these reforms mostly affected intergovernmental fiscal relations, they are reflected in the section on budget reform at the regional level.

³⁵ A full list of the legislation adopted is presented in the Reference section.

42. The *Concept and Action Plan for Budget Process Reform (2004-2006)* emphasizes on legislation and methodology development. The key activity of the Action Plan is the development of the Draft Law “On Amendments to the Budget Code of the RF,”³⁶ which is currently being drafted, and will enshrine performance principles and medium term budget planning in budget legislation.

43. In addition, significant *methodological support* has been provided. The introduction of performance budget reports is a good example of such methodological support. These reports became the main tool for the implementation of performance budgeting for each Subject of Budget Planning (SBP)³⁷ and the basis for the development of the Government Consolidated Performance Report. The *Regulation on Performance Reports* was approved together with the Concept and described the general principles of report preparation and also provided a glossary of new terms, as well as the structure and content of the report. The *Methodological Recommendations on Development of Subjects of Budget Planning Performance Reports, for 2006-2008*, approved in June 2005, contains further details on the Performance Reports, in particular on the format of each part of the Report.

44. The main change management mechanism used in reform implementation at the Federal level was *piloting*. The Concept envisages the experimental implementation of performance budgeting elements in 2005 and 2006, based on the development of “budget innovation centers” which would be established on a voluntary basis and would receive financial, administrative and technical support.³⁸ Participating institutions were selected on a competitive basis and included nine SBPs.³⁹ The Performance Reports (2005-2007) of the selected SBPs were analyzed and revised with the assistance of independent experts and provided valuable information for the development of legislation and methodological documents in 2005 and the next set of Performance Reports (2006-2008).

45. Budget reform (including intergovernmental budgetary relations) has pioneered the application of *competitive approaches* to the distribution of Federal resources for reform activities. *Guidelines on the Implementation of the Experiment in Performance Budgeting Introduction in the Process of Federal Budget Development for 2005 and 2006* were issued early June 2004 to provide detailed information on the structure of each part of the application and evaluation criteria. The general structure of the application and the results of the pilots are included in Box 2.6.

³⁶ Concept (2004-2006), p. 7

³⁷ A Subject of Budget Planning is any ministry, service or agency directly reporting to the President of the Russian Federation or the Government of the Russian Federation.

³⁸ Alexey Lavrov, Director of the Budget Policy Department, Ministry of Finance, Presentation “Implementation of the Concept of Budget Process Reformation,” EC State Budget Reform Project Seminar, 16-17 December 2004.

³⁹ See Annex 1 for an overview of the procedure used.

2. Description of budget process and budget accounting organization		0.2	
3. Distribution of resources, required for implementation of targeted programs, using functional and economic classifications of the RF budgets		0.1	
4. Estimate of resources, required for targeted programs in the mid-term		0.1	
5. Forms of budget sector monitoring		0.1	
Total Score			

Source: Table 4.1, Guidelines on the Implementation of the Experiment in Performance Budgeting Introduction in the Process of Federal Budget Development for 2005 and 2006, part 4 Methodology for Evaluation of Applications, Submitted for Participation in the Experiment.

46. Under the competition, 17 SBPs submitted their applications, on the basis of which the Government Consolidated Performance Report was developed. Nine SBPs participated in the second round of the experiment, submitting additional information on budget process and resource distribution. Based on an expert analysis of the applications, the SBPs demonstrated progress in the definition of goals, objectives and performance indicators. However, the medium-term planning quality was evaluated as low, and the analysis of the main section on “Effectiveness of Budget Expenditures,” revealed misunderstandings regarding the role of this information (see Box 2.7).

Box 2.7: Selected Results of the Experiment in Performance Budgeting Introduction in the Process of Federal Budget Development for 2005 and 2006 – Independent Experts’ Analysis of Performance Reports Submitted by SBPs-Participants of Experiment

Strategic Goals and Operational Objectives

Progress in Comparison with the Previous Year

A better quality of goals and objectives formulation; SBP’s goals and objectives coherent with national strategic goal and objectives; Better link of goals / objectives with results (in terms of indicators formulation and target estimates); Better structure and presentation of Performance Reports.

Typical Shortcomings

Not clear and complicated formulation of objectives; SBPs confuse goals and objectives with mechanisms of their implementation; Insufficient analysis of links between goals and objectives, as well as justification of those links; Separation of key SBP authorities from authorities of subordinates to SBP bodies is a challenge for participating SBPs.

Programs

Conclusions: “...links between programs and objectives with performance indicators remained a weak point in the performance based budgeting procedures. In addition, program identification and their integration into the general political and financial SBP’s structure were also weak. However some SBPs – participants managed to develop programs which comply with most of requirements. This proves that the task is doable and requires additional efforts...”

Effectiveness of Budget Expenditures

Conclusions: “This part of Performance Reports was expected to provide the most important information/ However, analyzing the reports, one can draw the conclusion that SBPs do not understand the meaning of this information. The only information which is provided in the reports is analysis of performance indicators dynamic and dynamic of expenditures, however links between them are not demonstrated. Thus the general tendency identified is the listing of a

number of means which would be supposed to increase the effectiveness of budget resources. In the majority of cases, costs of those measures were not calculated...”

Source: Korina Chertan, Alistair Pirie, Olga Yastrebova, “Results of the Second Year Work on Preparation of Budget Applications, Performa Performance Budgeting Principles” (based on reports and experiment assessment), EC State Budget Reform Project, 2004.

47. Capacity building was implemented under international technical assistance projects, through *expert support* and *training* in the implementation of various aspects of the reform (e.g. the reform of budget classification and budget accounting practices; the implementation of experiment on performance-based budgeting introduction). *Training* was also provided through technical assistance projects.

48. While guidelines and methodologies were developed, *the diffusion of best practices* was not very prominent, especially when compared to the reform of fiscal intergovernmental relations (which included the design of a Code of Best Practices and a publicly accessible web-site with a best practices library). Comments provided on the *Draft Methodological Recommendations on the Development of Subjects of Budget Planning Performance Reports for 2006-2008* noted the complicated format and structure, and pointed out that at the start of the reform implementation, simple guidelines with many examples would have been more effective in gaining buy-in from civil servants.⁴⁰

49. In terms of *public communication*, budget process reform is the first element of institutional reform explicitly explained to the society in a public document - *Budget Policy in 2006-2008*, available at the Ministry of Finance public web-site (www.minfin.ru).

Managing reform implementation

50. The management arrangements for budget process reform were not clearly defined in the reform Concept. The responsibility for budget process reform implementation was distributed between the Ministry of Finance, the Ministry of Economic Development and Trade and the Government Commission on Increasing Budget Expenditures Effectiveness. In practice, since the government institutions concerned were involved mainly in the development of legislation and methodologies, each body was simply concentrating on the activities for which it was responsible, for without providing special reporting on results against the objectives of the Concept.

51. The development of Performance Reports was undertaken by a specially established structure – *the Commission on Increasing the Effectiveness of Budget Expenditures*. However, also in this case there are issues of diffused responsibility between the Ministry of Finance and the Government Commission on the Effectiveness of Budget Expenditures which became even more complicated when the Ministry of Economic Development and Trade and the Ministry of Regional Development embarked on the development of Regional Performance Reports (2006-2008). Statutory Act

⁴⁰ Carl Tretner, “Comments on the Concept and Methodological Recommendation (on the development of Reports on Results and Key Activity Areas of SBPs), DFID project “Assistance to Public Administration Reform in Russia,” March 2005.

239/2005, “On Regulation of the Development, Approval and Implementation of Institutional Targeted Programs,” gave joint responsibility for monitoring implementation to the Ministry of Economic Development and Trade and the Ministry of Finance, creating a lack of clarity in the allocation of responsibility and fragmented implementation.

52. *Monitoring and evaluation* remains a weak part of reform implementation at the Federal level. This might be linked to the fact that the reform program was designed as a Concept, not a Program, and it did not define the responsibilities for monitoring. Monitoring of selected parts of the reform, such as progress in the development of Performance Reports, took place and was implemented externally by experts from technical assistance projects and internally by the Commission on Increasing the Effectiveness of Budget Expenditures.

53. Budget reform implementation has relied mainly on legislative amendments, methodological support and the piloting of reform implementation through competitive mechanisms. This combination has been rather effective, especially where it has been balanced with capacity building tools such as training and expert support for pilots. Looking at the drawbacks, better results could have been achieved if the capacity building for the SBPs that did not participate in pilots had been addressed through a proper “roll-out” strategy and expanded capacity building exercises. More attention needs to be given to the design of effective reform monitoring mechanisms, especially under conditions of ongoing administrative reform. Treasury system reform provides some interesting lessons in this regard (Box 2.8).

Box 2.8: Treasury System Reform in Russia

Treasury reform in Russia was launched in 1992 by Presidential Decree 1556. The new Budget Code of the RF provided the legal foundation for Treasury-based Budget implementation. By 2002 the Treasury structure had been finalized; it included 89 directorates and 2,254 branches of the Federal Treasury. Starting in 2002 the majority of Federal government institutions adopted Treasury-based budget implementation.

Implementation Tools Applied

a/ Outsourcing - expert support in:

- analysis of the legislative foundation, related to the Federal Treasury operations
- functional analysis
- needs assessment, related to human resources and IT equipment
- development of detailed Treasury Development Plan
- equipment procurement
- training of personnel

b/ Systemic approach – support of the reform to territorial bodies of the Federal Treasury

c/ Sustainability of the reform – via a specially established in the Federal Treasury Directorate for Institutional Programs, which is taking over the responsibility for the Treasury Development Program and development of internal regulations supporting the new process.

Capacity Building Tools:

- Web-based Methodological Office
- Training of Treasury personnel

Reform Management and Control

The reform management and control was defined by Section 6 of the *Federal Targeted Program on Treasury Bodies Development for 2000-2004*. The Ministry of Finance of the RF is responsible for the program management, while the overall control is handled by the RF government, based on the review of the monitoring commission consisting of Ministry of Economic Development and Trade, the Ministry of Finance, and others relevant to the program subject bodies.

In addition, the *Federal Treasury System Modernization Project (World Bank loan)* provided the application of a project approach to the reform implementation, which envisaged an elaborate management and control mechanism having the following structure:

- Coordination – Interagency Commission comprised of Government Office and Federal executive authorities
- Management – Head of Modernization Project in the Federal Treasury
- Implementation – Institutional Programs Directorate at the Federal Treasury, Expert Analytical Group of the Treasury, Sub-Contracting Company, responsible for operations.

Communications Strategy

The web-site of the Treasury at www.roskazna.ru, contains information resources on the reform implementation, budget monitoring, methodological recommendations, as well as the forum regime.

Source: <http://www.roskazna.ru/news.html>

Implementation of Administrative Reform at the Federal level: From building blocks to a comprehensive approach

54. Administrative reform in Russia was implemented in two stages. The first stage was launched with the issuance of Presidential Decree 824/2003 “On Measures for the Implementation of Administrative Reform in 2003-2004,” which aimed to enhance the level of efficiency in the state administration. The implementation of the second stage of reform was started in 2006 within the framework of the “Concept for Administrative Reform in Russia and an Action Plan for 2006-2008,”⁴¹ which has broader objectives of enhancing transparency and improving the quality of public service delivery. This section analyzes the management of the implementation of the first stage of Administrative Reform at the Federal level.

Reform design: From specific measures to a strategic approach

55. Presidential Decree 824/2003 includes a list of measures aimed at improving the level of efficiency of Federal executive structures, with its main objective being to create a more favorable business climate (Box 2.9).

Box 2.9: Measures for the Implementation of Administrative Reform in 2003-2004

- Restriction of government intervention in the economic activities of businesses, including an end to excessive government regulation
- Abolition of the duplication of the functions and powers of the Federal executive authorities
- Organizational separation of the functions of regulation of economic activities, supervision and control, management of government property, and provision by government agencies of services to individuals and

⁴¹ Decision of the Government of the RF of 25 October 2005, № 1789-p

legal entities

- Completion of the process of delimitation of powers between the Federal executive authorities and the executive authorities of the subject of the RF and optimization of activities of the territorial agencies of the Federal executive authorities of the RF.

Source: Decree of the President of the RF No. 824, July 23, 2003

56. The *institutional framework* for the implementation of reform measures included the establishment of the Government Commission for Administrative Reform, chaired by the Deputy Prime-Minister.⁴² The Commission was empowered with the authority to conduct coordination and working meetings, to conduct hearings of responsible representatives of government structures on the results of the implementation of reform-related activities, and to request official documents from the Federal government structures.

57. One of the important characteristics of the reform process is that *external participation in the process* was foreseen by the Decree. Representatives of the business community, non-governmental and academic institutions, self-regulating organizations, and trade unions were included in the Working Groups under the Commission. This arrangement is a highly important feature for reform activities related to government regulation in the economy, so that the views of all of the main stakeholders are taken into account. The first stage of the reform included mainly direct measures to reform government structure and functions.

58. At the end of October 2004 the preparation of a broader and more ambitious Administrative Reform program was launched. The Concept for Administrative Reform in Russia and a related Action Plan for 2006-2008 were adopted by the government in October 2005 (Box 2.10). Though the reform strategy was adopted within the framework of a Concept, it includes programmatic measures unlike other Concepts in the area of government reforms (Budget Process Reform and Civil Service Reform), including a detailed Action Plan with a division of responsibilities for its implementation. The Administrative Reform Concept includes issues such as anti-corruption, transparency, performance management and service standards, and covers Federal and regional level administrations. The institutional structure for reform implementation at the federal level is to be enhanced through the appointment of public officials responsible for reform implementation in each government structure, thus establishing an operational mechanism for managing reform implementation. The Concept includes a set of monitoring indicators for evaluating the impact of the reform, and earmarked resources have been allocated in the Federal budget.⁴³

Box 2.10: Directions for the Implementation of Administrative Reform in Russia

(The Concept and Plan of Action for 2006-2008 were approved by the Decision of the Government of the RF #1789-p on 25 October 2005)

Result-based management: creation of mechanisms for planning; cross-sector planning; results-based management of organizations subordinate to the government structures.

⁴² Resolution of the Government of the RF No. 451 of July 31, 2003.

⁴³ Some US\$17 million was allocated to finance administrative reform activities in the 2006 draft federal budget.

Standardization and regulation: introduction of state service standards; introduction of administrative regulations; pre-judicial appeal procedures.

Optimization of the functions of government structures and anti-corruption: implementation of functional review decisions; elimination of inefficient government interference in the economy; reform of control and supervisory functions; system of outsourcing of administrative and management processes; raising the efficiency of public procurement; anti-corruption.

Improving the efficiency of interactions between the state and the society: development and introduction of a legal and methodological base to ensure the openness of state structures; introduction of transparency ratings of executive structures (Federal and regional levels).

Modernization of the system of information resources of executive structures and monitoring of administrative reform: modernization of the system of information provision for executive structures; reform monitoring.

Providing support for the implementation of administrative reform: development of model programs for administrative reform (for government structures and the subjects of the RF); developing the Human Resources potential for reform implementation.

Interactions with the society on issues related to reform implementation and dissemination of best practices.

Supporting the implementation of Administrative Reform at the regional level: organizational and legal support.

Federal government restructuring: Management approach and results

59. The main measures implemented as part of the Administrative Reform during 2003-2004 included a horizontal functional review and a reform of the overall central government architecture. The Government Commission on Administrative Reform, chaired by Vice-Prime Minister Alyoshin, undertook a functional review of over 5,000 functions of Federal executive bodies. Based on this review, some 800 functions were found to be redundant, 350 functions were of a duplicative nature, while for a further 500 functions major efficiency gains would be possible.

60. In response to the findings of the Commission, a new government structure was designed and introduced by Presidential Decree 314/2004 "On the System and Structure of Federal Executive Authorities."⁴⁴ The new structure reorganized the Federal administration into three levels, including Federal ministries responsible for policy development and legal regulation, Federal Agencies responsible for control and supervision functions, and Federal Services responsible for service provision. A set of *implementation measures* was adopted at the meeting of the Government of the RF held on 11 March 2004. These measures mainly included instructions to the Ministers in relation to the definition of the functions of the ministries and subordinated services and agencies, as well as their territorial structures (Box 2.11).

61. In order to implement the measures envisaged by the Decree, an Inter-Departmental Commission was formed with the participation of representatives of Federal ministries, the Administration of the President of the RF, and the Apparatus of the Government of the RF. The Commission was chaired by Deputy-Prime Minister Zhukov.

⁴⁴ Revised by Presidential Decree #649 dated 20 May 2004, "Issues of Federal Executive Authorities Structure."

Box 2.11: Measures for the implementation of a Presidential Decree #314 from 9 March 2004 “On the System and Structure of Federal Executive Authorities”

In order to secure qualitative and timely implementation of measures introduced in Presidential Decree #314 of 9 March 2004, Federal Ministers are assigned to prepare and submit for the consideration of the Government of the RF:

- within one week - drafts of legal and regulatory acts, establishing functions of the Federal ministries as well as services and agencies subordinate to them (issues within the authority of Federal government structures), taking into account decisions of the Government of the RF and Government Commission on Administrative Reform in relation to excessive, duplicative, and required government functions
- within one week – proposals for establishing a maximum (предельной) number and payroll fund for employees of the central apparatus and territorial structures of the Federal ministries as well as services and agencies subordinate to them in accordance with assigned functions
- until 20th April 2004 – drafts of regulations of ministries as well as service and agencies subordinate to them with the list of subordinate state institutions
- within five days – proposals on candidates for the Heads of Services and Agencies
- within three days – suggestions on candidatures of the Chairs of Liquidation Commissions in relation to abolished Federal executive structures.

Source: Press release from the meeting of the Government of the RF held on 11 March 2004.

62. Though the decision of the government set the obligation to adopt regulations on the operation of the new government structures within a very short period of time, the adoption of these new regulations has still not been fully completed. According to the MoEDT, a large part of the excessive functions are still in force and still have a basis in Federal laws, Presidential Decrees, and Resolutions of the Government of the RF.⁴⁵

63. The main idea behind government re-structuring, apart from efficiency gains, was to reduce the possibility of conflicts of interest inside the executive and to improve the controllability and accountability of Federal executive bodies. Decree 314 stipulates that the Ministry has to exercise management functions in relation to the Federal Services and Federal Agencies within the jurisdiction of the Ministry. The *Standard Regulation on Interaction of Federal Bodies of Executive Power*⁴⁶ was expected to define the reporting and accountability and reporting system between different types of government structures. The delay of the adoption of this regulation until July 2005 created serious uncertainties in the system and prevented the timely completion of the initial phase of central government restructuring. Thus, whereas there was a clear political imperative for reform, the technical measures that were needed to ensure effective reform implementation were delayed, which put the entire process at risk, as the ensuring uncertainty enhanced the resistance to reform.

Towards a change management approach: Implementation mechanisms proposed for the next stage

64. In view of the fact that the preparation of the comprehensive reform program was initiated only in the fall of 2004, the work of the Government Commission on Administrative Reform was continued throughout 2005, with the Ministry of Economic

⁴⁵ “On Results of the Socio-economic Development of the RF in 2004 and Tasks for Economic Policy of the Government of the Russian Federation for 2005”. MoEDT of the RF, February 2005, p. 95.

⁴⁶ Resolution of the Government of the RF #30 of 19 January 2005.

Development and Trade assuming the implementing role for the reform process (see Box 2.12).

Box 2.12: Measures Implemented during 2003-2005 on the Main Directions of Administrative Reform in Russia

Optimization of government structure and functions, anti-corruption

- “Whole of government” functional review conducted and decisions approved by the Government Commission on Administrative Reform
- Three-level system of governance formally introduced
- Methodology for conducting in-depth reviews of government structures and passport of functions developed;
- Inventory of the Network of Public Sector Organizations conducted;
- Methodology for evaluating legislation from the point of view of corruption opportunities
- Introduction of relevant changes in the Administrative Code of the RF, Federal Law “On Licensing of Certain Types of Activities,” “On Protection of Legal Entities and Individual Entrepreneurs”

Performance management

- Review of the Results of Implementation of the Federal Targeted Programs
- Adoption of a Regulation on the Development, Approval and Implementation of Departmental Targeted Programs
- Amended procedure for the development of the Federal Targeted Programs
- Resolution “On Reports and Main Areas of Activity of the Subjects of Budget Planning”

Standardization and administrative regulation

- Inventory of all government services delivered by Federal executive bodies conducted
- Draft Federal Law on Public Service Standards prepared
- Methodology used for the analysis of state service composition
- Draft Federal Law “On Regulation of Administrative Procedures” was drafted and generally approved by the Government Commission on Administrative Reform in the RF in January 2005
- Model Regulation (Reglament) On Bodies of Executive Authorities Interaction was approved at the RF Government Meeting on 30 December 2004
- Standard regulation of federal bodies of executive authorities in terms of their internal organization approved

Improving the interaction of state and society

- Draft Federal Law “On Access to Information about the Activity of Government Structures and Local Self-Government” prepared and approved by the Government of the RF
- Methodology for the evaluation of government web-sites

65. The above overview of reform activity shows a change in the approach to reform management and implementation. The reform measures adopted in 2003-05 created the pre-conditions for introducing changes on a larger scale within the implementation of the Concept for Administrative Reform in Russia. Regarding the measures included in the Plan of Action for Administrative Reform in Russia during 2006-08, certain preparatory work was conducted during 2003-05 to prepare a policy platform for the next stage of the reform.

66. Lessons learned from the previous reform phase were reflected in the Concept and Action Plan for Administrative Reform, which includes a competitive funding mechanism for the Federal government structures and regional authorities as one of the main mechanisms for driving the reform process. It also includes a combination of capacity-building and administrative mechanisms, the planned adoption of framework laws on the main components of the reform and the development of methodological guidelines and training programs. The establishment of informal mixed expert groups, with representatives from Federal and regional structures and a focus on generating “quick wins” aim to generate additional support for the reform agenda. At the same time, mechanisms for the ongoing monitoring of reform progress are also being established.

MANAGING REFORM IMPLEMENTATION AT THE REGIONAL LEVEL

67. This section analyzes the strategy and tools applied to managing public sector reform implementation at the regional level. As in the previous section on implementation at the Federal level, the analysis will review Civil Service, Administrative and Budget Reforms.

Implementation of Civil Service Reform

68. The state service of the RF is regulated by Federal laws within the jurisdiction of the RF and the joint jurisdiction of the RF and the Subjects of the RF.⁴⁷ The Federal Law on the System of State Service and the Civil Service System of the RF therefore serves as a basis to ensure a unified approach to the state service system and as a framework for regional legislation on the Civil Service.⁴⁸ The unified approach implies that there are uniform principles for the regulation of issues related to entry, tenure, deployment, dismissal, and the calculation of service duration, and the related provision of state social benefits, including pension benefits.

69. The Federal Civil Service Reform Program discussed in the previous section provides a framework for reform implementation at the regional level by establishing priorities and reform directions while relying on regional authorities for the design, implementation and funding of regional programs. The main mechanisms for program implementation at the regional level include legislative mechanisms through the framework Federal Law and administrative mechanisms through the Offices of the Presidential Representatives in Federal Districts.

Regional programs on Civil Service Reform: Converging approaches?

70. A majority of the Subjects of the Federation (54 out of 88 regions) had adopted regional reform programs by the end of 2005. Most regions closely follow the program directions outlined in the Federal Program, including the following⁴⁹:

- A strong focus on the creation of the legal base for the management of the Civil Service⁵⁰
- Limited capacity-building and information support activities: weak monitoring mechanisms, uneven resource allocation for reform implementation (with the exception of pilot regions under the Federal program)

⁴⁷ According to the Federal Law "On the State Service System of the RF," "legal regulation ... of the state service of the RF lies within joint responsibility of the RF and constituent entities, while the organization of the civil service – within the jurisdiction of the subjects of the RF" (para. 4, art. 2).

⁴⁸ Concept for Civil Service Reformation in the RF, approved on August 15, 2001 under No. Пп-1496

⁴⁹ Based on the review of 31 programs conducted by the Donor Secretariat in March 2005. More information could be obtained in the Donor Secretariat Regional Report.

⁵⁰ According to the Donor Secretariat Regional Report, only two-thirds of regional programs analyzed include a component on introduction of new approaches to civil service organization, probably because in the Federal program this component is included in a pilot approach.

- Linkages between the Civil Service, Administrative and Budget Process Reforms, including the optimization of government structure and functions, the introduction of performance-based management and service standards, and also the increasing transparency and accountability.

A small number of regions have selected region-specific reform directions, while others have decided not to adopt a specific regional program (for example, Moscow Region), or to directly implement the Federal program at the regional level (for example, Republic of Tatarstan) (see also Table 2.2).

Table 2.2: Adoption of the Civil Service Reform Programs at the Regional Level, December 2005

Federal District	Number of regional programs adopted as of December 2005	Number of regions included in the Federal District
<i>Central Federal District</i>	9	18
<i>North-West Federal District</i>	6	11
<i>Southern Federal District</i>	7	13
<i>Ural Federal District</i>	6	6
<i>Siberian Federal District</i>	12	16
<i>Volga Federal District</i>	7	14
<i>Far-East Federal District</i>	7	10
TOTAL	54	88

71. The reform design features revealed by the review of regional programs raise several issues related to reform implementation at the regional level, including: (i) the risk posed by the inadequate reflection of region-specific priorities, taking into account the fact that most regional programs just repeat the contents of the Federal program; (ii) the limited consultation between the Federal government and the regions and the related risk of low buy-in for the reform programs at the regional level; (iii) the lack of balance between the legislation and other reform instruments, as legislative approaches also appear to dominate at the regional level; and (iv) the inadequacy of the regional capacity to support reform implementation at the regional level.

Civil Service legislation as a main tool for reform implementation: Required but not fully applied

72. The Federal Civil Service Reform Program emphasized the need for a comprehensive and integral legal framework for the Civil Service across the territory of the Federation. Regions have generally opted for framework regional laws based on the Federal Law. According to the “Consultant-Plus” legal database, as of December 2005, 65 out of 88 regions have adopted a regional Civil Service Law. There is also a tendency for some regions to adopt secondary legislation for the implementation of the Federal Law “On State Civil Service of the RF” using the Federal Law as a basis and without the adoption of the regional Civil Service Law (Table 2.3).

Table 2.3: Adoption of the Civil Service Law at the Regional Level, December 2005

Federal District	Number of regions adopted Civil Service Law	Number of regions using Federal Law as a framework	Number of regions included in the Federal District
<i>Central Federal District</i>	16		18
<i>North-West Federal District</i>	9		11
<i>Southern Federal District</i>	10		13
<i>Ural Federal District</i>	5		6
<i>Siberian Federal District</i>	8		16
<i>Volga Federal District</i>	11	1	14
<i>Far-East Federal District</i>	6	2	10
TOTAL	65	3	88

Source: Legal Database "Consultant plus Regional according to the documents placed in the database as of 30 December 2005

74. In addition to this general review, the World Bank/DFID Donor Secretariat conducted a regional survey on the progress of the implementation of Civil Service Reform at the regional level. The responses received from 16 regions in relation to adoption of civil service legislation are included in Table 2.4.

Table 2.4: Adoption of the Secondary Legislation for the Implementation of the Civil Service Law at the Regional Level, November 2005

Legal and regulatory act	Number of regions adopted legislation (out of 16 surveyed)			
	Drafting not started	Drafting in process	Draft completed	Legal act approved
List of civil service positions subject to the special conditions of remuneration	8	5	1	2
Register of positions of state civil service of the subjects of the RF	2	2	2	10
Regulation on releasing the information about income, property which is subject to taxation and about property obligations of civil servants	3	2	2	9
Rules and conditions for provision of extra annual paid leave for civil servants at the level of constituent entity with non-limited working day	0	1	1	14
The amounts of base salary and class ranking allowance for state civil servants of constituent entity	1	1	2	12
Legal act regulating provision of the lump-sum housing subsidy -	5	7	2	2
Procedure and terms of payment of lump-sum incentive bonuses to civil servants at the level of constituent entity	2	3	2	8
Procedure for concluding contracts between government structures and citizens for training with mandatory fixed-term civil service following graduation	6	5	2	3
Procedure for professional training for civil servants	5	2	1	8
Procedure for allocation, volume and structure of state order for professional re-training, advanced training and traineeship of civil servants	3	2	2	8
Regulation on Civil Service Personnel Reserve	2	4	4	6

Qualification requirements for the length of civil service (state service of other types) or length of (experience in) occupational employment for civil servants at the constituent entity level	0	0	3	13
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Note: The table includes only selected legal and regulatory acts and is aimed at demonstrating progress for a small sample and not at providing a full picture of the adoption of secondary legislation at the regional level.

75. As demonstrated by the responses from the survey of regional legislation, two tendencies can be observed, of which both show that the delayed adoption of secondary legislation at the Federal level is a significant constraint for successful reform implementation at the regional level:

- Although secondary legislation on certain key issues is not adopted at the Federal level, some regions have adopted legislation on some of the main aspects of civil service management, in order to proceed with the reform implementation, thus taking a more complicated route of reform implementation;⁵¹
- The majority of regions adopted implementation legislation on some issues within their jurisdiction and those that depend on the allocation of funds from the regional budget (on issues such as base salary and extra annual paid leave).

Regional pilots and experiments: Results demonstrated but application limited

76. The Civil Service Reform Program envisages the implementation of pilots on new approaches to the organization of the Civil Service and the dissemination of successful results. During 2003-04 there were seven pilot regions under the Federal Program on Civil Service Reform (2003-2005) in which the experiments in adopting new approaches to civil service management and organization were conducted (Saratov Region, Samara Region, St. Petersburg, Krasnoyarsk Krai, Chuvash Republic, and Taimir (Dolgano-Nenetsky) Autonomous District, Perm Region). The selection of regions was based mainly on an expressed political interest in engaging in civil service reform.

77. During the first and second years of program implementation, a number of pilot activities on the introduction of new approaches to civil service organization were conducted at the regional level (see Box 2.13).

Box 2.13: Activities for Regional Pilots and Experiments under the Federal Program *On Civil Service Reform in the RF(2003-2005)*

- *Functional reviews based on the proposed standard of function description.* The development of proposals to eliminate duplication and redundant and fictitious functions; to include necessary but formally unregulated functions in the regulations on the pilot authorities, and to amend the regulations on the pilot executive authorities.
- *Region-specific reviews of the current institutional structure* of different authorities coupled with the functional review. The development of proposals to improve the institutional structure of public bodies (e.g., agency spin-off).

⁵¹ There is an option of adopting a temporary legal framework, but this does not allow regions to actually move forward. For example, if a secondary act on the Civil Service Register is adopted for a temporary term, then the whole package of legislation linked to Civil Service positions will need to be amended once Federal legislation is adopted if there are any contradictions.

- *Development of performance indicators for individual civil servants, pilot authorities and their structural units.* Coordination of performance indicators with the planning and budgeting systems without the modification of civil service pay mandated by the effective legislation. The development and piloting of real-time performance assessment arrangements as a way of ensuring regular adjustment of civil servant pay depending on performance.
- *Development and adaptation of standard employment contracts,* taking into account regional regulatory legal frameworks; and drafting of the contract introduction plan.

78. The regional pilots conducted within the framework of the Federal Program On Civil Service Reform in the RF show several main features, including the following:

- The implementation of regional pilots was managed by the regional counterpart of the MoEDT, thus providing the necessary expert and coordination support, which allowed for the involvement of regional experts and contributed to building capacity at the regional level
- The allocation of resources for regional pilots was not provided in a timely manner, thus it did not allow for the involvement of regional experts at the stage of designing methodologies
- The diffusion of best practices and the results of the pilot activities at the federal and regional levels were not effectively applied, even though it had been envisaged in the Federal program.

79. In conclusion, while experiments and pilot activities were a key element of reform implementation, the principle of conducting pilot activities in order to apply the results on at a wide scale did not work effectively. A positive feature is that the pilots and experiments were the only activities within the program that directly involved the regions in reform implementation. This was a positive incentive (both political and financial) for the pilot regions.

Capacity-building activities: Initiatives of the Offices of Presidential Representatives in Federal Districts

80. The Offices of Presidential Representatives in Federal Districts (Okruzs) had an important task in the reform implementation at the regional level. During the first stage of reform, the Offices were responsible for monitoring the adoption of regional reform programs and later the adoption of civil service legislation at the regional level. The analysis of these programs was conducted in several Federal Districts and it was acknowledged that the regions were expecting support from the Federal authorities in the course of the development and implementation of the regional programs⁵².

81. One example of a comprehensive approach to the provision of support for reform implementation is that of the Siberian Federal District, where a coordination Council on Personnel Policy was established and performed several functions related to capacity

⁵² Article on reform programs in Ural Federal District:
<http://law.edu.ru/magazine/municipal/article.asp?magNum=1&magYear=2004&articleID=1150257>

building and the management of reform implementation in the District during 2003-05 (Box 2.14). While the work of the Council is organized by the Office of Presidential Representatives, the activities are implemented by the regional representatives participating in its work. Thus, this mechanism seems quite cost-effective and oriented towards the needs of the regions.

Box 2.14: Coordination Council on Personnel Policy in the Siberian Federal District

Goal: Support the activity of the Presidential Representative in Siberian Federal District on issues related to personnel policy of the President of the RF.

Tasks:

- Ensure a uniform approach to the personnel policy of the President of the RF implemented by the territorial units of the Federal government structures, government structures by the subjects of the RF, local self-government, Siberian Academy for State Service, and other academic and educational institutions;
- Develop proposals for improving the legal regulation of issues related to the civil service and methodological support for the implementation of the personnel policy in the Federal District
- Develop suggestions for the Presidential Representative in Siberian Federal District regarding implementation of personnel policy of the President of the RF in the Federal District;
- Participate in the implementation of the decisions of the Council on Personnel Policy in the Siberian Federal District.

Functions:

- Analysis of the situation in relation to personnel provision of the territorial structures of the Federal government structures, government structures of the Subjects of the RF and local self-government; development of proposals on the strategy for the formation of personnel resources in the Federal District
- Consideration of issues related to civil service and municipal reforms, developing suggestions on the formation of a uniform approach to the implementation of decisions related to human resources policy in civil service;
- Developing recommendations and suggestions for improving the system of personnel training, methodological support for personnel units of the territorial units of the Federal government structures, government structures of the subjects of the RF and local self-government
- Organizing activities to study, analyze, and exchange experience on the personnel policy developed by government structures and local self-government, organizing conferences and seminars on issues related to personnel policy in the civil service.

Source: Resolution on the Coordination Council on Personnel Policy Issues, organized under the auspices of the Office of the Presidential Representative in the Siberian Federal District

http://www.sfo.nsk.su/kskp/index_blank.php?action=art&nart=1574

82. In conclusion, beginning with the reform design and throughout the reform implementation legislative and administrative mechanisms were mainly used, with limited methodological support provided at the initiative of the Offices of Presidential Representatives in the Federal Districts. The main function of the Program Coordinator and the Offices of Presidential Representatives in the Federal Districts - to manage reform implementation - did not go beyond coordination and legislative monitoring. The limited support tools applied in some Federal Districts and by MoEDT implementing partners were positive examples, but unfortunately they could not be distinguished as a prominent part of the reform strategy.

83. In addition, one of the main problems hindering effective reform implementation at the regional level is that only very limited support was provided through the Federal program, while the regions were required to implement the reform in accordance with

Federal priorities. Even the usual mechanisms of issuing guidelines and commentaries for the Federal legislation were not applied in a timely manner. Positive examples of support mechanisms included the pilots and experiments on new approaches to civil service organization that were conducted at the regional level during 2003-04 as well as support mechanisms provided by the Offices of Presidential Representatives in some Federal Districts, including the Siberian Federal District.

Budget Reform at the regional level

84. The discussion of budget reform at the regional level, will review the regional dimension of *Budget Process Reform*, as well as some of the relevant mechanisms for the reform of *fiscal intergovernmental relations*, which was initiated in the late 1990s.

Strategy development: Fiscal intergovernmental relations and budget management

85. The reform of intergovernmental budgetary relations was implemented on the basis of a set of conceptual documents, including the *Concept for Fiscal Intergovernmental Relations Reform in the RF (1999-2001)* and the *Program of Budget Federalism Development in the RF until 2005*. There are also plans for its continuation in 2006-08, under the *Draft Concept for Increasing the Effectiveness of Fiscal Intergovernmental Relations and Public Regional and Local Finance Management*.

86. The first policy document was designed to provide the basis for a new fiscal intergovernmental relations system in Russia by strengthening the legal basis for the division of functions and responsibilities among the Federal, sub-national and municipal levels in terms of expenditures and revenue sources. It also aimed to provide a more objective and transparent redistribution of budget resources, as well as enhancing the unity of the budget system.

87. The second document was aimed at clarifying sub-national and local government rights and responsibilities on budget issues, (see Box 2.15). The program proposed that by 2005 the majority of the regions should adopt the Treasury-based system of budget implementation.⁵³

Box 2.15: Program of Budget Federalism Development in the Russian Federation until 2005 - Key Objectives

- (i) Improve the country's budget structure - the program envisaged legal adoption of the right for the region to identify its budget system, based on the context of the local self-government system in the region
- (ii) Separate expenditure obligations and reduce the number of non-funded mandates – the activities in this area addressed a problem of “mutual funding” which was still broad and which led to unclear responsibilities in terms of a number of public services
- (iii) Separate tax collection authority at all levels of the budget system and assign revenue sources to regional and local budgets – expand regional and local sources of revenues through legislation and give up practice of regional and local taxes centralization and transfer to the Federal budget

⁵³ Program of Budget Federalism Development in the Russian Federation until 2005, Part 2 – Program Strategy

- (iv) Develop objective and transparent mechanisms of regional and local budget support - adopt the use of five different funds to channel support to the regions depending on the purpose (Fund for Support to the Subjects of the RF, Compensation Fund, Fund for Co-Financing of Social Expenditures, Fund for Regional Development and Fund for Regional Finance Reformation);
- (v) improve financial management at the regional and local levels – adopt three types of standards: basic standards for regional and local finance systems in Federal legislation; recommended norms, which would be taken into account in decision-making in terms of financial support from the Federal budget; additional high standards, outlined in the Code of Best Practice.

Source: Program of Budget Federalism Development in the Russian Federation until 2005, Part 2

88. Following the completion of the reform of the framework for fiscal intergovernmental relations, the Federal level Budget Process Reform was launched. The Budget Process Reform is based on the Concept for Budget Process Reform (2004-2006), and aims to increase the effectiveness of public expenditures. The government Statutory Act 249/2004 advises regions and municipalities to use the Concept’s proposals for Budget Process Reform at sub-national level and local self-government level, and to manage budgets based on performance principles.⁵⁴

89. Finally, in November 2005 the *Draft Concept for Increasing the Effectiveness of Fiscal Intergovernmental Relations and Public Regional and Local Finance Management (2006-2008)* was adopted to integrate the results of budget related reforms at the regional level. The objectives of this document are outlined in Box 2.16.

Box 2.16: Draft Concept for Increasing the Effectiveness of Fiscal Intergovernmental Relations and Public Regional and Local Finance Management in 2006-2008 – Key Objectives

- (i) Strengthen the financial sustainability of the regions
- (ii) Establish incentives for increasing revenues in regional budgets
- (iii) Establish incentives for improving of public regional and local finance management
- (iv) Assist the Russian regions in implementation of local self-government reform
- (v) Provide methodological and consulting support to the Russian regions
- (vi) Increase regional and local finance transparency.

Source: Draft Concept for Increasing the Effectiveness of Fiscal Intergovernmental Relations and Public Regional and Local Finance Management in 2006-2008, Part 3

90. All programs related to the Budget Process Reform were initiated by the Federal government and the overall strategy observed is of a “top-down” nature. The proposed reform logic proposed suggests the development of the legal framework, with the subsequent strengthening of the regional and local financial resource and management capacity.

Strategy implementation: A diversity of tools

91. Unlike the situation with the “Federal government – Federal executive agencies” relationship, the Federal government cannot rely only on administrative mechanisms to accelerate reforms at the regional level. That is why the general tendency is to introduce

⁵⁴ Government Statutory Act # 249 of 22 May 2004, para.1

change through Federal laws and then to create incentives to encourage the regions to initiate reforms.

92. In 1999-2001, reform measures were focused on *legislative development*. Looking at the Action Plans of the Concept (1999-2001), we can find several legislative mechanisms for reform implementation. First, the majority of changes are introduced through Federal Laws on the Federal Budget for the next year, or through specific federal laws. The program also envisages the development of Federal methodological recommendations. Finally, on issues of the Federal government's approach to regional support, Government Statutory Acts are proposed as one of the means of introducing new elements. Since strengthening the legal foundation for the definition of fiscal intergovernmental relations between levels of government was one of the primary goals of the Concept, the concentration of the reformers on legislation as the main mechanism was logical.

93. The implementation of the *Program of Budget Federalism Development in the Russian Federation until 2005* demonstrates a shift to *methodological recommendations*. Given the fact that the focus of the program was the development of a regional capacity to make local decisions, and that the Federation has limited administrative mechanisms for encouraging changes in the regions, methodological tools were a good instrument for introducing innovations, but for actual quality improvement, especially in public financial management, other supporting mechanisms were required.

94. Given the limited administrative leverage of the Federation for accelerating reforms at the sub-national level, *creating incentives* acquires special importance in the regional context. *Competitive mechanisms* were first piloted in this area of reform, under the Fund for Regional Finance Development. In 1999 the Ministry of Finance invited regions to submit applications for support from the Fund. A special methodology to evaluate the solvency of the regions and the quality of the financial management system in the region was developed by EA-Ratings and the Ministry of Finance Economic Experts Group. Each competition included two stages. After initial participation in the first stage, the regions were to develop applications for participation in the second stage, taking into account the methodological recommendations of the Interagency Working Group. The regions were also expected to design a Program for Regional Finance Reform, signed by the head of the regional administration.⁵⁵ Since 2001, the Ministry of Finance has conducted five competitions and the Fund has provided support to 31 regions in total.

95. Support tools for budgetary relations reform implementation were offered under the World Bank Regional Fiscal Technical Assistance Project, which added US\$30 million to the reform budget. The goals of the program were built around providing *expert advisory support* to regional authorities on budget expenditure optimization and

⁵⁵“ Programs of Regional Finance Reformation: First Results”, prepared by V. Klimanov, edited by A. Lavrov, *Regional Finance*, vol. 2, Foundation for Enterprise Restructuring and Financial Institutions Development, 2001, p. 6

increasing the quality of financial management, as well as *monitoring* regional and local finance development.

96. The monitoring of regional and local finance was conducted at three levels – standard, expanded and advanced. Standard monitoring covered all Russian regions; expanded monitoring involved regions that agreed to submit additional information and to be subject to data verification procedures; advanced monitoring was implemented in regions selected on the basis of the results of diagnostics and the analysis of budget expenditures (mainly in regions participating in competitions for subsidies from the Fund for Regional Development).⁵⁶ Monitoring initiated under the World Bank Fiscal Technical Assistance Project laid the foundation for the current monitoring exercises that the Ministry of Finance undertakes routinely.

97. *Expert advisory support* was provided to budget expenditure analysis in pilot regions and involved expenditure analysis by sector (social protection, housing and utilities, healthcare, education, transportation, national economy/agriculture/construction, culture/recreation, law enforcement). Beyond the inventory of expenditures and the analysis of sector management and its impact on the social and economic situation in the region, the scope of the assignment for the consultants included proposals on sector and sector administration funding, the development of detailed programs on sector reformation, the development of a system of activities to monitor sector reform implementation and sector financing, and dissemination seminars.⁵⁷

98. The World Bank Regional Fiscal Technical Assistance Project also envisaged the development of *best practices collections*. A *Code of Best Practice on Regional Public Finance Management* as well as a *Code of Best Practice on Municipal Finance Management* was developed.

99. Regarding Budget Process Reform, methodological and expert support is key. A special *Working Group on Performance Based Budgeting Introduction at the Regional Level in Russia* was established at the Federal level by the Russian Government Commission on Increasing Budget Expenditures, the World Bank and the UNDP. Under this group two major outputs were produced: (i) an analysis of previous cases and initiatives of the introduction of performance-based budgeting at the sub-national level in Russia; (ii) proposals for the development of legislation and methodologies related to strategic planning and the introduction of performance budgeting at the sub-national level in Russia.

100. Analyzing the results of the *fiscal intergovernmental relations reform* in 1999-2001, Russian budget experts emphasize that, although the fiscal crisis of 1997-98 impeded the implementation of the Concept, the reforms have had a positive impact on the development of the country's budget system. The Ministry of Finance developed an inventory of Federal, regional and municipal budgets' expenditure obligations and

⁵⁶ *Regional Finance Bulletin*, Issue 5, "Budget Expenditures Effectiveness at the Regional Level," edited by A. Lavrov, Moscow 2005, p. 7

⁵⁷ *Regional Finance Bulletin*, Issue 5, "Budget Expenditures Effectiveness at the Regional Level," edited by A. Lavrov, Moscow 2005, p. 9

separated mandates without allocated funding; developed a number of amendments to the Budget Code; and adopted a new methodology for the distribution of financial support from the Fund for Regional Budget Support.⁵⁸

101. The competitive approach in regional finance reform created incentives for the regions to develop and implement reform programs. This activity stimulated about 53 regions to submit applications for support from the Fund and at least 31 regions to implement their regional finance programs.⁵⁹ Based on an evaluation undertaken by the World Bank on the impact of Fiscal Federalism and the Regional Fiscal Reform Loan, regions that participated in the competition over-performed their peers in fiscal performance (see Boxes 2.17 and 2.18 for findings and comparative data). However, while acknowledging the thorough approach to program development and implementation, it is important also to highlight the fact that only regions with a relatively good financial position could win the competition (given the initial disqualification criteria and looking at the solvency criteria), which make it extremely difficult for low capacity regions to access support for the reform process.

Box 2.17: Findings from Comparative Analysis between Regions, Participating and Non-participating in Fiscal Federalism and the Regional Fiscal Reform Loan

“...comparative analysis of regional performance suggests that by the end of the initial period of the program implementation the regions participating in the Fiscal Federalism and Regional Fiscal Reform Loan indeed over-performed their peers in a number of important areas, especially with respect to the speed of their fiscal adjustment and expenditure restructuring. These findings indicate that the project had a positive impact on fiscal performance of participating regions. The main differences in regional performance could be summarized as follows:

- ☞ Participating regions have been more successful in reducing budget deficit, public debt, and tackling the problem of total budget arrears than non-participants.
- ☞ The participating regions made these improvements in fiscal performance primarily through better budget management and improved expenditure control, while little difference has been seen so far with respect to revenue performance.
- ☞ Participating regions have shown a larger compression in their spending on enterprise subsidies and stronger increase in budget investments; they also show a lower level of spending on public administration.
- ☞ Participating regions outperform non-participants on a number of economic indicators, including the share of loss-making enterprises, rates of regional growth and growth in household incomes.
- ☞ There has been little evidence so far that the participating regions moved forward on restructuring health and education expenditures, which are the sectors where major budget inefficiencies have accumulated.
- ☞ The participating regions demonstrate the highest level of intra-regional fiscal inequality.
- ☞ Participating regions are characterized by a historically lower share of the largest firms in their economy. This could be a factor that helped them to lead the reform process. These regions may face less opposition from powerful insiders in the local enterprise sector.”

Source: Table 1, “Russia’s Fiscal Federalism and Regional Fiscal Reforms Loan: Impact on Regional Performance. Early Assessment, *Lev Freinkman and Mikhail Pryadilnikov*, The World Bank, November 2004 Table 1.

⁵⁸ “Programs of Regional Finance Reformation: First Results”, prepared by V. Klimanov, edited by A. Lavrov, *Regional Finance*, vol. 2, Foundation for Enterprise Restructuring and Financial Institutions Development, 2001, pp.4-5

⁵⁹ “Programs of Regional Finance Reformation: First Results”, p. 6

Box 2.18: Summary of Comparison between Regions, Participating and Non-participating in Fiscal Federalism and the Regional Fiscal Reform Loan (competition for subsidies from the Fund of the Regional Finance Reform)

Analysis of Statistical Significance of Differences between Participant and Similar Groups of Regions

	Participants	Non-Participants	Better Performance
Deficit, as % of Total Budget Expenditures, 2002	1.75	3.69	Participants**
Debt/GRP ratio, 2001	4.0	4.7	Participants
Total Budget Arrears, as % of Total Budget Expenditures, 1999-2001 average	14.7	29.5	Participants**
Wage Arrears, as % of Total Budget Expenditures, 2001	0.5	0.5	Identical
Average Number of Amendments to Regional Budget Law, 2001	4	6	Participants
Index of Budget Equalization, 2001	5.28	2.48	Non-Participants**
Ratio of Current to Capital Budget Expenditures, 2002	7.5	9.1	Participants
Production by Small Enterprises in Total Production, %, 2001	14	11	Participants**
Share of Labor Employed in SMEs per 1000, 2002	153	109	Participants*
Share of Budget Subsidies to Enterprises, as % of Total Budget Expenditures, 2002	15.5	16.7	Participants**
Regional Expenditures on Public Administration, % of Budget Expenditures, 2002	6.3	6.4	Participants
Growth Rate in Tax Collection, 1997-2001	22%	22%	Identical**
Share of Loss-Making Enterprises, %, 2001	34	39	Participants**
Unemployment, %, 2001	8.8	9.2	Participants
Accumulated GRP growth, %, 1998-2000	7.4	7.0	Participants
Real Average Household Income per capita, in 1998 rubles, 2001	1174	984	Participants*
Number of Teachers per 1000, 2001	112	122	Non-Participants
Number of Civil Servants per 1000, 2001	4.2	4.2	Identical
Number of Doctors per 1000, 2001	49	44	Non-Participants
Gini Index, 2001	33	34	Participants**

** Denotes statistical significance at 5 percent level.

* Denotes statistical significance at 10 percent level.

Source: "Russia Fiscal Federalism and Regional Fiscal Reforms Loan: Impact on Regional Performance. Early Assessment, Lev Freinkman and Mikhail Pryadilnikov, The World Bank, November 2004 Table 1.

102. *The communication strategy* for the fiscal intergovernmental relations reform came in the form of knowledge management and was organized through the World Bank Regional Fiscal Reform Technical Assistance Project. The portal www.gmf.ru is the key instrument for communication of the project outputs to regional and municipal

governments and the general public. In addition to the above-mentioned codes of Best Practices, the site contains a methodology for the evaluation of the degree of solvency and quality of the financial management system, the information on Federal and regional regulation, information on other technical assistance projects on regional finance, and the schedule of seminars and conferences on the subject. In addition, the World Bank Regional Fiscal Technical Assistance Project issues a *Regional Finance Bulletin*, covering various project aspects on a regular basis. Finally, monitoring results, as well as legislation and methodologies related to fiscal intergovernmental reform, and budget process reform are available at the Ministry of Finance public web-site www.minfin.ru.

Reform management and implementation control

103. Under the *Program of Budget Federalism Development in the Russian Federation until 2005* a special management and control mechanism was created in the Working Group on Fiscal Intergovernmental Relations Reformation. All outputs produced under the Program's Action Plan were to be considered, discussed and accepted by the Working Group. Along with Ministry of Finance representatives, its membership included the Council of Federation, as well as representatives of regional financial executive agencies, which allowed the consideration of feedback from the regions when considering draft legislation, methodologies or reports.

104. A special Interagency Working Group was established in 1999 to manage the Fund for Regional Finance Reform. This group mainly undertook three activities of the reform that were related to the competitive mechanism of the Fund's resources distribution, including final decisions on the results of competitions and the progress of participating regions.

105. Budget Process Reform, similar to the process at the Federal level, uses the development of performance reports as its main implementation management mechanism, which was the overall responsibility of the Government Commission for Increasing of Public Expenditures Effectiveness.

106. The proposed mechanisms for the implementation of fiscal intergovernmental relations reforms were effective, as responsibility was clearly defined in the conceptual documents. In comparison, Budget Process Reform activities were less transparent and less effective, and it would be advisable to take into account the experience of fiscal intergovernmental relations reform in the implementation of the new *Concept for Increasing the Effectiveness of Fiscal Intergovernmental Relations and Public Regional and Local Finance Management in 2006-2008*.

Monitoring and evaluation

107. In relation to regional finance reform, the Ministry of Finance undertakes various types of monitoring exercises, which include *reporting* and *ratings* based on *monitoring surveys* covering the following issues:

- Monitoring of Budget Code implementation (2003, 2004, 2005)
- Monitoring of the financial situation and the quality of regional and local self-government finance management in selected regions (2004). This provides the following *ratings*: a consolidated evaluation of the financial situation and financial management, an analysis of economic conditions, financial flexibility, and debt, compliance with Federal legislation, fiscal policy, public expenditure management, fiscal intergovernmental relations, reporting and transparency.

108. Sub-national finance issues are also reflected in the monitoring of the financial aspects of local self-government reform, also implemented by the Ministry of Finance to evaluate the situation regarding the development of local budgets for 2006. The report covers the legal framework for the budget process at the local and sub-national levels, organization of fiscal budgetary relations systems in the regions, the organization of municipal financial control, methodological support and training support provided by regional authorities to local self-governments and the staffing of local self-government financial bodies.⁶⁰

109. Thus, in comparison with other institutional reforms, Budget Reform at the regional level has started earlier and the demonstrated a variety of positive experiences in terms of implementation mechanisms. In line with key tools such as legislation and methodology development, various support tools, such as expert advice, have contributed to reform progress from the point of view of quality improvement and the development of best practice cases.

110. The competitive approach to providing of financial support to regional finance reform was also an innovation which is now being replicated in other institutional reforms, and which has demonstrated a positive impact on the fiscal performance of the regions. However, we cannot but draw attention to the selectiveness of the approach. The competitive mechanism did create incentives for reform implementation, but only for the regions that were the best in complying with the Federal methodology criteria. Comparatively weak regions, which were not able to attract expert advisory support by themselves, appeared to have low chances of receiving support for progress from the Federal level to. Thus, while constituting a progressive step toward reform implementation in those regions, fiscal intergovernmental relations reform initiatives would benefit from paying attention to a capacity building strategy for those regions that are not able to compete with stronger neighbors.

Implementation of Administrative Reform at the regional level

111. As noted in the section on Federal level reforms, the Concept for Administrative Reform in the Russian Federation (2006 – 2008) was approved in October 2005. Hence, the full scale implementation of Administrative Reform at the regional level has not yet begun. However, some activities undertaken earlier in the framework of the Federal Program for Civil Service Reform (in pilot regions) as well as under the programs for

⁶⁰ http://www1.minfin.ru/nov05_02.htm - official information for November 2005, see November 23, 2005.

reforming regional and municipal finance, are of direct relevance to the current reform agenda. In addition, the recent experience in managing public administration reforms at the regional level provides useful insights that should be taken into account when the implementation framework for Administrative Reform is designed.

Nature of the reform: Rationale for Federal support

112. The scope and the magnitude of change planned within the framework of Administrative Reform in Russia are enormous. Within a short time frame, the traditional post-communist administration needs to be transformed into a performance-oriented machinery with a service culture and effective mechanisms for redress available to the public; government interference in social and economic processes should be significantly cut; and the internal processes of public administration operations should be standardized and transparent. The envisaged pace of the reforms is unprecedented. Overall, Administrative Reform is one of the most complex endeavors Russia has ever embarked on.

113. A further complicating factor is that the implementation of reforms needs to take place mostly at the regional and the municipal levels, which are mainly responsible for providing public services, and this poses several additional difficulties and constraints.

114. First, the reform is very advanced in terms of substance. Many regions in the country have not “grown up” to the required starting level. Carrying out such reform in a context in which the external system of checks and balances is distorted while internal the capacity is very weak may discredit the idea of the reform itself, resulting in scarce pilots being implemented for the sake of the demonstration effect, with further deterioration in the quality of the core public services.

115. Second, the proposed concepts are relatively new and are not fully understood or accepted by the regional officials. In many cases the administrations may not be ready for such drastic change and – unless change management instruments are used – would tend to react bureaucratically to the challenges posed by the reform agenda.

116. Third, some of the activities included in the reform program are likely to be resisted by public officials and are sensitive in nature. Outsourcing and transferring government functions to non-government bodies, revisiting the scope of budget organizations, introducing performance contracts – all these activities are likely to generate a significant number of potential losers as a result of the reform, which may not be politically acceptable in the context of a region.

117. Finally, the large-scale implementation of the reform requires significant financial resources for capacity building, awareness campaigns, the development of service standards and administrative regulations, and the establishment of an administrative appeals system. While the federal budget enjoys a high surplus, most of the regional budgets are in deficit and hence they depend significantly on Federal transfers and are not able to fund significant research and development activities.

118. All these factors provide a rationale for strong and continuous support for reform activities through a variety of tools, including capacity building; engagement of the regions in developing a reform strategy; expert and methodological support; diffusion of best practices; and communication strategies to build support for the reform. Such support would require substantial investment. However, the lack of such support may result in formalistic approaches to the reform and result in a further differentiation in terms of the accessibility and quality of public services, thus creating a broader gap between advanced and lagging regions.

Rationale for Administrative Reform: Incentives for regions

119. The rationale and motivation for Administrative Reform in Russia are to improve the international competitiveness of the economy. This rationale, while convincing at the Federal level, is less so at the regional level. Hence, the existing incentives may not be sufficient for in-depth changes, and there is a need to create an additional incentive system for the regions to fully implement the reform activities. Such incentive schemes have to include financial elements that could support the lagging regions and award those already advanced. Notably, Russia has already gained some experience in using such incentive schemes and this could be applied in the context of Administrative Reform at the regional level.

120. Incentive systems used for public management reforms over the past few years include approaches involving both support to pilot projects with a high demonstration effect (under the Federal Program for Civil Service Reform) and support to a broader range of regions based on their own public finance reform programs (the Fund for Reforming Regional and Municipal Finance). These programs were analyzed in detail in the previous section of this report. However some lessons learned from past experience must to be emphasized in order to identify the approach to a possible incentive system for implementing Administrative Reform at the regional level.

121. First, the incentive system should be flexible in providing support to regions that have already embarked on reform activities and those that potentially have a low capacity and need additional capacity building and methodological help. Introducing of strong disqualification criteria (as in regional fiscal reform) or choosing only regions that are likely to be successful (as in the Civil Service Reform Program) would not resolve the existing deficiencies in the way public administration operates or in the quality of public service delivery in vulnerable regions. Therefore special mechanisms to support vulnerable regions need to be considered.

122. Second, given the importance of political leadership for the reform and ownership of the reform agenda, regions with a high commitment to carrying out reform activities should be given priority. However, to sustain such commitment, selection criteria (as well as progress evaluation criteria) should be transparent and verifiable. This is particularly challenging given the substance of the reform; however, unless the allocation of funds is fully transparent, the trust of the system may be compromised. A

similar rule applies to the verification of the results of the activities. To this end, a possible approach would be to use an independent company to assess the results achieved on the ground rather than to rely entirely on the reports (this practice was successfully applied in regional fiscal reform).

123. Third, the incentive system should involve a financial contribution from the Federal budget which has to be synchronized with the fiscal year. The pilot projects under Civil Service Reform suffered significantly from late allocation of funds and pressures for quick disbursement before the end of the fiscal year.⁶¹ Ideally, a transfer window (similar to that created for regional fiscal reform) should be used to allow the carrying over of the funds from one fiscal year to another.

124. In addition, such incentive systems as well as reform implementation at large would also require a strong monitoring and evaluation system. To this end, the initiative of the MoEDT which organized a data gathering activity on the status of administrative reform at the Federal and regional levels even before the reform started is a useful exercise which should be continued throughout the reform process.

125. Overall, the external incentive system would permit supporting the efforts of the regions in the medium-term perspective. However, such an external system should not aim at unifying the approaches to implementing reform activities across the Federation. In a country as large and diverse as Russia, there is no single approach that would work everywhere, and the exporting (and imposing) of centrally prescribed solutions might not always lead to satisfactory results. The balance of exogenous and homegrown approaches is reviewed in the next sub-section.

Lessons from past experience: Balancing top-down approaches with bottom-up initiatives

126. International experience demonstrates that solutions in the area of public conditions. The same applies to implementing Administrative Reform at the regional level as is illustrated by the past experience of public management reforms in Russia. The development and implementation of functional reviews at the Federal and regional levels in Russia provides a strong argument for the need to adjust central methodologies. In relation to Administrative Reform at the regional level, this case needs to be reviewed from two angles: the results of the pilot functional reviews conducted at the regional level in the framework of the Civil Service Reform Program, and the impact of the Federal government restructuring of March 2004.

127. The first regional pilot projects conducted in five pilot regions selected under the Civil Service Reform Program in 2003 were related to functional reviews. It was expected that the results of functional reviews would permit the optimizing of the structure of the relevant regional bodies, the elimination of irrelevant functions, and the

⁶¹ In fact, similar problems were also encountered during the implementation of some other Federal earmarked programs, including the program supporting the development of small and medium enterprises.

improvement of the overall efficiency of the government machinery. Although no comprehensive assessment of the outcomes of this work has been carried out, the reports prepared by the respective regions,

Box 2.19: Functional Review at the Regional Level: Experiences of the Civil Service Reform Program

Under the Civil Service Reform Program in 2003 functional reviews were conducted in five pilot regions, including Chuvashya Republic, Samara and Saratov Oblasts, Krasnoyarsk kraj, and Tajmyrsky (Dolgano-Nenetsky) autonomous district. In all but one region (Krasnoyarsk), the functional reviews were carried out in accordance with a centrally developed methodology that focused mainly on the transparent formulation of functions, which – in itself – was expected to produce a change in the way the bodies operated. As a result of the functional review, the regulations on pilot bodies were reformulated with some changes in structure in accordance with the new list of functions proposed. The changes in structure were not substantiated by the resources needed to implement a given function. Overall, in many cases the changes actually implemented were partial. The only case where functional reviews were then conducted in other (non-pilot bodies) was that of the Republic of Chuvashya which demonstrated a high commitment to the reform process.

At the same time, expert assessments of the methodologies applied demonstrated that the best approach was designed in Krasnoyarsk, where the centrally developed methodology was reconsidered significantly to take into account the expected results of the review exercise. This “homegrown” methodology make it possible to assess the resources gained as a result of the functional review as well as the resources needed to carry out the functions of the body in question. Overall, the methodology was adapted to the needs of the region and demonstrated quite successful result. It is currently being applied in ongoing functional reviews at the Federal and the regional levels.

as well as some data from the ground, demonstrate that the results were mixed, and the way in which the reviews were organized contributed to this mixed picture (Box 2.19). Overall, there is some evidence that the approaches developed at the regional level are of more interest for further application than the centrally developed methodologies.

128. Following the government’s restructuring process at the Federal level initiated in March 2004, many regions began to replicate the Federal model without reviewing of the efficiency and effectiveness of such a model at the regional level. This resulted in an overall growth in regional administration employees by 5 percent from September 2003 to January 2005, despite the commitment of some governors to cut civil service employment. In some cases the attempt to replicate the Federal model resulted in dysfunctional solutions (Box 2.20).

Box 2.20: Application of a Multi-Level Structure of Executive Bodies in the Republic of Komi

Following the restructuring of the Federal government, the Republic of Komi conducted a similar restructuring. For example, in the area of health and social protection, a single Ministry of Health and Social Protection was established along with two agencies: The Agency of Health and the Agency for Social Protection. However, unlike the Federal level, in Komi both agencies reported directly to the government and also submitted budget requests directly to the Ministry of Finance.

The functional review conducted in the Ministry of Health and Social Protection in 2005 demonstrated that the Ministry had no management influence on the agencies’ performance and hence had limited possibilities of managing the sector.

Source: Report on Functional Review in the Republic of Komi (unpublished)

129. The examples presented above demonstrate the need to balance top-down approaches and signals with bottom-up initiatives and research. The simple replication of Federal solutions may be damaging rather than improve the performance of the regional

administrations; hence, there should be a mechanism for reviewing the results of various approaches tested and disseminating both positive and negative examples for the overall benefit of Administrative Reform at the regional level.

CONCLUSIONS

130. The above discussion of the use of different implementation tools for public sector management reforms in the Russian Federation shows several common features. There are several key features of reform implementation management.

131. The first key feature is the dominance of the Federal authorities in the design processes and their relative one-sidedness. Reform design appears to have been carried out largely by Federal authorities, in some instances with consultation at a high political level through the State Council, and with the support of Moscow-based experts and/or international donor projects. The fact that the involvement of the regions in strategy formulation was limited is highly surprising considering the dependence of the Federal authorities on the regional authorities for reform implementation. As noted in the first section of this chapter, most elements of public sector management reform have been implemented through non-mandatory programs or concepts of a recommendation nature for the regions. Only Civil Service Reform was implemented through mandatory Federal legislation. This is all the more striking considering that the exercising of effective monitoring of implementation in 88 regions is highly complex, even in the presence of the Federal Okrug offices.

132. A second key feature is the often closed nature of reform design efforts. With the exception of the Federal Administrative Reform, where business and civil society input have been sought both during the first stage of institutional restructuring and currently, in the context of the design of service standards, many of the reform initiatives discussed in this chapter were designed largely in isolation from those most affected, be they civil servants or client groups. This has posed obvious problems at the implementation stage of reform. Transparency and communication mechanisms should be part of the reform strategy, affecting both the substance of the reform activities and the nature of the reform management. It is highly advisable that the results of the reform program along with progress reports, are regularly published, and that external and internal awareness campaigns are conducted to inform both civil servants and the public about the reform achievements and future plans.

133. A third key feature is the problems inherent in the designing of pilots and methodological support. In most instances the decision to allocate resources for pilots was tied to the use of expert resources assigned by the Federal authorities, and objective criteria for deciding on pilots were difficult to establish. Where such criteria were applied, in particular to regional level fiscal reform, they were well-designed, without, however, taking into account one key question - namely regional level resources and capacity - thus automatically excluding most of the weak capacity regions.

Methodological support was usually tied to the implementation of reform pilots and was not a universally available facility.

134. Where legislation was used, significant problems of implementation sequencing arose. Regions that were willing to move forward faster were held back by delays in implementation at the Federal level, while little or no incentive mechanisms were in place to entice less reform-minded regions to come on board (no carrots and difficulty in wielding sticks), a problem exacerbated by delays at the Federal level, which did little to encourage reluctant regions to move forward. In the case of Civil Service Reform, a central civil service coordination structure should be established to support, at the operational level, the introduction of all changes envisaged in the legislation.

135. The use of competitive approaches in stimulating reforms was applied successfully in the regional fiscal reform area, but this approach has potential side effects in terms of aggravating the already deep disparities between high capacity and low capacity regions.

136. As a sixth point, design measures have to date taken little account of the capacity and resource constraints in the regions, especially of remote, sparsely populated and low capacity regions. None of the reform initiatives and programs launched thus far has included relevant mechanisms to address this key aspect of reform implementation.

137. Capacity building efforts to enhance reform implementation structures have been limited thus far. This has posed problems in particular in Civil Service Reform, where the obvious need for building capacity in human resource management units was not acted upon, as well as in budget reform, where the needs of line ministries for capacity building to implement new tasks and approaches were largely left unaddressed. There should be a shift from general legal acts to specific methodologies that have been piloted and adjusted based on verifiable pilot results, from general courses for upgrading skills to specific courses aimed at introducing new practices. Training and expert support to date have been implemented under international technical assistance projects and in order to sustain the results and ensure the implementation of the reform in all Federal executive institutions, there is a need to institutionalize capacity building mechanisms.

138. Finally, monitoring mechanisms have remained weak. They consist either of formal reporting by regions, with limited possibilities for verification, or of contracting arrangements with Moscow-based institutions, which face obvious difficulties in covering the whole territory in a comprehensive manner. In addition to the existing statistics, an additional Civil Service monitoring system should be developed to reflect the actual status of the Civil Service at both the federal and the regional levels.

CHAPTER 3. PUBLIC SECTOR REFORM IN MULTI-LEVEL GOVERNANCE SYSTEMS: THE COMPARATIVE EXPERIENCE

INTRODUCTION

1. As noted in Chapter 1, the implementation of public sector management reforms in multi-level governance systems poses specific challenges. The review of the reform implementation practice in Russia, as analyzed in the previous chapter, provides a further example of the challenges of effective reform implementation in such systems especially in those with a large number of constituent units. This chapter analyzes the experience of six other multi-level governance systems in this context, ranging from established European federal systems, such as Germany, Austria and Spain, to the more Anglo-Saxon models of Canada and Australia, and the case of Brazil which, in terms of scale and the nature of the governance challenges, may be closest to the Russian context.

2. The discussion of reform implementation in this chapter will also like examples of some aspects of substantive policy reform, as these can provide further useful case material to illustrate reform management challenges.

REFORM DESIGN ISSUES: DIFFERENT LEVELS OF COMPREHENSIVENESS AND DEPTH

3. In terms of the approaches to and substance of reform, the comparative cases discussed here show significant differences. Whereas the case of Germany is one of incremental reform in the context of the large-scale changes brought by unification, Austrian reforms have been significantly more radical in nature and have seen a varying degree of follow-through at the regional level. Of the European cases, Spain somewhere in between, with still a stronger control of reform processes by the central government. The Canadian and Australian systems include a variety of experiences in terms of the character of the reforms, with greater differentiation between the constituent states. At the same time, the reforms pursued in both states have been comprehensive in nature, addressing civil service, managerial, and financial management issues. In the case of Brazil a comprehensive reform agenda has moved at different speeds at different points in time, depending to a large degree on the orientation of the political leadership in the regions and at the federal level.

4. The selected cases are relevant for Russia in different ways. On the issue of managing comprehensive reform packages, Brazil, Australia and Canada provide the most relevant comparative experience, as each of these states went through a complex reform over a longer period of time. This also applies to some degree to Austria, but much less to Germany. Germany and Spain as cases are more relevant from a constitutional point of view, as both are cases where federal authorities have a strong direct and formal influence over public sector management modalities at the sub-national level. This applies to a lesser also to Brazil as well as constitutional provisions, in particular those on the civil service, provide binding guidance to both the federal and sub-national governments.

5. The rationale for the initiation of reforms also shows significant differences in the individual cases. Whereas Brazilian reforms were largely transition-related,⁶² all other cases were driven by fiscal considerations⁶³ or were “ideologically” based reflecting neo-liberal approaches to economic management.⁶⁴ It is interesting to note in this regard that reforms in some states were only partially taken over by sub-national authorities (for example, in Austria and Canada), while in other cases for example in Australia sub-national authorities almost fully followed the federal lead on a voluntary basis.

The comparative cases: A brief introduction

6. As noted above, the six cases reviewed in this chapter are significantly different in terms of both the scope and the nature of the reforms carried out. However, they do provide a good comparative overview of the use of different reform instruments and therefore they are helpful in providing the relevant recommendations in Chapter 4.

Comprehensive and radical in design: Brazil and Australia

7. Brazil and Australia are in many ways closest to the reform context in Russia, as both have addressed in recent reforms the scope and the mode of operation of their administrations, at both the central and sub-national levels.

8. Reforms in Brazil were driven by the need to change the state from a provider of employment and source of extraction to an enabler of economic development and a facilitator. In addition, the reforms initiated not only addressed the architecture and mode of operation of the state, but also clarified the relationship between the federal level and the sub-national level, placing it on a new footing, both institutionally and financially. Thus, the Brazilian case has many elements in common with that of Russia. The reforms initiated in 1995 covered the same three main elements as the Russian reforms analyzed in the previous chapter: (i) civil service reform, including the downsizing of the civil service, the reform of the employment regime, and the enhancing of skills; (ii)

⁶² A “double transition” from authoritarian rule to democracy and economic liberalization

⁶³ In Germany, to absorb the poorer regions of East Germany, in Austria, to meet the criteria for EMU

⁶⁴ Partially in the case of Austria and mainly in Australia and Canada

administrative reform, including the clear definition and separation of functions between different types of government institutions, agencification,⁶⁵ and the introduction of process innovations based on the use of IT; and (iii) budget management reform, including the move towards medium term budget planning and the reform of intergovernmental fiscal relations.

9. The reform in Brazil was led by a specially created Ministry of Federal Administration and State Reform, led by a respected former Minister of Finance, which had authority for all three reform directions and was assisted by an inter-ministerial task force.

10. Whereas in many aspects the reform of the institutional system of Brazil has delivered significant change, the long process of consensus building and the drawn out implementation have led to a situation in which a less reform-minded President at the federal level has slowed down and reversed some of the reforms in recent years. However, at sub-national level reform implementation continues; in particular, the Fiscal Responsibility Law has put public finances and budget management on a much more sustainable footing.⁶⁶

11. Australian reforms have been equally radical in their nature, covering (as in Brazil) civil service and public employment system reform, service delivery and public management reform, and reform of the budget management process. The main underlying driver of reform is enhancing competitiveness, and addressing the fact that between 1950 and 1990 Australia slipped from the fifth richest developed nation to the fifteenth. A change in role and mode of operation of state structures was seen as a key part of the solution of Australia's competitiveness problems.

12. The main aspects of the Australian reforms can be summarized as follows:⁶⁷

- Reform and simplification of classification structures, focusing on multi-skilling and improved development and career opportunities
- Legislative and workplace arrangements covering redeployment and retrenchment
- Increased emphasis on flexibility and responsiveness through the devolution of responsibility to individual agencies and line managers
- Redefinition of the civil service's core role and the transfer of functions to other sectors
- Creation of a senior executive service as a means of developing leadership through a service-wide group that is internally mobile, invigorated by

⁶⁵ Brazil introduced the legal basis for both regulatory and executive agencies. However, whereas the former have been established in most states, less progress has been made with the practical introduction of the latter, due to problems with defining the framework for the management of relations between core ministries and agencies

⁶⁶ For a more detailed discussion, see the background paper on Brazil prepared by Claudia Costin

⁶⁷ For details see the background paper on Australia prepared by John Halligan and Jill Adams

external recruitment, and focused on managerial skills and performance, and that offers flexibility in resource allocation

- Introduction of policies and frameworks for performance management and integration of a workplace into the broader workplace relations framework, including workplace “agreement-making” as the means of setting wages and conditions.

13. In addition to these aspects, which cover mainly administrative reform and civil service, reform significant changes have been introduced in the system of intergovernmental fiscal relations, putting the allocation of funds between levels of government on a more stable and predictable footing.

14. The competitiveness agenda has become a permanent feature of Australian policy priorities, and the national competitiveness policy, under which institutional reforms are mainly implemented, is reviewed every five years in order to address changing conditions and priorities. In spite of the high degree of autonomy that individual sub-national governments have on issues of internal management and organization, employment systems and budget management, consistent progress across the stat in the majority of the reform areas listed above has been fairly consistent.

Canadian reforms: Different speeds for different parts of the country

15. The Canadian reform agenda has always held significant interest for Russia, as it leans heavily on the introduction of performance management practices. At the same time, there is not actually such concept as “Canadian public management reform,” since reform content and implementations vary significantly between the constituent parts of the Canadian federal system. Of among the states discussed in this report Canadian sub-national authorities have the highest degree of de facto autonomy on public sector management issues in general, although, as in other states, autonomy in budget management practices is more limited. This is due mainly to the fact that the Constitution does not empower the federal government to implement reforms by law in most policy areas (and constitutional amendments are virtually impossible to achieve), including public sector management.⁶⁸ The situation is entirely different at the level of provincial-municipal relations, where provincial governments can, through performance-related fiscal transfers, have a high degree of impact on the way local authorities function. As a result of the specific nature of the Canadian governance system, it is not possible to speak of one direction of reform but rather of “independent experimentation” within the boundaries of generally agreed principles underlying the Canadian governance system, which include the following:

- A professional, politically non-partisan public service whose members do not change with each election

⁶⁸ There are some exceptions in this regard, including the health care sector, where, owing to specific conditions and agreements between federal and regional authorities, the obligation to provide health care services continues to rest with the provinces, while the obligation of the federal government to provide funding has de facto decreased (see background paper by Swain on Canada).

- An understanding that elected politicians are responsible for policy, while the role of the public service is to advise, and then to carry out the decisions of the elected
- Hierarchical accountability
- Prudence, efficiency, economy and honesty with public resources
- Procedural fairness and the equal treatment of all citizens
- As noted, appointment and promotion on merit, reasonably objectively measured – principally through competition; and
- Logic, analysis, rationality and the rule of law as guiding principles for decisions and actions.

16. It is in particular the principle of procedural fairness that sets constraints to the ability to reform, especially to the introduction of business management practices in the public sector. On the other hand, the principles of prudence, efficiency, economy and honesty with public resources have created an overall institutional culture in Canada that is strongly geared towards the measurement and outcome evaluation of government programs. Thus, whereas methods and reform substance may differ between federal and provincial governments as well as between different provincial governments, there is an overall concern with performance as a key element of public sector management which has driven the introduction at all levels of government of enhanced performance management principles. The best known example of such reforms remains Ontario, which has put in place a highly sophisticated performance management system in the public sector, with a cascading hierarchy of objectives reflected in the individual pay envelope of each civil servant.⁶⁹ In this regard Canada also provides one of the best examples of how performance-based pay practices can coexist with the principle of an impartial and professional civil service, with very low levels of politicization.

17. Canadian reforms, together with the Australian example discussed above, provide one of the best examples of how results in improving public sector performance can be achieved without the use of hierarchical tools and imposition, but rather being driven by broadly agreed principles underlying the governance system.

Austrian and Spanish reforms: Partial but significant

18. Austria and Spain are not often included in discussions on public sector reform. Yet both states have engaged in significant reforms of what were considered “frozen” systems.⁷⁰

19. The Austrian case provides one of the few examples of how public management principles derived from New Public Management philosophy can be applied successfully in an entrenched continental European public administration system. The driving forces behind the reforms in Austria were mainly EU membership and competitiveness.

⁶⁹ See, for instance, World Bank, “Building Effective Government” (2005), and “Kazakhstan, Public Sector Wage Reform” (2005), both of which contain more elaborate discussions on the Ontario system

⁷⁰ For details on Austria, see the background paper by Ungersboeck; for details on Spain, see the background paper by Ballart.

Concerns over performance in the civil service constituted the starting point for a full overhaul of the civil service management system, which replaced a rigid career system with a system based on the job evaluation of individual positions reflected in a radically reformed public sector wage system. The modification of employment legislation, the process of reclassifying positions and the allocation of new wage levels to positions took an extended period of time, mainly because of the need to reach consensus with the strong public sector trade unions. Furthermore, the new system was phased in slowly, owing to the principle that there should be no losers in the introduction of the new system.⁷¹ Nevertheless, the Austrian system continues to constitute one of the most radical examples in Central Europe of a departure from entrenched public sector management practices.

20. The overhaul of the civil service management system was combined with a reform of the elaborate public agency system and a large-scale privatization effort. Reforms to the budget management system were less radical but did include loosening the previously existing rigidity in annual budget allocations through the introduction of the so-called *flexiklausel* in the budgets, which allowed spending units more freedom in spending funds within a set budget ceiling. The reform process in Austria was strongly driven by the federal government without, however, a direct imposition of reforms on the Laender.

21. The case of Spain represents a good example of modernization after a regime change. However, owing to the rigidities in the Constitution and federal legislation as well as the drawn out process of defining the exact competencies of the federal government and the autonomous communities under the new federal model, reforms have not produced as much change as may have been desirable. Still, federal legislation on civil service, (which has direct effect at the community level) has been revised to provide more flexibility and to open up the higher levels of the civil service to direct entry by outsiders. In addition some innovations in public management practices have been introduced, especially in some of the more advanced regions. Budget management practices have been reformed at the federal level and in some of the regions to introduce multi-annual budgeting as well as performance principles in budget allocation. In particular, the latter have been introduced in the areas of health, higher education and broadcasting services.

22. A further strand of reform that deserves mention in the context of Russia is the linkage, especially at the regional level, between medium term strategic planning and annual budgeting.

23. Whereas Austria provides an example of public sector reforms that lean heavily on civil service reforms as a means of driving better performance in the public sector, the Spain case shows a reform process that is largely based on process innovations

⁷¹ Thus, where individuals holding a certain position would be worse off under the new system, these individuals would retain the existing wage level, and the new wage level would be allocated only when the post became vacant.

(performance contracts, innovations in service delivery mechanisms) and budget management reform.

Germany: Incremental and partial

24. Finally, the German case provides an example of incremental changes in the context of a rigid multi-level system. The relative lack of progress in public sector reform in Germany, at least at the federal and Laender levels, can be explained by political factors and also as a feature of the multi-level governance system, which in its design includes a large number of veto points. It is interesting to note, however, that Germany in this regard shares a number of features with the systems of Spain and Brazil, but that in the latter cases progress in reforms was made at both levels of government. Furthermore the background paper on Germany shows that at the local government level there has been much more significant innovation in most aspects of public sector management. Thus, whereas there appears to be a clear awareness of the need for change in the public management system, the lack of broad agreement on reform objectives (between political forces as well as between Laender) has thus far made it impossible to pursue these objectives. In this regard the German cases provides a clear example of the disadvantage of having a strong hierarchical and law-driven public management system, especially if the system contains a large number of units and does not provide sufficient alternative mechanisms to pursue reforms.

Conclusions

25. The reform experiences presented above provide an illustration of the complexity of managing reforms in multi-level governance systems and the risks inherent in rigidity in legal and constitutional frameworks. The latter can be overcome only if there is a strong understanding of the need for reform and a strong coalition of pro-reform forces. Where such conditions are in place, rigidity in legal systems can be turned into an advantage, as once the need for reform and the principles of reform are agreed to, consistent and successful implementation becomes more likely. At the same time, the examples show that even in systems where federal authorities do not have the instruments to push and impose reforms, in reality implementation can be highly successful as long as there is agreement on objectives and principles. The discussion in the next section will review the different tools and instruments that can be applied to achieve this end.

APPROACHES AND INSTRUMENTS

26. This section reviews reforms in the international comparative cases from two perspectives: first, the reform context and the constraints this poses on federal governments to define and lead the implementation of reforms, and second, the use of reform instruments, which is in part defined by the reform context but in other ways an element of choice for reformers.

Contextual issues

Civil service and organization and management

27. The context of reform, and its systemic aspects, is important in defining the reform instruments that are likely to work best. Reform context has two key elements: the formal constitutional division of labor, which sets limits to the ability of federal authorities to design and implement reforms, and the management methods used in the multi-level governance context, distinguishing between hierarchical management tools on the one hand and more cooperative and organic management processes on the other.

28. As regards the formal constitutional division of labor, the cases presented provide two extremes. The German and Spanish cases both stipulate that the federal government is competent to define the legal regime and regulations governing the employment of civil servants. In the German and Spanish cases sub-national governments are explicitly competent in the definition of the organization of the administration and its management system, with federal oversight limited to ensuring that federal legislation is correctly applied.

29. The Brazilian case goes further than that, including in the Constitution itself several principles of civil service management; among them open competition as a mandatory principle for the selection of civil servants, career management based on explicit written regulations, and limitations to job security that can be invoked when public expenditures are excessive. These principles are binding to both federal and sub-national authorities and are thus above all constituent parts of the Federation. At the same time, are in the other cases, the organization and management system of sub-national authorities is defined by the individual sub-national authorities and is not pre-defined by the central government (see Box 3.1).

Box 3.1: Brazil and the Use of Constitutional Amendments to Drive Reforms

The constitutional amendments introduced in 1998 provided a direct powerful tool for public sector management reform, as they stipulated the following principles, applicable to federal and sub-national authorities alike:

- The introduction of efficiency as one of the guiding principles that any of the powers and levels of the Union shall obey in addition to morality, impersonality, lawfulness and publicity that were already prescribed
- The possibility to dismiss public servants due to excessive personnel expenditure or inadequate performance with some protection given to state careers to be defined in lower level legislation
- The creation of other employment regimes in addition to the tenured public offices, such as public employment, regulated by the common labor law and the general social security system
- The possibility to pay bonuses for productivity or measurable improved quality of the services
- The provision of the enactment of a Fiscal Responsibility Law – in order to enhance budget discipline
- The impediment for the federal government, the government of states or their financial institutions, to transfer funds voluntarily or to grant loans for the payment of the payrolls.

- a limit to the expenditures with personnel, to be detailed by law (in 2000 that limit was established), that if surpassed might result in dismissal of employees in a stipulated sequence comprising first a proportion of freely nominated commission offices or positions of trust, discharge of non-tenured public servants and tenured public officials.

Source: Based on C. Costin, *State Reform in Brazil (1995-2005)*, Background Paper

30. The other cases reviewed provide entirely different models. In Australia, Austria and Canada the sub-national authorities have the right to define their own employment regime for civil servants⁷² as well as to define the organization of their own administrations. Thus, in each of these states significant differences may arise in employment regimes for civil servants as well as in the organization and management of service delivery. This has been especially visible in Canada, but increasingly visible also in Austria, where civil service management reforms initiated by the central government have been taken on board slowly in some states, while other states have gone beyond the reforms defined at the central level to fully liberalize civil service employment. Thus, whereas in each of these states the sub-national authorities have clearly defined responsibilities for certain policy domains, as defined by the Constitution, and share responsibility with the federal government in others, the way in which these services are delivered to citizens is a matter for the sub-national authority, and not for the central government.

31. Thus, multi-level governance systems show very different models of the division of labor between central and sub-national government, when it comes to public sector management, ranging from establishing binding principles for all governments in the constitution (e.g., Brazil), binding principles derived from the Constitution and established through framework legislation (Germany and Spain) with varying degrees of ability to interpret and apply these principles, to full autonomy in defining both the legal regime for civil service management and other public management principles.

32. The constitutional set up for public sector management has obvious implications for the actual management of reform implementation. In states where the central government has direct authority to define legislation on civil service or broader public sector management issues, whether through framework legislation or through federal legislation with direct effect, the central state has a stronger ability to drive a reform agenda. In states where sub-national authorities have their own powers in defining public management systems, other instruments will logically be more prevalent, placing greater emphasis on using political and expert networks and coalition building. It should be noted, however, that in all of the cases discussed here the organization and management systems at the sub-national level are a matter for definition by the sub-national authorities, thus requiring, in any case, the use of coalition building, networking and change management instruments.

⁷² With the exception of certain groups of public servants, such as teachers, in the Austrian case

Budget management

33. In relation to budget management, the classification of systems is less straightforward. One of the reasons for this situation is that budget management principles are closely linked with intergovernmental fiscal relations and this is a potentially powerful instrument for federal governments. As the taxation powers of sub-national authorities tend to be limited or capped by federal legislation, budget management practices tend not to deviate strongly between the federal and sub-national levels. In addition, virtually all systems discussed here have introduced mechanisms in the last decades to limit the possibility for sub-national authorities to run large budget deficits or incur debts. This is true in particular for the European states discussed here, as each of these states had strong incentives to reduce total indebtedness in the context of the finalization of EMU and the introduction of the Euro. In the case of Brazil, the Fiscal Responsibility Law was passed as a way of curtailing and controlling sub-national government expenditures in the light of the rationalization of public expenditures initiated in the late 1980s. However, it should be emphasized that most of these reform initiatives were concerned with limiting the risk of budget deficits and indebtedness, and much less with the way sub-national authorities defined and implemented their budgets.

34. Regarding the form of budget management, while none of the states discussed here have direct regulations that dictate budget management principles at the sub-national level, there is a tendency for sub-national authorities to follow good practices established at the federal level. For example, when the federal government in Spain initiated program budgeting as a principle in the mid 1980s most of the regions followed suit, even though formally they were not required to replicate federal reforms.⁷³ Such replication of good practice is usually a voluntary process, and none of the states discussed here used explicit incentive mechanisms to stimulate budget process reforms. However, fiscal and financial incentives are frequently used to stimulate substantive policy reforms, especially in the Canadian and Australian cases. Practical examples of the use of incentives in this regard will be presented later in the chapter.

Reform instruments: Framework legislation and direct effect

35. The use of framework legislation, either directly applicable or with limited leeway for its interpretation, has already been mentioned. Among the six cases, Spain and Germany apply this method in the area of civil service management, (see Box 3.2) while Brazil draws on the Constitution and framework legislation in the areas of civil service management. Brazil also draws on these sources in defining and implementing budget management reforms, though in the latter case mainly by setting constraints to budgeting and spending practices rather than prescribing a specific form of budget management.

⁷³ The Spanish case also includes some examples of the replication of reforms between regions; in which case Catalonia and the Basque Country, with the most developed regional administrations, usually serve as examples of this.

Box 3.2: Civil Service Management in Narrow Margins: Spain and Germany

The civil service systems of Spain and Germany use rather rigid and centrally prescribed legislation to preserve a unified civil service system. Germany uses a framework law that is replicated at the regional level, while Spain uses a unified legal framework with decentralization in civil service management. As a result, in the Spanish case the following principles continue to prevail throughout the system:

1. Working conditions for a civil servant continue to be quite different from those in most private sector jobs.
2. Security of tenure has not been significantly reduced. Only top officials in some public agencies are recruited through performance-related contracts. When they are civil servants they retain the right to go back to their previous status.
3. Seniority and basic qualifications continue to be the main elements considered for promotion. The recruitment of outsiders for managerial high-level posts is seen as endangering the promotion opportunities of civil servants from the ranks.

In the German case, the following principles need to be applied throughout the system:

According to Article 75 Basic Law, the Federation may enact federal framework legislation regarding the legal relations of civil servants in the public service of the *Länder*, municipalities, or other corporate bodies under public law. This framework legislation has set out very detailed guidelines for the *Länder* which each have their own statutes relating to civil servants. Legislation concerns, amongst others, the duties of civil servants, their payment and pensions as well as other social benefits.

Source: Based on X. Ballart, "Centre vs Regions, Public Management Reform in Spain," and G. Ungersboeck, "Federalism in the Areas of Civil Service and Budget Management in Germany" Background Papers.

36. The practice of setting framework legislation as a tool for civil service management across the system has posed relatively few problems in both states. Whereas in Spain there have been some challenges in the Constitutional Court regarding the broad interpretation of constitutional provisions on the powers of the central government to regulate the civil service as a unified system, the consistent interpretation of the Court in favor of the federal government has gradually established the primacy of the federal government in this regard. In Germany, regardless of significant differences in socio-economic policies between the *Laender*, the primacy of federal framework legislation in the organization of the civil service has also not been challenged. Reforms in both states have been fairly incremental. In the Spanish case, changes in job classification and in the simplification of the corps system were introduced in 1984, as well as some additional measures such as the elimination of dual mandates. In Germany, attempts to reform the principles on which the system rests, in particular the prevalence of framework legislation in civil service management, did not bring the expected results. Proposals to amend the existing rules so that the *Laender* would be able to determine remuneration, pensions and other benefits were not agreed upon and as a result the system remains largely unchanged. However, the new coalition government that came into office in 2005 has again placed the reform of the civil service system on the political agenda.

37. Thus, whereas in principle the hierarchical nature of these two systems would seem to give greater opportunities for reform, the Spanish and German cases, where civil service management is concerned, in fact present incremental and piecemeal reforms. This is in part due to the complexities of changing a system based on framework

legislation. In Germany, as a change in federal legislation would require equivalent changes at the sub-national level, considerable value continues to be placed on having an integrated and unified civil service system.⁷⁴ In the Spanish case the even more centralized management system should in principle be easier to reform, but as in the case of Germany the presence of an established legal framework that applies across the board appears to pose a higher barrier to reform.

38. The Brazilian case, as noted earlier, differs somewhat from the Spanish and German cases as the principles to be incorporated in civil service legislation at all levels are derived directly from the Constitution. Thus, the constitution imposes a framework on the federal government as well as on sub-national governments. The problems of reforming this system became abundantly clear during the debate on the 1998 constitutional amendment, which focused in part on reforming civil service employment systems as well as budget management practices. It took two years from the elaboration of the reform proposals for the adoption of the constitutional amendments to take place owing to the strong vested interests affected by the planned reforms. Following the adoption of the constitutional amendments, it took a further two years to adopt the implementation measures at the federal and sub-national levels. Thus, the incorporation of aspects of civil service and budget management into the Constitution appears to pose even greater risks of stalling reform implementation, though it should be noted that there are advantages in the approach as well. Once the measures are adopted in the constitutional amendments, the obligation for government structures at all levels to implement the reforms is very strong, and the risk of implementation failure is much less compared to the use of other instruments.

39. Apart from the three cases above, and in relation to the area of civil service management, the only other case of reform management through binding legislation or constitutional provisions is the budget management reform in Brazil. The Fiscal Responsibility Law, adopted in 2000,⁷⁵ provides a strict framework for budget management practices at the sub-national level and is accompanied by the Fiscal Crimes Law, which provides possibilities for the prosecution of officials and politicians who violate the Law.

40. One of the interesting aspects of the Law is that it sets a strict framework for expenditure management but also provides incentives to introduce modern budget management practices such as multi-annual budgeting, the strengthening of budget management based on IT tools, etc., which were used to drive other innovations with strong transparency aspects, such as electronic tax declarations (used by 98 percent of taxpayers in Brazil (see Box 3.3).

⁷⁴ Though it should be noted that in practice mobility between different levels is not as significant as it could be

⁷⁵ The political consensus over the introduction of the Law arose from unique conditions, including increasing budget deficits at the federal level combined with mounting debt levels at the regional government level which posed such serious risks that politician from across the political spectrum agreed on the need for urgent action. The Fiscal Responsibility Law was part of a package of actions taken to clean up public finances across the board, including debt write-offs and other measures, and should be seen in this specific context

Box 3.3: Brazil: The Fiscal Responsibility Law as a Key Element of Budget Management Reform

The Fiscal Responsibility Law, adopted in 2000, imposes the following standards on all levels of government:

- The establishment of limits for the total expenditure on personnel per specific branch (i.e. executive, legislative and judiciary).
- The requirement that the Budget Directives Law (issued every year to help translate the Multiyear Plan into the Annual Budget) should present fiscal targets for the next three years based on general economic and fiscal scenarios, including expected revenues.
- The Central Bank cannot lend to the government (and similarly the Banks belonging to the federate states).
- No government body can make voluntary transfers to other members of the Federation (in Brazil municipalities are members of the Federation as well) that are not appropriately raising and collecting their own taxes.
- Any expenditure that creates mandatory commitment for more than two years should only be made if enough revenues to fund it for at least three years are identifiable and available.
- Expenditures related to outsourced servants are to be considered as personnel expenditure, to calculate the total personnel to net current revenues ration that is limited by the law.

In addition to the above provisions, other “incentives” were also included, such as provision barring politicians who fail to comply with the provisions of the Law from running for office in future elections. The Fiscal Crimes Law, which accompanied the Fiscal Responsibility Law, made it possible to prosecute officials for severe violations of the Law.

The Law also drove some important innovations, such as the informatization of budget management systems at both the federal and sub-national levels.

Source: Based on C. Costin, “State Reform in Brazil.”

41. The experience with the use of legal instruments and direct effect provisions in the constitutions as reform tools, as presented here, does not provide a straightforward conclusion as to their effectiveness. On the one hand, federal framework laws and higher order legal instruments such as constitutional provisions have an obvious advantage in providing a clear and consistent framework for the management systems they govern. Thus, they are highly suitable in the context of stable political and administrative systems. However, at the same time they are not necessarily good change instruments on their own. The lengthy periods that the implementation of workable and consistent laws require, and the difficulty of changing systems once they have been put in place, are well illustrated by all three cases discussed here. Thus, what matters most of all in defining the effectiveness of these instruments is whether their implementation is well prepared and whether the appropriate consultations and coalition building work between actors at different levels of government have taken place. This can only be accomplished over a prolonged period of time, as in the Brazilian case, where it took more than five years to get to active results.

42. Finally, whereas framework legislation and/or constitutional provisions with direct effect have obvious advantages in providing a unified framework for (elements of) public sector management, the trade-off of this instrument is slow implementation and a risk of reform failure if the appropriate preparatory work in coalition and consensus

building has not been done, or if the required support from the central level in the form of training and other capacity building instruments is not provided.

Coalition building, networking and best practice approaches

43. In those states where central authorities do not have legal instruments at hand to dictate reform substance and implementation (which is the case in three out of the six comparative cases) alternative mechanisms need to be found to stimulate effective reform implementation at the sub-national level. This section reviews three such mechanisms, which are applied in a variety of forms in the six cases: formal consultation mechanisms; ad hoc and informal consultation systems; and leading by example, using best practice examples.

Formal consultation and coalition building mechanisms

44. Most of the six comparative cases draw heavily on coalition building and networking in managing public sector reform design and implementation across levels of government. There are several elements to this. On the one hand, there are formal consultative forums for inter-governmental discussions on reforms; on the other hand, there are more informal networking and coalition building tools, especially through political party networks. Some of the formal mechanisms for coalition building on reform issues used in the cases discussed here are presented in Box 3.4.

45. The creation of a consultation and coordination infrastructure between levels of government obviously requires a significant investment up front in both political and resource terms, and is more complicated the more entities a multi-level governance system contains. However, as Box 3.4 shows, it is also a very powerful potential reform implementation tool. In addition, formal consultative mechanisms can be supplemented by the use of political party networks, which can help stimulate the implementation of reforms in those states with a high degree of overlap between the party affiliations of federal and regional political leaders.

46. One important element in making formal consultation and coalition building mechanisms work, as exemplified in the case of Australia, is the need to separate discussions on substantive reforms from discussions on fiscal intergovernmental relations and fiscal transfers, at least as regards their structural aspects.⁷⁶ Until 1992, the Premiers' Conferences were the main intergovernmental discussion forum on areas of common policy and interest; they dealt with the fiscal aspects of the relations between federal and sub-national governments and with aspects of substantive policy. This turned the coordination mechanism into a forum for blame and accusation, focusing on the fiscal aspects of central-sub national relations. The separation of the consultation mechanism into Special Premiers' Conferences which exclusively address the fiscal aspects of

⁷⁶ This does not mean that ad hoc fiscal incentives for reform implementation could not apply, (these are discussed in a later section of this chapter).

intergovernmental relations and the Council of Australian Governments (COAG), which addresses all aspects of substantive policy, revitalized the consultation mechanism and turned it into an effective tool for the management of reform implementation across the levels of government, on both public management issues and policy substance.

47. Formal consultation mechanisms are as important in reform design as in the management of reform implementation. There is an often witnessed misperception of the effect that well-functioning consultation mechanisms in reform design are in themselves a guarantee of successful implementation. Particularly regarding multi-level governance systems, this is not valid. Consultation is as important in the management of implementation as in the management of design. Of the cases discussed in Box 3.4 below, Australia and Brazil have used consultation mechanisms extensively in reform implementation. COAG working groups in Australia are a permanent forum for the evaluation and adaptation of reform implementation, as exemplified in the case of national competitiveness policy presented in Box 3.5. Many of the aspects of public management reform were addressed in the context of this overall national policy, the implementation of which was managed through the COAG system. In a similar way, the CONFAZ structures in Brazil also continued to review public management reform implementation once the design work was completed, which has proved to be one of the important factors in ensuring cross-fertilization among the public management innovations that have characterized Brazilian reforms. Formal consultation mechanisms in Spain have been less effective, both in design and implementation management, which is seen as one of the factors contributing to Spain's having had less movement forward in the public management reform agenda.

Box 3.4: Formal Consultation and Coalition Building Mechanisms

In three of the six cases presented here formal mechanisms for the discussion of major reform initiatives have been put in place - all of which are of considerable importance in ensuring that reforms defined at the central government level are followed through at the sub-national level.

Australia has an elaborate system of formalized consultation between different levels of governance which was reshaped in 1992 after it fell into disuse. The reformed system is built on the Council of Australian Governments (COAG), which represents the federal government, the 8 constituent governments and a representative of the Local Government Association. Its aim is to increase cooperation among governments and to facilitate the implementation of structural reforms. COAG is supported by some 40 Ministerial Councils that deal with various elements of cooperation between levels of government, including public administration. Working Parties and Working Groups support the system, which has been used by the federal government to gain support for the implementation of both economic and public sector management

Spain operates a similar, though less elaborate, structure of inter-governmental consultations through the 'Conference of Presidents, supported by Sectoral Conferences, which include representatives of the federal government and the Autonomous Communities. Unlike in the case of Australia, the Spanish system is not seen as highly effective. The sectoral Conferences do not meet on a sufficiently regular basis and exchanges of good practices and reform initiatives often take place instead on a bilateral basis.

Finally, Brazil has established a Council of Secretaries of Public Administration of the Federate States (CONFAZ) which was mobilized during the reform period to build support for the adoption and implementation of the reforms planned by the Bresser-Pereira commission in 1985. This is seen as having been one of the contributing factors to getting the reforms adopted and implemented, as intensive formal

consultations were carried out on a regular basis, along with the use of academic networks.

Source: Based on background papers by Ballart (2006), Costin (2006) and Halligan and Adams (2006)

Box 3.5: Australia: COAG as a forum for substantive policy discussions: National Competitiveness Policy

One of the best examples of the effective functioning of formal intergovernmental consultation mechanisms in practice is the National Competition Policy in Australia. After a two year discussion, the following mechanism was agreed between all government partners in 1995 and has functioned effectively for ten years, lifting the Australian ranking and is estimated to have increased Australia's GDP growth by at least 2.5 percent over this period. The mechanisms include the following:

- Institutional mechanisms provided the opportunity for long-term intergovernmental agreements. COAG, a continuous forum for joint decision-making, provided an opportunity for those keen for change to persuade and negotiate. The period of negotiation prior to the agreement was conflict-ridden and required many compromises on all sides. The frequency of the heads of government meetings provided deadlines and focused public attention that stopped issues from being sidelined.
- The structure of the forum, with heads of government as members and their officials on working groups and sub-committees to work on specific problems (the legislation and the timetable) meant that the issues could gradually be worked through at every level.
- A clear agenda agreed to by all governments outlined the reform commitments in a practical and specific way. The framework of the agreements established flexibility within a core set of agreed principles. They were able to adapt as circumstances changed over time. Each state was free to decide on how to implement the agreed processes to meet their own governmental needs.
- The agreements set a series of deadlines for action over six years, then another three, thereby committing not just the signatories to reform but their successors.
- Use of incentives, including financial inducements and penalties for non-performance.
- The use of independent advisers and organizations for the initial inquiry, chairs of working groups, analysis of the likely impact on and benefits for each state helped convince the states that there were benefits for them and not just for the Commonwealth.
- Agreement on long term milestones of achievements and funding over six years and then another four years gave states some degree of certainty about longer term funding.
- The establishment of two independent statutory bodies to ensure compliance and be responsible for negotiating, monitoring and reporting on the reforms has partly separated the Commonwealth from being both player and referee.
- Each state produced its NCP annual report on progress, helping to highlight and maintain the reform momentum.

Source: Halligan and Adams

Ad hoc and informal mechanisms

48. Apart from the institutionalized and formal mechanisms for consultation and coalition building on administrative reform issues presented above, states also use a variety of ad hoc and informal approaches to reform implementation management. First, ad hoc mixed commissions on reform issues representing different levels of government are frequently used. Germany, for example used the Bundesstaatskommission, set up in 2003, to seek consensus on reforms. Austria used the discussions in the context of the Austrian Constitutional Convention (2002-04) to prepare proposals on civil service and budget management reforms. In the German case, the failure to reach agreement between

the federal government and the Laender led to the eventual collapse of the reform effort. In Austria, implementation of the reforms proposed by the Convention has not yet been initiated. Finally, in Canada, where there are no formal consultative structures on public sector management reform issues, informal expert networks often serve as discussion forums for public management innovations, including, for example, the Association of Professional Executives and the Canadian Public Administration Association, both of which serve as important experience exchange networks. Finally, the role of the Federal School of Public Service, which serves all levels of government, is a further important networking tool.

49. From the review of the reform experience in the comparative cases presented here, the presence of formal consultative mechanisms is particularly important in cases where there is a need to drive a more radical reform agenda. Both the Australian and Brazilian cases provide evidence that ensuring broad backing for reform proposals, across levels of government is an essential element of ensuring some degree of unified implementation of reform initiatives, especially (as in Australia), where sub-national governments have a high degree of autonomy in the definition of and decisions on key aspects of public sector management. Whereas the low effectiveness of such mechanisms in the case of Spain may not be the main reason why reforms in the civil service in particular did not progress, it is certain from the country studies that the presence of the functional mechanism made a significant contribution to the achieving of reforms in Australia and Brazil.

Leading by example, using best practice approaches

50. The most informal networking and coalition tool is leading by example, which builds on the demonstration powers that successful reforms can have. While this is not an effective mechanism in terms of bringing about rapid reform implementation, it does have the advantage of building ownership and often of achieving a higher degree of success in reform implementation. The disadvantage of this particular approach is obviously the lack of a unified approach to reform, though this is not always considered a disadvantage in multi-level governance systems, and informal and formal consultation networks often serve to mitigate this impact through the self-correction that best practices often tend to generate.

51. One key example of the snowball effect that effective reform implementation at the federal level can have is the case of Austria. As noted in the introduction, the Laender in Austria are autonomous when it comes to public sector management, with the exception of some aspects of budget management, though in the latter case this mostly relates to policy substance. The reforms in the civil service system, which moved Austria away from a rigid and traditional career system to a much more open civil service system (organized on a factor point based system of job evaluation and classification and more performance-based pay and grading, as well as the reduction of differences between public and private sector employment conditions), were launched at the federal level. Owing to the drawn out and complex negotiations with trade unions, the implementation

of the reform was spread over a long period of time. However, once the reform was implemented and tested, three states⁷⁷ immediately followed suit and implemented similar reforms. All of the other states have started to prepare reforms along the same principles as those applied at Federal level, although reform design and implementation are moving at different speeds in different states. Voralberg has gone beyond the principles set out in the Federal level reforms by removing most of the differences between public and private sector employment and hiring all new civil servants on the basis of labor contracts rather than the previous public law based system.

52. Other cases in which best practice approaches have contributed to effective reform implementation include Canada, Spain and Brazil. In the Canadian case the informal networks discussed above constitute the main instrument for best practice dissemination, and though reform implementation is mainly characterized as “independent experimentation” there is also a significant element of cross-fertilization between reforms. This is similar to the Brazilian case, where particularly in the last few years, since the election of President Lula; the federal government has played a much less prominent role than previously in driving reform processes. This has led to sub-national authorities increasingly setting the pace of reform, with modernizations occurring increasingly in a bottom-up way, and with for example Sao Paulo, Ceará, and Minas Gerais leading reform efforts in key areas such as the creation of autonomous agencies for service delivery, the management of relations between agencies and government-based performance principles. The very successful implementation of the one-stop-shop for citizens in the state of Bahia, with different services being offered at the same place (such as IDs, birth certificates, social security and tax documents and information and drivers’ licenses) was studied by the federal government and then recommended to other states. São Paulo, Pernambuco, Minas Gerais and Maranhão are examples of states that have adapted the model to their own reality with good results. It is important to note, however, that these citizen shopping centers do not often result in cost reduction, owing to the increased demand to services that were not previously available for all.

53. The examples set by these regions continue to serve as standards for improved public sector management principles, even where federal level instigated reforms have slowed down. Finally, in the Spanish case the leading role of the Basque Country and Catalunya in introducing public management innovations has been mentioned. The reforms introduced in these two regions have provided other regions with additional motivation to follow suit, making best practice examples an important driver of innovation in Spain.

Fiscal and incentive mechanisms

54. As discussed in Chapter 2, the Russian government has on various occasions used the fiscal transfer mechanism as an instrument to stimulate reform. Particularly in the area of the reform of budget management systems, this has been a powerful tool, with considerable impact, though also with some related externalities in the form of an

⁷⁷ Styria, Upper Austria and Voralberg

increased level of economic disparities between richer and poorer regions, as those regions with higher capacity (and often with more resources) have been able to capitalize on the opportunities offered by the incentive mechanisms put in place.

55. The comparative cases presented in this chapter include few (if any) examples of similar approaches when it comes to the technicalities of public sector management reform, although these are a number of examples of federal authorities using fiscal levers to promote and push substantive policy reform as presented in Boxes 3.6 and 3.7.

56. The most prominent related example of the use of fiscal instruments to generate institutional reform is the Fiscal Responsibility Law in Brazil, which was discussed in the section on legal instruments. The impact of this Law, and the mechanisms it put in place, has been considerable, as fiscal discipline has become a reality at both the federal and sub-national levels of government and the Law has transformed budget management practices throughout the country.

57. However, unlike Russia, where fiscal instruments are used as an additional and temporary instrument to bring regions up to an improved level of budget management, the Fiscal Responsibility Law in Brazil has become a permanent and continuous feature of the Brazilian budget management system. A further important difference between the Russian and Brazilian contexts is that the Brazilian Law in the first instance uses mostly negative incentives to stimulate performance; while in Russia the fiscal mechanism in place has positive (additionality) aspects. The negative incentives related to the Fiscal Responsibility Law include (i) the right of the federal government to withhold transfer⁷⁸, and (ii) penalties for politicians who break the Law (disqualification from future elections).

58. Federal policymakers have shown awareness of the risks that the Fiscal Responsibility Law brings to weaker regions, especially in terms of social sector spending. Additional earmarked voluntary transfers were made to vulnerable regions which were in the process of reorganizing their public finances in order to ensure that service levels in education, health and social development could be up as much as possible, as long as regions continued to respect the provisions of the Fiscal Responsibility Law.

59. The fiscal incentive mechanism in Brazil has, not only been instrumental in reforming budget management practices, but it has also been a strong driver of other aspects of public management reform.

60. The fiscal discipline that the Fiscal Responsibility Law has imposed has provided stimuli for addressing other public sector management issues. These include directly related reform measures, such as the staff reductions, facilitated by the 1998 constitutional amendments, that brought fiscal savings and (together with the professionalization agenda), an opportunity to bring about a qualitative change in the civil service system. The Fiscal Responsibility Law also had a more indirect impact, for

⁷⁸ Though this is limited to non-mandatory (constitutionally prescribed) transfers

example on improving service delivery mechanisms. Fiscal discipline forces sub-national governments to explore more effective solutions for managing service delivery as well as controlling access to public services. This has mainly been achieved through the use of e-government tools, which have had a positive impact on making services more accessible and reducing the scope for favoritism in decisions on the allocation of services.⁷⁹

61. It is obvious that the successful implementation of reforms of the type introduced in Brazil is in part dependent on the perceived need to introduce them. The fiscal context of these reforms is entirely different from the current Russian context. However, the implementation of the Law, as well as the accompanying reforms that it has brought, still provides a highly relevant comparative example to Russian policymakers.

62. Whereas all of the multi-level governance systems reviewed here face challenges in the management of fiscal intergovernmental relations, because of the inherent tensions brought about by the shared responsibility for key policy deliverables, Brazil is the only state that has used this system as a direct lever for public sector management reform. However, lessons from the experience of other states in the management of sectoral reforms can also be highly relevant. Among the comparative cases reviewed, Canada and Australia have most frequently used fiscal mechanisms to drive sectoral reforms. Two main examples are the education reforms in Australia and the health reforms in Canada, as presented in boxes 3.6 and 3.7.

Box 3.6: Using fiscal Mechanisms to Drive Sector Reforms: Australia

Tied grants (Specific Purpose Payments (ESPPs) and school standards).

The conditions for school grants have focused increasingly on standards and Commonwealth restrictions on state discretion in areas of state responsibility. The Commonwealth government considers it has a leadership role in identifying and promoting national standards and priorities for students; reporting nationally comparable data on student achievements and improving reporting on outcomes to parents and the community. It also decided to make mandatory the teaching of Australian values and flying the flag in schools. The Commonwealth provides funds for both state-administered schools and non-government schools. While the Commonwealth provides less than 10 percent of its grant money to state-owned schools, it does require all schools to meet national standards.

National school priorities and strategies are developed by the Ministers for Education at the Commonwealth and state levels and negotiated through their COAG Ministerial Council. The Education Ministerial Council agreed to extend the reporting of literacy and numeracy results in years and support incentives and accountability measures to ensure parents are better informed about learning processes, and also agreed in principle to work towards uniformity of commencing ages for primary and secondary schools.

Commonwealth legislation set out new terms of the SPPs for schools for 2005–08 reflecting agreements made by the Ministerial Council. This includes promoting greater national consistency in schooling, better reporting to parents, transparency of school performance and greater autonomy for school principals. It also

⁷⁹ One of the problems that had previously prevented the development of an effective and affordable public service delivery system was the privileged accesses to services, depending on personal connections with civil servants and politicians. This has been significantly reduced through the use of e-governance tools (see Costin (2006))

specifies other requirements regarded by the states as Commonwealth micromanaging that intrudes on their responsibilities. The Commonwealth Minister is using a “reserve power” to withdraw from the states a share of its \$31 billion funding to force them to meet legislative conditions (e.g. withdrawing funds from a state or school that does not strive to reach national reading, writing and literacy standards for *all* students). While state Ministers support most provisions in principle they object to the approach.

Summary of SPP mechanisms

- Tied grants allow the Commonwealth government to set national agendas in areas for which it is not constitutionally responsible.
- The Commonwealth contributed only a small part of the cost of a state program, has been able to impose conditions which influence how the states can spend their money and affect the policy goals of state programs.
- The COAG Ministerial Councils are again the formal forum for setting national priorities and strategies and gaining agreement that can be acted upon.
- A Commonwealth Minister can speed up the processes of decision-making by being willing to use the Commonwealth’s power over money and legislation.
- State Ministers may be willing to come to an agreement, knowing it will be popular with parents, then blame the Commonwealth so that their party political allies (in this case the teachers’ unions) do not blame them.

Source: Based on Halligan and Adams (2006) Background paper.

Box 3.7: Canada: Health Care Reform and the Use of Fiscal Mechanisms

A system of health care in which individuals and families fully bear the capricious costs of surgery, hospital care, pharmaceuticals and the like has little appeal in any country. Private insurance markets, while helpful to those with incomes sufficient to pay the premiums and not already burdened by risk factors, never cover the whole population. Canada elected in the 1960s to adopt a universal system of public health insurance. Interestingly, the impetus for reform came from a single province, Saskatchewan, which in 1944 had elected North America’s first socialist government. In 1962, over the vehement opposition of physicians, private insurers and people of a capitalist turn of mind, Saskatchewan made publicly funded insurance and publicly provided hospital care mandatory. In parallel, a federal royal commission studied the idea. Within two years the overwhelming popularity of universal medical care persuaded the federal government that such a system should be the norm in all provinces, and that Canadians should be able to get treatment wherever in the country they happened to be.

The mechanism for universality was the Medical Care Act of 1966, which offered to pay roughly half the cost of all insured services, provided the provinces “undertook to insure hospital and physician services and to comply with certain requirements, such as universality.”¹ The incentive to do so was a substantial payment from the federal government – initially half the cost of running the system. This use of the weight of the federal taxing system has since been referred to, half in jest, as use of the “spending power,” as if it had been a power enumerated in the Constitution.

For all its design flaws, the system has been stable and popular for several decades. Now, however, the problems inherent in a system in which demand is unlimited and unrelated to user costs are being felt by all provincial governments. Health spending is rising at 5 to 7 percent annually, much faster than the growth of tax revenues or the economy generally, and the prospect is of more to come as the population ages and novel treatments become more expensive. The federal 50 percent of cost has been capped in such a way that, depending on whose arithmetic one chooses, it is now paying for between 14 and 25 percent of the cost, with marginal increments to the account of the provinces. For them, health spending is crowding out other critical budget items, and to one degree or another they are interested in system modifications that would shift some of the burden to consumers. The federal government is resisting strongly, in part based on the perception that this is what voters fervently want.

Under the *Federal-Provincial Fiscal Arrangements Act*, the federal government may withhold health payments to a province which does not meet some requirement of the *Canada Health Act*. This procedure is used sparingly and only at the end of a long process of information exchange and negotiation. Health care is thus somewhat of an anomaly in Canadian politics: a system foisted on most of the provinces through the use of federal fiscal power – a power which has systematically been throttled back over the years – finds its basic principles most strongly defended by the party bearing a waning share of the costs.

Source: Based on Swain (2006) Background paper.

63. Both examples show further use of fiscal mechanisms to drive reforms, in the Australian case in part negotiated through the COAG system, and in the Canadian case largely enforced by legislative mandate.

64. Thus, the use of fiscal (incentive) mechanisms appears to be much less practiced than the other two sets of tools discussed above. The Brazilian case shows the complexities of applying this approach, and confirms that the use of fiscal mechanisms to drive reform needs to be approached with caution, as unwanted effects may occur, which then have to be subsequently mitigated - in the case of Brazil by additional (temporary) voluntary transfers. In both cases the advantages thus far have outweighed the drawbacks, though openness to corrections and the introduction of mechanisms to keep weaker regions involved in the reform process are essential to prevent the creation of twin track governance systems.

Training, capacity building and advisory support

65. The development of reform implementation capacity at all levels of government is a final crucial ingredient of successful public sector reform. Some capacity building elements of reform strategies have been discussed in previous sections, including the use of federal and sub-national training and academic institutions.

66. Brazil, Canada and Spain provide the most relevant examples of the use of training and academic institutions in disseminating and implementing reforms.

67. One of the most interesting and, in terms of the Russian context, relevant efforts in implementing a comprehensive and consolidated capacity building approach is the National Program for Planning Modernization for the States and the Federal District in Brazil, PNAGE. This capacity building program, co-funded by the IDB, included comprehensive training programs on key aspects of administrative reform:

- Capacity building for the planning and management of public politics
- Implementation of human resources management policies in the federate states and capacity building in the area
- Modernization of organizational structures and administrative proceedings
- Strengthening of mechanisms of administrative transparency and communication
- Modernization of IT management and system integration
- Development of a culture of institutional change promotion and implementation.

68. The design and implementation of the program has spanned two administrations and is still ongoing. The program was based on the recognition of the fact that weaker sub-national authorities would be unable to successfully implement the large package of institutional reform initiatives designed in the late 1990s and that further measures to build change management potential at all sub-national administrations was needed.

69. The case of Canada has been mentioned as regards informal consultation practices. Canadian reforms have been largely disseminated and marketed by the network of academic institutions involved in public administration training and professional associations. These institutions, and in particular the Canada School of Public Service, have been used extensively to disseminate best practices and build a change management orientation in the public administration.

70. Finally, much of the modernization agenda in Spain has been driven by the network of Institutes of Public Administration set up in all Autonomous Communities. It is this network of institutions that has provided the much needed capacity building support to implement complex reforms in the budget management sphere, in particular. Whereas the Institutes in the individual regions are autonomous, together with the National Institute of Public Administration they are generally recognized as one of the leading factors in the Canadian reform process.

71. Training programs were also used extensively in Austria, in particular to train human resource specialists in the application of the complex new job evaluation and classification methodologies, but unlike the other cases in Austria this was mostly handled through peer learning and on-the-job training, without the significant involvement of outside institutions. One of the important factors is that Austria does not have a strong academic tradition in public management education, and that in some ways the academic community has yet to catch up with the rapidly changing environment in the administration, as higher education programs that prepare for a public administration career are still largely legally oriented.

CONCLUSIONS

72. The concluding section will look at the comparative cases presented here from three main points of view. First, what has been achieved in reforms and what has not? Second, how have different reform tools been applied in relative terms? And third, what are the lessons that can be drawn for the Russian context?

Achievements and failure: Where do the states reviewed stand?

73. The comparative cases face a variety of challenges as drivers of public management reforms. One common challenge is competitiveness, which is an issue for all six states, and in particular for the three European cases, which in addition to the challenges of globalization, also face adaptation pressures as a consequence of the completion of the Internal Market, Economic and Monetary Union and Eastern Enlargement. Australia faced a long-standing relative decline in competitiveness, in part

due to what was perceived to be an increasingly outdated and ineffective public sector. Canada faced similar competitive pressures, though less dramatically. Brazil is by far the most complex case, since, as with Russia and other transition states, apart from competitive pressures the country faced a combination of economic and political transition in a volatile regional environment.

74. The extent to which the states discussed have managed to address these challenges also differs. Whereas reforms in Australia have largely been a success, the record in the other states is mixed.

Australian reforms: High impact

75. Australian public sector management reforms were a key element of the National Competitiveness Strategy, and are seen as having contributed significantly to the turnaround in Australia's fortunes as far as international competitiveness is concerned. The introduction of performance elements in public sector management, in particular performance-based contracts between institutions (but also including more flexibility in employment conditions and rewards), together with budget management innovations have been virtually universally applied throughout the state, regardless of the fact that the sub-national governments have significant autonomy in all these fields. The development of a strong institutionalized consultative approach and the linkage of public sector reform to the competitiveness agenda are two factors that have helped ensure the across-the-board implementation of reforms. The effective application of change management approaches, through the working group system under the COAG, has been a major factor in achieving this.

European states: A spectrum of relative success and failure

76. All European states continue to face competitiveness issues, though Austria and especially Spain, have adapted more successfully to the challenges they have faced than has Germany, which has experienced a prolonged period of slowdown and has made little progress in reforming its public sector. Austria and Spain have been among the better performers in the EU.

77. Austria is surrounded by the more dynamic economies of the Central European states that have created strong pressures on Austrian economic performance, with Austrian products and services suffering from price and related labor cost competition in particular. The fear of reduced competitiveness in the issues, as well as changes in the political balance of power inside the state, created an environment in which fundamental reforms in public sector management became possible, which led to the introduction of radical changes in the way the civil and public service are managed, with a strong emphasis on performance management principles. Implementation in Austria has been relatively cumbersome owing to compromises that needed to be made with the powerful trade unions which did not allow sweeping and rapid changes. However, even though reform implementation was spread over a period of some ten years, its impact has been visible - as highlighted for example in the OECD Economic Survey of 2005, which credits Austria with being one of the top performing economies among the "old" EU

member states, and highlights the public sector reforms undertaken as one of the important factors in achieving this.

78. However, the OECD Survey also notes significant scope for further reforms, in particular in the area of budget management, where limited progress has been made in the introduction of Medium Term Budget Frameworks and other budget management innovations which, if introduced could lead to significant further efficiency gains. Furthermore, the slow process of the transfer of reforms to the sub-national level is also noted. Even if an increasing number of Laender have started to introduce reforms equivalent to those implemented at the central government level, there is a delay in efficiency gains is due to the very gradual diffusion of reforms to the sub-national level. The gradual nature of reform diffusion is due on the one hand to the need to seek consensus with the Trade Unions, and on the other hand due to the technically complex nature of the reforms, which required a radical change in the functioning of the public administration and thus required a significant effort in capacity development in all state institutions.

79. Reforms in Spain have been more comprehensive than those in Austria, covering civil service reforms budget management reform and some aspects of administrative reform. However, the depth of the reforms has been limited except in the area of budget management, where the gradual introduction of medium term budget planning tools - which helped facilitate the strategic use of budget resources - paired with budget support from the EU for infrastructure development initiatives, has contributed significantly to Spain's economic development. As in Austria, regional diffusion has been relatively slow, but in this case this is due more to the relatively slow pace of reform at the central government level than to the interference from entrenched trade unions and the technical difficulties with reform implementation that slowed down diffusion in Austria.

80. Finally, Germany has been the laggard in the reform process among the European states in the discussion. Reforms have been incremental and have not been able to bring significant change to the public sector management system. As noted earlier, this is due to the complex political realities of the last five years, which had made it difficult to find a coalition to overcome the different veto points in the decision making system. The change in the political constellation following the elections in 2005 may alter change the conditions sufficiently to allow for an acceleration of public sector reforms, though the complex process of bringing about legislative changes in public sector management may make this a prolonged process.

Brazil: Important progress, but a large agenda remains

81. The Brazilian case is more complex. Public sector reforms have been comprehensive and have contributed significantly to the achievement of financial stability at both the central and the regional level. In addition, significant progress has been made in changing the nature of the public sector management system from an employment provider to a service deliverer. The extensive use of e-governance tools in

providing public services has enhanced the transparency and accessibility of public services overall, especially in the economically more advanced regions.

82. However, progress has come at a cost for weaker regions, which have seen social sector spending decline, even with the compensation offered by the federal budget to those regions that continue to implement the principles set out in the Fiscal Responsibility Law. Furthermore, in recent year commitment to reform at the federal level has waned, giving rise to a much more uneven reform process, led mostly by the more advanced regions.

83. These factors raise some questions about the future of the reforms launched in the mid-1990s. Whereas progress has been made in many crucial aspects of the reform agenda, more work is needed, especially in civil service professionalization, in the further introduction and diffusion of administrative reform and service delivery innovations and in consolidating and expanding reforms in the budget management system. All these areas need to solidify the gains of the last five years in terms of fiscal stability and competitiveness in the world economy. What the Brazilian reform process has shown most of all is the need for staying power at all levels of government, if a radical and comprehensive reform agenda is to be sustained and completed. This is an important lesson for Russian reformers, which are at a relatively early stage in the reform process when compared to Brazil.

Canada: Exporting reforms?

84. Canada has moved in recent years from designing and implementing to exporting public sector management reforms. Canada is often regarded as a model for public management reforms, in particular for the policy-planning-budgeting nexus and performance management aspects. In this regard, reforms in Canada have often been introduced in a more gradual manner, building on an already advanced system. Whereas Australia took on a radical reform agenda to address competitiveness issues, Canada has brought in changes under budgetary pressures and as a way to retain the necessary quality level in public sector management, which was under threat as a result of a number of years of budget cuts and fiscal tightening.

What is interesting about Canadian reforms in particular is the attractiveness they appear to hold for other states. The recent UNDESA publication *Innovations in Government and Public Administration (2006)* highlights the extent to which Canadian innovations have found markets, from Lithuania and Latvia to China and beyond. Nevertheless, from the discussion in this study, Canadian reforms may be more interesting and replicable from the point of view of substance than from the point of view of the management of implementation. The Canadian context of best practice exchange through informal networks and the virtual automatism of replication of best practice require a highly advanced and stable political environment, which in itself is hardly replicable.

Table 3.1: Comparative Cases, Reform Instruments and Achievements

state Reform Aspect	Australia	Austria	Brazil	Canada	Germany	Spain
Reform driver	Competitiveness issues	Competitiveness issues (competition from CEE states) Change of coalition (ideological)	Response to fiscal crisis Response to pressures of globalization Political transition	Competitiveness Correcting impact of fiscal tightening on the quality of the public administration	Economic slowdown	Political transition, modernization
Type of reform	Comprehensive, budget management, civil service and administrative reform aspects	Mainly civil service and administrative reform (performance management), limited budget management changes	Comprehensive budget management, civil service and administrative reform aspects	Comprehensive and progressive	Incremental	Incremental in some areas (civil service), more radical in others (budget management)
Integrated or fragmented	Integrated	Integrated	Integrated (single reform ministry)	Integrated	Fragmented	Divided
Reform instruments applied	Consultation/joint design and implementation management Legislation	Legislation Best practice diffusion In-house training	Constitutional amendments Consultation/joint design and implementation	Best practice diffusion, mainly through informal and formal networks	Attempts to build reform programs through mixed commissions Legislative	Federal legislation Consultative mechanisms Best practice

	(limited) Change management	and capacity building	Legislation Best practice dissemination	Training and capacity building Change management	initiatives	diffusion through formal and informal networks Training and capacity building
Level of Diffusion	Some degree of difference in implementation but overall universal and consistent application of agreed principles at sub-national level	Gradual implementation of similar reform approaches in some of the sub- national governments, some more radical than at federal level	Changing, first mainly federally driven with regions following. Currently slower at federal level with strong leadership of a group of reform oriented regions Constraints of poorer and low capacity regions are an issue	Uneven, but all states follow a similar direction, though at different speeds and different levels of intensity of reform	Some local authorities and states have taking reform initiatives, but constraints of federal legislation make progress difficult	Uneven, two leading reforming regions are perceived as examples on administrative reform issues, while federal government has led the budget management reform
Status	Ongoing, with periodic evaluation	Ongoing, next phase of civil service pay reform planned	Ongoing, at different speeds	Ongoing	To be re-initiated	Ongoing, incomplete
Main impediments to effective implementation	Consensus building posed some challenges, but relatively speedy resolution	Trade Union resistance, Capacity constraints (especially at sub- national level)	Complexity of constitutional arrangements Capacity constraints Perceived social impact	No significant impediments reported	Veto points in the political system Entrenched constitutional and legislative principles Trade Union resistance	Conflicts over competencies between central and subnational government Rigid federal legislation Capacity constraints in some

Achievements						regions
Increase in competitiveness, reforms seen as contributing to GDP growth	Competitiveness maintained, improved ability to function in the EU	Fiscal stabilization Emerging public service culture Civil Service Professionalization agenda partially successful	Public service attractiveness enhanced Competitiveness maintained	Limited	Spain perceived as a competitive modernizing nation, but entrenched elements of traditional public management practices also remain in place	

The relative importance of reform instruments: Lessons for Russia

85. Table 3.1 provides an overview of the instruments applied and results achieved in the states presented here as comparative cases.

86. The discussion of the reform process in multi-level governance systems in this chapter highlights the complexity involved in introducing and implementing public management reforms in this particular context. The following are some key conclusions that are worth considering by Russian policymakers.

The effectiveness of legal instruments depends on the accompanying tools and they hold risks of freezing systems if used on their own

87. The discussion on legal instruments helps explain why “reform by law” in many instances has failed. The use of framework legislation is highly complex, as is shown especially in the Spanish and German cases. It requires a very clear vision and strong design process at the federal level as well as an intensive and hands-on training process at all levels if this is to succeed. In this regard, pre-design is crucial, especially when it comes to secondary legislation. The presumption that the use of framework legislation automatically creates a unified civil service/public management/budget management system is also incorrect, as has been exemplified for example in the case of Germany and the integration of the former East German Länder. The more successful Brazilian case highlights two other issues. First, the use of constitutional instruments can help overcome some of the hierarchy issues involved in framework legislation, but, at the same time, what is needed in this case is time, patience and coalition building. The main reason why Brazilian reforms, (also to a significant degree based on legal instruments) fared well where others did not (completely) succeed, is that the designers of the reforms made a conscious effort to build broad coalitions for reform and were ready to accept the fact that getting the work done might involve a prolonged period of three to five years. The most interesting element of the Brazilian reforms in this regard is that when commitment waned at the federal level owing to the change in political leadership, the momentum at sub-national level continued.

Coalition building and networking is the key factor in success

88. It is not surprising that two of the three systems that used institutionalized consultation mechanisms between levels of government were also the most successful in achieving results. Australia, through the COAG system and Brazil through CONFAZ are among the most successful reform cases discussed here, and they drew heavily on consultative structures. The Australian competitiveness policy design and implementation process provides a further textbook example of how such processes can be designed. Spanish consultative structures were less instrumental in the process, but this was largely a result of the drawn out dialogue on the role of the federal government and the communities in general, which stifled the consultative system. Canada and Austria both draw heavily on best practice and leading by example approaches. Whereas the implementation of reforms at the sub-national level has been far from even in both cases

(though in Austria this appears to be a matter of time rather than principle), this is not perceived to be a key issue in these states.

Fiscal incentive systems contain many unforeseen risks

89. Fiscal incentive systems are potentially attractive tools for stimulating reforms, both institutional and sectoral reforms, and for showcasing results that can enhance support for reforms. However, at the same time it is important to mitigate some of the risks inherent in using fiscal incentives:

- The risk of a detrimental impact on social services (with negative incentives)
- The risk of subjectivity in decisions, especially in areas related to administrative reform
- The risk of excluding low (administrative and fiscal) capacity regions.

90. The Brazilian and Russian cases have shown that fiscal incentive systems can have strong positive results in terms of fiscal stabilization and the drive for innovations in budget management, and can simply change the financial management culture in government. At the same time, the consideration of such mechanisms should be subject to certain mitigating measures including the following:

- Special allocations for vulnerable and low capacity regions (to prevent enhancing disparities), allocated on the basis of clear rules and allocated only if the regions adhere to certain minimum rules and standards
- A check against the ability of states to continue to deliver key social services (in case of sanctions)
- The use, as much as possible, of clear and verifiable criteria, especially on “softer” reforms such as service standards, etc.

Comprehensive capacity building facilities are essential

91. Without adequately funded and universally accessible capacity building programs, no complex reform can succeed. This is all the more true in states in transition where the required skills to implement reforms are simply not present. The Brazilian and Spanish cases, in particular, both transition environments at the outset of reforms, highlight the essential need for access to capacity development and the presence of change management structures (such as training institutions). It is not conceivable for reforms in multi-level governance systems in particular to be successful without these key facilitating factors.

Comprehensive reform needs integrated management and at least a multi-instrument approach

92. The lack of an integrated approach to connect reforms is a key risk factor in reform implementation. Comprehensive reform processes, such as those in Australia and Brazil and to a lesser degree in Canada, require single management or at least single

oversight, especially if they are to be successfully implemented at the sub-national level. The risks related to this issue grow with the number of sub-national units that need to be covered. In addition, no single aspect of reform can be expected to be achieved with only one (or mainly one) instrument. The combination of at least strong consultative structures with legislation and capacity building would seem to constitute the minimum package. Incentive systems in this regard can only be of an additional nature, as they would fail without the other three instruments and would risk aggravating the existing problems.

CHAPTER 4. A WAY FORWARD: LESSONS AND RECOMMENDATIONS FOR ENHANCING REFORM IMPLEMENTATION MANAGEMENT IN RUSSIA

1. The current phase of reform implementation in Russia is a turning point - the designing of reform strategy and the building of the main blocks for reform implementation to the actual implementation of planned changes. On the one hand it is more difficult stage of reform to mobilize what has been accomplish in reform to date and embark on implementation following the adoption of the Concept for Administrative Reform and the extension of the Civil Service Reform program. At the same time, this is the point at which the analysis of the approach applied to managing reform implementation will enable the timely introduction of the necessary changes in the reform strategy.

2. The previous chapters have provided analyses of approaches to managing reform implementation in Russia and of the experience of several multi-level governance systems. Based on the review of examples from international experience as well as approaches applied in the course of reform implementation in Russia thus far, this section provides insights into the possible mechanisms for reform implementation that may be used to achieve the following results:

- To ensure a more even implementation of reforms across regions
- To generate a more cooperative and supportive approaches between regions and between regions and the Federation
- To provide the right balance between incentives for reform and the enforcement of the federal agenda
- To build change networks that will be able to carry and support the implementation of innovative approaches to public management.

CURRENT ISSUES: CREATING DIVERSITY IN REFORM INSTRUMENTS

3. Two main conclusions stand out on issues of reform management in Russia. The first is the fragmentation of reform implementation as well as the approaches to managing reform implementation, and the second is the lack of accounting for economic and capacity-related disparities in providing support to reform implementation. These two factors pose a risk to the success of reform implementation overall as well as to the constitutional principle of unified governance, as current approaches are likely to create strong differences in progress in aspects of reform across the board, but also in the extent to which reforms are implemented across the country.

4. As regards the first point, the comparison between Russia and other multi-level governance systems shows some interesting contrasts. First of all, approaches to implementation in Russia are fundamentally different between individual reform areas. Whereas in the area of civil Service Reform, legislation has been the main instrument used, more diverse approaches, though still limited, can be found in Administrative and Budget System Reforms. This contrasts with the more successful reformers discussed in the previous chapter, such as Australia, Canada and Brazil, which all use a diverse set of instruments in each aspect of reform, including legislation, coalition building, best practice sharing, fiscal incentives, etc. The three countries that relied more heavily on single instrument approaches show less significant progress in reform implementation, although both Spain and Austria have made serious progress in individual aspects of reform (Austria civil service reform and to some degree in administrative reform, Spain in budget management reform). In particular, German reform efforts have been blocked by the presence of multiple political veto points and by over reliance on rigid framework legislation. The lesson in this regard is clear: if progress is to be made in the implementation of a complex reform agenda that covers several reform aspects as well as multiple actors across layers of government, a clearly thought out implementation strategy needs to be designed and appropriately resourced. Such a complex approach has to date been lacking in Russia, which explains the at best partial results in individual reform areas and the lack of integration of the reform agenda. As reforms in all three main areas are entering a new and decisive phase, this is an issue to be reflected on urgently addressed.

5. Apart from the need to focus on an over-arching reform implementation strategy, the second key issue that arises from the analysis in the preceding chapters is the need to account for diversity. Russia has by far the largest number of sub-national authorities of any of the states discussed in this report, as well as the highest degree of disparity in economic development and implementation capacity. Of the six comparative cases, only Brazil to some degree matches Russia's profile in this regard although - especially in terms of capacity constraints - disparities in Spain were also noted as significant.

6. At the same time, capacity constraints were raised as a factor even for a relatively advanced state such as Austria, where the speed of reform implementation in the Laender is considered to be due at least in part to the need to build capacity to implement a radically different and complex civil service management system.

7. To date Russia has chosen not to explicitly address this problem but instead has tried to stimulate reform implementation through incentive mechanisms based on objective criteria, in particular in Budget Management Reform and, to a lesser degree, in Administrative Reform. However, it is obvious from the analysis of the Russian case and the comparative cases that a "laissez faire" attitude is highly unlikely to secure even reform implementation across a complex multi-level governance system. Thus the second main general issue is the need to design an approach to reform implementation that is based on two pillars, with, as a first pillar, competition for those regions that can reasonably be expected (based on established criteria) to have the capacity to participate,

and, as a second pillar, a tailor-made mechanism to support lagging regions, which would be defined on the basis of a combination of assessments of capacity constraints and economic criteria. The former could be identified using existing benchmarking tools, such as baseline indicators and CAF, applied in the context of the EU and other tools under design. One could potentially add an additional special facility for post-conflict regions, as these have very specific needs.

The lack of diversity in reform instruments: Building a change management approach that works

8. As noted above, Russian reforms have to date used a relatively limited array of reform implementation tools:

- Framework legislation, as the main tool on civil service reform
- Consultative mechanisms, but only in the initial phase of designing governance reforms, not on implementation, and limited to a very small circle of actors
- Limited methodological and capacity building support, mainly through donor funded programs
- Fiscal incentives, on fiscal intergovernmental relations and budget reform
- Targeted financial support, foreseen under Administrative Reform, but scope and nature are still to be defined.

9. A lot has been said on the use of framework legislation and its effectiveness. It is important to emphasize that the main point made in this publication is not that legislation is an ineffective reform tool as such. The Russian constitutional system prescribes the use of framework legislation in many key areas of institutional reform, and ensuring its quality and implementability is essential. Even if questions have been raised, including in this study, on the feasibility of the effective implementation of some of the reform legislation, this is not the only reason, or even the main reason why reform by legislation has not brought the desired results.

10. International experience also clearly shows that legislation alone (or mainly legislation) will not bring about changes in work practices or even changes in the way administrative systems actually operate. Thus, our focus in these conclusions is on how Russia can put in place the necessary accompanying measures to ensure not only that reforms are defined in law, but that they become visible in the day-to-day operation of the governance system.

Consultative mechanisms, networking and best practice dissemination

11. The use of change management approaches, through institutional means (joint working group structures involving the regions and the central government etc) and through best practice dissemination and the use of academic and expert networks has been virtually absent from reforms in Russia. At the same time, these approaches are

clearly identified as clear determining factors of success in the comparative cases, especially in Brazil, Australia and Canada, and to a lesser degree in Spain and Austria.

12. There are obvious costs to creating institutionalized consultative structures in a state with 89 sub-national authorities, and the governance of such structures would pose a challenge. However, at the same time it is unclear how reform agendas are to be implemented without the presence of a permanent structure for consultation and discussion. Obviously in the Russian case the only viable solution would be to have one institutional set-up for consultations and discussions, regardless of the difficulties this poses with the fragmented nature of the current reform management structure. Some of the recently initiated experiments with regional level working groups on Budget Management and Administrative Reform could be used as a foundation for an overall consultative structure. In addition, the Federal Okrug Offices of Presidential Representatives could play a much more catalytic role in this regard, which would help to address some of the issues of fragmentation in the Russian multi-level governance system. Box 4.1 briefly presents the example of the Siberian Federal District, and illustrates how this type of approach could possibly be built. The example of the Southern Federal Okrug, which has played a strong guiding role in trying to address weak governance concerns in the North Caucasus, provides a further illustration of the potential role these structures can play.

Box 4.1: Offices of Presidential Representatives in Federal Districts: Institutionalizing Consultative and Communication Mechanisms (Siberian Federal District)

Among the main problems in the system for managing implementation of Civil Service Reform at the regional level identified in the study are: a lack of operational management mechanisms and a lack of communication and information strategy.

The experience of the Offices of Presidential Representatives in several Federal Districts demonstrates that it is possible to provide information and capacity-building support for the regions and transmit feedback and advice from the regions to the President of the Russian Federation within the current mandate.

The positive example of the Office of the Presidential Representative in the Siberian Federal District demonstrates that the organization of the Coordination Council on Personnel Policy was an important mechanism for managing reform implementation in the District and providing capacity-building support (Box 2.18). The opinion of the regions participating in the network and the progress of reform implementation in the District proves the adequacy of this mechanism for improved reform implementation.

The recent innovation of forming Advisory Councils for the Offices of Presidential Representatives in Federal Districts also suggests that this positive innovation will help to improve consultative mechanisms between the federal and regional levels in the course of reform implementation.

13. The other important missing link is academic and expert community networking, which was a driving force behind reform dissemination in Canada. Russia has a vibrant expert community, but there is currently no formal association of public administration practitioners and experts that could serve as a platform for the exchange of best practices and, eventually, as an advocacy mechanism for change. This should be a relatively easy to establish mechanism.

14. Finally, on the issue of networking and change management, the use of formal best practice networks along the lines of those that have been constituted for Civil Service recruitment and career management (see Box 4.2) and performance management and strategic planning, should be stepped up and enhanced.

Box 4.2: Inter-regional Project on Performance Evaluation and Competitive Recruitment in the Civil Service (involving six regions), DFID/World Bank Donor Secretariat

Approach to implementation:

- Evaluation of the current situation in human resources management and civil servant evaluation in each of the pilot regions (conducted by regional experts)
- Designing a framework for the system of evaluation in the Civil Service (including competitive recruitment, qualification examination, ongoing evaluation and attestation) to be further applied by all 6 regions
- Developing evaluation methodologies tailored to regional contents and designed by regional experts
- Discussion of proposed methodologies with regional authorities, conducting trainings and seminars for members of evaluation commissions
- Piloting proposed methodologies
- Evaluation of results, introduction of amendments to the methodology
- Rolling out the results of pilot projects to all government structures in the region
- Dissemination of experience to other regions.

Three inter-regional seminars were conducted to discuss the results of the previous stage and the approach for the next stage of project implementation.

The design of the project allowed addressing several reform management issues at the same time, including:

- *Ensuring a unified approach* through designing a framework methodology, providing a peer review of draft methodologies by federal and international peer-reviewers
- *Balancing support for advanced and beginning regions*: regions included three pilot regions and 3 non-pilot with the framework of civil service reform and there was a mutual learning and approach tailored to the situation in each region
- *Capacity-building* through inter-regional seminars, providing guidelines; involving regional experts to design and pilot methodologies; providing training to members of evaluation commissions on the application of proposed methodologies
- *Legislative support* through drafting a model regulatory act on a unified approach to using the results of multiple evaluation procedures.

15. Stepping up the use of consultative and change management tools would significantly improve the chances of successful reform implementation at the regional level, and it would be important to prioritize the design and operationalization of such mechanisms in the near future.

Investing in capacity building: Going beyond donor funded training

16. There has been no consistent approach to capacity building for reform implementation in either area of reform, except to some degree in Budget Management Reform, where capacity building activities were funded through the Regional Fiscal Technical Assistance Project, which though partially World Bank funded is a government-based initiative. Training and capacity building is therefore an area that requires major changes in approach and thinking. The current approach, which leans heavily on donor support, is neither sustainable nor desirable, while the system of the

Russian Academy of Civil Service has to date not been able to meet the very large capacity building needs that exist in the Russian governance system.

17. A focus on a capacity building strategy will become even more essential as the government moves towards the implementation of much more complex and new aspects of institutional reform, such as performance management and results-based budgeting. Whereas some capacity does exist in academic and research institutions, this is highly unlikely to meet the needs for capacity building that will arise with the implementation of the Administrative Reform Action Plan and the next phase of budget management reform. With donor funds rapidly reducing, it is essential that an over-arching approach to building and funding capacity building activities is designed at the Federal level, which could use the system of the Academy of Civil Service, or, preferably, could be built on a broader network of academic and training institutions. In this regard, especially, the Canadian example discussed in the previous chapter, which used the Academy of Public Administration and affiliated academic programs to build the necessary capacity for reform implementation, is particularly instructive, as is the role of the network of public administration institutions in the 16 Autonomous Communities in Spain.

Diversifying fiscal incentive instruments: The need to attend to lagging regions

18. As discussed in previous chapters, fiscal mechanisms can be a highly effective tool for promoting reform in multi-level governance systems and are in many ways unique to such systems. Brazil has used the most elaborate fiscal mechanisms among the cases discussed, but Australia and Canada have also used indirect fiscal mechanisms to promote (mostly substantive) policy reforms. In most instances, except to some extent in Brazil, fiscal mechanisms were mostly negative in form, while Brazil also used positive incentives, in particular to mitigate the negative impact of reforms on social sector spending in disadvantaged regions.

19. The use of positive fiscal incentives in Russia in the case of Budget System Reform has been largely successful in stimulating regions to draw up and implement Budget Reform programs, and similar mechanisms (though in the form of earmarked funding for the implementation costs of reform programs) are planned for the implementation of the Administrative Reform Concept. However, the approach and methodologies used so far pose a risk of excluding weak capacity regions. Thus, whereas competitive approaches to reform implementation should be encouraged, much more attention needs to be devoted to the problems of weaker regions, in particular to post-conflict regions.

20. As Russia moves forward with the implementation of increasingly complex reforms in public and financial management reform, it is increasingly critical to ensure that weaker regions are not left behind, as this would pose risks for the effective implementation of institutional reforms overall (which would risk being partial) and for the impact of reforms, which would fail to benefit those that most need better access to public services, in particular poorer citizens in disadvantaged regions.

21. Brazil put in place specific mitigating measures to prevent reforms from having a negative impact on disadvantaged regions; these measures consisted of providing additional compensatory funds for regions that were implementing the Administrative and Budget Reform agendas and as a result faced the risk of shortfalls in critical areas such as health, education and social protection. Unfortunately, this approach cannot contribute much to the discussion on lagging regions in Russia, as the issue there is mainly that of how to ensure that weaker regions can gain access to some of the resources available to fund reform program design and implementation - in particular in complex areas related to administrative reform and results-based budgeting.

22. In this regard, it would be crucial in our view for the Russian authorities to (apart from the overall competitions for reform support funds) an additional mechanism that would specifically address the capacity development needs of poorer regions, and in particular post-conflict regions, to participate in reform implementation.

23. Regions that would wish to use such funds would need to include them under a certain per capita income level and those in a post conflict situation (the latter may need a separate support scheme). Funds could be allocated based on two main overarching criteria, including; (i) a clear commitment of the regional authority to implement certain elements of the reform program in a set time frame; and ii) the willingness of the region to undergo an initial capacity assessment, undertaken by an external institution, based on an agreed methodology, to identify the key capacity constraints to reform). The Funds provided would be subject to the region's moving forward on a critical set of improvements in its institutional system that would enable it to define a credible reform program.

24. Only the development of a targeted approach to lagging regions will ensure that institutional reforms will benefit disadvantaged regions and their citizens and thus will provide the possibility for reforms to reach their intended objectives.

Monitoring: From output to outcome

25. The lack of a functioning monitoring system to measure the impact of reforms is a final reason why results have been slow and uneven. Monitoring systems to date have focused mainly on limited formal benchmarks, such as the adoption of legislation. Only in the area of budget management reform was a more sophisticated monitoring system put in place, which assessed the actual implementation of the reform programs that the regions undertook to implement as part of competitions. Apart from this, more in-depth monitoring was conducted under donor projects, such as the DFID/World Bank Public Officials Surveys, that track the perceived impact of reforms in the Civil Service system over time. However, these surveys were largely external in nature and not part of the government's own monitoring system.

26. The main consequence of the lack of a more outcome based monitoring system is that it becomes highly difficult to intervene and make corrections when implementation

goes of track, as this would generally be noted only at too late a stage in the process. The Administrative Reform Concept foresees a more comprehensive approach to monitoring, based on a baseline survey to be completed in early 2006. It is crucial that the results of this survey are translated into a credible set of indicators to ensure that reform implementation will become a dynamic process, and will allow for corrections during the implementation process.

Recommendations: What international experience is applicable?

27. The following are some of the key recommendations to the Russian authorities as the reform process enters its next, critical phase.

Integrated planning and sequencing at the regional level is essential

28. The fragmentation of reform efforts poses serious risks for the implementation results. The cases of Brazil and Australia, for example, clearly show the significant benefits that arise from having a single entity made responsible for the design and implementation of all aspects of the public and financial management reform programs. Whereas the division of responsibility between different stakeholders in Russia is a fact that has to be accepted, there are some mitigating measures that can be taken, especially now that the implementation timetable for the different parts of the reform agenda is better aligned.

29. A first recommendation in this regard is to set up consultative structures between the regions and central government that will allow for regular discussions on reform implementation issues, thus increasing buy-in at the regional level and facilitating the exchange of experience between regions. The Federal District Offices can play a pivotal role in this regard, as they could facilitate putting in place consultative mechanisms at the regional level, especially in view of the large number of subjects of the Federation. The consultative structures would need to address all three main aspects of reform, so that better coordination of reform implementation at the regional level would be ensured.

30. A second recommendation is that administrative reform and results-based budgeting implementation strategies at the regional level would be required to be cross-referenced, including an integrated plan of sequencing reform measures. This would help prevent negative effects that might arise due to the areas of overlap that exist between the two programs. Preferably such actions should also include Civil Service Reform measures.

Integrated and permanent consultative structures need to be created as a tool for change management

31. The above section has discussed the idea of building integrated consultative structures for change management. Virtually all of the comparative cases have institutes such practices, though some with more success than others. Russia also had in place a

consultative mechanism during the initial design phase of the governance reforms but did not continue this practice in subsequent reform implementation.

32. It is true that while the initial cost of setting up a consultative mechanism might be significant, especially in terms of design and implementation, the benefits would be significant. It is difficult to imagine how in the current Russian context reforms of the complexity of those foreseen, especially in the Administrative Reform and Budget Reform Concepts would be successfully implemented without the presence of a permanent structure for dialogue between the Federal authorities and the regions.

Support for advanced and lagging regions should be balanced to ensure more comprehensive reform implementation

33. Finding solutions that will ensure broader participation in the reform program will be critical as the reform moves into a phase where reform measures should begin to have a direct and visible effect on citizens in terms of better access to higher quality services. Russia is in a particularly complex situation in this regard, with a high level of disparity between regions in both economic development and reform capacity, a very large number of sub-national entities, and the presence of a number of post-conflict regions. Building program implementation solely on competitions between the best regions is in this case not going to lead to the desired impact across the state. Whereas international practice has limited lessons to give in this regard, the Brazilian case, in particular, shows that mitigating measures in some form have to be part of the implementation of the reform agenda.

34. The recommendation is therefore to create a specific fund for lagging regions, access to which would be based on economic indicators (lower than a threshold level of economic development), the presence of significant conflict over the past five years, and the willingness to undertake reforms, which would be assessed based on an initial reform program statement. The selection of regions could include three phases:

- The first phase would include screening on the three main criteria outlined above
- The second phase would consist of a capacity assessment⁸⁰ (according to an agreed methodology) which would identify some initial actions the government would need to undertake to be eligible to obtain funds
- The third phase would be an assessment of the application based on a specific set of criteria for lagging and/or post-conflict regions.

35. Dedicated funds would need to be secured in the 2007 state budget, with regions preparing their applications in the second half of 2006. In our view, the development of this kind of mechanism is a sine qua non for the successful completion of the reform process.

⁸⁰ Governance assessments undertaken in the Southern Okrug over the last year based on an agreed methodology could provide a model for this, as well as the recently published HSE review of the regional capacity to implement administrative reform, based on regional self-assessment (HSE, 2006).

The diffusion of best practices should be stepped up to enhance methodological support

36. Best practice diffusion is a powerful tool for stimulating reforms. The Canadian experience of using academic and expert networks has been mentioned, but an example closer to home would include the competition between Central Europe and Eastern European candidate states to the EU during the recent accession process, which included both competition and significant best practice exchange, in particular through the OECD SIGMA program.

37. The success of two donor-funded best practice networks, one on Civil Service Reform and one on Administrative and Budget Reform, shows that there is both a demand for such approaches as well as a clear pay-off. The central government could play a much more proactive role in stimulating the establishment of such networks, for example by organizing a specific competition for groups of regions that come forward with proposals. This is also a way of ensuring that the limited resources available to the government would be used in a way that would achieve a multiplier effect.

38. Finally, the limited investments in best practice networks will also in part take care of the need for methodological support on the part of the central government as such networks may generate sufficient methodological support between regions to enable them to move forward on reform implementation by themselves.

Capacity building programs need to be comprehensive and integrated

39. The comparative cases provided include several examples that could easily be replicated in Russia. The PNAGE program in Brazil, part government and part donor funded, provides a good example of a comprehensive capacity building program that assists regions in overcoming critical hurdles in the implementation of their reform programs. The in-house training program that the Austrian government put in place to ensure the effective implementation of reforms is a further interesting example, though more difficult to replicate in Russia because of its large number of sub-national entities.

40. The design of a single pooled program for capacity building, including mainly Russian budget funds but possibly also donor contributions, modeled on the Brazilian program, would seem to be the most appropriate way forward, and the design of such an initiative will become increasingly critical as reform substance becomes increasingly sophisticated and complex.

Monitoring: outcome-oriented system needs to be built

41. The development of outcome-oriented monitoring systems is critical to the ability of the government to adapt implementation approaches along the way. Whereas this is a relatively new aspect of reform management, and thus less international practice is available, there are several tools available to build on, including the existing Public Officials Surveys (for Civil Service Reform), the recent MoEDT survey on Administrative Reform, and the monitoring methodologies developed under the Budget

Management Reform. However, thus far the data generated through these survey instruments are not being used to conduct outcome-based monitoring for the reform process. Again, building such systems will become increasingly critical as the government moves forward with reforms that are more complex in nature and are expected to bring visible results to citizens.

FINALLY: A GLASS HALF FULL OR A GLASS HALF EMPTY? THE JURY IS OUT

42. Russia is at a critical juncture in the implementation of institutional reforms. To turn the reform fatigue which had set in during 2005 into active support for reforms, the success of the next phase of public sector institutional reform implementation is critical. Whereas the completion of this phase will take at least five to eight years based on international experience, the first two years will be critical. The backlash against public sector reform in the first half of 2005 leaves little room for error, and this makes the implementation mechanism critical.

43. The complex multi-level governance system in Russia combined with the high degree of diversity (economic, political and capacity related) poses a high risk of implementation failure, as the history of public administration and other reforms has clearly shown.

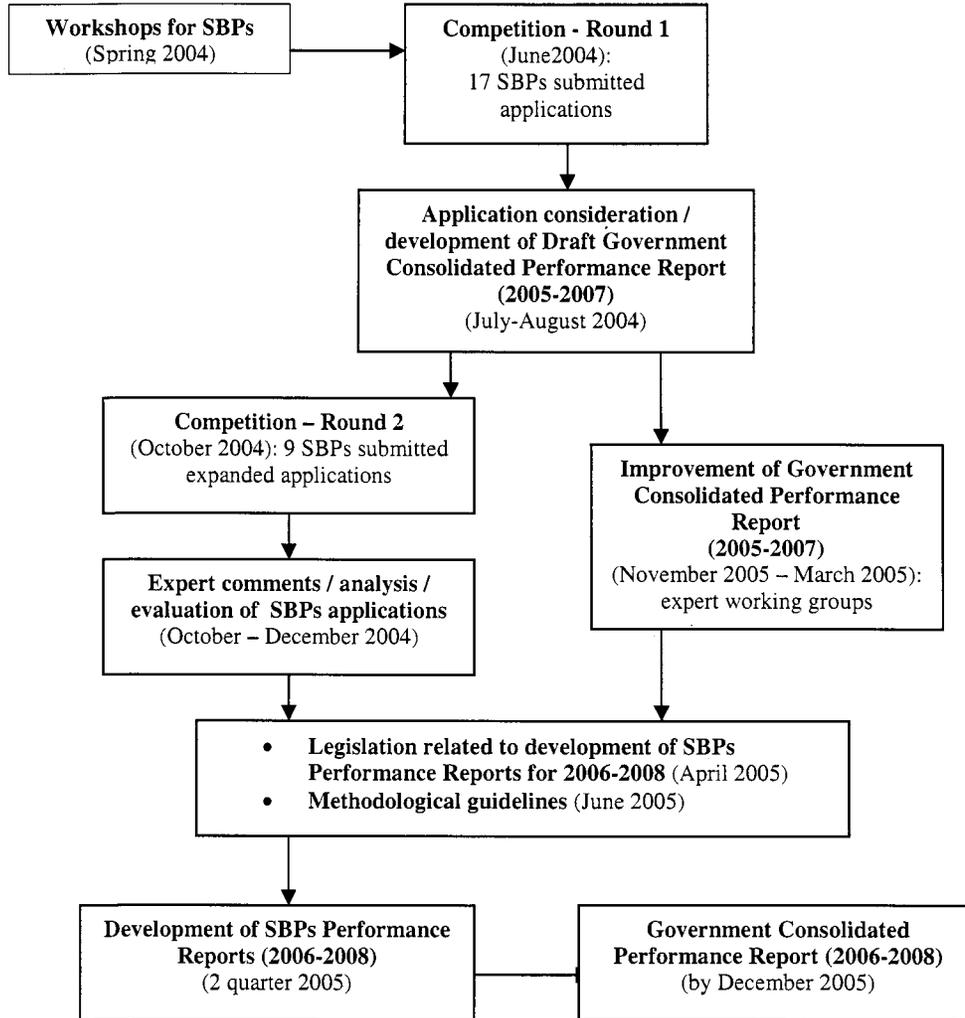
44. This study compares the implementation management arrangements used in Russia during the first three years of reform implementation with those in a selected set of other multi-level governance systems. The experience of the comparator states shows the importance of the diversification of reform instruments, the presence of mitigating measures for lagging regions, the need to put in place strong consultative mechanisms to build support for reform implementation and the need to invest in capacity building and best practice sharing.

45. In all of the above aspects there is still serious scope for improvement in Russia. Thus far implementation mechanisms are overly tilted towards the use of formal legal instruments, lack mechanisms for permanent dialogue between and within levels of government, lack mechanisms to bring low capacity regions into the reform process, and are under funded in their capacity building.

46. However, at the same time there are initiatives under way which can be built on, such as the emerging best practice networks, the use of competitive approaches piloted in intergovernmental fiscal reform, and some initial innovations designed for the implementation of results-based budgeting and the Administrative Reform Concept.

47. It is crucial for the success of the reform that decision-makers capture the window that will open with the initiation of the two new reform programs and the second phase of Civil Service Reform and rethink the way in which implementation has so far been approached to date in Russia. Their ability to redesign implementation systems along the lines proposed in this study will, in our view, become an important factor determining the chances of success of these crucial reforms.

ANNEX 1: SELECTION PROCEDURE ON PERFORMANCE BUDGETING



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