

The Effect of the Regulatory Impact Procedure in the Russian Regions

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Abstract. Regulatory impact assessment is a modern institute in the framework of the New Public Management concept which shows its effectiveness in many OECD countries and is one of the factors for improving the investment climate. However, for the Russian regions it is a relatively new institute, which has been being implemented and adapted since 2012. Using modern econometric methods, we test the hypothesis of the insignificant effect of this procedure in the Russian regions. It may indicate inflexibility of public administration and potential unpreparedness for the New Industrialization.

Keywords: RIA, Regulatory Impact Assessment, Public Administration, Russian Regions, New Industrialization

I. INTRODUCTION

The main role of Regulatory Impact Assessment (RIA) is to peel apart meaningless and rash decisions at the stage of adoption of a regulatory legal act [1]; to assess whether the regulation achieves its objectives; and to analyze the possible consequences of new regulation through joint participation in the assessment and coherent consideration of interests of different groups. In the framework of the theory of rational political decision-making, RIA promotes such regulation that increases net economic welfare of society [2]. In practical terms, the results of RIA application depend on a range of factors and local conditions of implementation, as well as on the quality of the procedure implementation itself. In addition, there is no formal model that would describe the economic effect of the introduction of this procedure or the contribution to the investment gains and investment attractiveness of the meso-level (for the regions).

Thus, the research purpose is to assess the impact of the RIA introduction in the Russian regions on their investment attractiveness.

II. IMPLEMENTATION OF THE REGULATORY IMPACT ASSESSMENT PROCEDURE IN RUSSIA

According to R. Khan, the total costs of inefficient state regulation and inefficient decision-making vary from 7 to 19% of GDP in different countries [3]. In this regard, it was assumed that the systematic RIA development in Russia in fulfillment of the Decree of the President of the Russian Federation dd. May 7, 2012¹ at the federal, regional and then municipal level, will allow in the shortest possible time creating a mechanism of public interests coordination on improving the efficiency of regulation of investment and business activities.

It was 2012 to launch pilot projects on RIA implementation at the regional level and at the early stage of drafting regulatory and legal acts. In 2014, RIA was finally consolidated in the subjects of the Russian Federation as an official procedure aimed at improving the business climate and increasing the investment attractiveness of the regions.

The competent authority on RIA in Russia is the Ministry of Economic Development of the Russian Federation and according to the results of the implementation of this procedure, Russia has become a full participant of the meetings of the OECD Regulatory Policy Committee. Since 2014 the Ministry of Economic Development of the Russian Federation has been preparing to monitor the quality of regulatory impact assessment by the regions [4], unfortunately, when forming the rating, mainly formal quality criteria are taken into account. The latter only to a small extent reflect the effectiveness of the RIA procedure and the

¹ The decree of the President of the Russian Federation dd. May 7, 2012 No. 601 "On main directions of public administration system improvement" / Garant. URL: base.garant.ru/70170942/

objective role of RIA in business and investment activities of the regions.

III. SAMPLE DATA ANALYSIS

Statistics on indicators affecting the investment attractiveness of the regions, as well as characterizing it, were collected as of the beginning of the introduction of the regulatory impact assessment procedure – in 2012, a total of 83 regions.

As a sign indicating the introduction of RIA in a particular region, the indicator reflecting the presence of the current regulatory legal act of the subject of the Russian Federation on organizational measures for the introduction of RIA according to the relevant monitoring of the National Institute for system studies of entrepreneurship [5] was used.

For further analysis, 4 regions (the Republic of Kalmykia, the Republic of North Ossetia-Alania, the Republic of Tatarstan, Tomsk region) were excluded from the sample due to the fact that they acted as pilot projects for the implementation of the RIA procedure before the adoption of the relevant Federal laws.

Over a matter of a number of missing observations, the Republic of Ingushetia and the Chechen Republic were not involved in the analysis, as well as the city of Moscow due to the development of its investment climate regardless of the RIA procedure introduction and abnormally high results.

Thus, the sample represents panel data for 76 regions of Russia for 2012 and 2015. In 2012, the regulatory impact assessment procedure was implemented in a range of regions (table 1). The period of manifestation of the procedure effect on the investment climate of the region is 3 years, as it is the average period of return to major investment activities.

TABLE I. THE STRUCTURE OF THE SOURCE DATA

Indicators	The regions of the Russian Federation		
	all	introduced the regulatory impact assessment procedure	not introduced the regulatory impact assessment procedure
Total in 2012	83	37	46
Number of pilot regions	4	2	2
Number of regions with missing data	2	0	2
Number of abnormal regions	1	0	1
Number of regions involved in the study	76	35	41
Ratio of regions involved in the study, %	91.6	94.6	89.1

Table 1 shows that 46.1% (35 out of 77) of the regions involved in the study were the objects of the analyzed federal measure (introduction of the RIA procedure).

Key indicators distinguishing the investment attractiveness of the region and determining the result of the RIA implementation, as well as factors affecting the investment climate are given in the table 2.

TABLE II. INDICATORS STUDIED

Indicator	Unit
<i>Resulting indicators</i>	
inflow of direct foreign investment according to the balance of payments of the Russian Federation	\$ million
share in the investment potential of the Russian Federation	%
weighted average investment risk index	-
balance of direct foreign investment according to the balance of payments of the Russian Federation	\$ million
fixed investments per capita in actual prices	RUB
<i>Factors of investment attractiveness of the region</i>	
Loans granted to resident legal entities, including small and medium-sized businesses (taking into account the location of credit institutions and their branches)	mln. RUB
Number of state and municipal enterprises at the end of the year	-
Number of enterprises and organizations at the end of the year	-
Proportion of information and communication technologies in organizations of the total number of organizations surveyed (global information networks)	%
The specific weight of organizations that carried out technological, organizational, marketing innovations in the total number of organizations surveyed	%
Depreciation of fixed assets at the end of the year	%
Value of fixed assets at the end of the year at full book value	mln. RUB
Balanced financial result (profit minus loss) of organizations	mln. RUB
Gross regional product per capita	thousand rubles / person
Average consumer expenditures per capita per month	RUB
Average per capita cash income per month	RUB
Average annual number of people employed	thousand people
Average annual population	thousand people

Due to the fact that the number of people employed and the total population have a high correlation, the ratio of the number of people employed to the total population was calculated.

Table 3 presents the average values of several key indicators characterizing the effect of the introduction of the Institute of regulatory impact assessment in the decision-making mechanism in the subjects of the Russian Federation in 2012 and 2015.

According to the table 3, the regions that introduced and did not introduce the RIA procedure have a significant difference in the average values of foreign investments in 2012. By 2015, however, this difference became insignificant.

It is also important to note high heterogeneity of the regions which introduced the regulatory impact assessment procedure, in terms of the balance of direct foreign investments within the whole period of study.

According to the indicators of 2012 with a low probability (about 77%), the hypothesis of a higher investment risk of the regions that have introduced the RIA procedure is accepted. After the introduction of the procedure, there was a decrease in the average weighted investment risk index not only in these regions but also in the rest ones.

TABLE III. ANALYSIS OF THE AVERAGE CHARACTERISTICS OF KEY VARIABLES BEFORE AND AFTER RIA PROCEDURE INTRODUCTION

Variable	The regions of the Russian Federation		t
	introduced the regulatory impact assessment procedure	not introduced the regulatory impact assessment procedure	
<i>Average values in 2012:</i>			
inflow of direct foreign investments, million US dollars	1474.72 (557.66)	563.19 (190.51)	-1.64
share in the investment potential of the Russian Federation	1.13 (0.16)	0.99 (0.16)	-0.62
weighted average investment risk index	0.30 (0.01)	0.29 (0.01)	-0.63
balance of direct foreign investments, million US dollars	441.56 (224.57)	-105.00 (165.48)	-1.99
investments in fixed capital per capita, RUB	135403.1 (32586.5)	112021.0 (33057.1)	-0.5
<i>Average in 2015:</i>			
inflow of direct foreign investments, million US dollars	1108.37 (360.97)	626.54 (218.57)	-1.18
share in the investment potential of the Russian Federation	1.11 (0.14)	0.99 (0.15)	-0.53
weighted average investment risk index	0.28 (0.01)	0.27 (0.01)	-0.42
balance of direct foreign investments, million US dollars	403.07 (268.88)	734.99 (696.42)	0.42
investments in fixed capital per capita, RUB	142988.2 (42273.4)	145939.8 (62892.9)	0.04

^a. Standard errors are given in parentheses.

^b. t - test for equality of average values for regions that introduced and did not introduce the RIA procedure.

Also, with a probability of 77% in 2012, the hypothesis of a higher share in the investment potential of the Russian Federation of the regions that introduced the RIA procedure is accepted. But by 2015, this share had decreased, and the difference in the average value of this indicator became insignificant.

Analysis of the dynamics of the average for groups of key indicators before and after the RIA procedure introduction showed that for the period 2012-2015 there was a negative trend in foreign investments and the share of investment potential of the regions which implemented the RIA procedure. Regions that did not introduce this procedure, on the contrary, showed an increase in these indicators.

The average investment risk reduction was the same in all regions. Investment in fixed capital per capita increased on average in all regions.

It should also be noted that in 2012, 31 regions (13 introduced, 18 did not introduce the RIA procedure) had a negative balance of direct foreign investment. In 2015, 27 regions (12 introduced, 15 did not introduce the RIA procedure) had a negative balance of direct foreign

investments, while the regions that did not introduce this procedure showed a more significant positive trend.

For other investment indicators, the distribution did not change significantly.

IV. THE INFLUENCE OF THE REGULATORY IMPACT ASSESSMENT PROCEDURES INTRODUCTION ON THE INVESTMENT ATTRACTIVENESS OF RUSSIAN REGIONS

In order to assess the effect of the regulatory impact assessment procedure introduction in the Russian regions the method of "difference-in-differences" was selected. For the first time this method was used in economics to analyze the labour market: assessment of the effect of minimum wage determination [6]; analysis of the problems of wage workers employment [7].

The main prerequisites for using the "difference-in-differences" method are as followed.

1. Assessment of the effect of a public policy measure on economic performance when comparing periods before and after the measure.

2. Similarity of trends (regions that introduced and did not introduce the RIA procedure in 2012, on average, are similar to each other and are adjacent).

3. Shock exogeneity (the choice of regions for the RIA procedure introduction was not determined by the indicators of their economic development).

4. There was no prior adaptation of the regions to the procedure (the period from the release of information about the law until its adoption was less than three months).

5. There were no "overflow" effects (the introduction of RIA procedure in some regions did not affect other regions).

6. The composition of the regions did not change before and after the RIA procedure introduction.

Table 4 shows the average values and changes of the key investment indicators that determine the result of the RIA procedure introduction. In the last column the abbreviation "RIA-notRIA" means the difference of average values for regions which introduced and did not introduce the RIA procedure.

Table 4 shows that the effect of the RIA procedure introduction in the regions is either negative or zero. Investment indicators in these regions demonstrated the worst dynamics in comparison with the regions that did not introduce this procedure. Thus, the comparative analysis of average values indicates the absence of a positive effect of the state measure on the investment attractiveness of the Russian regions.

TABLE IV. CHANGES IN THE AVERAGE LEVEL OF INVESTMENTS BEFORE AND AFTER THE INTRODUCTION OF THE REGULATORY IMPACT ASSESSMENT PROCEDURE IN THE REGIONS

Variables	The regions of the Russian Federation		
	not introduced the regulatory impact assessment procedure	introduced the regulatory impact assessment procedure	The difference, RIA-notRIA
inflow of direct foreign investments, million US dollars ! in 2012	563.19	1474.72	911.53
in 2015	626.54	1108.37	481.83
change of the average value (2015 – 2012)	63.35	-366.35	-429.7
share in the investment potential of the Russian Federation in 2012	0.99	1.13	0.14
in 2015	0.99	1.11	0.12
change of the average value (2015 – 2012)	0	-0.02	-0.02
weighted average investment risk index in 2012	0.29	0.30	0.01
in 2015	0.27	0.28	0.01
change of the average value (2015 – 2012)	-0.02	-0.02	0
balance of direct foreign investments, million US dollars ! in 2012	-105.00	441.56	546.56
in 2015	734.99	403.07	-331.92
change of the average value (2015 – 2012)	839.99	-38.49	-878.48
investments in fixed capital per capita, RUB in 2012	112021.0	135403.1	23382.1
in 2015	142988.2	145939.8	2951.6
change of the average value (2015 – 2012)	30967.2	10536.7	-20430.5

The comparison given in table 4 has no respect to the factors (controlling variables) that affect the change in the investment attractiveness of the region (see table 2). These factors were taken into account while building the regression models.

In table 5 β_3 regression coefficients with and without control variables from models are given of the following form:

$$Y_{ijt} = \beta_0 + \beta_1 \cdot ORV_j + \beta_2 \cdot AFTER_t + \beta_3 \cdot ORV_j \cdot AFTER_t + \varepsilon_{ijt} \quad (1)$$

$$Y_{ijt} = \beta_0 + \beta_1 \cdot ORV_j + \beta_2 \cdot AFTER_t + \beta_3 \cdot ORV_j \cdot AFTER_t + \gamma \cdot X_{ijt} + \varepsilon_{ijt} \quad (2)$$

where Y is the investment indicator; ORV is a dummy variable equal to 1 for the regions that introduced the RIA procedure in 2012; $AFTER$ is a dummy variable equal to 1 for 2015; X is the control variables.

Model (1) is a short model without control variables, model (2) – with control variables.

TABLE V. A BRIEF VIEW OF THE MODELS OF CHANGES IN THE INVESTMENT ATTRACTIVENESS OF THE REGIONS

Dependent variable	Model	
	(1) without control variables	(2) with control variables
Direct foreign investment inflows (the average value is 915.7)	-429.7 (379.3)	-280.6 (428.3)
<i>Standard error of regression</i>	2116.5	1553.2
Share in investment potential (the average value is 1.052)	-0.03 (0.31)	0.09 (0.19)
<i>Standard error of regression</i>	0.95	0.52
Weighted average investment risk index (the average value is 0.28)	-0.003 (0.025)	-0.009 (0.01)
<i>Standard error of regression</i>	0.077	0.066
Balance of direct foreign investment (the average value is 364.4)	-878.5 (840.2)	-686.1 (688.5)
<i>Standard error of regression</i>	2581.6	2526.9
Investments in fixed capital per capita (the average value is 133684.8)	-26333.6 (91388.1)	-0.106* (0.079)
<i>Standard error of regression</i>	280797.8	0.36

c. Standard errors are given in parentheses.

d. * - the logarithm was taken of the dependent variable.

All received models (table 5) show a slight effect of the RIA procedure introduction on the investment climate of the region. Even if the standard errors were small enough, the negative coefficients show the opposite of the expected effect of this procedure introduction.

Thus, the results of modeling reject the hypothesis of a positive effect, and the effectiveness of state regulation at the regional level from the measures taken is reduced.

V. CONCLUSION

According to the Ministry of Economic Development of the Russian Federation, most of the subjects of the Russian Federation systematically conduct RIA; in 2017, the Russian regions prepared more than 5,000 reports on RIA, 15% of which were negative. At the same time, in 2017, 27% of draft acts in the framework of the RIA opinion of the business community was obtained. In 2018, more than 100 draft acts affecting the social and economic and industrial development of the regions were published on the regulation.gov.ru portal.

In this regard, we believe that the results obtained indicate, first of all, that the RIA procedure is included in the bureaucratic process of the state management cycle, but the necessary conditions for its effective functioning have not been created. Providing procedural formalities largely diverts resources of regional management and complicates the investment process. On the one hand, the systematic movement towards the real functioning of the RIA procedure for the economic development of the Russian economy has not produced systematically confirmed results.

On the other hand, it is not inconceivable that the systematic adaptation of the RIA procedure itself provides a basis for reducing possible future losses from inefficient regulation in the field of business and investment activities.

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