THE IMPACT OF GLOBAL FINANCIAL CRISIS ON PUBLIC SERVICE DELIVERY IN THE RUSSIAN FEDERATION

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The impact of the global financial crisis on public service delivery in economies of the former Soviet Union

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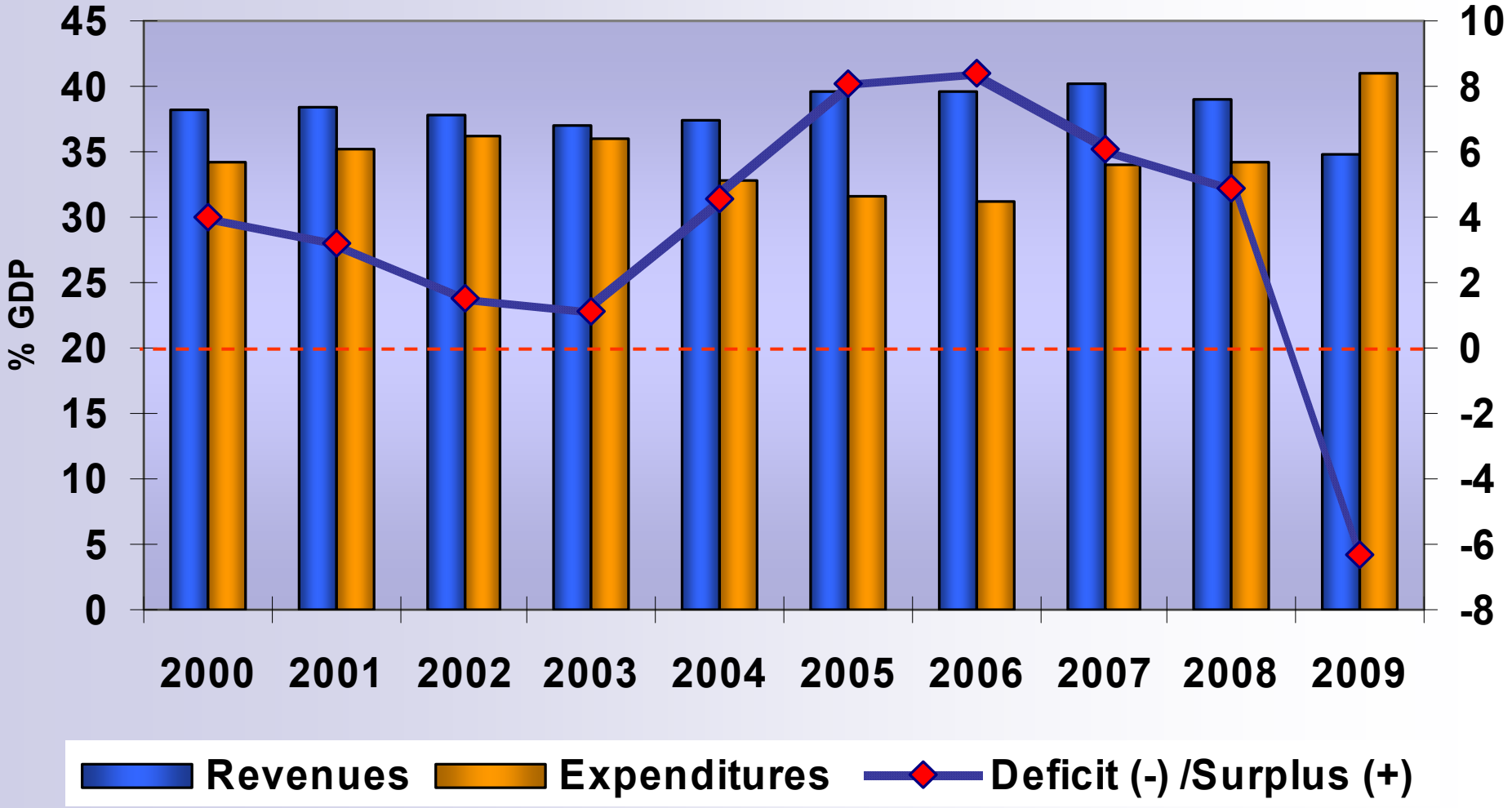
Major issues to be addressed in the study

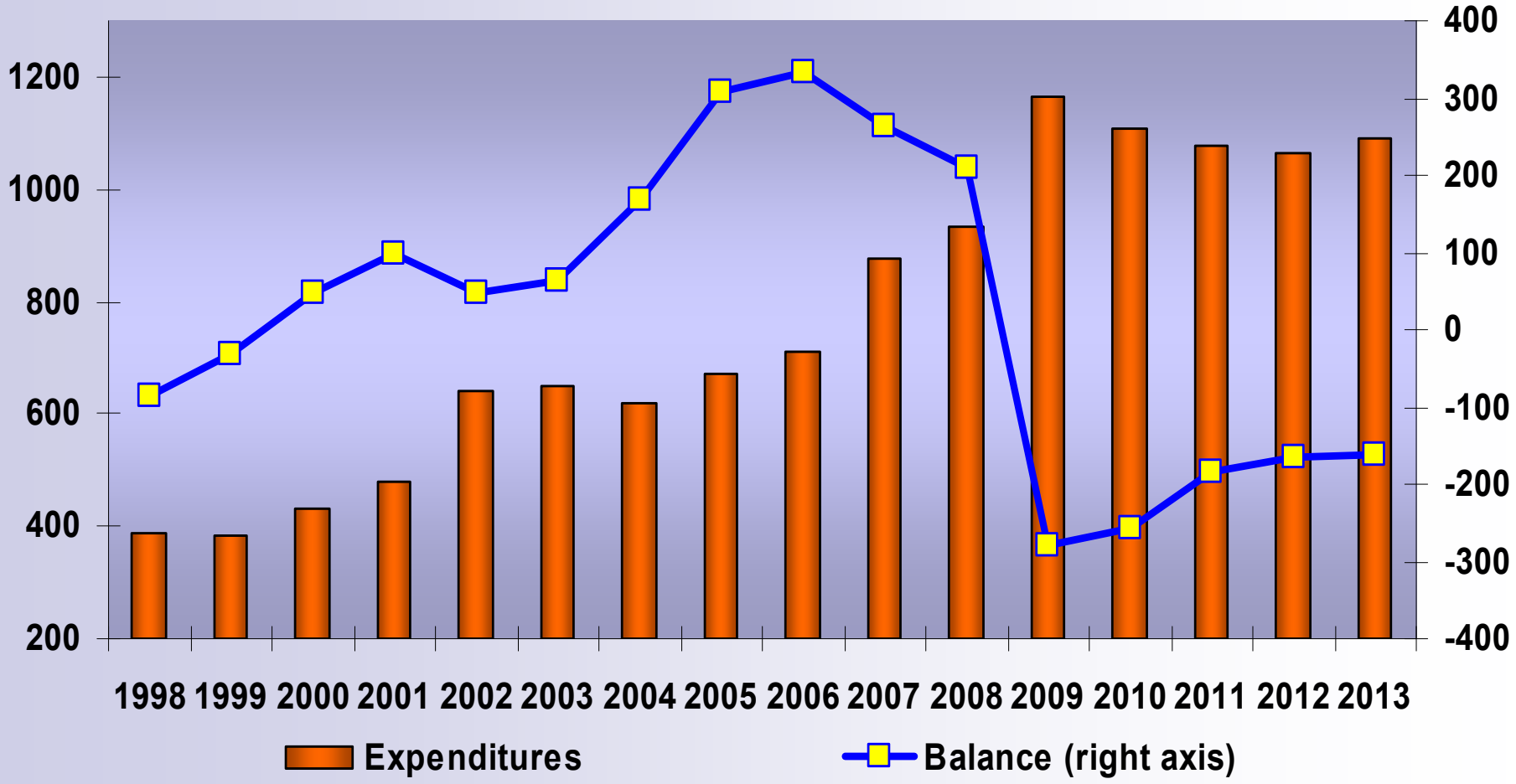
- analysis of the budget situation in pre- and during the crisis period with a primary focus on major policy developments in public finance;
- analysis of the key sector indicators for each of the spheres:
  - in health care: health status of the population, mortality and morbidity rates, availability of personnel and infrastructure, access to health services and regional differentiation;
  - in education: enrolment by education cycle, availability of teachers and facilities, education quality as measured by PISA testing system, public vs. private provision of education services, demographic trends and regional differentiation;
- policy reforms and spending trends in education and health care in pre-crisis period and during the crisis;
- efficiency of spending based on international comparisons;
- mid-term outlook for each of the sectors in terms of spending and provisional indicators;
- a regional outlook of the crisis impact upon funding of education and health care.

I. FISCAL SITUATION

Revenues and expenditures of the RF consolidated budget, % GDP



RF Federal budget: Expenditures and balance (RUR bn, constant 1998 prices)



Anti-crisis package

Chronology:

- Q4 2008: almost 6% GDP decrease ➔ "pin-point response" measures, "manual control"
- March 2009: govt comprehensive anti-crisis program

Priorities:

- securing financial stability (assistance to banks, corporations and regional budgets) – 60%
- Industry support – 21%
- Social protection and employment support – 19%

Funding:

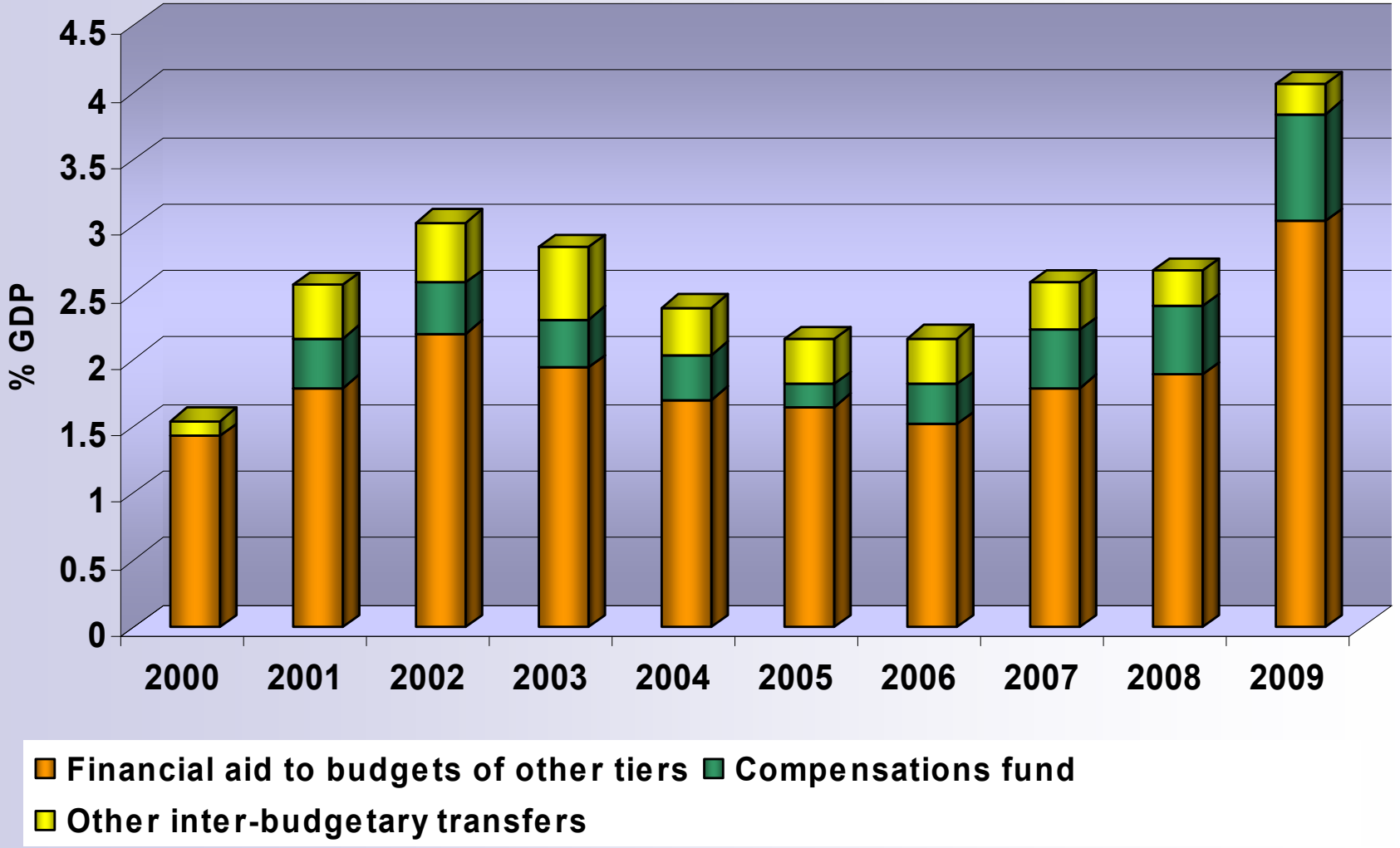
- In 2008-2009, RUR 3.5*10^12 (trillion) = 8.5% GDP 2008
- 61% was financed from federal budget, 39% came from extra-budgetary sources

➔ Federal budget expenditures up 6.5 p.p. GDP in 2009

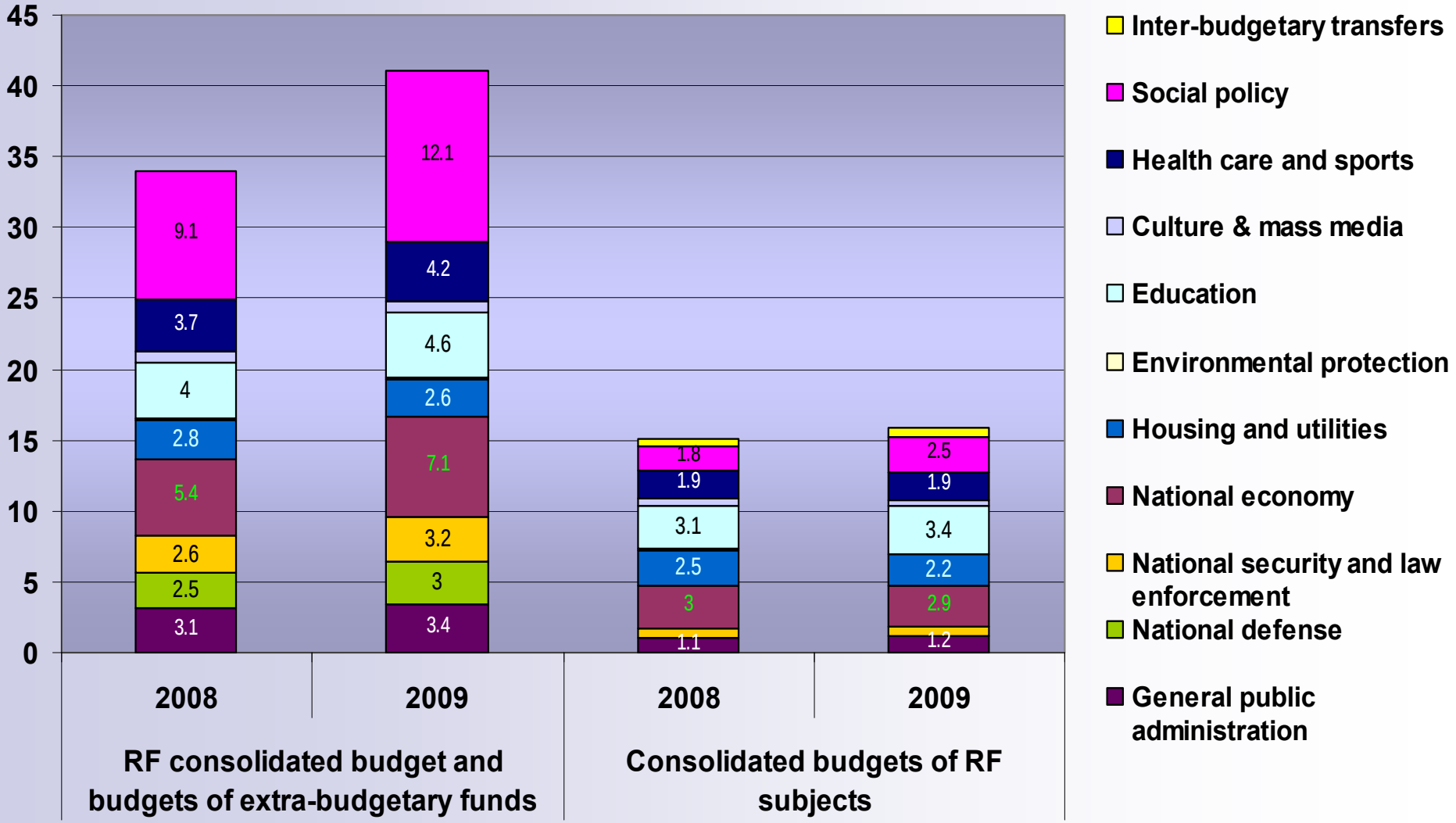
➔ Budget deficit -- 6.3% of GDP in 2009

➔ Reserve Fund decreased from 9.8% GDP at the end 2008 to 4.7% GDP at end 2009

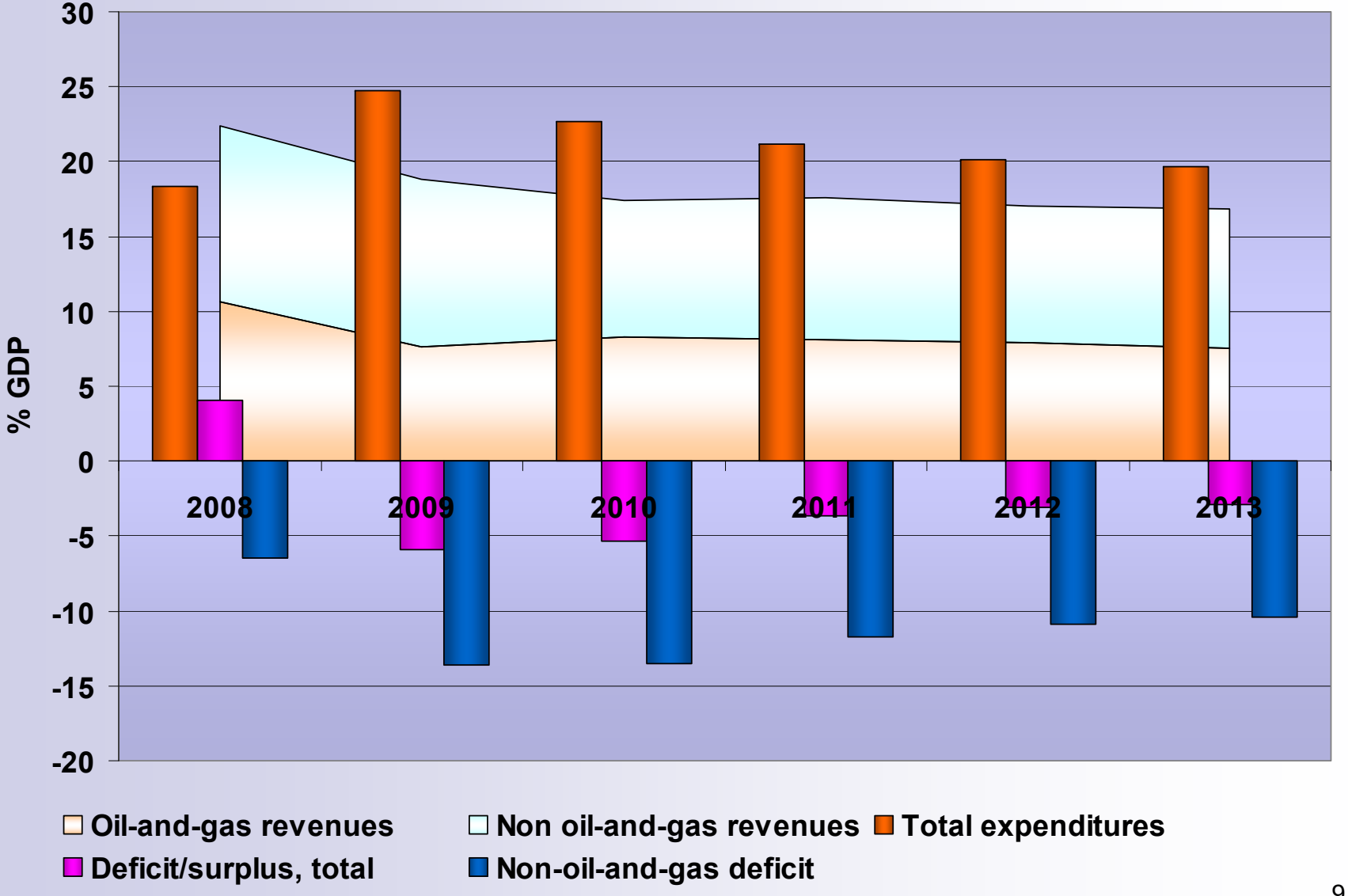
Financial aid from the federal budget to consolidated budgets of the RF subjects (% of GDP)



Structure of expenditures of RF budgetary system by tiers in 2008-2009, % of GDP

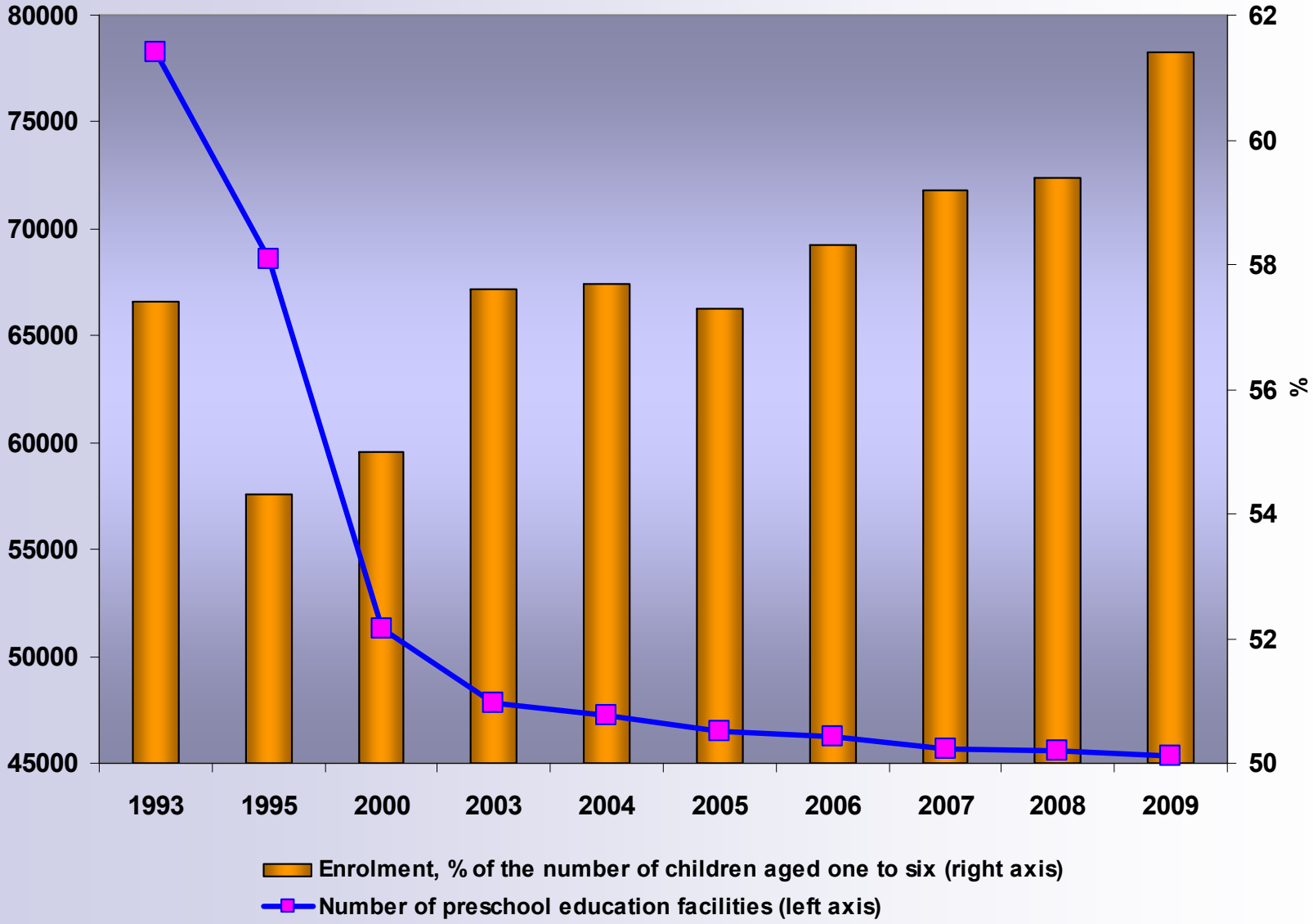


Major parameters of the federal budget for 2008-2010 and for a planning period of 2011-2013, % GDP

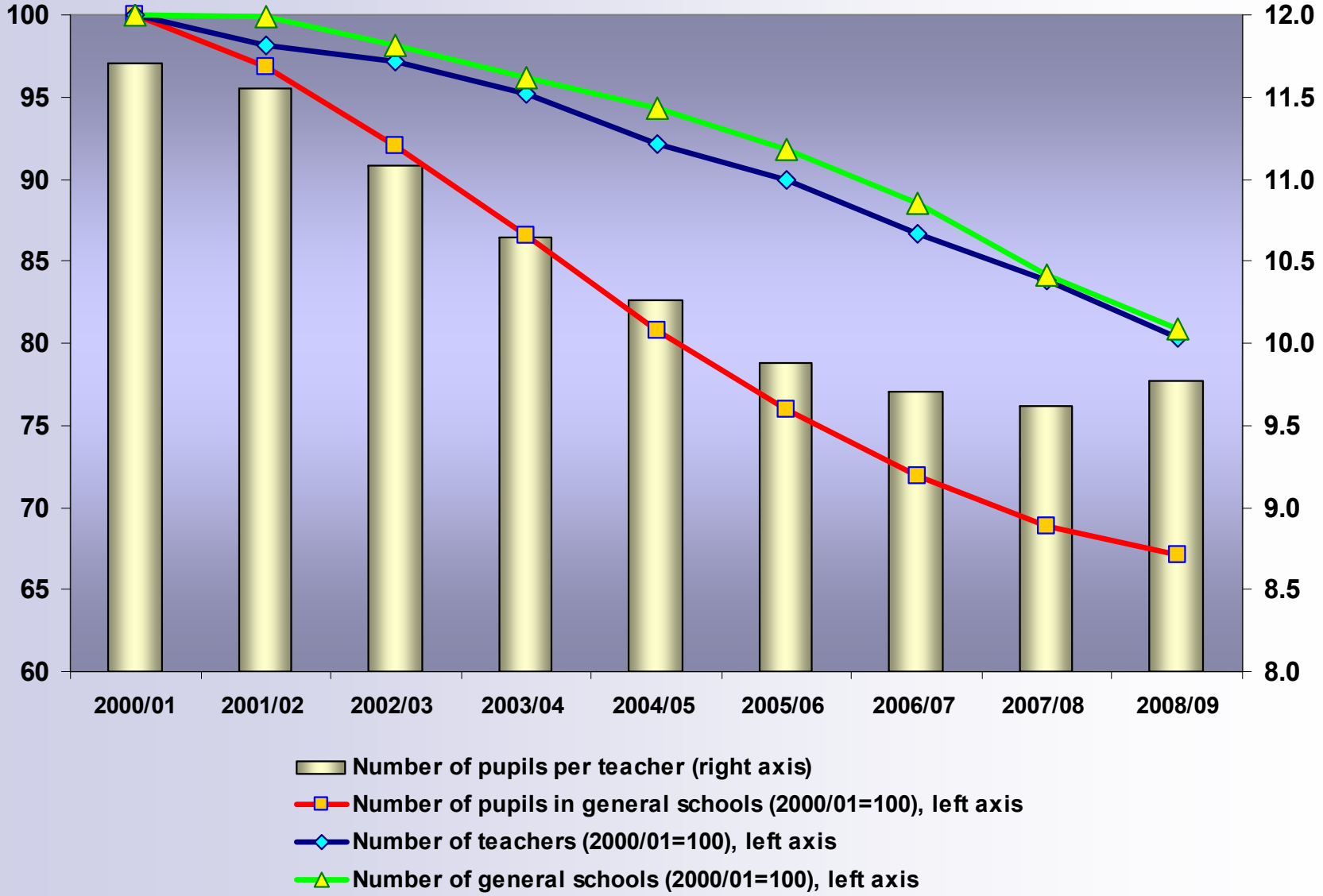


II. EDUCATION

Pre-school education: despite growing enrolment, accessibility remains low



State-owned (municipal) general schools: numbers of schools, pupils and teachers (2000/01 = 100)

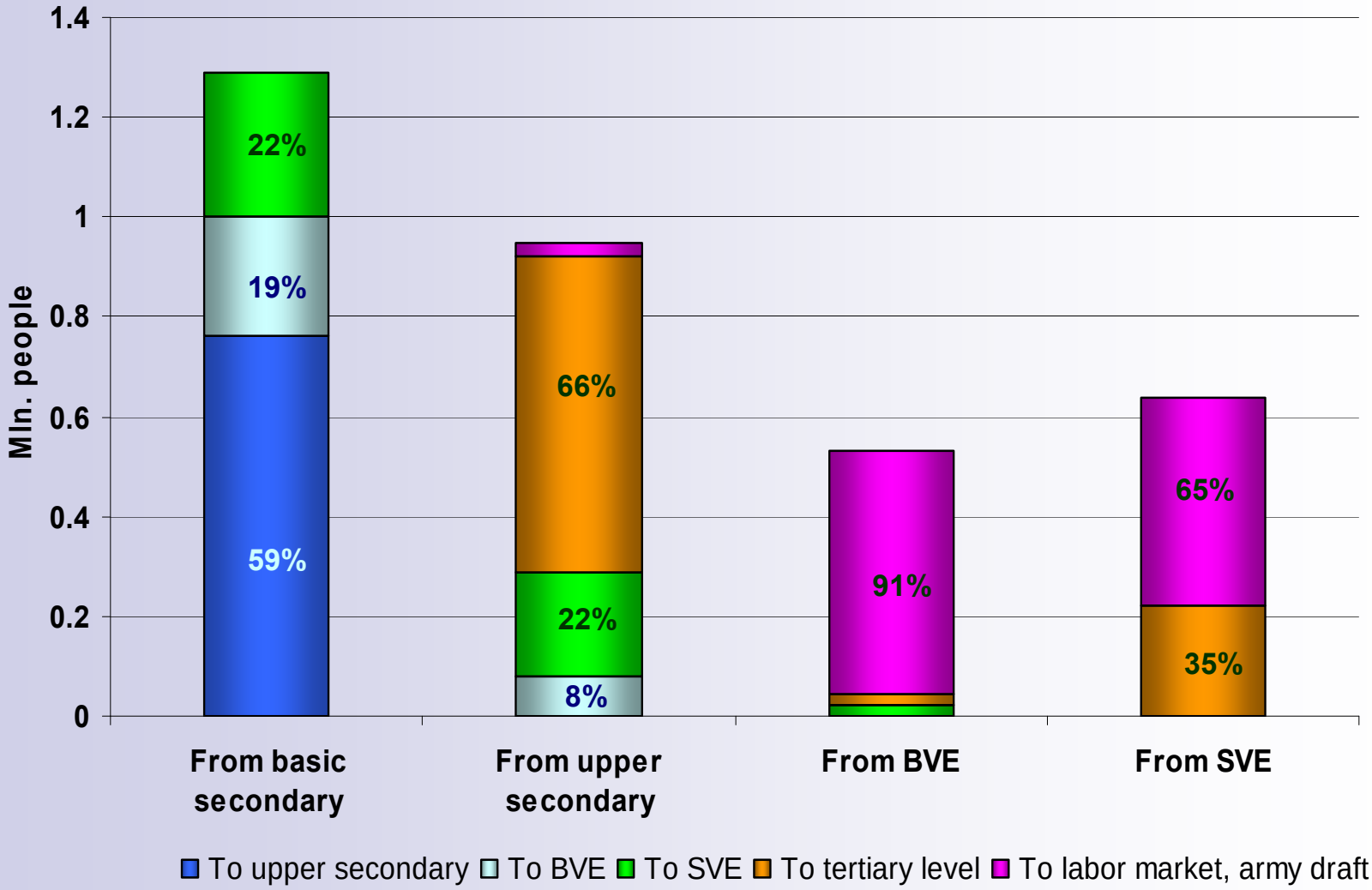


School infrastructure

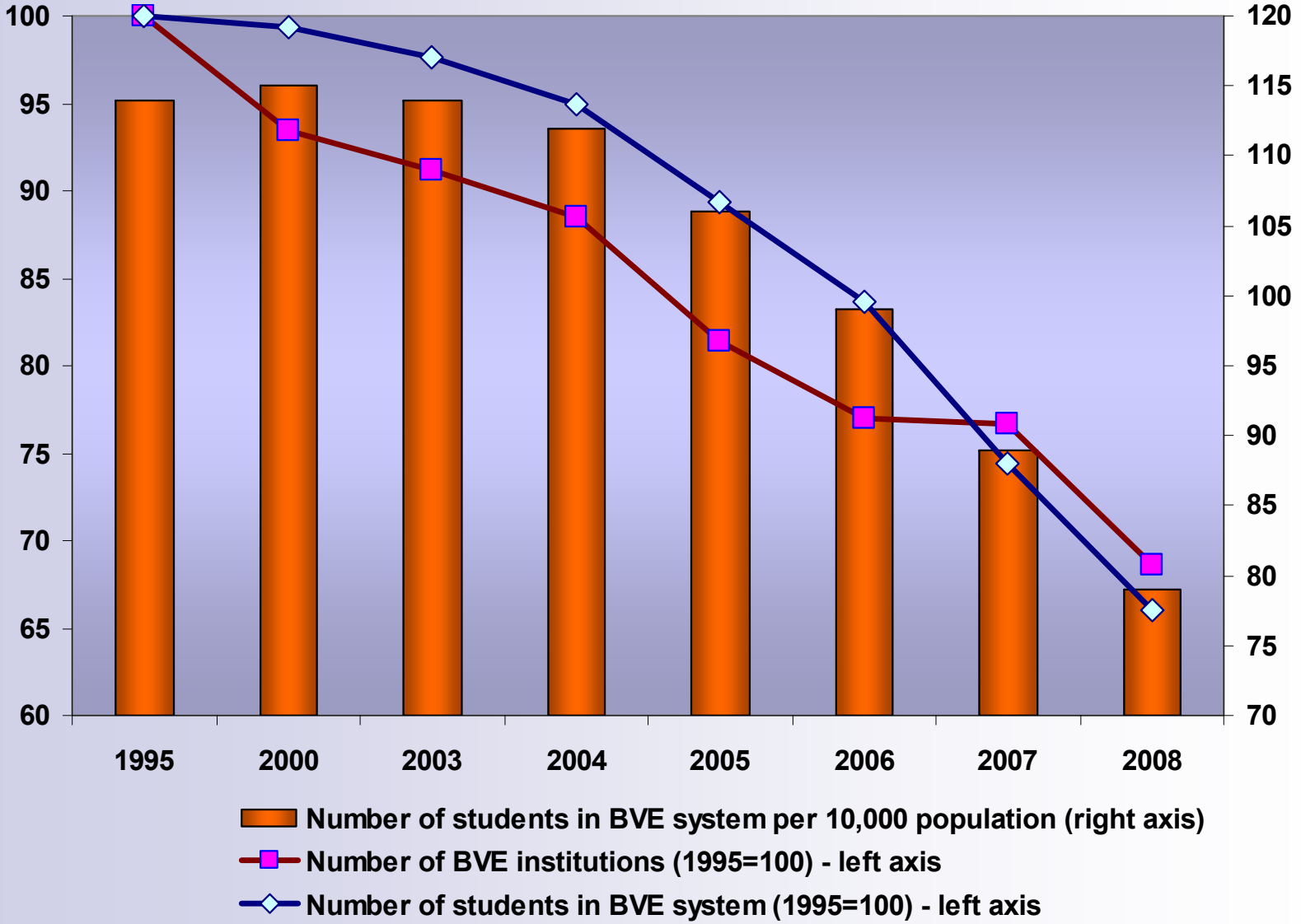
In 2009/10 academic year, among state-owned and municipal schools :

- 18% lacked permanent water supply
- 14% lacked central heating
- 26% had no access to sanitation
- 22.6% of schools (concentrating 24% of pupils) required capital repairs
- 21% lacked gym halls
- 6.5% had no libraries
- 23% had to practice two- or even three-shift teaching covering 13% of pupils
- On average, every school had 16.2 computers (28.2 in urban schools and 9.2 in rural)
  - of these, access to Internet was available to 10.3, 18.9 and 5.2 computers respectively

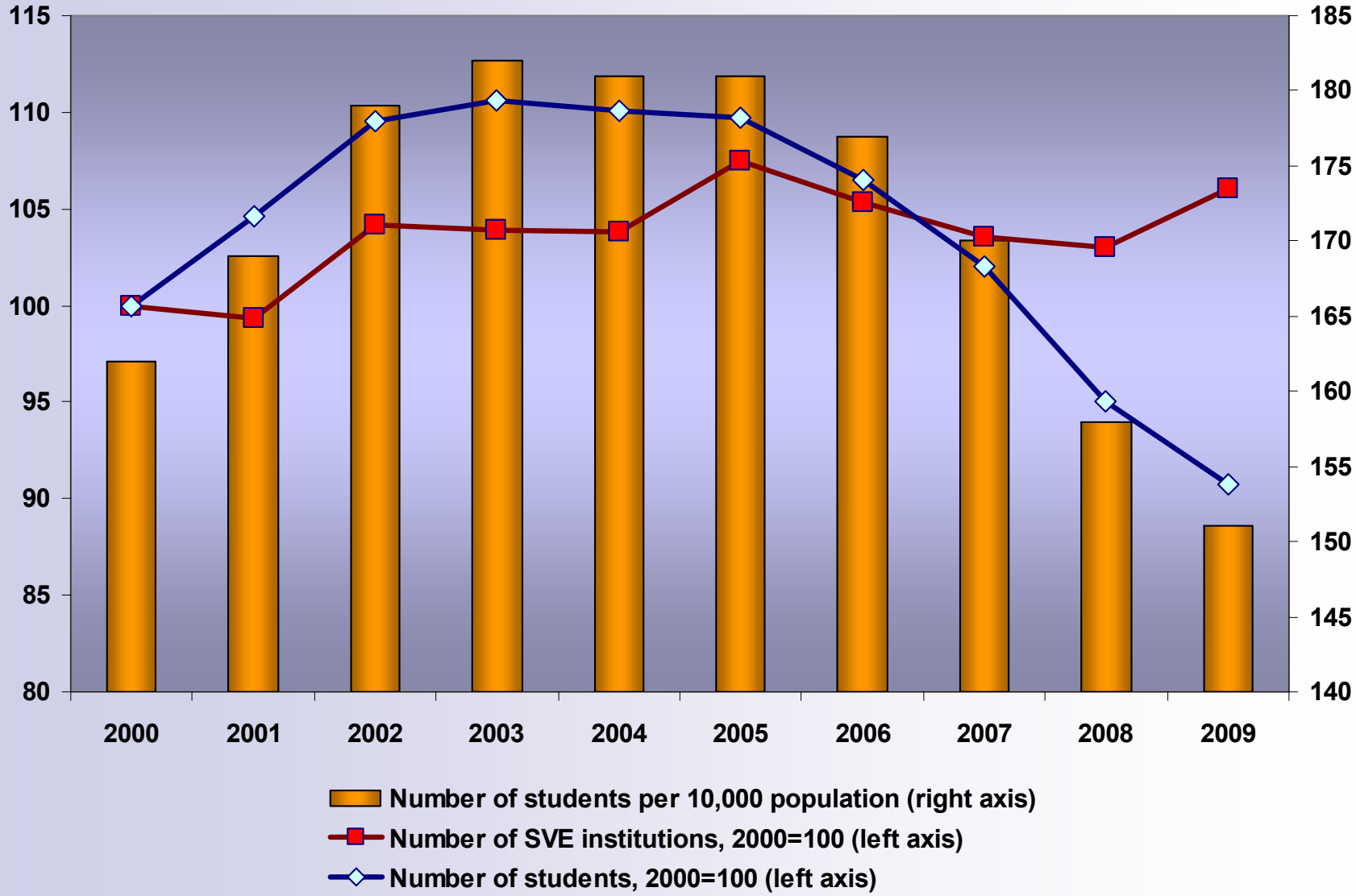
Structure of entrants flows, 2009



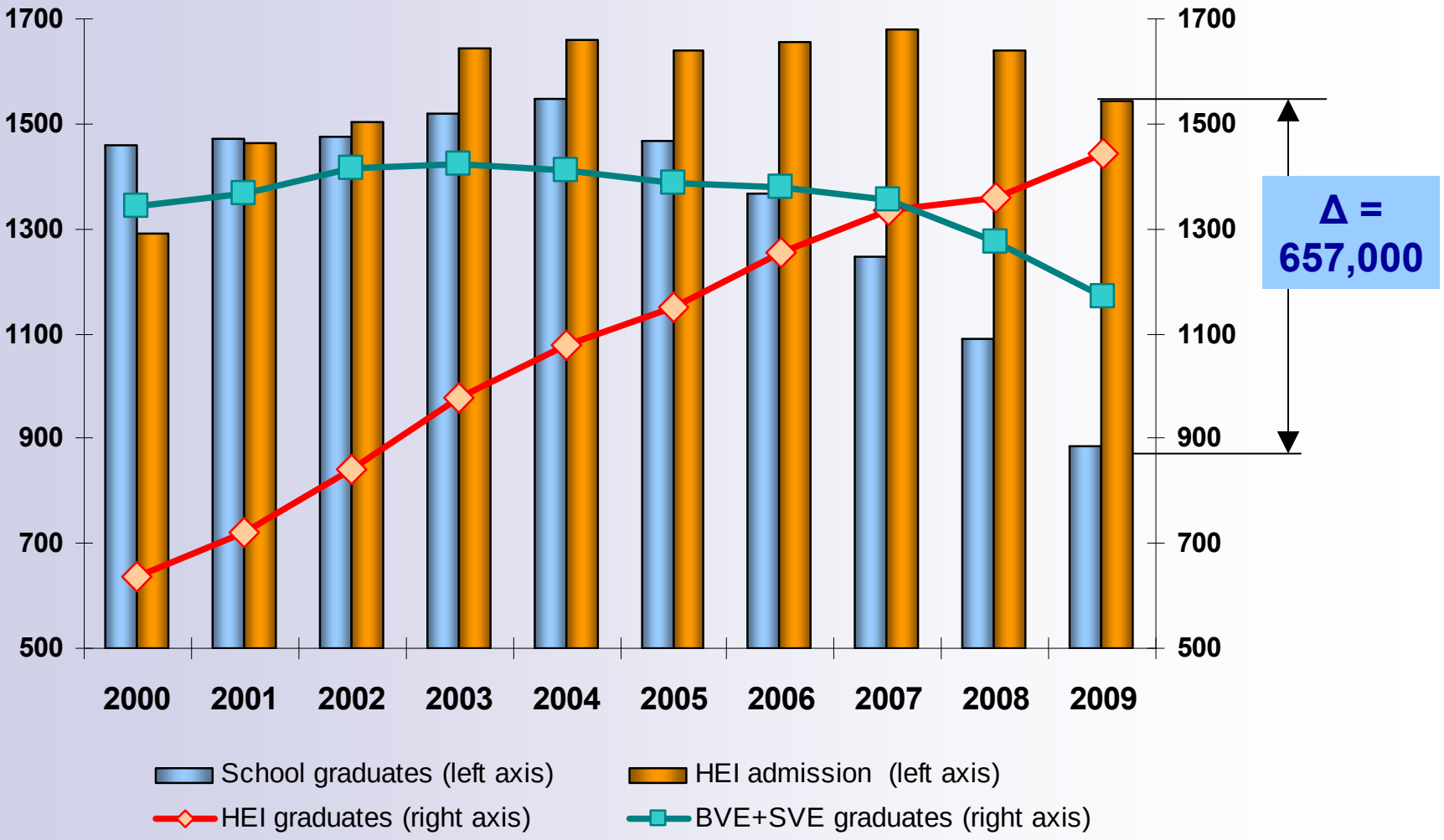
Basic vocational education: students and institutions



Secondary vocational education: students and institutions

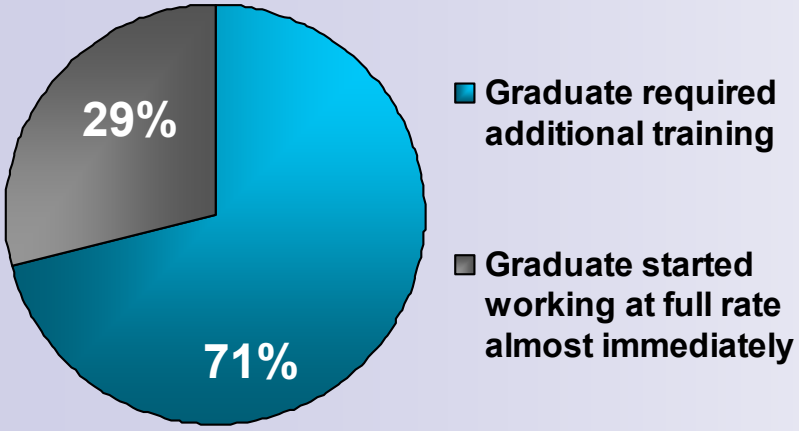


Admission and graduates: towards universal tertiary education



Tertiary education. Quality (1): After graduation…

Employers on HEI graduates' preparedness for professional activities:

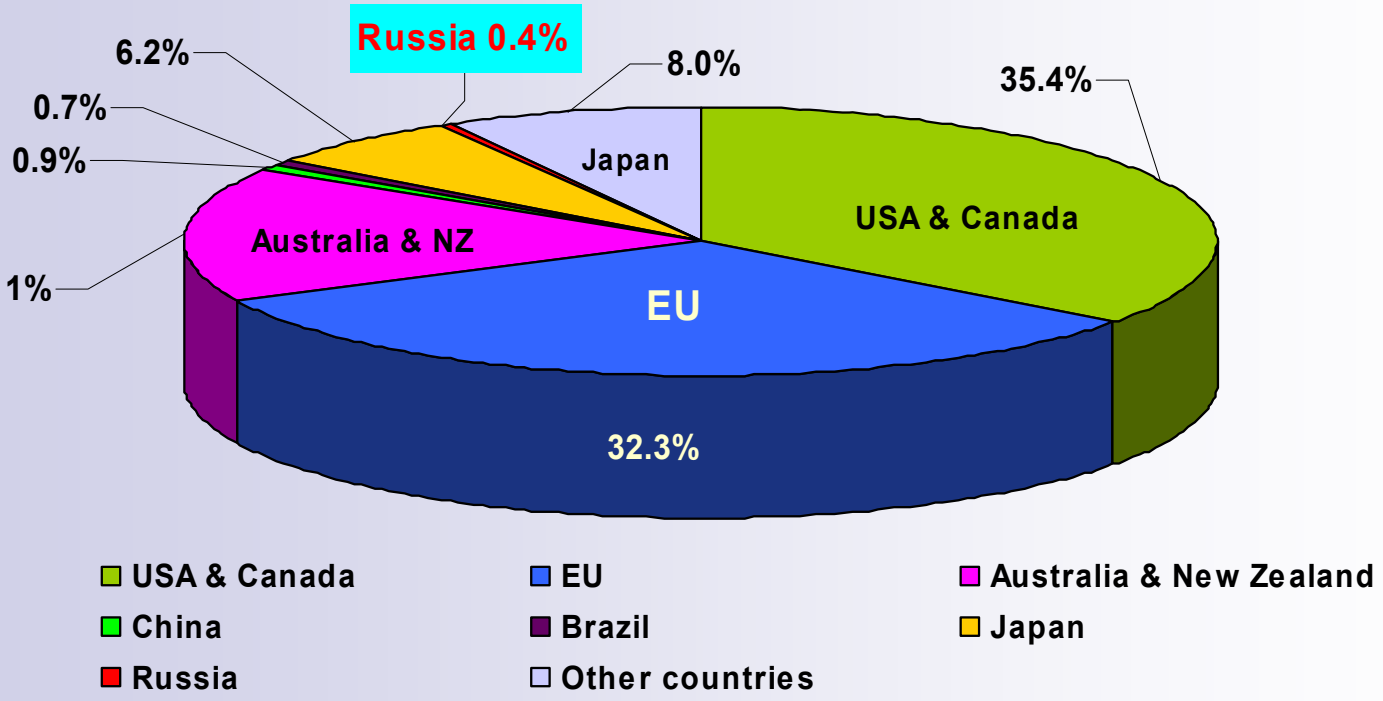


Up to 70% of graduate students in economics, management and law (~50% of the total) lack even basic professional competencies

- **Technical HEIs are ‘running idle’: in 2008, every fourth graduate worked in the field other than his/her specialization by training**
- **Disappointment with education quality compels employers spending large sums on personnel training: annual market growth rate exceeds 100%**

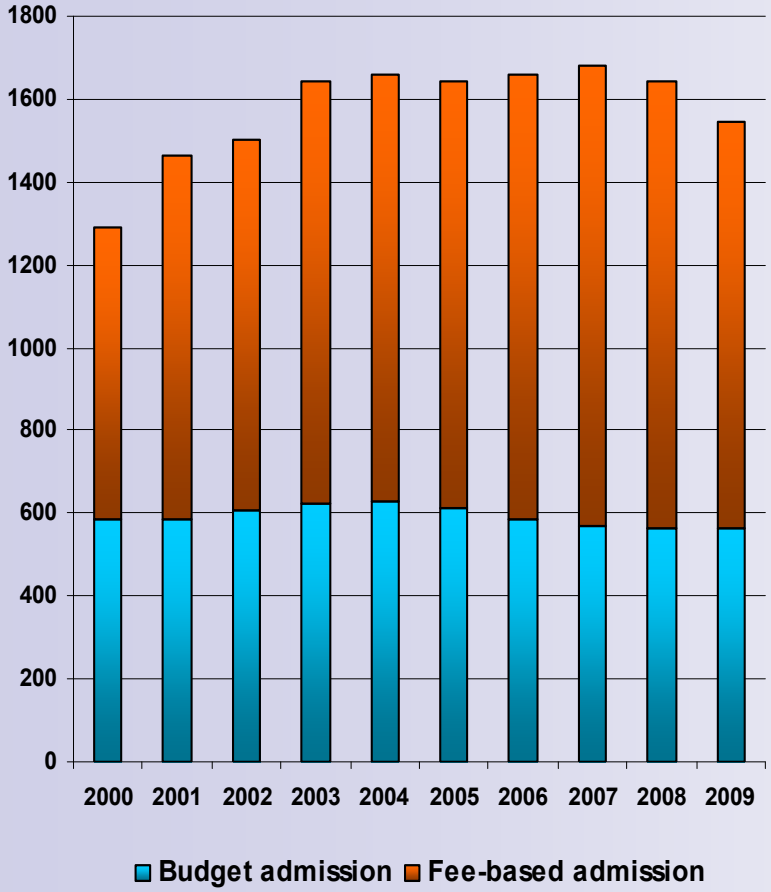
Tertiary education. Quality (2): competitiveness

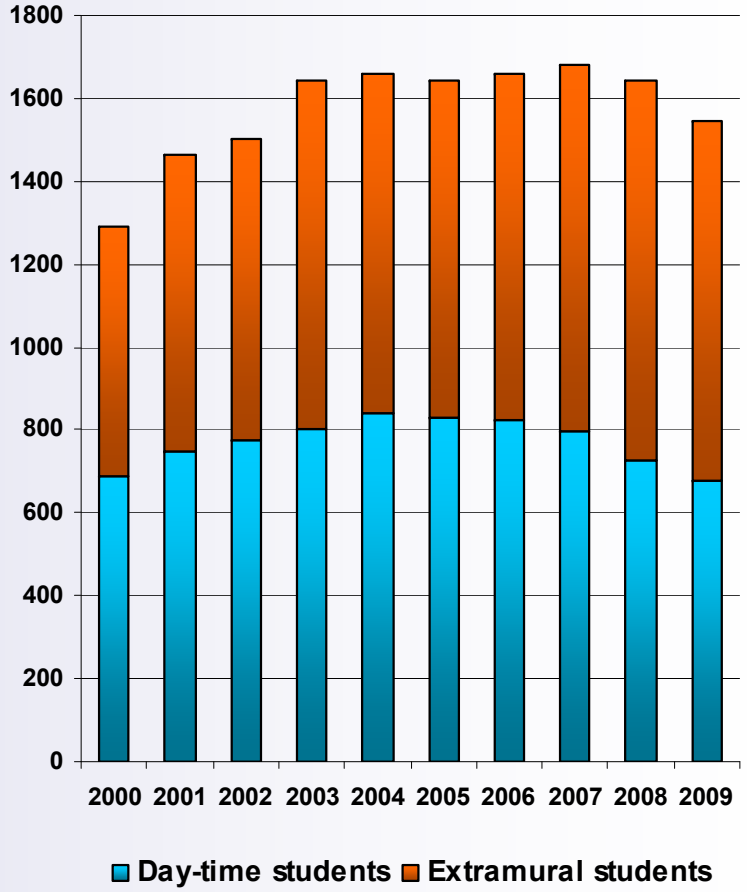
World education market: structure by revenue



- None of the Russian universities are listed among the top 200 Times Higher Education rankings
- Only one Russian university (MGU) is in the top 200 of QS World University Rankings

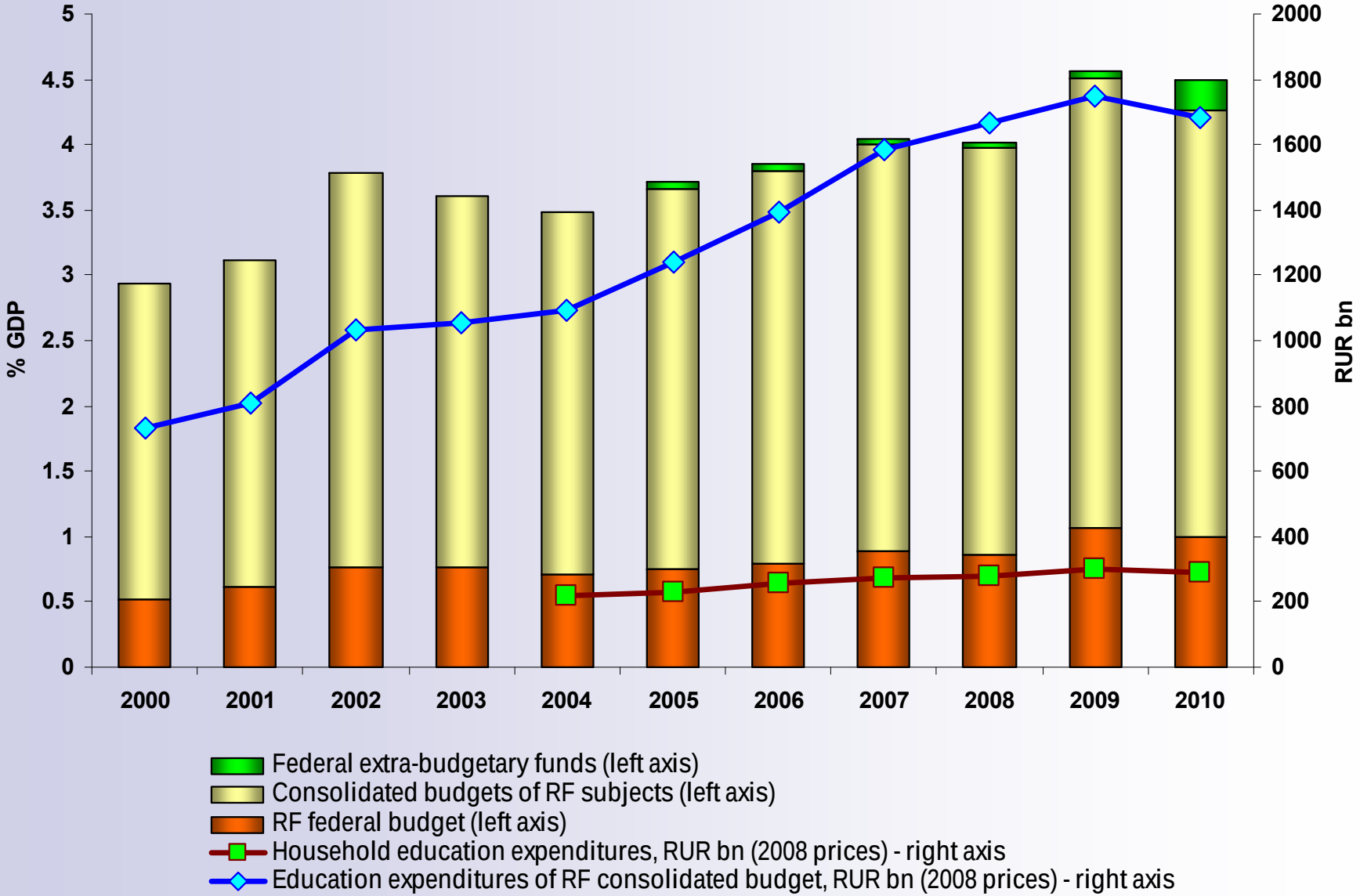
Tertiary education. Quality (3): admission structure



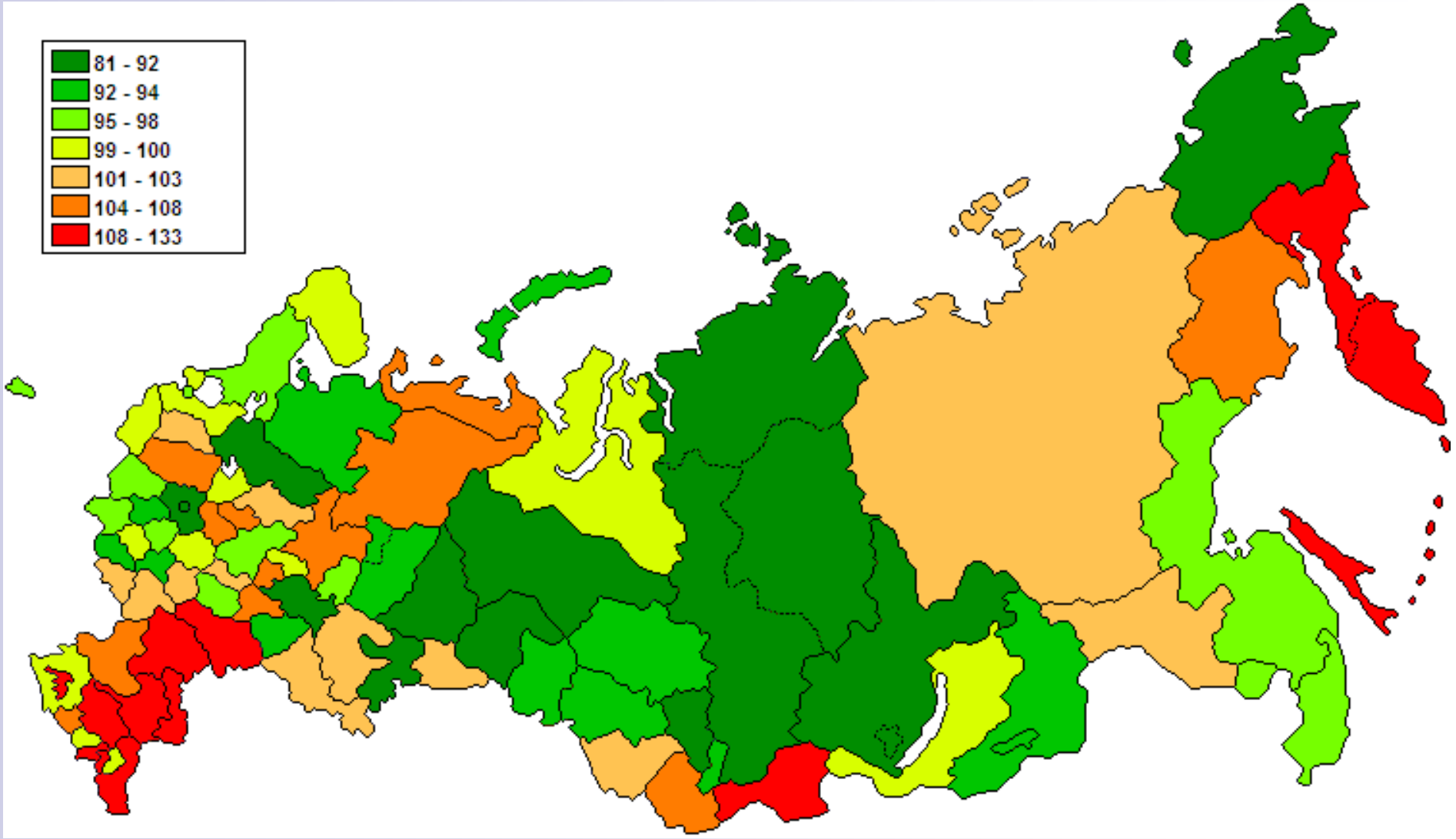


- HEI admission grew at the expense of:
  - paid admission (money in exchange for easy access and inferior quality)
  - extramural forms of education (RF is the world leader in the proportion of extramural students)
- Simultaneously, HEIs increased their territorial coverage by developing branches networks ➡ upcoming contraction of HEI number would involve mostly their branches

Budget & household education expenditure, 2000–2009

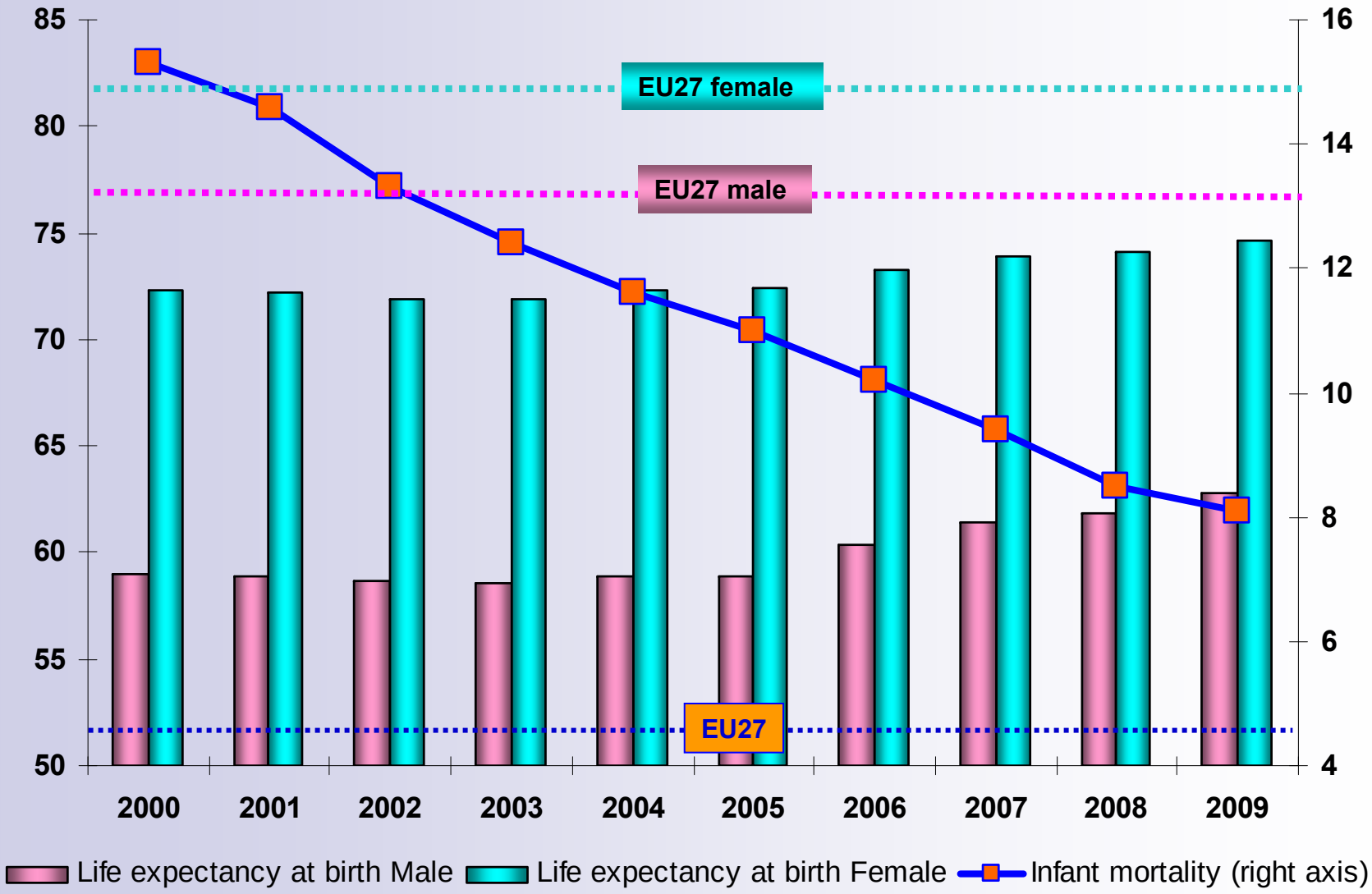


Education expenditures of consolidated budgets of RF subjects, 2009 as % of 2008 (constant 2008 prices)

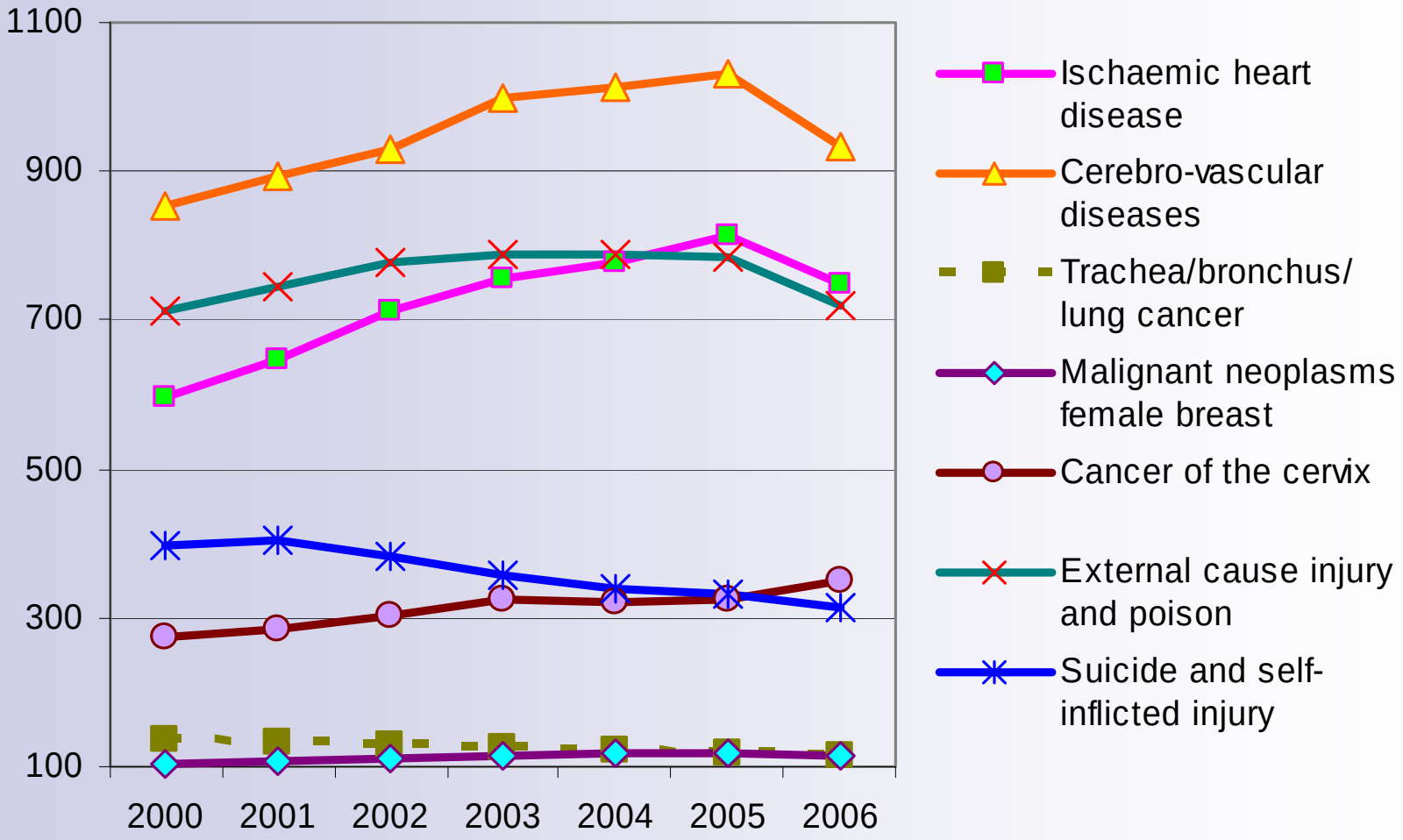


III. HEALTH CARE

Life expectancy & infant mortality



Causes of death compared to EU15



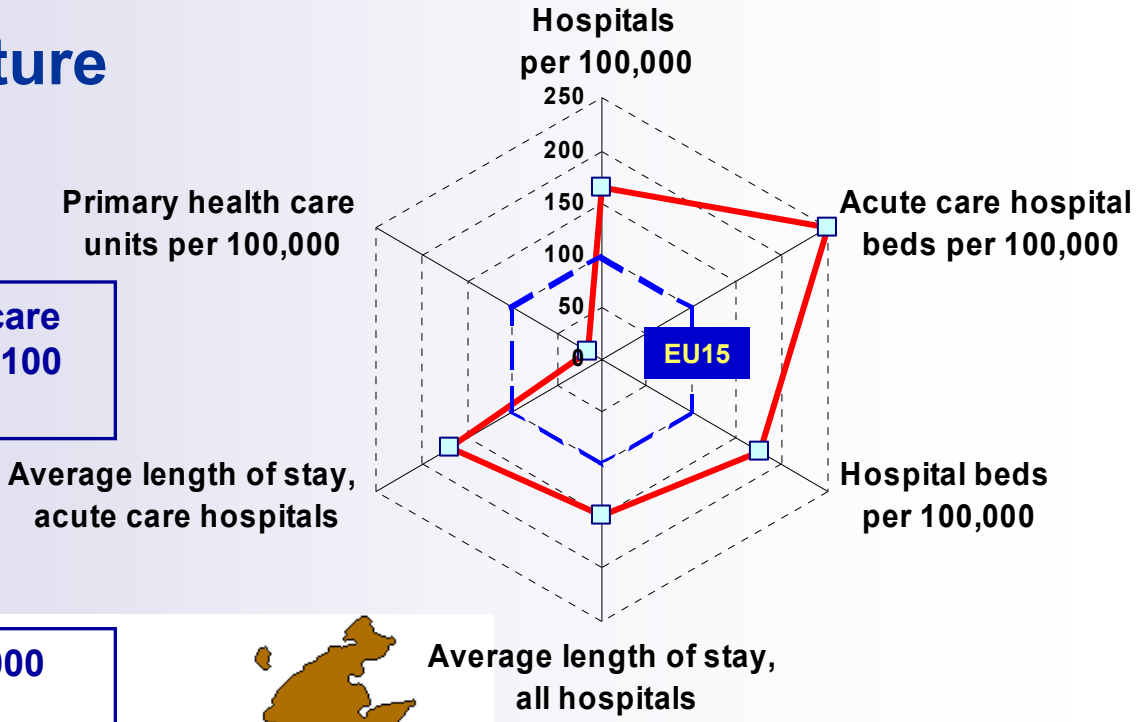
The age-standardized death rate (0-64 years per 100,000) by causes of death in Russia (EU15=100)

RF health care system flaws

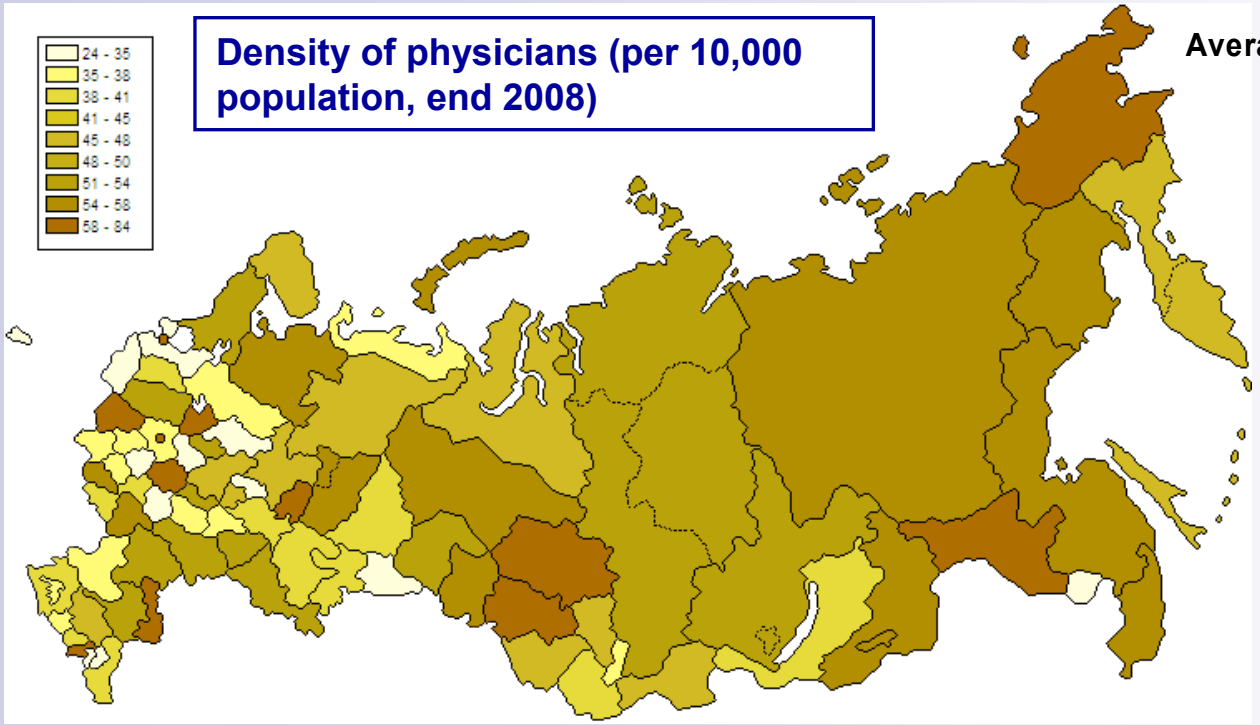
- Low level of government funding as compared to proclaimed guarantees and public expectations
- A system fragmented by technological, organizational and social parameters:
  - Hospital-centered pattern of health care delivery
  - Deficient and low-quality primary health care system
  - Confused, de-centralized and poorly managed system of funding
  - Parallel systems for various social groups
- Generally low skill levels
- Motivational deficiencies
  - Informal payments
  - Lack of attainment motivation
  - Rent-seeking as major innovation leverage
- Low effectiveness of resources utilization

Healthcare infrastructure

Availability of healthcare infrastructure, EU15=100 (2006)



Density of physicians (per 10,000 population, end 2008)



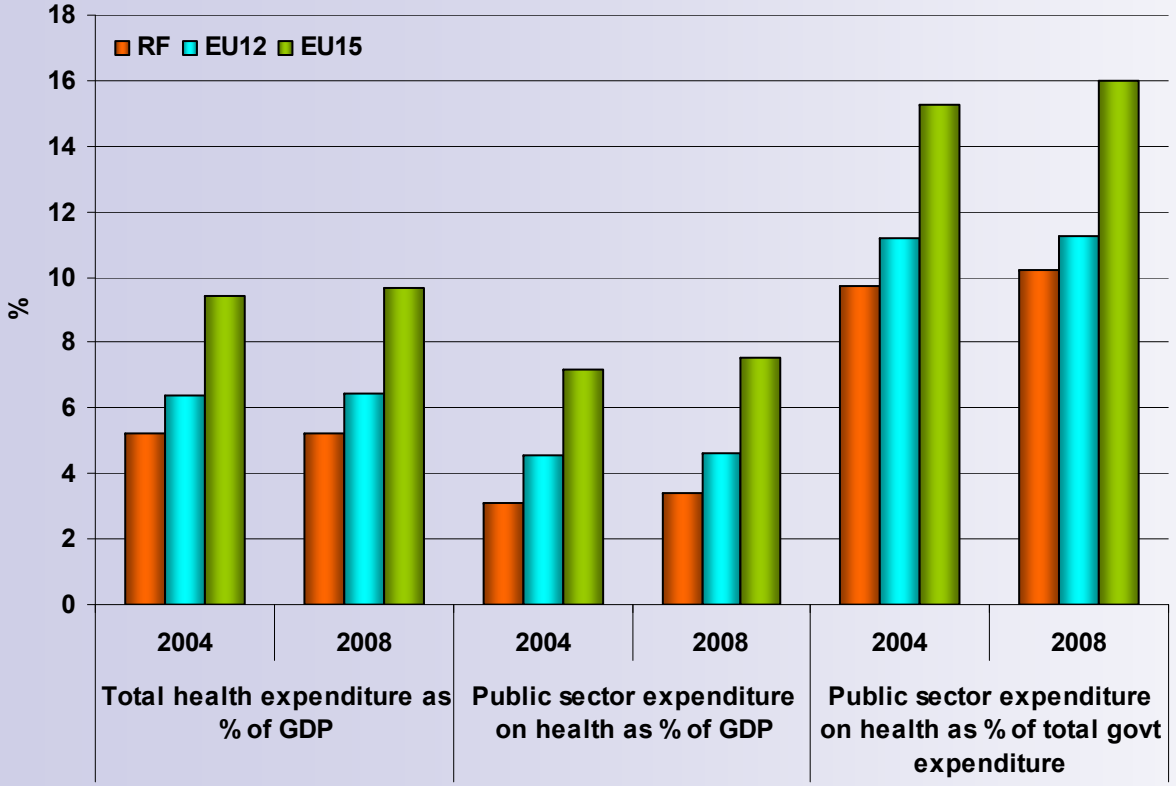
Health care accessibility

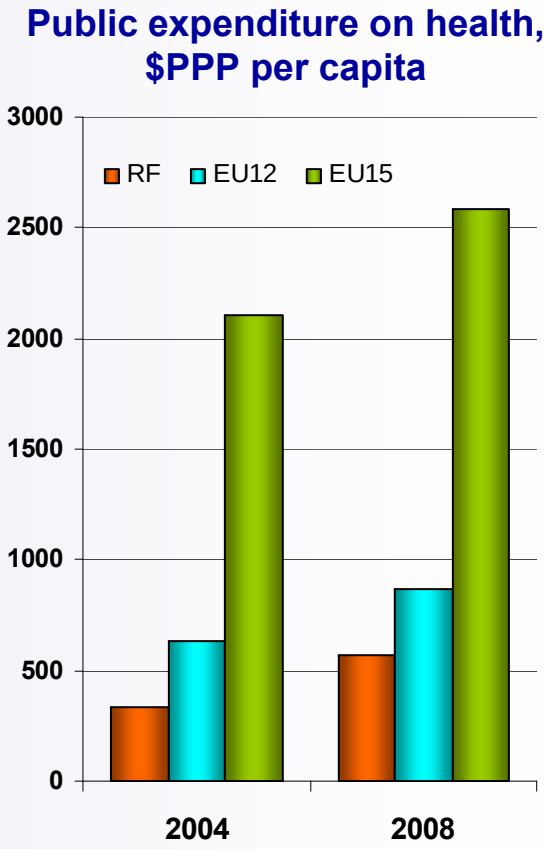
- Russia developed a wide network of fee-based medical services supplemented by official and unofficial out-of pocket payments
- During 2000-2008, despite tenfold growth of public health funding (in current prices):
  - volume of fee-based medical services grew sevenfold
  - household expenses on medication increased almost six times
- ➡ Needs for free medical services, including provided by state guarantees, are satisfied only to a small extent
- According to panel surveys, household expenditures in mid-2000s accounted for 40-45% of total healthcare spending:
  - over 50% of patients paid for hospital care
  - 30% paid for outpatient care
  - 65% paid for dental care

➡ Fee-based services often substitute for those types of medical assistance which are formally guaranteed by state for free

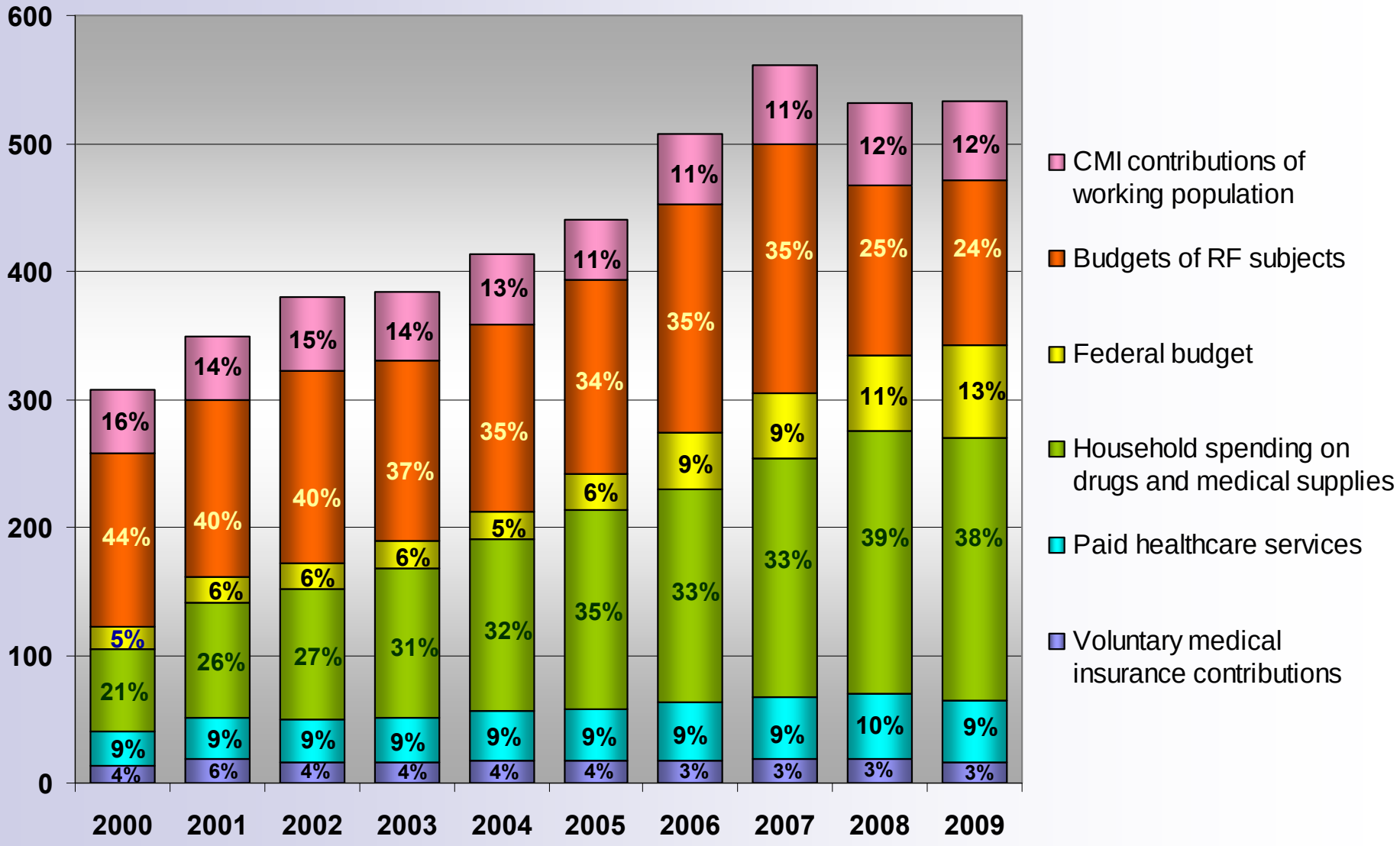
➡ A latent commercialization or a de facto privatization of public medical institutions and services is underway

Health care expenditures: International comparisons
(WHO estimates)



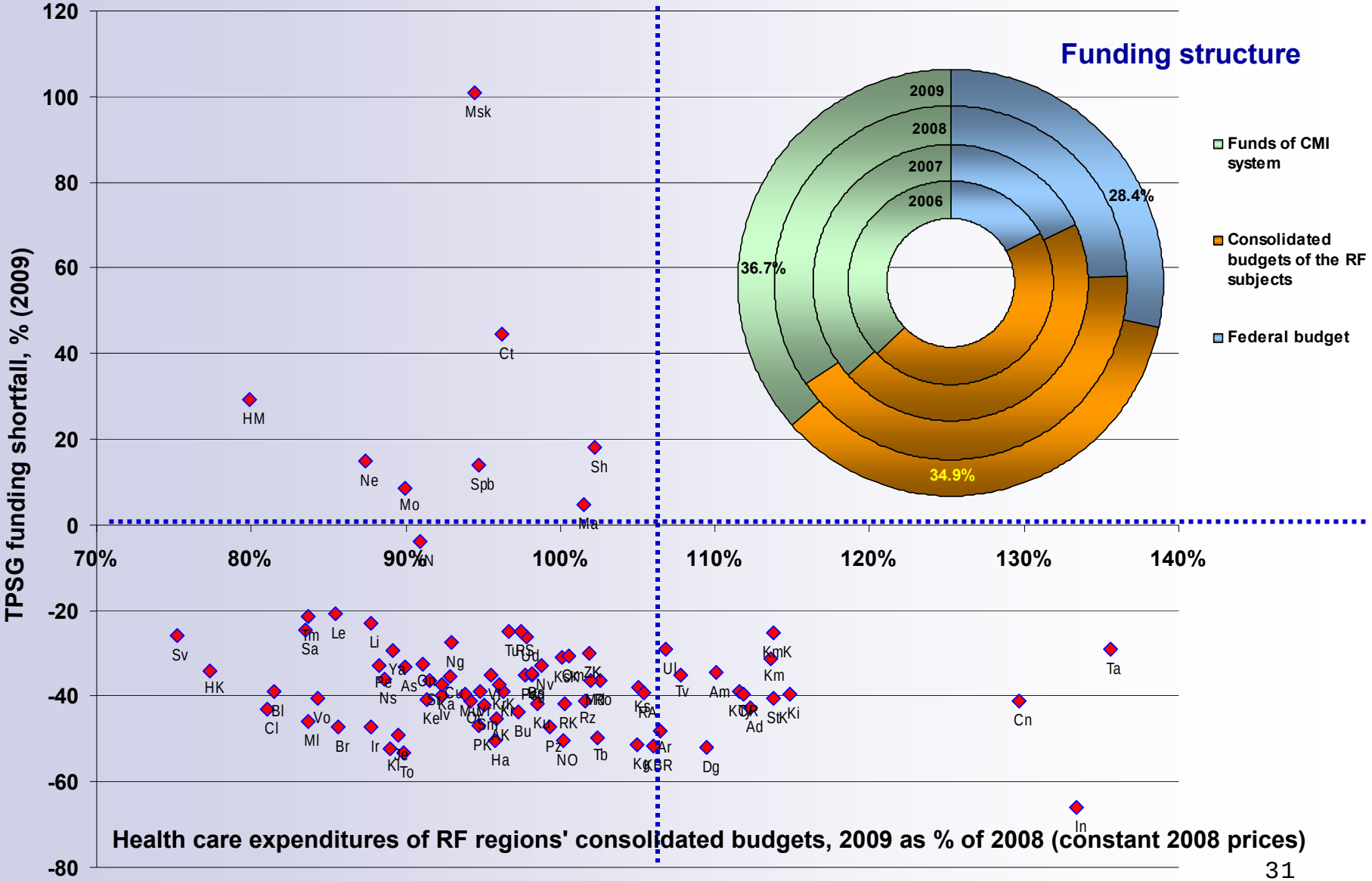


Public & private health care spending (2000 prices)



Sources: SU-HSE, RF Ministry of health & social development, Rosstat

State guarantees programs' funding shortage



CMI funding: Crisis impact

The crisis had a strong negative impact on the planned transition to a single-channel financing of health care facilities through the territorial CMI funds, due to the following factors:

- **A lack of financial resources caused by:**
  - **a decrease in employer contributions to the CMI;**
  - **inadequacy of federal aid to fund the normative financial standards for CMI programs;**
- **A dramatic increase in the federal CMI annual normative cost of provision of free medical assistance. The absence of the appropriate extra federal funding turned this increase into a de facto unfunded federal mandate. As a result, only a few regions had balanced programs of state guarantees in 2009.**
- **A formal 2009 prohibition to include additional costs into the CMI tariffs for the regions with an unbalanced program of state guarantees, even when these costs were financed by additional funds from the regional budgets.**

Health care: recent and desirable reform trends

Areas for introducing nationwide changes in the health sector include:

- **Introducing single-channel financing with CMI resources and implementing a nationwide uniform approach to calculating health insurance payments for non-workers;**
- **Creating explicit federal incentives for regions (especially poorer ones with a low capacity for reforms) to:**
  - **downsize hospital care (including reduction in the network), and**
  - **use freed resources for development of preventive/family/mobile care with a focus on quality;**
  - **to embark on further reforms**
- **Promoting the spread of regional successful experiences in introducing health reforms to other regions.**

In April 2010 Federal Government has announced new initiative on modernization of healthcare system: payroll tax for CMI system was increased from 3.1% to 5.1%. That will bring additional RUR 460 billion (above 15 billion USD) earmarked for the CMI. The funds are to be used to finance implementation of the regional programs on healthcare modernization. The goal of the initiative is not to renovate and equip existing inefficient network of health facilities, but to optimize that network to meet a patient's real needs and improve efficiency and quality of health care delivery. Measurements of effectiveness and quality of health services should be included as a key section in each regional modernization program.

Solving the problems: a mid-term perspective

- **The crisis intensified efforts of government bodies and experts' communities to seek incentives for optimizing costs and attracting private (non-budgetary) resources under low rates of economic growth and inevitable cuts in public funding of public services.**
- **A comprehensive reform is declared, and a wide discussion of its stages, necessary legislative initiatives and possible economic and social consequences is currently on the move.**
- **The main goals of current budget sector reforms are:**
  1. **Expansion of decision authorities of a large part of budgetary units by means of:**
     - ***a transition to a system of government (municipal) assignments and a financial support of their fulfillment by means of subsidies***
     - ***elimination of joint responsibility of founders***
     - ***introducing powers to independently dispose of revenues earned from extra-budgetary sources.***
  2. **Providing incentives for public authorities to optimize the physical network of public service provision by means of broadening options for selecting the optimal type for a specific establishment.**
  3. **Entry of budget and autonomous public service providers into a competitive market of services:**
     - ***A pattern for reforms' implementation is chosen – de-centralization of reforms.***
- **Program for raising the effectiveness of public spending is adopted:**
  - **rolling budget planning for a three-year term**
  - **transition to a program-based budget: a system of long-and medium-term government programs**
  - **performance-oriented budgeting.**