

## **Reforming Social Services in Russian Regions: Principal-agent Dilemma and Games in Creatives Compliance**

*Anna Tarasenko*

Assistant professor (dotsent), Department of Political Science and International Relations, Higher School of Economics (SPb)

### **Outsourcing reform through the lenses of principal-agent problem**

The importance of multi-layered public administration in Russia is recognized by scholars as an influential factor in policy studies (Kropp et al. 2018; Starodubtsev 2018; Rochlitz et al. 2015). Even though political and financial centralisation insert pressure on sub-national unites and produce visible unification, regional variety persists and displays itself in distinct policy outcomes due to two main factors. First, such features as particularity of cultural and social contexts, the structure of the economy, soviet heritage, distinct paths of democratisation in 1990<sup>th</sup> and geography (national borders, federal investments in certain territories etc.) keep producing regional variations. Second, the embedded conflict of interests between levels of government conceptualised as principal-agent problem, produces tensions and creates spaces for regional maneuvering contributing to various policy outcomes. The interpretation of this dilemma in policy studies considers national government as a principal, whilst sub-national authorities (governor and his/her bureaucracy) as agents. When central government initiates a reform, it needs to control its implementation performed by regional authorities. Agents, possessing own interests, tend to use information at their disposal (informational asymmetry) to manipulate with it to gain benefits or at least reduce costs erased from policy initiative (Batley 2004: 38).

It is worth mentioning that citizens, i.e. ultimate beneficiaries of the reform can be considered as principals on behalf of whom politicians (agents), in this case, federal center since it initiated reform aimed to improve social service provision. Yet, the double delegation (from citizens to the central government and from the central government to regional authorities) is broken in the context of Russian political regime. Citizens as principals, are deprived of opportunity to control and punish agents (federal and regional politicians) because of the emasculate elections. This line of complicated relations between different parts of electorate and politicians from the point of principal-agency dilemma is outside of the focus of the analysis.

This conflict between a principal who is seeking for control and agents trying to escape and benefit from a newly imposed policy design, is helpful to conceptually frame the analysis of outsourcing reform in Russia. Federal authority, behaving as principal, initiated reform in 2013 and its implementation was delegated to regional authorities (agents). *The federal law 'On the Basis of Social Services for Citizens in the Russian Federation'* came into force in January 2015 and imposed new principles in service delivering for disabled, elderly, including people with mental health, care for veterans and homeless, and assistance for children left without parental care. It diminished the monopoly of service delivery belonged to public organisations and introduced competition among them for clients and ideally (not achieved yet) for budget resources (Tarasenko 2018). Citizens are considered as clients who can choose among public, nonprofit or private providers to obtain social services. The main distinguishing characteristic of the introduced

contracting out scheme is that *non-state providers can deliver the same services getting reimbursement from the state budget*. It means that non-public suppliers are invited to assist the public providers in satisfying societal demand. *The main goal* was to gain cost-effectiveness and cut costs of public provision by means of above mentioned new public management techniques. Another important principal's policy initiative with the similar goal preceded outsourcing and aimed to increase the effectiveness of the public sector and cut ineffective public organisations (Matveev 2015; Resul'taty 2014; Tarasenko 2018: 519). Both federal initiatives encourage regional authorities to reduce costs by getting rid of ineffective public organisations and making a wider use of private companies as employers. The rating of Russian regions was introduced by the federal Ministry of Economic Development to measure the compliance with the outsourcing reform (Ministry 2018).

Tracing how the outsourcing reform is implemented and what strategies are developed in response, the analysis reveals several findings. The relations between national and sub-national units and embedded conflict is plausible to identify main tension and possible consequences of the reform outcomes. The principal-agency problem helped to conceptualise and identify empirical display of contradicting motivations of national and regional levels of government as the main context for the reform implementation. The creative compliance strategy seems to be attractive for some welfare bureaucracies since it helps to secure budget resources and prevent their dissemination. The analysis shows that welfare bureaucracy lacks commitment to policy goals introduced by the 442-FZ. According to the theoretical expectations, regional welfare bureaucracies tend to comply avoiding harm for own interests. As a result, measurable outcomes are achieved (number of private companies registered as official providers of social services), but in the case of creative compliance strategy, by means of manipulation of information at their disposal.

The analysis helps to identify regional cases where either of two strategies are favored more. Compliance is rather broadly used strategy especially in regions with long-existing market and successfully operating private companies. Some Moscow and St. Peterburg based private companies even establish residential facilities in other regions, creating branches and franchising. Arkhangel'sk, Murmansk, Leningrad and Vladimir regions incline to adopt creative compliance strategy. Newly created private companies run by current or former public sector managers enjoy all possible support from the public providers, in particular they are advertised by public sector organisations, utilise public facilities and employ public social workers. The utilization of private companies and their status helps to finance former and current public sector managers and workers who experience the pressure of austerity policy from the federal government.

According to the law, competition for service delivery among providers takes place at the moment when a client chooses what organisation will deliver services. Yet, welfare bureaucracies manipulate with the information, advertising those private companies which are deeply linked with them. As a result, two reform goals deteriorate. First, cost-cutting is not actually happening since budget resources distribute among public providers and private companies associated with them. Second, diversification of social service provision fails to be achieved when welfare bureaucracies perform creative compliance strategy.

The conscious activity conceptualized as creative compliance aimed at constituting (establishing) parallel private companies is justified by austerity policy imposed by the federal government. As a consequence, it produces blurred boundaries between private and public sectors. Such an instrumental attitude to a private or a nonprofit status displayed by welfare bureaucracies, might

have various consequences which require further exploration. In particular, does such a formally perceived ownership actually makes a difference in operation of the companies created by people who are embedded in the public welfare provision? Also, since the employment in a public entity is politically important, how does this change strategies of gaining political loyalty and whether it might break the existing regional political machines? Would blame-shifting serve as a possible way of mitigating potential harm to political loyalty and general dissatisfaction for citizens who are not satisfied with the shrinking of public provision and enlargement of private component of social service provision? These are important research questions and agenda to target.