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Inspection Services' Benefit Not in Profit

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Government watchdogs are unprofitable — in 2010 they spent 91.2 billion rubles but sought fines of only 12.5 billion rubles.

To uncover a single violation, the Federal Service for Veterinary and Phytosanitary Inspection spends nearly 1 million rubles.

The Economic Development Ministry has released a report evaluating the efficiency of supervisory agencies. Last year those agencies spent 91.2 billion rubles ($3.3 billion) in budget funds to perform checks and investigations, while they collected only 12.5 billion rubles ($445 million) in fines, the ministry wrote. So, for each ruble they spent, the watchdogs returned less than 15 kopeks.

The Veterinary and Phytosanitary Inspection Service, also known as Rosselkhoznadzor, stated that it spent 59.4 billion rubles on checks, more than all other watchdogs combined. To investigate one violation, the veterinary service spends almost 1 million rubles. But that service aside, the government still spends on watchdogs twice what they collect in fines.

A Rosselkhoznadzor spokesman was unable to say how the agency calculates its spending on conducting checks. In his view, it is impossible to judge the success of the agency's work by the number of cases opened and fines collected. "Rosselkhoznadzor has established an effective system of monitoring, thanks to which the number of violations is dropping," he said.

The most efficient watchdog is the Federal Anti-Monopoly Service, which in 2010 spent 37.9 million rubles and brought 1.9 billion to the budget. The other "profitable" agencies are the Emergency Situations Ministry, Federal Tax Service, Federal Migration Service and Federal Service for Financial and Budgetary Inspection.

The "loss-making" ones include Rosselkhoznadzor, the Federal Consumer Protection Service, Federal Labor and Employment Service and Federal Service for Environmental, Technological and Atomic Inspection. On average, the watchdogs spend 11,400 rubles to uncover a single legal violation.

It is not right to appraise the effectiveness of watchdogs by only the amount of fines collected and checks conducted, said Vladimir Yuzhakov of the Center for Strategic Studies. Agencies often use the number of checks as a performance indicator, he added.

Watchdogs are not just "unprofitable" for the federal budget; they continue to render serious administrative pressure on businesses. According to the Economic Development Ministry's report, 2,828,900 checks and administrative investigations were performed in 2010, even after a law limiting the rights of watchdogs came into force in May 2009.

Comparing figures for 2010 and 2009 is impossible because the ministry has only been compiling the statistics since the second half of 2009. Quarterly figures, though, show no overall decrease in the number of checks. In the third and fourth quarters of 2010, there were almost twice as many checks as in the same period of 2009. In the first quarter of 2011, there were 13 percent less year on year.

Nearly half of the checks are unscheduled, the ministry wrote. As of 2009, watchdogs have to agree on all unscheduled checks with the prosecutor's office, but that is actually done in less than 5 percent of cases. The watchdogs do not have enough motivation to observe the limitations, Yuzhakov explained. "Businessmen are punished even when watchdogs themselves act in violation of the law."

Administrative pressure on business has not let up. Officials come often and fine a lot, and as a whole the administrative environment for business remains unfavorable, said Alexander Galushka, president of Delovaya Rossia. Furthermore, the Economic Development Ministry's research is most likely based on only official fines, he added.

Comparing the volume of expenses on monitoring with the sum of collected fines is illogical, Galushka said. "A lot is spent on the army, but they haven't conquered anyone yet. Does that mean they haven't paid back their expenses?"

The basis for unscheduled checks is often bogus complaints about the quality of products or services, said Vladislav Korochkin, president of Opora Russia. Watchdogs should help raise the efficiency of business, he said. "The ideal situation is when there are absolutely no fines."

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