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## **Increasing of Cost Efficiency as a Trend of Public Law Entities' Activity Intensification in a Public Administration Sector**

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**Abstract:**

*The paper relies upon the fact that actually there are no proper conditions created in Russia to increase the performance of public law entities both in state (municipal) sector and state (municipal) services, their availability, and quality provision.*

*The aim of this paper is studying the activity of public law entities of all levels to increase the efficiency of Russia's budget system costs. To achieve the goal, authors started to solve problems like indicating the place of Russia in a world ratings and indicators showing the quality of the state activity, defining a set of approaches to increase the efficiency of performance-based budgeting, examining the concept of budget system reform, identifying appropriate conditions to increase the efficiency of federal and local budgets, describing the essential problems of public law entities' activity in increasing the cost efficiency course and their solutions.*

*Some conclusions in introducing of state entities' budget costs standards, proper budget transfers' allocation pattern, state policy funds' diversification, and budget funds flows' as well as public law activity's transparency gain are provided in the paper.*

**Key Words:** *State (municipal) entities, state (municipal) projects, budget, cost efficiency, budget reform*

**JEL Classification Codes:** *H11, H40, H50*

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## **1. Introduction**

More than fifteen years issues of budget costs' efficiency and its increasing have been put on agenda in Russia. Accepting the Concept of budget process reform by Russian Government in early two thousandth became a milestone in the evolution of this issue. The reform was to shift the emphasis from "budget funds and costs management" to "results management" by increasing the medium term liability and autonomy of budget process parties and budget funds managers. The "results management" concept accepted a set of brand-new approaches of public law budgets forming, according to the goals and expected results of state policy.

Budget transfers were directly assigned to the functions and services, and much attention is paid to studying of the budget programs' results.

Lately many sides of budget funds management in state entities' activity and budget process administration didn't indicate the progress in goals of increasing the budget costs' efficiency. Consequently, almost no conditions were created for increasing the efficiency of public law entities' activity and providing the quality service.

The aim of the paper is studying of actual trends in Russia public law entities' activity and increasing their efficiency in budget cost of all levels.

To achieve the goal authors started to solve problems such as indicating the place of Russia in a world ratings and indicators showing the quality of the state activity, defining a set of approaches to increase the efficiency of performance-based budgeting, examining the concept of budget system reform, identifying appropriate conditions to increase the efficiency of federal and local budgets, describing the essential problems of public law entities' activity in increasing the cost efficiency course and their solutions.

## **2. Theoretical, Informational and Empirical, and Methodological Grounds of the Research**

Global experience suggests applying a set of indicators which describe the results of public law entities' activity and state policy in general. Let us pick the most comprehensive ones along with emphasizing the Russia's rank.

Firstly, we consider the LPI (Legatum Prosperity Index) introduced by The Legatum Institute of Great Britain. The index includes 79 indicators grouped into 8 classes highlighting the welfare and common life conditions like economics, entrepreneurship, education, health care, safety, personal liberties, and social capital. The weighted average value is calculated using the data collected from UN, the World Bank, OECD, WTO. In 2012, Russia rates the 66<sup>th</sup> from 142 countries examined while it's only 27<sup>th</sup>, 48<sup>th</sup> and 118<sup>th</sup> in education, health, management,

respectively. Though, in 2015 the average rate reached 58<sup>th</sup> place, and Russia ranked 29<sup>th</sup>, 42<sup>th</sup>, and 106<sup>th</sup> in education, health, and management respectively.

Secondly, we highlight the GCI (Global Competitiveness Index) presented at the WEF (World Economic Forum) and included 12 elements of global competitiveness to clarify the competition between the countries of different economic level.

There we mind “Quality of institutions”, “Infrastructure”, “Macroeconomic stability”, “Health and primary education”, “Higher education and training”. In 2015 – 2016 Russia has ranked 45<sup>th</sup>. Analysts consider affordable higher education, dynamic infrastructure, business regulation and inner competitiveness improvement as the advantages of Russian economy. However they emphasized that poor efficiency of state institutions, financial markets, lack of innovation potential and investor confidence became an obstacle in Russia’s development (Emelkina, 2016; Fomina, 2016; Ivanova and Bikeeva, 2016). Likewise they noted key problems of Russia’s development like corruption, inefficiency of government machinery, high tax rates to be a serious obstacle in resource allocation and competition growth (Stroeva *et al.*, 2016; Vovchenko *et al.*, 2016).

Thirdly, the OBI (Open Budget Index) is thoroughly analyzed and indicates if government provides the society an access to any budget data, and if it’s possible to be a full participant of a national budget process. In 2015 Russia rated the 11<sup>th</sup> of 102 countries and scored 74 of 100 points. Results of the first survey called “The Public Budget” were issued in 2006, and Russia rated only 27<sup>th</sup> and scored 47 points. Both indicative-planned and budget costs efficiency values are used in in Russia. Authors highlight the importance of indicators suggested in 2012 by decrees of President, such as “On the long-term state economic policy”, “On measures of state social policy implementation”, “On improvement of state health care policy”, “On measures of state education and science policy implementation”, “On measures of population policy implementation in Russia”. Some included planned values, some included fixed values, and others described shift of values with no basic values within.

It’s impossible to consider the public law entities’ activity without proper efficiency evaluation. Thus, the major problem today is development and adopting new patterns of state policy efficiency evaluation, and that’s why it’s vital to apply a set of approaches towards increasing the state (municipal) projects’ efficiency. Some highlight that countries that accepted the programme budgeting are not succeeded in building the integrated budget projects efficiency evaluation framework. The major reasons are long-drawn financial instability, budget revenues’ fall in contrast to state costs’ growth.

So, the development of new budget projects’ efficiency evaluation pattern will reveal the most and the least effective expenditures and prepare a background to

increase their efficiency as well. We can note the trend of budget institutions' chain optimization that triggered the affordability of state (municipal) services.

New types of state (municipal) entities were introduced as well. New federal law on autonomous entities was enacted in 2006 and referred to them as non-commercial entities introduced by public law entities for state authorities to operate in scientific, health care, sports, social, and other fields legally. All of them were granted an economic autonomy.

However this law did not triggered the increase in numbers. That's why the brand new Federal law 83-FZ was introduced in 2010 and suggested 3 types of state (municipal) institutions such as treasury, budget, and autonomous ones. We should note that state's subsidiary liability is defined only for treasury entities while budget and autonomous ones are no longer a state's point of liability. Funding of autonomous and budget entities is based on state (municipal) procurement concept and consequently the costs calculation based funding is replaced with programme based one. Thus, the framework and technique of state (municipal) procurement are still not defined properly.

Experience shows that the subsidies' amount is based on previously reached data. We can consider the treasury entities' status suitable for those institutions that have minor off-budget incomes because of the budget funds replacement principle assuming depriving the right of disposal of these funds due to the state property reasons.

We highlight the fact that there are more than 170310 state and municipal entities in Russia and more than 50 percent of these deals with education (97157). Rostov region keeps the trend of Russia and includes 4925 entities, namely, 283 of Federal, 545 of Regional, 4097 of municipal status. Additionally, more than a half (2943) deals with education.

### **3. Results**

Increasing the efficiency of public law entities' costs could be reached only when all of the following terms are fulfilled:

- Clear definition of state authorities and public law entities' responsibility framework;
- Sustainable link of strategic and budget planning provision, planned results of budget costs definition and regular monitoring of results provision;
- State services and functions' framework optimization;
- Improving the quality of public administration including corporate management techniques;
- Creating the budget process participants encouragement framework to increase the efficiency of budget costs;

- Increasing the transparency of state authorities' activity due to public indicators requirements introduction;

Since 2014 the Government of Russia has been implementing the state (municipal) funds' efficiency program adopted by Decree №2593-r in December, 13<sup>th</sup>, 2013. Objectives of increasing the state (municipal) costs efficiency are also defined in Basic budget policy trends for 2016 and planned 2017, 2018.

We can highlight the primary goals of increasing the efficiency of budget costs, such as:

- Increasing the productivity of programme based budgeting and administration;
- Creating conditions to improve the state services' quality;
- State procurements' efficiency increase;
- Development of pre-post control procedures such as clarifying the measures of financial and budget violations compulsion;
- Providing the public participation in budget decision-making and efficiency monitoring framework.

We can stress the thorough executive authorities' teamwork as an inherent component of successful budget policy.

Public law entities' activity in regions is analyzed to reveal a set of budget costs' efficiency issues such as:

- Issues of strategic and budget planning (viz. poor quality of state projects indicators and their values' planning, imperfection of monitoring and state projects' efficiency evaluation framework, resulting in lack of common state projects' efficiency evaluation tools, perfunctory control of state projects, insufficient state projects' expert review technique, mismatch in statistical data's processing and state projects' efficiency evaluation terms, lack of automated monitoring & analysis systems, lack of complete strategic documentation which could define milestones of socioeconomic development and state projects' implementation at all levels, lack of interagency interaction when implementing state projects, inertia in state projects' structure modifying that is resulting in copying the typical state projects' "template" at all levels, redundant amount of key indicators etc.);
- Legal issues (viz. lack of rules defining the interconnection between state projects' modifying and planned budget funds);
- State projects quality issues (viz. insufficient executors' effect on projects' implementation, poor budget funds' implementation rate).

Efficiency evaluation considers the ratio of results obtained/costs incurred to the planned ones.

We emphasize the fact that all of the efficiency rates may ignore if any planned measures were taken to reach the goal. Thus, positive effect could be reached as a result of continuous costs' increase i.e. the scale effect.

Now the evaluation of budget costs' efficiency could take place only when the corresponding costs are incurred. In fact, there are no forward budget estimates. Planning of public law entities' cost should not be considered only as a proper funds allocation to the activity's goals. Programme based budget provides not only an evaluation of achieving the goal but analysis of the results within a single project. Only then we can compare the result to the planned one.

Expanding the scope of programme budgeting application provides users with the data to analyze and generate new objectives and goals of public law entities' budget policy.

#### **4. Conclusions and recommendations**

So, we indicate the key trends of increasing the costs efficiency in public law entities' activity:

- 1) Increasing the efficiency of current programme based administrative and budgeting tools;
- 2) Creating proper conditions to improve the quality of state services quality;
- 3) Increasing the efficiency of state procurement procedures;
- 4) Improving the pre-post control and monitoring including measures of financial and budget violations compulsion;
- 5) Providing the public participation in budget decision-making and efficiency monitoring framework;

Moreover, we stress the necessity of public administration funding patterns transformation:

- Introducing the standards of public administration entities budget costs;
- Development of the topical budget costs' allocation pattern;
- State policy funds' diversification such as partial replacement of some public transfers with tax deductions;
- Increasing the transparency of budget funds' flow and public law entities' budget activity.

These measures should be taken in accordance with budget reform, efficient budgeting including development, implementation, and modification stages of state (municipal) projects.

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