
Providing the Budget Transparency and State Projects Efficiency Monitoring in Russia

O.B. Ivanova¹, L.V. Bogoslavtseva¹, O.I. Karepina¹, E.D. Kostoglodova¹

Abstract:

The article is concerned with state projects as the basic tool of increasing the efficiency of budget costs at programme based budget costs planning. Providing the transparency and responsibility of state authorities, state projects' efficiency monitoring determine the need to create the open framework of budget measures and public authorities' transparent activity.

The paper is devoted to the development of state projects and increasing the efficiency of their implementing and control process through balancing between the complicated state policy objectives and brand new reduced budget capacity rates.

A set of goals such as considering the state projects' technique, providing the transparency and efficiency of state projects' costs, examining the methodology of state projects' development, increasing their transparency and implementation efficiency, suggesting the all-stages state projects' efficiency evaluation technique were highlighted in the paper. Authors concluded that increasing the openness, transparency, control and providing the state projects' development monitoring is essential for proper budget functioning.

Key Words: *State projects, budget transparency, monitoring, efficiency rates, effectiveness, budget reform.*

JEL Classification Codes: *H11, H40, H50*

¹ *Ivanova Olga Borisovna, D.Sc, professor, Department of finance, Rostov State University of Economics, Rostov-on-Don, Russian Federation*

¹ *Bogoslavtseva Ludmila Viktorovna, Ph.d., associate professor, Department of finance, Rostov State University of Economics, Rostov-on-Don, Russian Federation*

¹ *Karepina Oksana Ivanovna Ph.d., associate professor, Department of finance, Rostov State University of Economics, Rostov-on-Don, Russian Federation*

¹ *Kostoglodova Elena Dmitrievna, Ph.d., associate professor, Department of finance, Rostov State University of Economics, Rostov-on-Don, Russian Federation*

Corresponding author: *O.B. Ivanova, Rostov State University of Economics, 69, Bolshaya Sadovaya str., Rostov-on-Don, 344002, Russian Federation. Tel. +7863-263-3108. E-mail: kafedra_finance@mail.ru*

1. Introduction

Switching to the programme based budget development in Russia causes extra requirements to the budget framework sustainability towards covering costs with funds and transparent allocation of funds. It's a certain way of proper programme based state policy application that provides a strong basis for complex increasing of the budget costs' efficiency and focusing on efficient allocation of funds. Increasing of programme based funding coupled with monitoring of state (municipal) project implementation is still relevant due to Budgetary Code of Russian Federation implementing which provide standard and legal support of state (municipal) projects (Vovchenko *et al.*, 2016).

The key-note of programme budgeting is increasing the budget costs' efficiency. Here we consider budgeting as a set of measures to increase the efficiency of state authorities' policy.

Advantages of programme budgeting are:

- 1) Providing the transparency of budget development, implementation, and verification if all the planned goals were reached completely;
- 2) Arranging the activity of budget administrator by exact responsibility assigning;
- 3) Increasing the budget funds' allocation efficiency;
- 4) Exact budget costs categorizing according to the global standards.

However we emphasize the issues that need urgent resolution. There we mean:

- 1) Poor quality of state projects i.e. lack of legal and strategical support;
- 2) Issues in state projects framework i.e. projects' milestones violation, specific procedure of FTP (Federal Target Programme) development;
- 3) Incomplete indicating of funds' and state policy methods;
- 4) Incomplete integration of state projects into the budget framework i.e. separated planning of capital and current costs, lack of objective state projects' costs limits, incomplete coverage of federal budget costs, partial budget compliance with state projects;
- 5) Issues of actual state projects' implementation. Executive authorities' activity could not be completely associated with state projects;
- 6) Extremely limited budget funds reallocation options;
- 7) Perfunctory in state projects' efficiency evaluation i.e. poor projects' reporting framework, lack of external projects' performance audit and administrators' responsibility for implementing projects.

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

Providing the transparency of state and municipal funds' management is still of a high priority in the state budgeting reform process. However, we should stress some restrictions connected with the reform such as the lack of legal support in defining the state share in institutional segments, causing obstacles in proper financial

analysis. Increasing the transparency of the budget framework becomes an actual objective connected with creating the open state authorities' activity framework (Pociovalisteanu and Thalassinou, 2008). This framework is aimed at increasing the openness and accessibility of data concerned with the budget performance, state procurements, projects, investments, and their control (Ivanova and Bikeeva, 2016; Ivanova, O. *et al.*, 2015; Kosinova *et al.*, 2016; Nechaev and Antipina, 2016).

The world experience in providing the openness of budgets is based on the set of standards such as: Code of Good Practices on Transparency in Monetary and Financial Policies by IMF (International Monetary Fund), Best Practices for Budget Transparency by OECD (Organisation for Economic Co-operation and Development), Open Budget Index by IBP (International Budget Partnership) and others. Global initiatives in providing the transparency of fiscal activity have significant response in economic, social, and ecologic performance all around the world and increase the quality of state fiscal policy, reduce corruption, strengthen the power and its trust, cause state policy's sustainability and international cooperation' positive outcome.

Principles of budget and financial data are:

- 1) Everyone could request, obtain, and distribute the fiscal policy data;
- 2) State authorities should inform the public with objectives and goals of the fiscal policy and give an account of the results and reasons if they are not achievable;
- 3) Both actual and planned financial data must be provided to the users;
- 4) All of the state projects' transactions must be legal. Laws, regulations, and standards must be publicly available;
- 5) The term of "Public sector" should be defined properly for the transparency, reporting, and accountability reasons. The interaction between public and private sector must be transparent and legal;
- 6) Fiscal and investment duties must be legally assigned between legislative, executive, judicial authorities, public and private sector, within the state sector itself;
- 7) Only legislative authorities are authorized to raise taxes and carry out costs on behalf of the public;
- 8) The Supreme Audit Institution must be legally independent from the executive authorities and must be authorized to analyze the state funds and report publicly.
- 9) Public and non-state institutions must be authorized for considering and discussing the fiscal policy features.

In 2012 the UN has adopted High-level Principles on Transparency which highlighted the state funds and fiscal data access features. Fiscal Transparency Code was revised in 2014 and defined the fiscal transparency via the set of principles i.e. the practices matrix. Each indicator of the matrix is evaluated in terms of current practices of budget reporting (basic, good, best practices). Public reports along with data quality define the required conformity.

2015 was the year when IBP released the study on the openness and budget transparency in countries around the world. The survey included the analysis of 102 countries. Russia ranked the 11th and scored 74 points while the global average was 45 points. The key indicator was Open Budget Index.

In 2015 the methodology was revised and included 3 basic indicators such as:

- 1) Transparency measured by the Open Budget Index;
- 2) Public participation;
- 3) Oversight by Legislature and oversight by Supreme Audit Institution.

We should mention the fact that authorities in Russia are working on introducing the programme based budgeting.

The Government of Russia received the analytical report which included comprehensive analysis and measures to increase the efficiency of state projects to be considered at the session of Government Commission on improving the budget costs. Some of the measures suggested in the report were successfully introduced into laws and standards on state projects framework.

Thus, the actual order of state projects' development, implementation, and evaluation was modified, including considering the tax and non-tax expenses, regional and territorial features of state policy implementation.

Budget funds allocation policy was adopted not only in the context of state projects but also in activities too. That was the result of Ministry of Finance' comprehensive measures adopted.

On the 1st of January, 2016 codes of state entities' transactions (CSET) were substituted with codes of budget expenditures' types to increase the efficiency of budget costs and improve the quality of state projects as noted in the letter of Ministry of Finance № 02-05-10/20210.

Due to the changes in CSET application the Ministry of Finance introduced amendments to a set of standards and regulations connected with state projects' funding. The pattern of expenditure items was modified by including the code of the basic state project activity to provide the assignment of budget funds, project activities, and target indicators.

3. Results

The world experience shows that comprehensive state projects' efficiency evaluation requires proper costs efficiency evaluation tools. Priority is given to defining a set of benchmarks and indicators of costs' efficiency. The common technique of state projects' performance could be described as follows:

First stage deals with project evaluation at the development phase. Target elements

are: the goal, objectives, project activities, target indicators, funds allocation, and project transparency.

Second stage is connected with the project implementing phase. Target elements are: project costs efficiency and transparency of funds allocation.

We should consider criteria as features that allow the project's elements evaluation and arrangement.

Criteria are objective only when based on the comprehensive state funds and activity analysis and comply the goals of the efficiency audit.

Criteria clarity means the sole indicator that could not be evaluated in multiple ways both by user and auditor. Criteria comparability means the conformity with efficiency criteria that were used during the similar audit in the same field. Criteria could be considered sufficient only if well-founded conclusion of cost efficiency and goal compliance is made.

Budget costs efficiency evaluation causes the need to improve the state projects efficiency indicators. So, types of budget funds efficiency are generally different. That's why researchers specify the set of state projects' costs indicators in different ways.

We pay much attention to financial and non-financial indicators evaluating not only the economic performance but socioeconomic and ecologic consequences of implementing the state projects. There we mean:

- Economic indicators showing the compliance with the results at minimum costs. The value could be determined by comparing the costs with a similar indicator of prior periods or similar projects.

We highlight 3 types of economic efficiency i.e. costs to results ratio (cost effectiveness (EF)); results to objectives ratio (productivity(PR)); objectives to actual needs ratio (expedience(EX)). The result is:

$$\text{Efficiency} = \text{EX/PR} * \text{PR/EX} * \text{PR/EF}.$$

Likewise we can consider efficiency differently when applying it to the entity's development and management features. Extensive development does not result the efficiency gain. In case of activity intensification the efficiency increases pro rata.

- Social indicators describing consequences for the population and society. Social development indicators, including data of the society, its transformations and crises, are commonly used as monitoring tools. Social effectiveness should prevail in state projects implementing. So, the social effectiveness should be replaced with the budget one indicating changes in budget revenues and expenditures. The budget effect (B) is considered as a basic budget efficiency indicator and could be measured by subtracting the expenditures (E) from revenues (R):

B=R-E.

Budget efficiency is a relative indicator highlighting the effect on the budget.

- Legal indicators showing the set of standards regulating the entities' activity and effecting the state projects implementation;
- Industry indicators reflecting the features of market for goods, services, technologies connected with the implementing state project.

Basic techniques of state costs efficiency evaluation are:

- Measuring methods;
- Diagnostic methods;
- Heuristic methods.

Third stage of the technique deals with the final results evaluation and includes ad hoc reports inspection.

Each state project unit is evaluated separately in accordance with criteria defined previously. The result indicates the state project's degree of compliance with the criteria and should be stated as a percentage.

Units of the state projects' framework are:

- Passport of the state project – 2,0;
- Characteristics of the actual Russia's socioeconomic field (including analysis of the features and indicators) – 1,0;
- Goals and objectives of the state policy (including socioeconomic development forecasting and planned indicators) – 2,0;
- Results and total efficiency forecasting (including wealth and quality of life) – 2,0;
- Terms of the state project implementation (including milestones and intermediate indicators) – 2,0;
- List of the project's activities (including terms and expected results) – 2,0;
- Basic legal regulation measures aimed to reach the goals and expected results – 2,0;
- List and description of target programs and subprograms;
- List of target indicators and standards coupled with a detailed planned values description – 2,0;
- Justification of values of target indicators and external factors' effect evaluation – 2,0;
- Data on state project's resource support (including detailed description of project, terms, and funds administrators) – 2,0;
- Measures on a legal regulation and risk management to minimize their effect on reaching the target project goals – 2,0;
- State project efficiency evaluation technique – 2,0.

The maximum score is 25 points.

The key advantage of the technique is a comprehensive approach which includes all the stages of the state project lifecycle. Now increasing the state funds efficiency and providing the public with high quality social services along with transparency of state policy requires a comprehensive approach to improving the projects costs' efficiency.

State financial control i.e. state funds' utilization efficiency audit is vital in increasing the budget costs' efficiency. Efficiency audit could provide the brand new approach technique both in current and subsequent state projects' control. Efficiency audit is a primary stage of state projects' control improvement process and results in shifting the approach in financial control activity.

Efficiency audit is required to be functional. Users should not focus only on critical issues when analyzing the monitoring results using efficiency audit technique. The main idea of the efficiency audit is considering recommendations on increasing the efficiency of state funds.

4. Conclusions and recommendations

The development and adopting of laws and standards is vital for improving the quality, efficiency, and transparency of state projects. We should highlight the following:

- preferential use of state projects as a strategic planning tool;
- complete goal achievement methods' reflection in state projects (tax and non-tax revenues, budget costs);
- empowerment of state projects' executors when developing and implementing the budget;
- adjusting the budget codes framework for the state projects' compliance;
- defining the state projects' key indicators by independent authority;
- providing the long term planned indicators and cost limits;
- providing the assignment of state projects and component states of Russian Federation via single project funding;
- introducing technique and state projects quality and efficiency evaluation criteria;
- introducing the annual statutory state projects audit and considering its results at government sessions;

Voluntary budgeting is a basic tool of mutual state and people cooperation. Developing the roadmap of voluntary budgeting is a milestone in the efficiency evaluation framework.

We should emphasize the necessity of:

- Continuous development and specification of state projects;

- Updating the existing state projects' drafts;
- Considering the features of intra- and inter-agency negotiations while planning and implementing the measures and milestones of the projects' plan and detailed schedule;
- Compliance of state projects' budget codes with IFRS (International Financial Reporting Standards) and state finance statistics that allows the budget classification to become a perfect technique providing the transparency and adequacy of state funds allocation at all stages;
- Continuous monitoring of the state projects' implementing to reveal the possible risks of key-events;
- Development of the internal rules' draft on state projects management to reach the goals of activity optimization;
- Applying the integral approach to the widened state projects based on the State Project Efficiency Index;
- Introduction of intermediate evaluation technique to the state projects, based on efficiency audit to reveal the most efficient budgeting technique and reallocate them using the intermediary results.

References

- Bogoslatvseva, L. 2011. Prospects of implementing the programme budget as an innovation in budget planning». *Financial research*, Issue 3.
- Ivanova, A.I., Bikeeva, V.M. 2016. Corporate Social Responsibility: Specificity, Formation Mechanism, Estimation of Management Efficiency. *European Research Studies Journal*, 19(3) Part A, 167-184.
- Ivanova, O., Vovchenko, G.N., Kostoglodova, E., Romanova, T.F. 2015. Institutional Aspects of Provision of Sustainability of Budget System of the Russian Federation. *Asian Social Science*, vol.11, №20.
- Ivanova, O. 2012. Global initiative in providing the fiscal transparency: high-level principles of transparency, participation, and fiscal accountability.
- Kosinova, N.N., Tolstel, S.M., Sazonov, P.S. and Vaysbeyn, D.K. 2016. Development of Methodological Approach to Enterprise's Financial Strategy Based on Comprehensive Evaluation of Its Strategic Potential. *European Research Studies Journal*, 19(2), 21 – 33.
- Kostoglodova, E. 2015. Imperatives on increasing the fiscal transparency of the Russia's budget framework. *Financial research*, Issue 3, pp. 122-129.
- Klimanov, V., Mikhaylova, A. 2016. Openness and transparency of budget: international experience and prospects of Russia. *Finance*, Issue 4, p. 13.
- Nechaev, A., Antipina, O. 2016. Analysis of the Impact of Taxation of Business Entities on the Innovative Development of the Country. *European Research Studies Journal*, 19(1), 71-83.
- Rociovalisteanu, M.D., Thalassinou, I.E. 2008. The beginning and some national particularities of liberalism. *Metalurgia International*, 13(2), Special Issue, 172-177.
- Vovchenko, G.N., Ivanova, O., Kostoglodova, E., Otrishko O., Dzhu, O. 2016. Role of innovations in overcoming global economic problems. *Contemporary Economics*. Warszawa, Polska. Issue 1.