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## Budget developments in Russia's regions : new norms, practices and challenges

Edited by:

Anatoli Bourmistrov

Igor Khodachek

Evengii Aleksandrov

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Nord universitet  
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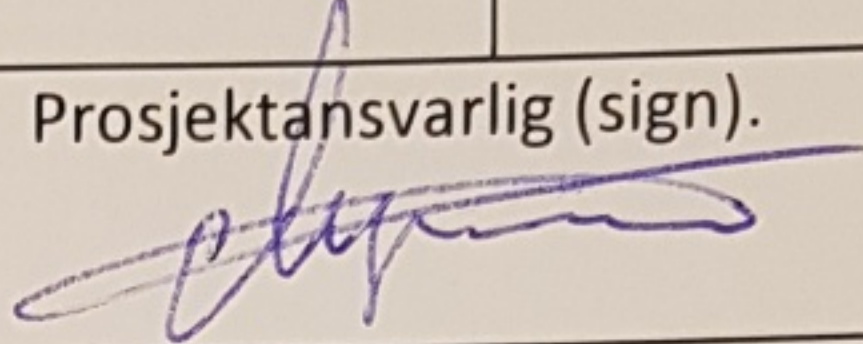
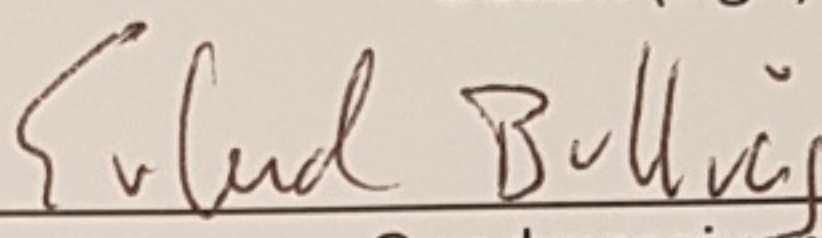






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## FOREWORD

This collection of papers represents extensive peer-reviewed work by researchers and practitioners from universities, government and consulting organizations on the topic of Russia's budget reforms. These papers emerged as a result of research seminar, held in Arkhangelsk (Russia) from 29<sup>th</sup> of September to the 2<sup>nd</sup> of October 2014 organized by the High North Center of Business and Governance (Nord University Business School, Norway). The seminar was held as a part of international research project 'Local governments budgeting reform in Russia's local governments – implications and tensions' (2012-2017), acronymed as BUDRUS (Budgeting in Russia). BUDRUS project is operated by the High North Center of Business and Governance and funded by the Research Council of Norway within a wider research program 'Russia and the High North/Arctic' (NORRUS). The project examines the development of Russian local government institutions in the North-West Russia with emphasis on how budgeting practices are evolving as a result of the federal government public sector management reforms. The research seminar was hosted by Northern Arctic Federal University (Russia) in cooperation with High North Center for Business and Governance. It provided interdisciplinary perspectives on public sector budgeting in Russia, both at the central level and at the level of particular public sector organizations. Of particular interest was how reform initiatives at the center matched with those energies and efforts to implement them in Russia's regions.

Since 2000, the Russian federal government has launched many ambitious reforms that affected practices of the local government institutions in Russia. Many of those reforms have been inspired by intention to reinvent the Russian public sector based on the global ideas of so-called New Public Management (NPM): to eliminate the inefficient public bureaucracies by making service production by governmental organizations more like business. Russia started to modernize its budgetary and



accounting system of the public sector since 2004 based primarily on the ideas and expertise from the IMF and the WB (e.g. introducing multiannual budgeting and accrual accounting for public sector institutions). At the same time, the number of local governments in Russia has dramatically increased since 2005 from around 12.000 to approximately 25.000. In 2009, policies of “modernization” were introduced aiming at boosting efficiency, effectiveness, and accountability of all organization in the public sector, including local governments. This included reforms aiming to improve transparency and openness of annual budgets on all levels of governments (federal, regional, local), new accountability forms for public organizations and agencies, and, finally, the introduction of the Program Based Budgeting (PBB)<sup>1</sup> (since 2012). Around 2014, we see a different trend: a shift in the rhetoric of the Federal government<sup>2</sup> and revitalization of the strategic planning system for the whole public sector including three levels of governments and state-owned enterprises (sometimes called Gosplan 2.0<sup>3</sup>).

The organizers of the seminar managed to gather academics interested in current developments in Russia’s government budgeting from several countries, including Finland, Denmark, Norway and Russia as well as practitioners from Russia’s government, public sector and consulting organizations. Overall this collection of

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<sup>1</sup> PBB supposes that budget information and decisions should be structured according to the objectives of the government framed via programs which, in turn, include goals, activities, projection of outputs and outcomes. For more information see Order of the Government of the Russian Federation “On approving the list of state programs of the Russian Federation” #1950-r, issued 11/11/2010.

<sup>2</sup> New law #172-FZ from 28/06/2014 “On strategic planning in Russian Federation”. This law binds together in a single huge governance system all three levels of public governance (federal, regional and municipal); public sector entities; state-owned enterprises and, although indirectly - private companies that have so-called “strategic significance for national security and economic development”. The law defines key concepts of strategic planning, e.g. aim, task, result (outcome), forecasting.

<sup>3</sup> Referring to the Russian acronym for the agency in charge of the central economic planning in the USSR – Gosplan.

papers reflects on how the decade of the centrally driven reforms have affected local governments in Russia, especially their planning and budgeting practices.

Professor Emeritus James L. Chan opens this papers' collection by reviewing the current state of international comparative government budgeting research, emphasizing the lack and the necessity of international research on Russia's government budgeting. In his entry, Professor Chan picks several features and challenges of studying Russia's budgeting: the language barrier, accessibility of data, differences in political, cultural and institutional environments as well as general underrepresentation of non-Western countries in international government budgeting research agenda. His review of several key works on government budgeting seeks to discover a frame of reference for comparative research.

Further, being a practitioner in one of Russian public sector institutions, Denis Denisov gives critical reflection on recent reforms of improving the economic efficiency of Russian public sector organizations. The core argument developed by Denis Denisov is that content of reforms was ambiguous and there are hardly any changes in practice of public sector organizations.

Further, the collection of papers is followed by the study of Elena Dybtsyna where she investigates changing roles of accountants in Russia. The central argument is that accountants have always been an essential part of the state institutional power in Russia but at the same time their role was changing during Russian transition from a centrally planned economy and *perestroika*.

Professor Aleksander Khodachek discusses both the social and economic development of regions of the Russian Federation and the way in which the state regulation influences the system "Centre-Region".

Further, via surveys and follow-up interviews of Russian budgetary managers and accountants, Tayana Antipova and Andrey Antipov investigate the latest Russian reforms in evaluation and measurement systems for public sector. The study suggests

that there are many problems of developing appropriate performance management and evaluation system which, in its turn, requires that the construction process of performance measurement should be aligned with outputs and outcomes of budget policy.

The essay of Leonid Ivanovsky considers the methodological foundations of balanced socioeconomic and budget planning on the principles of standardization and regulatory budgeting of the state budgetary services in Russia. It concerns the case of St. Petersburg of the adaptation of the citizens' quality standards as of the standards of living, and also the standards of budgetary financing.

Further, Evgenii Aleksandrov and his colleagues Marina Volkova and Georgina Nevzorova investigate the adoption of new budget regulation within one state university in the North-West of Russia. The preliminary conclusion is that new budget regulation was hardly adopted in university practice rather leading to increasing tensions between practitioners and central government reformers.

Irina Gladysheva and Yulia Verina examine the trends and results of reforming the budget process towards programme principle in Russia. Programme principle was supposed to make budgets on all governmental levels to be strategic, transparent, result-oriented so that it would be possible to make evaluation of each program's outputs, outcomes and financial results. However, the practice is somewhat nuanced. The Federal government has set up own programs and motivated regional and local governments to take part in those. Facing a promise of the access to better funding, regions did not have much choice than to participate. This makes the share of the state-funded programs in regions substantially increased over time. In this regard, the last paper by Sukhanov & Makoveev found that many local governments experienced problems in identifying the purposes of programs.

Overall, all these papers rather agreed that budget reforms have produced many tensions for all government levels in Russia. In addition, they conclude that quality of



the strategic planning and budgeting is important element for how the Russian regions and local governments will perform in the future. Russian institutions seem to have a different reform style compared to what is usually accepted as a norm in the West. The public-sector reforms in Russia may have an entirely different purpose (e.g. attempt to modernize rather than a response to austerity conditions). However, Russia also seems to share some similar challenges with public sector reforms as other countries. In this regard, we believe that this collection of papers will further reinforce international comparative research.

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## COMPARATIVE GOVERNMENT BUDGETING: A LITERATURE ANALYSIS

### Introduction

This is the first of a series of papers for the “Budgeting in Russia” (BUDRUS) project, which examines the implications and tensions of local government budgeting of Russia in general and the northwest region in particular.<sup>4</sup> Since project is international and comparative by design, this paper invokes the existing American literature of international comparison of public budgeting systems (“comparative budgeting” in brief) as a perspective to view the project, even if it is problematic, perhaps even presumptuous to regard this literature as a foundation of the project. The reason is that unfortunately Russia is conspicuous by its absence in the comparative budgeting

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<sup>4</sup> The next paper will appraise the usefulness and limitations of the comparative budgeting literature as far as the BUDRUS project is concerned. According to the prospectus of the project (2013), the project “will examine the development of Russian local government institutions in the North-West Russia with emphasis on how budgeting practices are evolving as a result of the federal government public sector management reforms. This project aims to contribute to improving the knowledge regarding the development of local government institutions in Russia by examining changes in local budgeting practices from the perspectives of Russian history as well as international comparative outlook and development trends. Secondly, the project will illuminate the role and culture of Russian executive administration at the level of local governments and its relationship to the legislative side of local decision-making, especially their interaction in budgeting practices. Thirdly, because budgeting processes constitute an indispensable part of local government structures and practices, the project is intended to contribute to a better understanding of how these practices are embedded in Russian legal system and legal culture. Finally, the project will demonstrate impact of changing budgeting practices have on changes in local governance, transparency and welfare production.”

literature.<sup>5</sup> It seems that this is a case of benign neglect rather than intentional negligence, caused in part by a mix of ignorance of the Russian language, lack of access to budget documents and institutions, and virtual absence of scholarly exchanges in this field between Russia and the United States.

In order to provide a foundation for examining Russian budgeting, especially local government budgeting, in an international comparative context, it is necessary to have a good understanding of the field. This paper reviews some major contributions to the modern comparative budgeting literature in the hope of discovering such a frame of reference. They all attempt to find out the similarities and differences of national budgeting practices, and some go further to explain those similarities and differences. The qualification “modern” limits us to the contributions published after the mid-1970s and excludes early 20<sup>th</sup> century works.

This paper has two substantive sections. The first section reviews the pioneering work of Caiden and Wildavsky in 1974, and the only theory of comparative budget there is in Wildavsky’s original 1975 formulation and his later 1986 reformulation of a cultural theory of budget process. The second section covers three recent books that illustrate how international comparisons of government budgeting are presented. The paper concludes with a brief assessment of the progression (progress?) from the first to the second generation of this literature.

## **The First-Generation Literature in the 1970s and 80s**

### *2.1 Caiden and Wildavsky (1974)*

The year 2014 observes the 40<sup>th</sup> anniversary of the publication of the book entitled *Planning and Budgeting in Poor Countries* by the American political scientists Naomi Caiden and the late Aaron Wildavsky.<sup>6</sup> As we look back at that era, it is necessary to

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<sup>5</sup> Russia is implicitly included in Guess and LeLoup (2011) as part of the former Soviet Union.

<sup>6</sup> Naomi Caiden is a professor at California State University, Los Angeles, and Aaron Wildavsky, until his death in 1993, was a professor at the University of California in Berkeley, California.



remember that many of the poor countries had been colonies of Western powers, and some were turning to Soviet Union for inspirations for national development. The book title therefore reminds us to consider the relationship between national planning and government budgeting. By using the “composite approach” consisting of examination of archival materials, content analysis and intensive interviews (p. xvii), Caiden and Wildavsky sought to answer the following questions:

- “How is national planning for economic growth carried on in the poorer countries of the world? Does it achieve its objectives?”
- “Why do recommendations so seldom end up in the government budgets essential for carrying them out? How does the budgetary process work in poor countries?”
- “Why do annual budgets often prove so inaccurate a guide to the actual allocation of resources?”
- “How might the characteristic conditions of these countries... be used to yield recommendations for reform of planning and budgeting” (p. v)

Answers to these questions were already embedded in the authors’ characterization of “poor countries” – economic poverty, political instability, and financial uncertainty” (p. v). When the national economy does not produce much, the government’s share is limited. When political institutions are unstable, chaos reigns and the orderly transaction of government business is disrupted. And when there is pervasive uncertainty about the availability of financial resources, people are preoccupied by the here and now, the rational exercise of planning and budgeting becomes a luxury that they cannot afford.

As a pioneer in comparative budgeting, Caiden and Wildavsky (1974) made the following major contributions to the literature:

- In a half dozen chapters, the book describes in considerable detail how planning and budgeting was nevertheless done under unfavorable circumstances.

- They identified poverty and uncertainty as two factors that affected planning and budgeting in these countries.
- They highlighted “repetitive budgeting” – the practice of revising the annual budget so often that it effectively disappears.
- Rather than condemning the poor countries for their poor (i.e. substandard) planning and budgeting practices, in sympathy the authors artfully coined another phrase “continuous budgeting” to accommodate the realities of the harsh environment.

Viewed with the benefit of hindsight, Caiden and Wildavsky (1974) had several weaknesses:

- They came close but did not explicitly name a theory to conceptualize the rich descriptive materials. They characterized government in terms of “strong and weak” and “more or less stable,” but curiously they declined to discuss government in terms of culture and political institutions. This is ironical, considering Wildavsky’s later use of cultural theory to explain international differences in government budgeting.
- They passed up the opportunities to examine further the external influences on poor countries’ planning and budgeting. They observed: “forms of planning and budgeting in poor countries are essentially alike, partly because they are copied from Soviet, European, and (in a few instances) American models and partly because they have evolved in response to similar environmental forces...” (p. xviii). Unfortunately they did not pursue this important issue further.
- While the coverage was on the surface impressive – 80 poor nations with  $\frac{3}{4}$  of the world’s population – there were several problems: (a) Other than the 12 countries where intensive interviews were conducted, the remaining countries were apparently not identified. (b) The US\$800 per capita Gross National

Product (GNP) used to differentiate relatively richer and poorer countries was admittedly “for convenience” (p. xii).

- The twelve countries that provided the most detailed narratives left out some significant representatives, even if for understandable pragmatic reasons:<sup>7</sup> French-speaking African countries (due to language barrier), India (“too vast for the time available”), Middle-east countries (security reasons).
- Socialist countries were all left out. While perhaps the USSR was non-poor by the US\$800 definition, there were several poor socialist countries in East Europe. A “special rationale resulted in excluding East European countries; we did not want to become involved in the usual discussions of price systems versus central decision making” (p. xiii) This rationale applied to China and several other socialist countries in Asia and elsewhere.

On the balance, Caiden and Wildavsky (1974) was a milestone contribution to the comparative budgeting literature. Its greatest significance lies in the fact they deliberately went after the group of nations for which there was the least amount of information about their budget systems. Their pioneering work thus filled a void and established a baseline for comparative budgeting research in and about poor countries, now commonly called developing countries.

As noted earlier, Caiden and Wildavsky (1974) had many observed facts and little theory. Perhaps this was deliberate, because apparently around this time Wildavsky was himself working on a theory of comparative budgeting. The result was the original 1975 edition of his *Budgeting: A Comparative Theory of Budgetary Processes*.

## 2.2 Wildavsky (1975, 1986)<sup>8</sup>

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<sup>7</sup> The twelve countries were: Ghana and Uganda in Africa; Argentina, Chile and Peru in South America; Indonesia, the Philippines, Malaysia and Thailand in Southeast Asia; Ceylon and Nepal in South Asia. The per capita income of their countries was spread out. “Beyond that,” admitted the authors, “much fault can be found with our selection” (p. xiii)

<sup>8</sup> The 1975 edition is out of print and could not be found by the author, who relies on the 1986 revised edition for description about the earlier edition. Wildavsky included American states and



Generalizing the poor and uncertain scenario, Wildavsky (1975) presented a “wealth and predictability” framework to classify budget processes of nations (Figure 1). Wealth is measured in terms of per capita Gross National Product (GNP), with poor countries having less than \$1,000 of GNP and rich nations more than \$2,000. Predictability is defined as the “degrees of certainty or uncertainty regarding available resources versus likely demands for spending” (p. 16). It may be easier to remember it as the *likelihood of budget deficits*.

Wildavsky (1975) predicted that:

- Rich countries with a low likelihood of budget deficits would engage in incremental budgeting by adding an amount to last year’s budget base.
- Poor countries with a high likelihood of budget deficits would engage in repetitive budgeting -- “budgets are made and remade throughout the year amid endless strategic byplay” (p. 17)
- Poor countries that have a low likelihood of budget deficit probably engage in revenue budgeting, i.e. making conservative revenue forecasts.<sup>9</sup>
- Wildavsky ambitiously aimed for nothing short of a “general theory” of government budget process, but ran into a problem: “the absence of contemporary national governments that are rich but uncertain” (p. ix), hence the question mark in the rich and uncertain cell in Figure 1.

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local governments in this book. These will be ignored in this analysis given our focus on international comparison.

<sup>9</sup> Wildavsky (1986) was unclear about the definition of revenue budgeting. This is the best the author could infer from the text.

		Wealth	
		Poor	Rich
Predictability	Certain	Revenue budgeting	Incremental budgeting
	Uncertain	Repetitive budgeting	?

Figure 1 National Budget Process: Wildavsky Model, 1975 Original Version

Source: Adapted from Wildavsky (1986), Model 1.1 Five Budgetary Processes. The description in the Rich and Uncertain combination is replaced by a question mark based on Wildavsky's description of the 1975 edition.

The core of 1986 revision of *Budgeting: A Comparative Theory of Budgetary Processes* is an attempt to account for budgetary strategy in the rich and uncertain cell. Fortunately for Wildavsky but unfortunately the budget directors of these countries, the United States (federal government), France, Britain and Japan in the decade from the mid-1970s to mid-1980s experienced uncertain budgetary predictability, i.e. a high likelihood of budget deficits. This gave Wildavsky the opportunity to observe how these governments in economically wealthy countries dealt with their "budget poverty". In essence, Wildavsky found that these governments resorted to repetitive budgeting in bad economic times, and returned to incremental budgeting when more resources became available, under certain conditions of stability of political structure and certain combination of political culture (lower right cell in Figure 2).

		Wealth	
		Poor	Rich
Predictability	Certain	Revenue budgeting	Incremental budgeting
	Uncertain	Repetitive	Political instability leads to alternating incremental and repetitive budgeting Certain combinations of political cultures lead to repetitive budgeting

Figure 2. National Budget Process: Wildavsky Model, 1986 Revised Version

Source: Adaptation of Wildavsky (1986), Model 1.1 Five Budgetary Processes, by transposition of the “poor” and “rich” columns, in order to show an arrow that could point the direction of improvement of government finance and national wealth.

Regarding political structure, Wildavsky reasoned that budgetary relationships are (a) regulated by the number of institutional levels required to interact and the formal authority of each level, and (b) also influenced by the norms of governing elites (e.g. proportionality, arbitration, trust). Combining these two aspects produce several political styles for handling conflicts in the budgetary process, namely diversion, containment, avoidance, and absorption. Diversion in the U.S. side tracked conflicts without resolving them. Containment in France limited disputes within the hierarchy

to avoid spreading conflicts to the outside. Avoidance in Japan proportionately allocated gains and pains in the budgetary process. Finally, absorption in Britain meant that each party made adjustments by anticipating the vital interests of others (p. 21).

		Group Strength	
		Weak	Strong
Number of Prescriptions	Many	Subordination (Fatalist)	Collectivism (Hierarchy)
	Few	Individualism (Markets)	Egalitarianism (Sects)

Figure 3. Four Primary Political Cultures

Source: Wildavsky (1986), Model 1.2 The Primary Political Cultures

Under the influence of sociologist-anthropologist Mary Douglas,<sup>10</sup> who introduced the concepts of “group” and “grid” to explain the social influences on judgment and choice, Wildavsky identified four primary political cultures. As “shared values justifying social practices,” political culture is defined by group strength (or the strength of commitment to the group or institution) and the extent to which behavioral norms are prescribed. Two levels of group strength multiplied by two

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<sup>10</sup> “In *Natural Symbols* (first published 1970), Douglas introduced the interrelated concepts of “group” (how clearly defined an individual's social position is as inside or outside a bounded social group) and “grid” (how clearly defined an individual's social role is within networks of social privileges, claims and obligations). The group-grid pattern was to be refined and redeployed in laying the foundations of cultural theory.” Source: [http://en.wikipedia.org/wiki/Mary\\_Douglas](http://en.wikipedia.org/wiki/Mary_Douglas)

categories of numbers of prescriptions produce four types of political cultures and corresponding types of political regimes (see Figure 3).

<i>Political Cultures and Regimes</i>			
<i>Political Cultures</i>	<i>Individualism</i>	<i>Egalitarianism</i>	<i>Collectivism</i>
<i>Political Regimes</i>	<i>Markets</i>	<i>Sects</i>	<i>Hierarchies</i>
Power	noncentralized	shared	centralized
Authority	avoided	rejected	accepted
Objective	to increase differences	to reduce differences	to maintain differences
<i>Budgetary Processes</i>			
Criterion of choice	results	redistribution	process
Agreement on Base	high on totals, low on items	low on totals and items	high on totals and items
Taxes	low	medium	high
Spending	high on individual, low on public	Low personal, high public	high public, low individual

Figure 4. Political Regimes and Budget Process

Source: Adaptation of Wildavsky (1986), Table 1.1 Political Regimes and Budgetary Process. The author added a row for political cultures to draw attention to the correspondence between political culture and political regime, and to make more explicit the link between political culture and budgetary process, even though they are at the top and bottom of the table, respectively.

Wildavsky then identified the characteristics of each of the political regimes, except fatalist political regimes apparently because fatalists have no use of budgeting because they do not seek to influence their future. These characteristics concern the

distribution of power, attitude toward authority, and objective with regard to equality (see top half of Figure 4). Wildavsky next put forth the proposition: “Different political cultures have different preferences about desired social relations and, therefore adopt different budgetary strategies.” (p. x). With this, budgeting and political culture are linked. The technical analysis that followed elaborated budgeting in terms of the criterion of choice, agreement on base, and the levels of taxes and spending; see bottom half of Figure 4. Further details fill Chapter 2 (about the U.S. Government) and Chapter 4 (about Britain, France and Japan) of the book.

### **The Second-Generation Literature in Early 21st Century**

It has been 40 years since Caiden and Wildavsky described the budgeting practices of developing countries and almost 30 years since Wildavsky proposed the political cultural theory of comparative budgeting. To the author’s knowledge, again no rival volume has appeared to challenge Wildavsky, but the last few years saw the publication of three books on comparative budgeting. They are analyzed in this section.

#### *3.1 Menifield (2011), Comparative Public Budgeting*

After presenting 18 country case studies written by individual authors, Menifield summarizes these countries in terms of the two independent variables, namely wealth and predictability, used by Wildavsky (1975) to predict the nature of national budget process. Wealth is measured by per capita income, presumably in the period around the year 2011, the year of publication of the book.<sup>11</sup> The authors were charged to describe the budgetary process and recent budget reforms. Their interpretation of this basic charge result in the examination of a wide variety of topics: transparency, accountability, financial management systems, revenue management, accounting systems, institutional structures, dependency on foreign assistance, gross

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<sup>11</sup> Poverty rate is also used to measure wealth, but the data are incomplete or estimated, and the data range from the year 2002 to 2007. Therefore it is not referred to subsequently in this paper.



domestic products, decentralization, performance budgeting, procurement, deficits and debt management, regional governments, political systems, international financial institutions and macro- and micro-budgeting. From this variety, Menifield nevertheless was able to extract the relevant information to form his judgment as to the values of predictability as called for by the Wildavsky model.

The wealth and predictability information in Menifield has enabled this author to place each of the 18 countries in Wildavsky's 2x2 classification table (Figures 1 and 2). The value of this exercise is that it could potentially be used to "test" (though not statistically) again Wildavsky's prediction of the nature of the budget process of nations. For example, if Wildavsky's prediction is correct, the countries in the "rich" and "certain" cell should be doing incremental budgeting, and those in the "poor" and "uncertain" cell should be doing repetitive budgeting. Readers are invited to examine the case studies and reach their own judgment in this regard.

While it is comforting to see in Figure 5 that 15 of the 18 countries are correctly classified, there are at least several disconcerting aspects. (1) Recall that Wildavsky defines predictability as the degrees of "certainty or uncertainty regarding available resources versus likely demands for spending" (1986, p. 16). There are so many terms in this definition that are subject to interpretation that there is considerable room for subjective judgment in making the binary classification of certain and uncertain. (2) A country's predictability value may change, especially over a long period of time. For example, the United States in general and its federal government in particular have probably gone from "certain" to "uncertain" in their prediction score. Conversely, China, perhaps among some other countries, may have gone up in value. (3) From the view of testing Wildavsky's model,<sup>12</sup> it is disappointing not to see France and Japan

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<sup>12</sup> Menifield (2011) refers to the 1975 edition of Wildavsky's book *Budgeting: A Comparative Theory of Budgetary Processes* (Boston: Little Brown), instead of the 1986 revised edition. Unfortunately the 1975 is out of print and the author could no longer find any copies. I am therefore basing my comments on the 1986 revised edition, which has the advantage of reflecting Wildavsky's updated and more recent thinking and findings.

included. These countries, along with Britain, were used by Wildavsky in 1986 to illustrate the elite culture characterized by trust, arbitration and proportionality.

It would have been preferable if the authors were requested to directly address the Wildavsky hypothesis regarding the nature of a nation’s budget process and its “predictability”. In fact, Wildavsky’s writings are conspicuous by their absence in the country studies; none of the authors included him in their lists of references. Lack of cumulativeness is a weakness in comparative budgeting research. Nevertheless, the late Wildavsky would probably be pleased that at long last his theory of comparative budgeting has been taken up by another scholar as a frame of reference and for testing, however indirect and imperfect the testing might be.<sup>13</sup>

Notes:

(1) In the absence of Menifield’s recommendation of a cut-off for distinguishing rich and poor countries, I chose US\$20,000 of per capita income. Korea (\$26,000), Saudi Arabia (\$20,700) are therefore classified as “rich”. Had \$30,000 been chosen, they would have been poor. Had \$10,000 been chosen, Brazil (\$10,100), Mexico (\$14,200), Saudi Arabia and Korea would have been “rich”. Following Wildavsky, I used only the per capita income only, also because of the uncertainty quality of the poverty rate data.

(2) Using the \$20,000 cut-off and Menifield characterization of predictability result in the following classified countries: Taiwan and Saudi Arabia (rich but uncertain predictability), Brazil (poor but certain predictability).

	Wealth (measured by per capita income)	
	Poor (<\$20K)	Rich (>\$20K)

<sup>13</sup> Wildavsky complained that in the decade following its publication in 1975, comparative budgeting and his Budgeting book had been virtually overlooked: “... in a decade no rival volume or review has appeared, despite criticisms of particular aspects of the first edition, that claimed to refute the general theory proposed. It now appears that I shall have to perform the critical task myself...” (p. ix, 1986 revised edition).

Predictability	Certain	<b>Revenue budgeting</b> Brazil	<b>Incremental budgeting</b> United States of America (most rich) United Arab Emirates Canada United Kingdom Italy Korea (least rich)
	Uncertain	<b>Repetitive budgeting</b> Mexico (least poor) Thailand China Jordan Iraq Philippines Vietnam Pakistan Ghana (most poor)	<b>Incremental budgeting and/or  Repetitive budgeting</b> Taiwan Saudi Arabia

Figure 5. Classification of Countries in Menifield Sample in Wildavsky Model

Adapted from Menifield (2011), Table 1 Wildavsky’s Model Applied Today; and Wildavsky (1986), Model 1.1 Five Budgetary Processes.

*3.2 Guess and LeLoup (2011), Comparative Public Budgeting*

Instead of simply adopting Wildavsky's analytic framework as Menifield (2011) did, Guess and LeLoup (2011) develops their own framework of comparative budgeting. It is similar to but more elaborate than Wildavsky's. In particular, the dependent variables are more than budget process, but also: the level of budgeting (micro and macro), budget institutions as well as processes, stages of budgeting, and adoption of budget reforms. The independent variables are political and economic in nature, but more specific. The political variables include constitutional structures and political institutions, and economic variables relate to not only wealth (measured by per capita GDP, not income), but also stages of economic development.

After developing the theoretical framework, the book presents the budget systems and correlated economic and political environmental variables of several clusters of clusters: the United States (by itself), the British Commonwealth (thus many African countries, but missing Francophone Africa), the European Union and western European countries, the former Soviet Union and central and eastern Europe, and Latin America. These clusters underlie an assumption – and therefore a testable hypothesis – that there are greater differences *among* these clusters than *within* each of these clusters.

In summary, the notable features of Guess and LeLoup (2011) are:

- An eagerness to formulate useful reform lessons for international transfer, instead of the pure academic inquiry typified by Wildavsky's work.
- An emphasis of the influence of colonial legacies in political culture and institutions.<sup>14</sup>
- Presenting more than budget process to include fiscal outcome, public policy agenda, etc.

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<sup>14</sup> The authors mistakenly characterized Soviet Union's influence in Central and East European socialist countries as colonial.

- Clusters of countries instead of individual country studies as in Wildavsky (1986) and Menfield (2011).
- An extensive analysis of the fiscal and budget system of the USSR and its influence on Russia, former Soviet republics and Eastern and Central European countries.

### *3.3 Willoughby (2014), Public Budgeting in Context*

While this is mostly a book about budgeting in the United States, Willoughby (2014) offers a comparative budgeting chapter at the outset of the book. This unique placement is intended to motivate students to view the U.S. in a global context and in relation to other nations. The chapter presents descriptions of the constitutional and statutory provisions relevant to budgeting in a select number of countries. These countries are Australia (in Pacific, but British in tradition) and Italy (in Europe) representing developed, industrial nations, and Brazil (in S. America), Guatemala (in Central America), India (in Asia), and Tanzania (in Africa) representing developing nations. Other than a degree of geographical representativeness, the theoretical rationale of this systematic sampling is not at all clear. In addition to regional distribution and development status, the nature of the legal system governance structure and fiscal capacities also influence the selection of these sample countries. The budgeting systems of these countries are described in terms of their structure, laws, reform and results, quite similar to the other works. However, Willoughby (2014) introduces a wider array of factors that are assumed, explicitly or implicitly, to influence a nation's budget practices. These factors are:

- stage of development (not only economic development, particularly industrialization, but also social development as measured by Human Development Index);
- more elaboration of the political variables: governance (measured by voice and accountability, government effectiveness, and control of corruption);

- the legal foundation of public budgeting -- rule of law, constitutionalism, and specifically budget laws is an innovation features.

Thus we have seen three ways of presenting comparative budgeting: as a chapter in a book on budgeting in the author's home country (Willoughby, 2014), as a collection of country studies (Menifield, 2011), and as a set of clusters of countries (Guess and LeLoup, 2011).

### **Assessment of Progress**

A 3-dimensional framework is proposed to view the development of comparative budgeting research over time. Time period is the length dimension; spatial or geographical coverage is the breadth dimension; and comparative budgeting research topics lined up the third or depth dimension.

Progress has been made on these fronts. In terms of time period, thanks to the contributions in Section 2, the comparative budgeting studies conducted at the beginning of the 20<sup>th</sup> century were extended for almost another half century, so that the field could claim an intellectual history of 100 years, with the modern phase extending from the mid-1970s (Caiden and Wildavsky, 1974) to the present time (Willoughby, 2014)

Geographical coverage is really only a surrogate for the distribution of nations along the continuum of *economic* development. Take the extreme cases: there are more developed, advanced industrial nations in North America and Western Europe, while Africa is populated by a large number of poor nations. Knowledge about budgeting and planning in poor countries had been meager; focusing on poor countries was itself a major achievement because these had previously been largely ignored in the literature. So was how developed countries address their "budget poverty" – a situation that's hard to understand by those in poor countries, and this speak to the willingness, in contrast to ability, to tax and spend on public goods and for social welfare. Willingness is a matter of attitude, not objective fact. Collective willingness



or unwillingness is cultural, not economic. Hence Wildavsky's cultural theory seemed, in retrospect, to be a natural naming of the phenomenon. Yet it was a reversal of his early stance as evidence by the long quotation in footnote 6. Perhaps he found out that it was not cultural in general, but political culture (see Figure 3) that matters to budgetary behavior. Once that was set, the rest followed logically. Wildavsky's *political* cultural theory of comparative budgeting, though not quite the general theory, has achieved the status of a virtual paradigm, which was referred to and quoted by subsequent works.

In the 40 years after Caiden and Wildavsky (1974) and almost 30 years after Wildavsky (1986), a great deal more is known about budgeting practices of nations around the world. However, again disproportionately more was written by "rich" countries, supplemented by budgetary "war stories" told by staffers and consultants of international organizations and aid agencies, who typically wear the conceptual lenses of Western "best practices" in observing their clients' situations. In part due to division of labor and in part due to lack of resources and opportunities, unlike Caiden and Wildavsky, who did field work, many budget scholars tend to rely on their first hand and filtered accounts of these experienced practitioners.

As evidenced by the books reviewed earlier, public administration scholars are the largest group doing comparative budgeting research. Being more practice-oriented than political scientists, they are not content to condensing the full complexities of budgeting into a single phrase such as "incremental budgeting" or testing hypotheses about budget behavior. Instead, budgeting is viewed at as the locomotive that pulls the rest of the "financial management" process, which includes budget execution and much more. At the risk of displeasing budget specialists, practitioners at international organizations tend to include government budgeting as a part of public financial management. Similarly, by virtue of their eclectic and professional orientation, they also see more independent variables potentially affecting budgeting behavior and practices beyond Wildavsky's parsimonious set of wealth and prediction. The

objective of research shifted from hypothesis testing to rich description, and eventually to the improvement and dissemination of reforms.

One detects a bit of melancholy and defiant tone in the way Wildavsky remarked about the lack of attention to the 1975 first edition of his comparative budgeting book, and his reaction to it. Times have changed. The Cold War is receding in the memory of the older generation, and globalization has become the challenge of the younger generation. It is therefore very welcome several books on comparative budgeting were published in the last few years to broaden student's horizon to other Western nations and other nations around the world. It is this new generation that is going to supply the vigor necessary to sustain this specified field of scholarship and professional practice.

Despite the considerable achievements to date, future progress in comparative budgeting research would depend on the ability to solve a number of theoretical, methodological and data problems.

Since Wildavsky's political cultural theory is perhaps the only theory, arguably the best known theory, of comparative budgeting, this discussion will use it to discuss the theoretical problems. The theoretical problems concern (a) the relationship between budgeting and the political economy, (b) the definition of budgeting variables; and (c) the definition of political and economic variables.

In the preface to the second edition of his comparative budgeting book, Wildavsky (p. ix) explained what wanted to connect "the ability of nations to make (rather than merely be the subject of) history and the various strategies – including budgetary strategies – of change they adopt by means of the notion of political culture. In other words, he saw budgeting as a process through which political, economic and social orders would be created. In view of this objective, it was unfortunate that socialist countries were not covered in the comparative budgeting literature. Caiden and Wildavsky (1974) had excluded poor socialist countries because they did not wish to

get into a discussion of “central planning vs. market economy” (p. xiii). Ten years later, Wildavsky (1986) excluded the (relatively wealthy) Soviet Union because it, along with some other countries such as Germany and Sweden, “have not yet received the same scholarly treatment” as the U.S., U.K., France and Japan (p. 1). These omissions were unfortunate because the introduction of market economy was arguably the single greatest transformative event in the last quarter of the 20<sup>th</sup> century. In the late 1970s, China had begun opening its door to foreign investments and taken economic reform measures. These would necessarily disturb the central planning system and its corollary the state budgeting system. Economic and financial reforms in the Soviet Union would come a bit later to the Soviet Union, but political instability prevailed before Mikhail Gorbachev assumed power several years after Leonid Brezhnev left the scene. Reading Wildavsky (1975, 1986), one would not be alerted to these history-shaping events and their tremendous potential impacts on the budgeting systems of these countries, or most importantly, how government budgeting would response to major economic and political changes.

Wildavsky’s model (1975 and 1986) used the term “budgetary process” (for example, see Figure 4) to refer not only a series of linked steps (“process”) but also virtually everything that has to do with the budget as a fiscal policy document, fiscal policy decision criteria and outcomes (e.g. revenues and spending). As could be seen in the other books and book chapters discussed in the previous section, other authors expanded the list of what might be regarded as dependent variables considerably or virtually uncontrollably, including for example, the basis of accounting. This amounts to an embarrassment of riches. Clearly an effort has to be made to bring some order to the ever increasing number.

Wildavsky (1986) has the merit of being specific about the two “independent variables” that at least influence or may even determine the government budget or process of budgeting: wealth and predictability. Wealth apparently refers to national wealth, a major source of revenues to finance government expenditures being

budgeted. Wildavsky saw no need to justify the use of per capita gross national income, which seems to be an indicator of personal wealth rather than national wealth, for which gross national income would have been more appropriate.<sup>15</sup> Even so, wealth itself is only one aspect of economic development. Nowadays, the term “developing nations” has almost completely replaced “poor nations” and “developed” or nations, with development referring to economic development.

Speaking of development, there are other types of development, for example, political development and social development, in addition to economic development. Economic development, almost by definition, leads to greater national wealth. But as Wildavsky (1986) demonstrates, greater national wealth did not necessarily lead to more “wealthy” government, i.e. greater amounts of revenues in absolute amounts or as a percentage of GDP. The complete set of possible relationships between national wealth and government “wealth” (see Figure 6) includes expected and anomalous cases. If government budget is determined solely by economic considerations, one would expect poor countries to suffer chronic budget deficits, and rich countries to have budget surplus. The latter expectation, however, has not always been fulfilled; indeed, the most wealthy nation in the world, the U.S. has had chronic deficits in its national government. There must be some other factors, perhaps of a political or social nature at play. It is possible that an economically advanced nation is underdeveloped in that sense that its people and elites fail to see the merits of public goods and a high level of social welfare and equality. This failure could lead to the unwillingness to support policies to raise revenues to finance public expenditures. Conversely, the political elite of a poor nation might perversely levy high taxes to finance expenditure it prefers. In any event, the relationship among economic, political and social development is a complex one, and deserves further theoretical

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<sup>15</sup> Gross Domestic Product (GDP) is now the more commonly used indicator of the size of the economy included in the denominator of fiscal indicators, e.g. deficit/GDP and debt/GDP.

elaboration so as to identify the links between government finances with certain types of development.

Government Finance		National Economy	
		GDP as Measure of National Wealth	
		Low	High
Budget	Surplus	Unexpected	Expected
	Deficit	Expected	Unexpected

Figure 6. Government Finance and National Economy

There are at least several methodological problems in comparative budgeting research. The choice of research methods is influenced, perhaps even determined, by research objectives. When the primary objective of research is to find out how budgeting is done in different nations, the complexity of budgetary process virtually dictates the case study method and the narrative mode of presentation. As could be seen in Section 2, this is indeed the most common, perhaps the only way. This approach allows for great deal of flexibility in length, topics covered and depth of treatment. Such flexibility has led to disparities that make comparable and cumulative case studies difficult to produce. If hypothesis testing with quantitative data is the eventual goal of social science research, comparative budgeting still has a long way to go.

The second issue has to do with the unit of analysis. Comparative budgeting usually refers to international comparison of the budgeting practices of different nations.<sup>16</sup> Even though political structure and institutional structure are discussed, the issues related to the level of government and inter-governmental relations between levels of government are not systematically treated. As the ways local governments, state and regional governments budget are likely to be different in a unitary state as versus

<sup>16</sup> Wildavsky (1986) includes state governments and local governments, as well national governments.

a federal system, these issues could not be ignored, especially if one's research focus is on sub-national government.

Sampling poses the third issue in international comparative budgeting research. Assuming the goal is to know government budgeting is done around the world, the sample of countries has to be representative in some sense. One way is to be sure every continent is covered, but that supposes that geographical location matters. But does it? Probably not; geographical location is only a rough guide to a country's political and economic status. For example, Europe has more advanced industrial nations, while African nations are mostly poor. As the publications in Section 2 show, every author has his/her favorite sampling criterion/criteria. To a large extent, the sampling criteria are influenced by the objective and scope of a research project. For example, Caiden and Wildavsky (1974) specified poor countries as their target population. Nevertheless, the use of disparate criteria has led to the exclusion of countries that others believe should be included. For instance, with the exception of Guess and Leloup (2011), the other studies hardly address budgeting systems in the (former) socialist countries. Also language barrier has led to the absence of countries whose budgeting systems are not described in English. This situation may improve as English is increasingly becoming the common language in scholarly publication and international communication.

Partly due to these methodological issues, prior research in comparative budgeting have not produced readily replicable findings or tested "best practices." In summary, much progress has been made in comparative budgeting research in the last 40 years, but many improvements remain to be made.



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## INCREASING ECONOMIC EFFICIENCY OF RUSSIAN PUBLIC INSTITUTIONS: REFORMS AND WHY THEY FAIL

### **Introduction**

This paper is intended as a modest contribution to research works on the latest reforming of public sector finance regulations in modern Russia, as a whole, and in the northwestern region of it, in particular. It might be of interest to economists, lawyers (both academic and practising), scholars, public sector managers, government officials and all those whose interests lie in the scope of public sector budgeting in Russia and (or) the northwest of Europe, including the Baltic Sea area.

### **Objective and methodology**

The issues covered in this paper are in the scope of the seminar. These are:

- *Reform intentions in the budgetary sphere: what for, who and how?*
- *Modernizing budget legislation – new rules of the ‘game’?*

The aim is to give a critical yet measured commentary on the particular reform of Russian public-financed public sector organizations (hereafter ‘public institutions’), formally provided through the Federal Law “On amendments to certain legislative acts of the Russian Federation in connection with improving the legal status of state (municipal) institutions” as of 08.05.2010 N 83-FZ (hereafter “Law № 83”) and other supplementary acts. This is based on conclusions from the author’s personal experience of working as a lawyer in Russian public institutions, which also included implementing the reform on a practical level in certain large-scale public institutions (federal and regional, all situated in St. Petersburg), combined with an attempt to analyse relevant facts from the open sources and thus give a view on the reasons behind the reform’s failure and its probable future outcomes.

Taking this logic into consideration, the paper is structured according to the following framework: first, a brief definition of the proclaimed essence and ideology of the reform is given; then the good points of the reform that really work in practice are described; third comes a detailed critical analysis of the reform's drawbacks and risks; after that, an attempt is made to show what really happens when the reform moves from paper to being implemented in real life, with references to open source official statistics to illustrate the scale of the problem; and finally the conclusion is made.

### **Data gathering and references**

The *quantity* of the information which can be easily found on the question is overwhelming, which is absolutely logical, given the fact that it is now more than four years since the reform was launched and that it covers *all* public institutions and the whole social budgetary sphere – i.e. public health care and medicine, education, culture, etc., meaning that the reforms cut through nearly all strata of Russian society and that nearly every Russian citizen is already (or might in the future) be somehow affected by it.

However, the same cannot be said about the *quality* of this information. Currently, one can hardly find a comprehensive critical analysis of the issue in question. Nearly all published materials are mostly 'technical' comments or aggregations to the official texts, on one hand or more or less pessimistic politically motivated invectives that have nothing to do with research methods and are also way too general to be of any scientific interest, on the other. With some minor exceptions, in none of the cases can we see any attempts to objectively unravel and understand the essence of the phenomena studied.

### **Thesis**

The reform in question can be characterized as neoliberal in essence and quite radical in intention. Its ideology is to improve economic efficiency, which is meant to result in saving (often euphemistically called "optimization" in the official documents) of

state and municipal budgets, and to raise the standards of quality for the services provided by such institutions, through standardizing the calculation of costs of such services, tying the funds with the indicators of quality and quantity of such services, and generally 'commercializing', or 'market-orienting' the majority of Russian public institutions by providing them with more financial autonomy.

The main problem of the reform is that it has been adopted without an adequate, clear and transparent concept or any key performance indicators (KPI). Hence, even now, more than four years after the start of the reform, it is still unclear what exact criteria should be used to judge whether its goals are being achieved and to what extent, which gives the authorities a remarkable opportunity to voluntarily do it themselves.

Yet, the drawbacks and risks of this reform remain real, while the positive results are vague and not even clearly officially spoken by the authorities responsible for starting and implementing it. Having made formal steps to present the reform, the ideologists, vehicles and effecters so far have not done the main thing: they have not changed the economic basis of relations. 'Increasing economic efficiency' in the context of the reform turns out to be simply voluntarily cutting down the funds, which could be easily done without any declarations on 'public costs' standardization', unless we admit that this is needed as a political 'cover' for reducing the budgets. 'Standardization' of public service costs also does *not* require the repeal of the public owner's subsidiary liability for debts of the majority of Russian public institutions, which may soon prove to be an unreasonably risky decision, including international legal aspects and damaging the image of Russia's national economy and investment climate.

Thus, the only precise conclusion that can be drawn about the reform to this point is that, as for some minor good things provided by the reform, they could have been done without mixing them with so many bad points, and, as for the bad points, they

must be fixed (i.e. cancelled) as soon as possible before they come true and start to dramatically affect the whole Russian public sector.

### *The essence and the ideology of the reform*

#### What is the reform about?

The aims of the current budgetary reform regarding public institutions in Russia are actually age-old: to improve the efficiency of public institutions by way of reducing their number, as well as reducing budgetary expenses. The main official statement is that budgeting of public institutions shall be result-oriented and that it will somehow increase the quality of public services provided by such institutions.

According to the Constitution of the Russian Federation, human beings and their rights are regarded as having the highest value. What is more, Russia is declared to be a social welfare state. In legal terms, this means that one of the government's main obligations is to provide every citizen with a certain standard of social goods and services. No, or hardly any, controversies may occur on such a general level of regulation; the devil, as always, is in the detail.

#### How is it done?

In general, the proclaimed method of the reform is to deallocate funds from public institutions and to balance these funds with the scope and quality of services provided by such institutions.

To achieve the quality of services within the framework of the reform it is stated that, on one hand, the quality standards shall be stipulated in the public assignment given to the institution (being its main function, it cannot be rejected by an institution), and, on the other hand, through stimulation of public-private competition (e.g. education, culture, and health).

An effort has been made to bring about a shift from merely providing public institutions with finance, in order to maintain their traditional activity and existence,

to an attempt to hold a 'total inspection' of public institutions and their useful social functions and to tie their public funds to measurable indicators of performance in quantity and quality.

On a formal level, this has been done mainly through adopting and implementing Law № 83 and other supplementary acts.

Law № 83 has divided all Russian public institutions into three types: 'autonomous', 'budgetary' and 'kazyonnye'<sup>17</sup> institutions.

As far as can be understood from the ideology of the reform, 'kazyonnye' institutions are meant for fully non-market spheres, seriously dependent on public direction, like the military, penitentiary institutions, mental hospitals, etc. Autonomous institutions are meant for social spheres where certain competition is present, so they are, to the greatest possible extent, separated from public direction. And 'budgetary' institutions are something 'in between', still dependent on public direction like 'kazyonnye' institutions.

*What are the good points of the reform that already work?*

They are very few:

- A. First, the reform displays an attempt to make a shift to legal formalization of the relations between the institution and its institutor (government). The

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<sup>17</sup> The word 'kazyonnye' is a mere English transliteration of the Russian word "казенные" (*adj., pl.*). It literally means 'relating to the (public) treasury', i.e. publicly financed. But since the other two types of Russian public institutions ('autonomous' and 'budgetary') are in general publicly financed (and thus all three types of Russian public institutions are publicly run, publicly regulated, publicly owned, etc.), no adequate examples can be found for the translation of this word in English. In this respect, it should also be noted that the adjective 'budgetary' is just a literal translation of the term used by Russian law, which does not display the real difference between these three types of Russian public institutions. All Russian public institutions, in essence, can be called 'budgetary' (meaning that they are financed from public budgets) and so all are 'kazyonnye'. In fact, the difference between the three types lies in the degrees of their 'freedom', or autonomy, and so, in a sense, it might have been clearer to name the three types 'fully autonomous' (which is 'autonomous' in terms of Law № 83), 'semi-autonomous' (which is 'budgetary' in terms of Law № 83), and 'non-autonomous' (which is 'kazyonnye' in terms of Law № 83).

Russian public institution has traditionally been fully dependent on its institutor (i.e. an official). Legal formalization is very important in the Russian public sector because traditions have always prevailed over laws.

Of course, litigation between an institutor (government official) and a public institution in Russia is still a thing that can hardly be imagined. The only cases that can be found are cases when an institution contests the decision of an institutor to withdraw its property, which the government thinks is useless for such an institution.

- B. The second is the introduction of a simple and direct stimulus for 'autonomous' and 'budgetary' institutions to use their public funds more rationally: in the case of the subsidy granted to perform a public assignment in the expired financial year not being used in full, the remaining balance is not transferred to the budget as it used to be but remains at the institution's disposal and can be used for the purposes stipulated in its charter.
- C. And finally, there is a shift towards the implementation of a transparent and clear formalized funding procedure through service units and respective funding. Let them cast the first stone who think that, before the reform, all institutions knew HOW their annual funding was calculated.

That is enough about the advantages, as they are well publicized.

*What are the drawbacks of the reform?*

At first glance, the reform is comprehensive, progressive and interesting. However, if we look more closely, we will see its significant 'pitfalls' and risks.

They are:

A) *Vague concept*. The common reason for the failure of many reforms is the lack of a clear well-developed concept. Notwithstanding the continuous increase in the number of policy documents in Russian political and legal practice (that is annual



Budget message delivered by the President of Russia, constantly rewritten state programme on the increase of efficiency of public funds management, etc.), there is *not a single* official document, which would provide the background, principles, ideas, methods, nature, and anticipated outcome of the reform clearly, comprehensively and with reason.

Only separate thoughts, messages, premises (sometimes too short), which are very segmentary and scattered across official sources of various levels and statuses, can be found.

No authors of the reform are personally named. Nearly all the ideas implemented in the reform have been provided by NEI (the Netherlands Economic Institute), with the main consultant being the international consortium ECORIS (ecoris.ru; Attachment №14, 2014; minfin.ru, 2007), known for providing quite radical neoliberal, market-oriented concepts for the Russian government.

And so, this is the problem that many independent researchers have noted over many years: Russian reforms are invented by foreigners, which opens the door to a lot of political speculation.

B) *Lack of appropriate instruments for implementation.* This second point is logically derived from the first one, mentioned above. In their paper, “Budget sector reform: problems, risks, prospects”, Lisin & Rudnik (2012) from the Higher School of Economics (a Russian university) clearly point out that the reform in question is implemented in the “law-making” version. The idea of this version is as follows. Firstly, they adopt a federal law, which, in legal language, tries to state the new shape of the system to be transformed. The problem is that any law inevitably contains many notions, which are not sufficiently clear, and reference rules, according to which the right to decide on respective questions is ‘delegated’ to federal, regional, or local authorities.

Then implementation of the law begins and the notions and mechanisms it provides are specified on the so-called 'operating' level. In fact, in the course of such 'specification', the original meaning and intention of the reform can be distorted to the extent of perversion.

When defending this method of reformation, one usually expresses the idea that adoption of a federal law creates a situation in which preserving the previous patterns is no longer possible or, at least, extremely difficult, since the law which has already been passed shall be repealed. So, whether you want it or not, you must move forward.

The obvious drawback here is the impossibility of a thorough conceptual exploration of the reform. All the reform's problems are solved in the framework and through the language of the legal draft. The legal draft is a specific technical document, not quite suitable to reflect such lofty matters as aims, targets and methods of implementation of the reform. It is especially unsuitable for analysis of possible variants of transformations and scenarios.

Of course, it would be wrong to say that a law is an inappropriate instrument for making social reforms, but, taken alone, it obviously cannot replace such basic things as concept; ideology is only one of the many social instruments to express the latter and bring it to an effect. To think otherwise means to repeat a very widespread philosophical and sociological mistake. Its name is *juridical world view*: an idealistic system of views, in accordance with which the state and law are considered as the basis and chief motivating factors of social development.

Such 'idealism', or rather 'infantilism', is not a good symptom for the current political situation in this country. It means that the political will of the state can be somehow instrumented only in this way, which is the worst possible. Otherwise we lack arguments against the implementation of the 'conceptual' approach, which implies a preliminary elaboration of the detailed background and programme of the reform's

development. Discussion cannot be protracted and real changes cannot be delayed, because the reform's elaboration is initially well organized and due to the real responsibility of both its creators and implementers.

This 'law-making' approach has been proved to fail fully. In my opinion, moving in an unknown way is much worse (in any case, more dangerous) than knowing where we want to go but delaying the start for some reasons.

Quotidian thoughts are as such, just because they are true. To rely on voluntary public (which is the most effective or simply effective) implementation of what the government has conceived, this government shall explain the idea behind it to the public. Without it, the public will not trust the government, which in fact is disadvantageous for the government itself and can lead to the loss of feedback. Lack of a clear concept of the reform does not work in the current government's favour but makes it easier to criticize and renders it open to conspiracy and other invectives, thus setting the ground for the inspiration of mass social and political turbulence under the pretext of the government's entrenchment upon the basis of social welfare (if this can be said about the current state of the majority of the Russian citizens) – social benefits.

In this respect, it might not be so bad that, more than four years after Law № 83 was passed, we have to state that, strictly speaking, the reform has not yet started: the current situation is as if the law did not exist and these four years had not passed (sic!); we need a comprehensive finalized concept of the reform to legally and philosophically define what the state is, what is its role in providing citizens with the social benefits guaranteed by the Russian Constitution, what is the public (authoritative) function and what is the public (not authoritative) service (work) and what are the differences between them and the financial tools for their provision (administrative, market, or mixed, etc.).

C) *Lack of institutional background for implementation.* Another serious threat to the very positive effect of the reform is the absence of institutional background to its implementation. To this end, institutors of all budgetary levels already require respective specialists, and this type of professional education simply does not exist in Russia at present. The Russian Economic School of Planning and Rating suffered heavily, losing its continuity, both after the transfer to the market economy and in the course of reforming the state sector of the economy over the past 15 years. It is characteristic that, to solve the problem of cutting down on personnel and expenditure in the budgetary social sector, the institutor will first have to do the opposite – increase the staff, pay extra expenses for retraining specialists in the framework of slowing down the economy.

D) *Very unbalanced and thus unreasonably risky legal and economic decisions in the public sector.* Law № 83 stipulates and provides for some very unbalanced and thus risky legal and economic decisions in the public sector.

D1) One such is, for instance, the decision *to repeal the public owner's subsidiary liability for the debts of 'budgetary' and 'autonomous' institutions.* From the abstract and philosophical point of view, this measure fits the concept of the reform quite well ('it means greater economic freedom in exchange for independent liability') and seems quite fair. But the public sector might have nothing to do with concepts of what is fair or what is balanced derived from *private* law. *Public* logic might be quite different. And so, strictly speaking, this provision could have easily *not* been included in the reform. It remains unclear in what way it increases the efficiency of public institutions, the quality of services they render to the public, etc.

This seriously challenges the possibility of protecting the rights of creditors of 'budgetary' and 'autonomous' institutions, as bankruptcy of the latter is still not envisaged by the law. Thus, in the case of insufficient property to pay off a debt, the institution will not be liquidated, it will just accumulate it on paper and continue

working. At this, the subsidy for public assignment (e.g. granted by the institutor for the next year) *is not immune* from foreclosure, and the law does not provide for special subsidies ‘to pay off debts’. Thus, in the case where an institution does not have other liquid assets, foreclosure of the abovementioned subsidy is quite possible; therefore, the implementation of the public assignment will fail and people will get no public services at all. Was it the aim of the reform? The answer surely is no, at least according to the open resources of official information.

The responsibility for such a situation will thus be borne only by the head of the institution; but does this comply with the main aim of the institution – to perform social functions, provide social benefits guaranteed by the Constitution to the people? The answer shall be the same as given above.

It is obvious that non-financial property is not enough for an institution to function, it also needs financial funds to pay wages (traditionally, as much as (and often even more than) 50% of all costs of Russian public institutions is labour costs).

But the reform goes even further to ban foreclosure even on the main (and usually the most liquid) part of the property of the institution – that is valuable moveable property (VMA, valuable movable assets), naturally provided by the owner or bought from budget funds, as well as all immovable property, notwithstanding the source of its acquisition.

So, Russian ‘budgetary’ and ‘autonomous’ institutions seem to join the ranks of unreliable partners, not liable for their obligations to the extent of the main part of their assets. One would think that companies in the market for state and municipal contracts should not deal with such dangerous partners and should stop supplying goods, work and services ordered by such institutions (something mentioned by members of the State Duma steering committees in the course of adoption of Law №83). In fact, they do, and this may be easily explained: too many small and medium-sized companies in Russia live only on state and municipal orders. The ‘pure’ b2b

relations (where the end-user is not a public company) are characteristic of developed economies, while, in Russia, it is more the exception than the rule. This business simply has no choice, i.e. alternative clients: it works according to the set rules or it fails. Besides, it is often impossible for a company to choose reliable clients in advance and work only with them, which in most cases makes the business act extensively: monitoring the website of state and municipal purchasers, trying to 'catch on' to an order. The only thing a prospective supplier can do in respect of such 'due diligence' regarding a client (which can be recommended to all businessmen working with government contracts in Russia) is to at least study the open information about the balance and property of the institution at [www.bus.gov.ru](http://www.bus.gov.ru). The problem remains that an institution may not update information for years, and there are no means to make it do so (including legal sanctions).

In this context, it seems expedient to introduce compulsory property liability insurance for autonomous and budgetary institutions. Yet, to date, the institutional prerequisites for such a system do not exist.

It shall be noted that, in this respect, Law № 83 disagrees with the Concept of Civil Legislation Development (passed by the decision of the President's Council for codification and perfection of civil legislation as of October 7, 2009): "As a general rule, an owner shall bear subsidiary liability for the debts of an operative management agent. The law can provide for cases when the owner is relieved from subsidiary liability, and rights and legitimate interests of creditors are guaranteed in another way" (art.11.4 section IV of the Concept). Paragraph 7.2.1. section III reads as follows: "At the present stage of the Russian Civil Code modernization the idea of an institute as a legal entity which is not the owner of the property can remain. In future, one shall strive for modernization of civil and legal status of the institution as the owner of its property liable *for the full extent of its assets* (like German Stiftung)". Consider that this liability is for the full – not part of its – assets, which is of principal importance. (The repeal of subsidiary liability was opposed by, for example, the

Russian State Duma Committee on civil, criminal, arbitration and procedural legislation, but this did not help.)

D2) *International legal aspect.* The practice of the European Court of Human Rights (ECHR) is based on the division of legal entities into governmental and non-governmental, meaning that the state can bear liability for the activity of private companies, taking into consideration their dependence on public organizations. Of legal entities which are not owners of their property, in Russia a considerable extent of independence from institutors (public bodies) is characteristic of unitary enterprises (commercial organizations) and not institutions. Nevertheless, the ECHR regards unitary enterprises as *dependent* on public bodies. For example, see the cases, “Shafranov vs Russia” and “Grigoryev and Kakaurova vs Russia”. In the case of “Shafranov vs Russia” 24766/04, in essence, the only argument for dismissal voiced by a Russian representative was formal (provided in the law) independent liability of this category of legal entities. In this respect, in its Decision as of September 25, 2008 on Appeal N 24766/04, the ECHR stated that "...The state did not demonstrate that the Federal State Unitary Enterprise FGUP ‘Yeniseirechsvyaz’ had enough institutional and operational independence from the state and that could relieve the latter from being liable for its acts and omissions...Therefore, the application cannot be dismissed as incompatible *ratione personae* with provisions of the Convention / *for the Protection of Human Rights and Fundamental Freedoms as of 04.11.1950* – *author’s note* / within the meaning of para 3 art. 35 of the Convention”. In this case, the court took the path which was logically grounded in the case of “Grigoryev and Kakaurova vs Russia” N 13820/04; the Decision of the ECHR as of April 12, 2007 stated that “...Under the Russian legislation the owner of a unitary enterprise reserves the right of title for the property of the enterprise, approves its deals with this property, controls management of the enterprise and decides on whether the enterprise is to continue its operation or should be liquidated... Therefore, the Russian government did not demonstrate that the state enterprise...had enough institutional and

operational independence from the state, so that the latter could be relieved from being liable for its acts and omissions under the Convention...”

What is more, there seem to be no cases when the ECHR considered Russian public legal entities independent enough to rule the claim of a Russian applicant inadmissible.

Federal law N 99-FZ as of May 5, 2014 has already been passed and came into life on September 1, 2014, bringing amendments into the Russian Civil Code, according to which the “no liability principle” for the public owner of a ‘budgetary’ or ‘autonomous’ institution excludes cases of compensation for *harm to citizens*: in the case of an institution having insufficient property to be foreclosed, the subsidiary liability passes to the owner. These amendments are retroactive: they cover all relations of harm after January 1, 2011 (after adoption of Law № 83, which fully repealed subsidiary liability), which indicates, and proves the fact that, the full repeal of subsidiary liability was a mistake, even from the legislators’ point of view.

This rollback is evident and characteristic of the current political and legal situation in the Russian law-making process, which is usually dubbed the “itch” or “crazy printer” (even the most professional lawyers can no longer digest changes in the legislation). However, this evidently cannot constitute a new tendency, and one should not hope for the decision to be fully reversed in the near future. Still less can be said about any articulate constitutional legal grounding of this exception: why only citizens and not legal entities (at least non-commercial corporate organizations which are public associations in the full sense)? It might be that an official answer to these questions will be given no sooner than someone raises them in front of the Constitutional Court of Russia.

So, one can be sure that the same approach will be used by the European Court of Human Rights towards Russian public institutions. Russia will be considered liable for all their debts.



In this respect, the conclusion is that, in the case of violations of the interests of private creditors, on the part of Russian 'budgetary' or 'autonomous' institutions, becoming large-scale, which the reform encourages, it can be predicted that these creditors will more often, and quite successfully, apply to international legal remedies. Clearly, this will not improve Russia's international standing or boost the investment attractiveness of its economy and the competitiveness of its jurisdiction for business.

D3) *The risk of the reform's potential propensity for corruption.* Notwithstanding the formally mandatory anti-corruption expertise of all regulatory acts adopted in Russia according to Federal Law N 172-FZ as of July 17, 2009, "On Anti-Corruption Expertise of Regulatory Acts and Drafts of Regulatory Acts", it is hard to say that Law № 83 poses no problem in this respect.

According to its provisions, a 'kazyonnoye' institution is not entitled to dispose of any of its property, unless it is permitted to do so by its public owner (i.e. the official representing the government), while a 'budgetary' institution as well as an 'autonomous' one is entitled to dispose of (including alienation) any of its property, unless it either immovable property or movable property included in the list of Valued Movable Assets (VMA). The immovables, and movables from the list of VMA, can be disposed of with permission from the institutor (i.e. an official).

The Government of Russia has stated the criteria for drafting such lists, but they are very lax, which leaves a lot of room for discretion on the part of officials managing, or rather governing, the respective institutions. So, it is up to that official whether the institution will be entitled to alienate this or that property or not.

So, it might happen that the reform, in essence, will create or have already created conditions for circumvention of the law on the privatization of public property. One can object to the additional barrier against corruption in the form of the institute of major transactions and interested party transactions. But it should be pointed out

that, first, limitations imposed on major transactions are tied to the balance value of the property, which under current Russian accounting can be far from the market value; besides, a major transaction can be divided into smaller ones in such a way that it will be hard to prove their interrelation; second, interested party transactions have very formal criteria (therefore, really interested parties can evade them); and, finally, a budget institution can dispose of the rest (i.e. covetable government furnished property) and all immovable property, if approved by its institutor (the one defining the list of VMA). This means that collusion between the head of the institution and an official of the institutor will be enough. A good deal of discretion and the concentration of all property powers in the hands of a single person leads, by definition, to corruption, all the more so in the current Russian context.

Corrupted officials can now legally make an institution sell its public property to those whom they unofficially control.

In open access, one will not find any summarized information on transactions by public institutions to dispose of their property. It does not need to be included in the information that a public institution shall upload at the federal web portal [www.bus.gov.ru](http://www.bus.gov.ru), where one can only find the report about the use of property by the institution for the expired financial year, which is not suitable for comprehensive analysis: it reflects only the total balance value of the property of the institution of one or another category at the beginning and end of the year. Decrease in the balance value at the end of the year may or may not evidence property alienation, as it can be caused by a number of reasons: accounting of property depreciation, writing off the property as unsuitable for further exploitation and, finally, unwilling loss of property (loss, fraud, withdrawal by the owner, foreclosure, etc.).

Meanwhile, if such a study were possible, and if someone were able and willing to undertake it, its results could be very interesting and representative to show the possibility of such risk. But, to this end, it is not enough to include the respective

reporting into the list of information to be disclosed; the institution shall be made to comply with this demand, which cannot be seen so far: one only has to go to [www.bus.gov.ru](http://www.bus.gov.ru) to see that not all information provided for in the forms is uploaded by institutions. The lack of respective sanctions stipulated in the legislation does not contribute to the improvement of the situation.

Amendments brought by Law №83 in the sphere of the activity of public institutions are in keeping with government reforms, proclaiming the ideas of expanding the independence of entities which spend budget funds; however, lack of provisions of the Law for expanding their liability aggravates corruption. Neither national anti-corruption campaigns nor the increasing activity of law enforcement structures in the field of finding and arresting bribe-takers can frighten or bring to reason those fond of 'money for jam' at the expense of administrative resources.

Giving figures from the international non-governmental organization, Transparency International, became common courtesy after some of them were included in the executive order of the Russian Government N 1789-p as of October 25, 2005, which approved the concept of administrative reform in the Russian Federation for 2006–2010. The introduction states that, according to the Corruption Perception Index calculated by Transparency International, in 2004, Russia ranked 90 among 146 countries (which means that 61.7% of the countries studied were less corrupt in the rating) ([www.transparency.org](http://www.transparency.org), 2004).

The nine-year-long reform of Russian nation-building aggravated the situation. According to the figures published by Transparency International, if in 2011 Russia ranked 143th out of 182 countries in the world corruption rating (which means 78.6% of the countries studied were less corrupt), in 2012 Russia took 133rd place out of 176 countries (behind 75.6% of the countries studied)<sup>18</sup>.

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<sup>18</sup> URL: [www.transparency.org](http://www.transparency.org). URL: [www.ria.ru/world/20121205/913449043.html](http://www.ria.ru/world/20121205/913449043.html). URL: [www.ria.ru/analytics/20121205/913554027.html](http://www.ria.ru/analytics/20121205/913554027.html).

Notwithstanding the target of increasing the efficiency of state management and state expenses' management, proclaimed by all Russian reforms since 2004, to date, Russian legislation does not stipulate liability for inefficient use of budget funds. This problem is familiar to those who are somehow connected with state financial control. Experts know that, in cases of inefficient spending of budget funds, in the absence of violations of law and regulatory acts (all necessary procedures are formally implemented, reports to be submitted under the law are provided, etc.), it is often impossible to hold accountable those to blame, as there are no such provisions in the law. At this, all serious attempts to impose tougher legal liability for inefficient use of budget funds faced serious obstacles. Thus, for example, legal draft N 208784-6 "On Amendments into Certain Enactments of the Russian Federation", which provided for the introduction of administrative and criminal liability for inefficient use of budget funds, introduced by State Duma deputies, M.V. Degtyarev, V.V. Gutenev, A.E. Hinshtein and E.I. Kuzmicheva, was registered and forwarded to the Chairman of the State Duma on January 21, 2013, and, on March 11 of the same year, it was dismissed for inconsistency with the Duma's Regulations..

The idea that history repeats itself can turn out to be true. Over the first half of the 1990s, people hit by the crisis and ideological propaganda were successfully convinced that state enterprises were in fact privatized, and the only way to solve the problem was to launch voucher privatization. The consequences are well-known: oligarchic capitalism emerged in the country. Furthermore, those who partly and illegally derived profit from state property became lawful owners and received all profit in their disposal. Oligarchs were most often former managers or sneaky money-makers close to power circles, or just swindlers. Hence, it might again happen in modern Russian history that by nominally 'struggling' with a formally illegal economic social phenomenon, the authorities would actually legalize it.

*How does the reform actually work?*

## Regional implementation

As with any reform ‘from the top’, to preserve its output-input ratio in transferring to the lower level of implementation (regions) and overcoming the resistance of the inertia of executants, the reform at hand requires an oversized initial impetus. Meanwhile, we see the lack of development and mandatory nature of the reform right where it belongs – in the regions (as the lion’s share of public institutions, mostly significant for providing basic social benefits, resides not at the federal but at the regional and local levels).

According to [www.bus.gov.ru](http://www.bus.gov.ru), in Russia (all nine federal districts, including the newly formed Crimea and federal city Sevastopol), as of September 2014, there are 6,804 federal, 33,144 regional and 128,673 municipal institutions. These are kindergartens, schools, colleges, many institutes, hospitals, museums, theatres, and libraries.

For display purposes, this can be demonstrated in Figure 1.

This lack reveals itself as follows:

A) As previously stated, the reform is implemented in its “law-making version” (‘just-in-time system’), and the system for assessing the quality of public services is still not developed. The law does not require that the public assignment to the institution should include a public service quality index (with the exception of those already stipulated in regulatory acts, where it is already done). Meanwhile, an increase in the quality of public services is one of the stated aims. Obviously, it remains a pure declaration. No system for assessing the quality of public services has yet been devised, and no prerequisites can be seen.

**Figure 1. Proportion of public institutions of all levels and types in Russia**

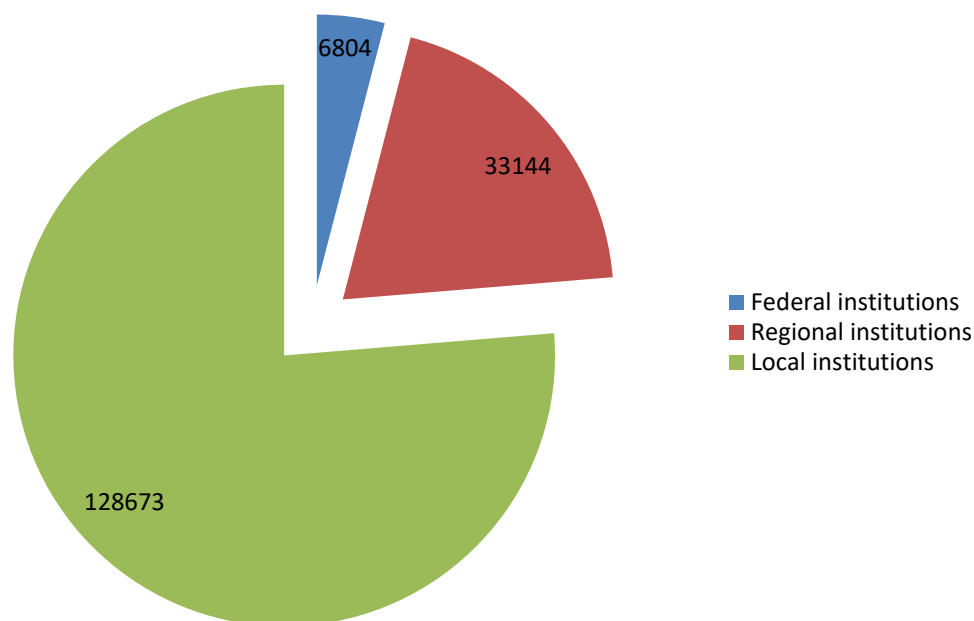


Figure 1. Proportion of public institutions of all levels and types in Russia

B) In some social spheres, the reform failed because of the surrender or obstruction of economists and methodologists: it is allegedly impossible to define the standard of providing public services and to calculate the relevant ratio, which, strictly speaking, means that such institutions are outside the framework of the principal economic provisions of the reform. Their cost sheet is now called “basic standard costs”. It is still calculated “from the achieved” and “on the basis of ability”; therefore, it can easily be changed by the institutor, including penalizing, for example, the underuse of the budget funds provided by the owner in the current financial year. In the spheres where standards of costs for a service unit are collective (e.g. education and, partly, healthcare), this is impossible; yet, here it is not. Therefore, the institution loses (to be precise, it never has) an incentive to spend public funds in an efficient and economical manner. The funds that were unused cannot be taken from it (this is provided by the law); it will simply be allocated less next year (the standard will be revised). From a traditional point of view of efficiency, such an intention of the institutor would be perplexing. But, in real life, the interests of the officials of the

authority which governs the institution, and the institution itself, go in different directions: the authority's interest is tightly connected with vague requirements of the current budgetary and political environment – officials may see it as more important and easy to report the here-and-now economy of budget funds than to wait for feedback in the form of a hardly measurable increase in efficiency, which may not be estimated in the 'higher' authorities which assess the work of these officials.

C) Finally, notwithstanding the variety of impetus and even 'push' of public institutions in the competitive market (through change in legal status, placement of assignment (task) for performance of social functions through competitive mechanisms, etc.), the overwhelming majority of Russian public institutions remain 'budgetary', and very few have become 'autonomous' since 2007 (when this type of institution appeared). It seems that when the federal law 'On Autonomous Institutions' was passed in 2006, the attempt to attain new status for public institutions failed (several projects were considered), and this time the authorities chose a more ingenious way: leave the old name, "budgetary institution", but change the content.

According to [www.bus.gov.ru](http://www.bus.gov.ru), in Russia, as of September 2014, on all levels there are:

- 'autonomous' institutions – 14,355;
- 'kazyonnye' institutions – 45,613;
- and 'budgetary' institutions – 108,539.

This is shown in Figure 2.

**Figure 2. Proportion of all types of public institutions in Russia, total**

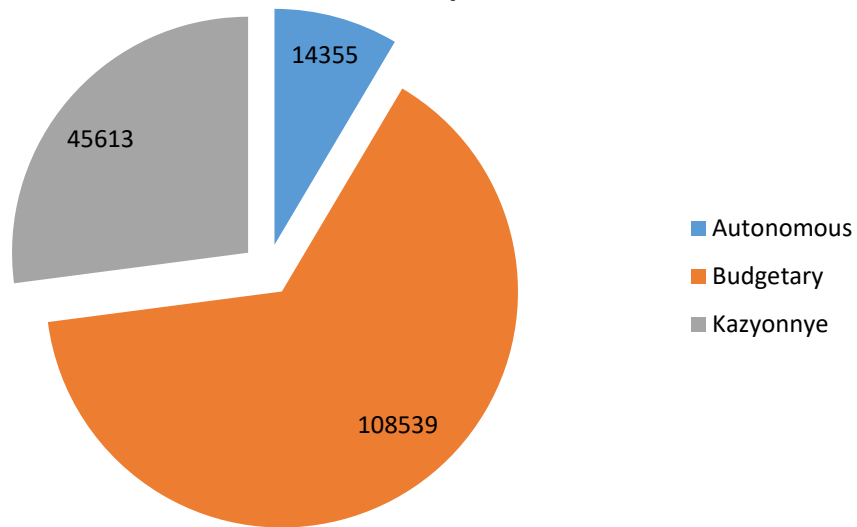


Figure2. Proportion of all types of public institutions in Russia, total

In the Northwestern Federal District (Figure 3):

- 'autonomous' institutions – 1,579;
- 'kazyonnye' institutions – 2,327;
- 'budgetary' institutions – 10,864.

**Figure 3. Public institutions of all types in the Northwestern Federal District, total**

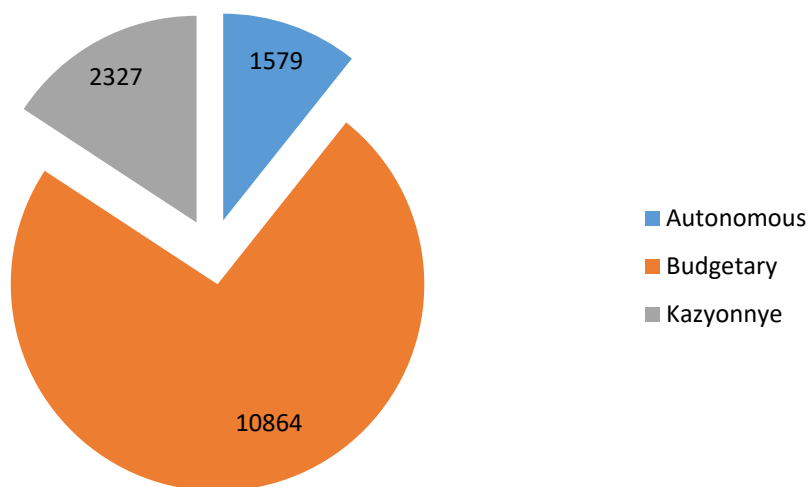


Figure 3. Public institutions of all types in the Northwestern Federal District, total



And finally, in St. Petersburg (as shown in Figure 4):

- ‘autonomous’ institutions – 25;
- ‘kazyonnye’ institutions – 273;
- ‘budgetary’ institutions – 2,734.

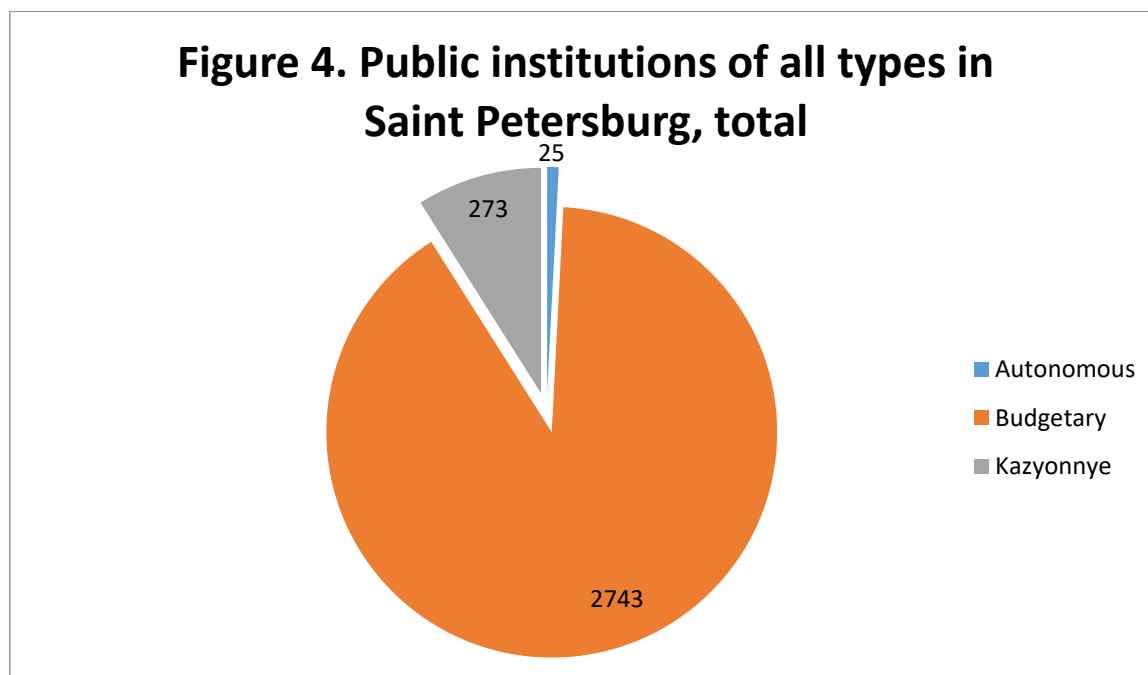


Figure 4. Public institutions of all types in Saint Petersburg, total

As we see, the charts are self-explanatory. Despite certain fluctuations, the ratio remains quite similar on all levels, in that autonomous institutions are very few, ‘kazyonnye’ institutions amount to less than a third, and the overwhelming majority of institutions are budgetary. This means that everything stated above regarding the potential risks and drawbacks of the reform actually refers to the bulk of Russian public institutions and thus *the majority of the Russian nation*.

## Conclusion

To summarize, notwithstanding the fact that, while the transition of all public institutions into the new status has long finished (more than two years ago, i.e. in 2012), the actual transition to the new economic form and the new level of performance of functions for the major part of institutions has not even started, and

probably never will (at least under *this very* reform). The implementation of the reform is going on against the background of traditional Russian inertia, on the lower level of power, and quasi fetishization, on the upper level. One such fetish word in policy papers now is 'efficiency'. After the 'increase of efficiency' of rendering public services through amendment of the budgetary and legal status of public institutions in 2010 (Law №83), the authorities stepped 'one level down', attempting to make their labour force 'efficient' (2013); policy papers display the same problems: the wish to 'make a good job of it' without knowing how.

The reform of public institutions' status is the first well-devised and quite well described attempt to introduce an impetus, instead of penal measures, to slow down economic degradation in the public service sector. However, in the author's estimation, its implementation has, in fact, not started yet. On the contrary, the reform implies too many unexplained, unreasonable risks, which, in the context of the current 'looting economy', easily deface it by their mere existence, and, in the case of implementation, may finally destroy the remains of the social state which Russia declares itself to be, according to its constitution.

It is obviously impossible to conduct national reforms with global aims of lowering public management costs, without any priorities in the state economy's industrial and financial policy. Only when one has set state aims and targets in the sphere of social and economic development, having defined all necessary organizational and administrative resources, having staffed key positions, giving new personnel well-defined descriptions of their aims, can one start harmonizing activity in every agency, using the standards, methods of comparison and analysis of budgetary expenses' efficiency. Yet, efficiency shall not be some abstract function 'efficiency in general' but definite, quantitative, characterizing the level of budgetary expenses to reach a definite result. An example of such specific tasks with specific results are Presidential Decrees as of May 7, 2012. Quality and efficiency of state management can be

assessed only in the context of the attainment of specific aims in social and economic policy.

Interestingly, official documents partly acknowledge this. Let us examine several quotations:

1. *“In the course of implementation of the first stage of this system reform the following problems and limitations emerged, which are to a great extent conditioned by different pace of implementation of the initiatives, both in different industries and in different constituent entities of the Russian Federation: ...formal character of implementation, declarativeness of respective Russian legal standards together with preserving the existing mechanisms of functioning of institutions, their interaction with the authorities and customers”* (Programme for the Increase in Efficiency of Management of Public (state and municipal) Funds for the Period until 2018, approved by decree of the Government of Russia on 30.12.2013 2593-p);

2. *“The task of increasing the quality of providing state and municipal services is being completed slowly. The use of public assignments for provision of public services remains to a great extent formalistic, there is no single method of working out standard costs. Funding of public assignments is mostly allocated on the basis of the achieved.”* (Russian President's Budget message to the Federal Assembly as of 13.06.2013 "On Budgetary Policy in 2014–2016").

Yet, the statement of methodological and executive problems, firstly, is not accompanied by proposed ways of achieving a solution, and, secondly, does not solve the main problem (the first one touched upon in this paper) – the lack of a clear reform concept, on the one hand, and the levelling of really dangerous social risks, on the other (these are two sides of the same coin).

And truly positive measures envisaged by the reform – open access to reports of all budgetary institutions and permission to retain the funds they did not spend as of the end of the year – could be implemented without a breakdown of the whole budgetary

system. So, I must admit that, having studied the reform since its very beginning, I am now rather in favour of leaving the majority of public institutions in the 'kazyonnoye' institution type (the 'old' type) and only changing to 'autonomous' those public institutions which function in the competitive market, where satisfaction of public demand in social benefits is guaranteed by a significant number of independent suppliers/executants. This shall be, if not the only, the main criterion. And it shall not be in the way the Government puts it in its "Recommendations on defining criteria for change of the type of public institutions of constituent entities of the Russian Federation and local institutions taking into consideration their sphere of activity" (approved by decree as of 07.09.2010 № 1505-r), where those criteria are very lax and vague.

To encourage a decrease in the number of 'kazyonnye' institutions, the Order of the Russian Ministry of Finance as of June 29, 2011 N 73n provides for the "Method of assessment of the results achieved by the regions of the Russian Federation in increasing efficiency of public spending and dynamics of those results". As per the evaluation conducted according to this 'Method...', the amount of federal subsidy allocated to the regions on a competitive basis is defined for implementing approved programmes to increase budgetary spending efficiency. Federal indices, which evaluate the results of the implementation of regional programmes to increase public spending efficiency, include the number of such institutions at regional and municipal levels; the fewer of them there are, the higher is the increase in cost-efficiency increase, according to Table 1.

The idea of preserving the notion of 'budgetary' institutions in the reform remains vague and unclear. It is evidently a 'mid-autonomous' type, with no advantages. If it was an experiment, then why not just divide all public institutions into two types ('autonomous' and 'non-autonomous' ('budgetary', 'kazyonnye' – whatever you name them)? What is the point of such a 'mid-autonomous' institution? And when

will this experiment be proclaimed to have concluded with any results? There are no official answers to these questions.

Table 1. Reform stimulation indices on the level of constituent entities of the Russian Federation

Group of indices	Index name	Best value
Restructuring budget sector	Share of kazyonnye institutions in the total public institutions of the constituent entity of the Russian Federation (without governmental authorities)	Less than 5 percent
Public spending efficiency increase at the local level	Share of municipal institutions where all such institutions are either budgetary or autonomous	80 percent and more

Comparing the statuses of ‘budgetary’ and ‘autonomous’ institutions, we can say that there are not so many differences, i.e. these two types do not significantly disagree in terms of the level of economic and financial independence and independence from the state. The main difference is that, unlike their budgetary counterparts, autonomous institutions can have accounts with credit organizations; they are not governed by tough Federal law № 44-FZ on the federal contract system; appointments to the position of the head of an autonomous institution are approved by the supervisory council. Yet, not a single official document provides for the term of ‘elimination’ of the budgetary institutions, which were originally conceived as a temporary form. However, as people in Russia all know, ‘temporary’ things in this country often prove to be the most permanent.

As we can see, the disadvantages of the reform (real and prospective) outweigh its advantages. Public institutions undoubtedly need more economic freedom from inefficient artificial limitations: but certainly not at such a devastating cost or at the

expense of worsening the quality of life of the people. As the President of Russia, Vladimir Putin, rightly stated, these institutions are set up to work for the public, not vice versa (Government Report, 2010).

So, the reform is not working so far. But as for this very reform, regarding most of its provisions, it would not be an exaggeration to state that this fact is for the best.

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## THE CHANGING ROLES OF ACCOUNTANTS IN TIMES OF ECONOMIC TRANSITION

### **Abstract**

This research paper describes and analyses accountants' roles in the times of a centrally planned economy and *perestroika*, as a starting point in the discussion about how the transformation of Russia from one socio-economic regime to another represents an opportunity to consider the dynamics of accountants' roles and their development when society's connections and links are drastically changing.

The laws, rules, regulations, mass media and academic texts, i.e. written texts, on the subject of the responsibilities, duties and rights of accountants in Soviet times and *perestroika* provide the opportunity to describe the expected roles of accountants, based on an interpretation of these documentary materials. Accountants can have different roles under different regimes; they can be influenced in different ways by societal institutions, such as e.g. the state. This article expands the knowledge on the development of accountants' roles in a changing context and represents a fruitful empirical site for understanding the mechanisms behind the changing roles of accountants in Russia due to its unique history and current global situation.

**Keywords:** Accountant, role, centrally planned economy, economic transition, the state

### **Introduction**

Russia has experienced dramatic political, economic and social changes over the last few decades. Moreover, the series of political and economic reforms undertaken

during the last 25 years highlights the transition of the Russian state from one based on legacies from the Soviet system to a modernized economy with a functioning vertical power of command. This paper argues that the Soviet communism legacy period with Gorbachev's *perestroika* represents a fruitful starting point for examining how and why the contemporary Russian state may bring back similar roles to those in Soviet times. Moreover, this article considers that the societal institution of a state as a *hierarchical order* (Puxty et al., 1987) or *regulative pillar* (Scott, 2008), with its coercive institutional mechanisms (DiMaggio and Powell, 1983), can provide an insightful approach to understanding the roles of accountants during Soviet times, by shedding light on present day concerns.

Previous studies have discussed the fundamental shifts that largely reflect the broader socio-political environment (see e.g. Zhang, Boyce, & Ahmed, 2014) or have identified major shifts in the legal and economic environment to trace the effect of these changes on the institutional structure of accountancy (see e.g. Brock and Richardson, 2013). However, when describing the history of accounting, these studies have major focus on how institutional structures (Scott, 2008) shaped accounting education or interacted with various effects of culture on the profession's development. This paper deals with the historical period when the turning point from a centrally planned economy and *perestroika* to a market economy took place. How and why have accountants' roles tackled this drastic societal change in the context in question?

Carnegie and Napier (2002) observe that locating accounting in its organizational and social contexts in historical studies, across both space and time, sheds light on accounting's relevance in more general economic and social contexts. Such interpretive research of accounting studies offers the potential to better understand "the contingent nature of one's own traditions and practices and to assess the impacts of accounting on economy and society" (Carnegie and Napier, 2002, p. 711). A socio-historical approach to studying accounting in the contexts in which it



operates focuses on the history of accounting by paying attention to the circumstances surrounding the emergence and development of accounting, often with the aim of uncovering relations between accounting and society (Fleischman and Radcliffe, 2003). This paper is in line with the claim of researchers, who adopt this approach to accounting history: “We must study accounting not as technique itself, but as element of the social and organizational context” (Napier, 1989, p. 249). Analysis of relations between accounting and the social world can help in understanding how accounting has developed (see e.g. Hopwood, 1992, Carmona, Ezzamel, & Gutiérrez, 1997). It can also aid in providing a more detailed understanding of the processes involved in the interaction between accounting and society.

It should be acknowledged that, in most of the existing literature and studies about the roles of accountants, the notion of ‘role’ is perceived as an element of intra-organizational relations, mostly internal organizational norms and values, and individual expectations. This paper believes that the roles of accountants, seen in terms of a pattern consisting of rules, norms and expectations that are not individual and outside the organizations, are important for gaining an overview in times of societal change. It seems that accountants can have different roles under different regimes; they can be influenced in different ways by societal institutions, such as e.g. the state. Here it is assumed that accountants’ roles change in relation to the context in question.

The laws, rules, regulations, mass media and academic texts, i.e. written texts<sup>19</sup>, on the subject of the responsibilities, duties and rights of accountants in Soviet times

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<sup>19</sup> The role of accountants from the state perspective in real practice in Soviet times and *perestroika* is not within the scope of this paper. Further research into those practising at various times during this period can be carried out, i.e. *biography* – contemporary accounting cannot be understood without reference to the key personalities who have contributed to accounting development and professionalization (Carnegie and Napier, 1996, p. 21). All available evidence can be examined to present an account of the subject’s life and career in the local, time-specific context. Evidence such as personal diaries, memoirs and correspondence can provide insights

and *perestroika* provide the opportunity to describe the expected roles of accountants, based on an interpretation of these documentary materials. The purpose of the paper is to expand the knowledge of the development of accountants' roles in a changing context because it is believed that Russia represents a fruitful empirical site for understanding the mechanisms behind accountants' change of roles, due to its rich history and current global situation.

The remainder of the article is organized as follows. The next section discusses the research method used to collect empirical data. This is followed by a brief background of the historical conditions in order to understand accountants' roles. Then, the expected roles of accountants in Russia during Soviet times and *perestroika* are described, interpreted through the state's written texts. The final part discusses how and why the societal institution of the state casts light on expectations, with regard to the role of accountants, and attempts to explain in what ways these roles are influenced by the state.

### **Research method**

This paper is concerned with the changing roles of accountants in the context of Russia during times of a centrally planned economy and *perestroika*. During this period, the Soviet Union had a state-owned economy, which was regulated by the state. State bodies, i.e. government, councils, ministries, etc., produced all official regulations, including those dealing with accounting and accountants. In discussing the concept of state, Baker and Quéré (2014) cite Miller's *technologies*, consisting of "procedures and mechanisms of government, including laws, rules, and regulations, that are called to deliver goals and objectives of the state, such as regulatory order, uniformity, and efficiency" (p. 294). For the purpose of this article, in order to

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into the mentality of the subject. Candidates for biographical research in accounting include those who demonstrated a passion for writing their own account of the professionalization of accounting and/or their own contribution to accounting development (Carnegie and Napier, 1996).

understand accountants' roles from a state perspective, an analysis of laws, rules, regulations and academic texts has been conducted. These documents provided an important source for analysing the ways in which accountant's roles developed.

The strategy of periodization, institutional change strategy (Lieberman, 2001), has been employed to structure the historical description of state rules and regulations in the context of Russia. In this case, the turning point is the moment at which existing institutions are reconfigured in concrete ways (Lieberman, 2001). Major changes in Russia's legal and economic environment took place when the Soviet regime collapsed. According to Lieberman (2001), "Wars, presidential elections, external price shocks, and regime changes are all examples of important events that may be useful period markers because of their potentially important impact on the outcomes under investigation" (p. 1017). The change from centrally planned regime to market economy through the *perestroika* period represents a distinct marker in this historical investigation.

In order to be able to discuss the state perspective, official governmental acts and documents for the period 1979–1991, dealing with descriptions of the state's requirements regarding accountants' work, have been collected. The electronic database with full access to all legal documents in the accounting field, namely Kodeks ([www.kodeks.ru](http://www.kodeks.ru)), has been searched for the period from 1979 to 1991 to identify legal acts devoted to the organization of accounting work, accountant's responsibilities, duties, and rights.

This paper is concerned with accounting in its organizational and social contexts, following the interpretive perspective of sociology (see e.g. Mattessich, 2008). Atkinson and Coffey (2011) argue that official documents and reports employ language that differs from everyday language use. They recommend that it is more helpful to approach documentary materials by adopting an interpretive standpoint. The interpretation of selected regulations has been carried out, based on qualitative

text analysis. Qualitative analysts (see e.g. Atkinson and Coffey, 2011) pay careful attention to documentary records in contemporary social settings. The text can be literal, consisting of written words. Facts emerge from the text through the process of interpretation. Documents are “social facts” (Atkinson and Coffey, 2011, p. 79), meaning that they can be approached for what they are and for what they are used to accomplish. In this paper, text of laws, rules and academic texts have been regarded as “a part, seeing it in relation to its whole overarching context” (Alvesson and Sköldberg, 2004, p. 62). To describe the accountants’ roles, these documents were selected based on their organizational settings, i.e. hierarchical order of regulations, and cultural values attached to them, i.e. public/professional opinions expressed by mass media and academic texts.

## **Brief historical background**

### *Previous studies*

Research literature on the subject of accounting and its development in the Soviet Union or in the Russian Federation is quite prolific<sup>20</sup>. In their study about accounting reform in Russia, McGee and Preobragenskaya (2005) provide an overview of accounting studies performed in Western countries. Campbell (1963) published a book containing a series of essays on Soviet accounting problems. A study by Scott (1969) describes how Soviet accounting after the 1965 reforms started to place more emphasis on enterprise profitability, helping to move the Soviet economy closer to a Western market model. Bailey (1982) wrote a long historical study of Russian accounting, going back to the thirteenth century. Lebow and Tondkar (1986) describe the development and effectiveness of accounting in the Soviet Union. Motyka (1990) discusses the impact of Western Europe on accounting in Tsarist

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<sup>20</sup> It is acknowledged here that a significant amount of research is devoted to accounting in former socialist countries, providing a good introduction to many issues arising when attempting to convert the accounting system from a centrally planned model to a market model (see e.g. Garrod and McLeay, 1996).

Russia prior to 1800, while Shama and McMahan (1990) review the historical development of accounting in Russia from Tsarist to communist times and also examine how *perestroika* changed the nature of accounting in Russia and other Eastern European countries.

Smirnova, Sokolov, & Emmanuel (1995) describe accounting education in Russia. Garrod and McLeay (1996) edited a book on accounting in transition economies, which provides a good introduction to the many issues connected with the transformation of an accounting system from a centrally planned model to a market model. Richard's (1998) book chapter discussed communist accounting systems in Eastern Europe in general and in the Soviet Union in particular. Enthoven et al. (1998) make it clear that it is by implementing directives and regulations that Russian accounting practices change and develop. High-level laws and decrees are significant if, and only if, the implementation of directives and regulations is in place. Bourmistrov (2001) discusses the development of municipal accounting in transition. Mennicken (2004) and Samsonova (2006) shed light on audit development in Post-Soviet Russia. Timoshenko (2006) describes and analyses Russian central government accounting in times of change. Djatej (2006) wrote an extensive study of the Russian and Soviet history of financial accounting, its legislature and executive decrees and regulations, administrative and organizational structure, important individuals, etc. Alexander, Bychkova, & Sokolov (2006) use *The Soviet Accounting Bulletin*, edited in 1973–1983 by Derek Bailey, to investigate, largely as seen through Bailey's eyes, the concept and role of accounting in general, and the "state book-keeper" in particular, under the Soviet system. Evidently, the list of aforementioned studies is not complete.

### *Centrally planned economy*

The Soviet Communist Party and its leaders held supreme power in politically governing the USSR, where everything (from enterprise to media) was state-owned,

and the state completely controlled the society. The Soviet system had made Russia a major power with a strong industrial base. The Soviet Union was strong in the case of emergencies, but, in normal circumstances, the system condemned Russian people to inferiority (Gorbachev, 2010).

Before 1985, the main instrument for state management of the national economy was the automatic system of planning and management, which tended to combine enhanced computer-based five-year national economic planning with a set of real-time indicators and incentives assisting decision-makers to choose optimally when events would disrupt plan fulfilment. The Central Planning Agency (Gosplan) and associated research institutes acquired and compiled data from all sources, including the State Statistical Agency (Goskomstat) and enterprises on past and current reserves. The information was used to compute preliminary production targets for branches and sectors and for later adjustment and reconciliation. Next, the interbranch and inter-industrial supplies required to achieve targets were compared and rebalanced ad hoc (Rosefielde and Hedlund, 2009).

Concerning accounting and its context, the function of accounting in the Soviet communist context was to satisfy certain information requirements of the centrally planned command economy. As Djatej (2006) asserts, the form and content of accounting reflected the fact that Soviet accounting was determined by the unique requirements of a planned economy. From one perspective, the Soviet national economy constituted a single accounting entity. This perspective explains why Soviet accounting was a unified standardized system of a strict and rigid nature set up by central legislation. The format and content of the financial reports were designed centrally and were compulsory for the whole economy. Accounting regulation and legislation were managed by the Ministry of Finance, which considered the needs of the Central Statistical Office and the Communist Party leadership. Enterprises were required to regularly supply data describing their performance in relation to planned data, such that accounting in many respects served as a basic statistical tool (Djatej,

2006). Accounting was, thus, an administrative tool in central hands in order to manage the economy.

### *Perestroika*

Gorbachev completely transformed the history of Russia in every way – politically, socially, economically, and in other respects. His reforms resulted in the official collapse of the USSR and the birth of a new state – Russia, which, since the collapse of the Soviet Union, has been undergoing a painful process of “self-recovery”, trying to rebuild, amongst other things, its national identity, its system of social order and its economy (Billington, 2004).

Having been appointed General Secretary of the Communist Party in 1985, Gorbachev tried to accelerate economic growth using traditional mobilization campaigns. According to party documents, the intent was to implement fundamental change in every area. In 1987, he embarked on a radical economic reform programme (*perestroika*). He did not reject communist ideology, physical systems management, or state ownership of the means of production, but instead introduced market forces selectively. Coupled with a collapsing economy, Gorbachev saw *perestroika* as an opportunity to return the communist party to greatness. As he puts it:

*What we had to abandon was quite clear: the rigid ideological, political and economic system; the confrontation with much of the rest of the world; and the unbridled arms race [...] We came a long way in a short time – moving from trying to repair the existing system to recognizing the need to replace it. Yet I always adhered to my choice of evolutionary change – moving deliberately so that we would not break the backs of the people and the country and would avoid bloodshed. (Gorbachev, 2010, p. 1)*

For decades, state ownership and total control of enterprise activities represented a main ideological pillar of the Soviet economy. In order to improve the efficiency and

productivity of state enterprises, the party started to reform the highly bureaucratic system of economic relations. In 1985, at a Communist Party plenum, party leaders prepared their plans for economic restructuring and a comprehensive reform programme, outlining two main agendas: the creation of a “socialist market economy” and the stimulation of private forms of business and individual entrepreneurs (Samsonova, 2006).

State regulations during this period were also taken care of. The basic principles of Soviet accounting were stated in the statute “On Accounting Reports and Balances” (dated 29.06.1979). The *perestroika* period of the Soviet state initiated a reorganization of the centrally planned and command economy of the USSR. In 1985, the system of accounting and reporting started to transform gradually, due to the introduction of cooperatives and joint ventures, which were supposed to be guided by market forces both within and outside the Soviet economy. Evidently, transition from a centrally planned to a market-oriented economy caused rapid changes in both the political and economic environments. From 1987 to the end of the Soviet Union in 1991, the Ministry of Finance and the State Committee for Statistics (the former Central Statistics Agency) published hundreds of directives and regulations, outlining set-up procedures and accounting requirements for new business enterprises in the Soviet Union.

However, in spite of the countless rules and regulations related to accounting, issued during *perestroika*, little substance was given to the modernization of accounting in the Soviet Union. Whereas operational decentralization did take place, economic planning and accounting remained highly centralized in the Russian system. The accounting system lagged behind operational changes. Accounting continued to produce reports directed at users concerned with centralized economic planning and control rather than reports useful for day-to-day operations (Sokolov, 1991).



## **State perspective on the role of accountants**

### *Centrally planned economy*

The main accounting regulation (before 1985), using the basic principles of Soviet accounting, was the statute “On Accounting Reports and Balances” approved on June 29<sup>th</sup>, 1979. This regulation defined the procedure for the presentation of accounting reports by all organizations (excluding state budget organizations) to higher organs. The types of organizations required to present financial reports and the frequency with which they had to do this were also determined. In addition, accountants were required to prepare accounting reports based upon the principle of the completeness of making accounting entries. Accountants were obliged by this statute to use only formalized source documents. In addition to the above-mentioned ordinance, the regulation “On Chief Accountants”<sup>21</sup> (dated 24.01.1980 N59) was issued to specify the duties (functions), rights and responsibilities of accountants. This regulation described in detail the expected roles of accountants from the state’s standpoint.

The requirements of the regulation set out the methods by which accountants in Soviet enterprises were bound to abide.

*[...] to ensure the organization of accounting at the enterprises, to control the rational and economical use of material, labour and financial resources, to protect socialist property [...]. (Chapter 1, paragraph 2 of the regulation “On Chief Accountants” from 24.01.1980)*

It was also stated that accountants were directly subordinated to the director of the enterprise. However, accountants were supposed to discuss procedural and

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<sup>21</sup> Chief accountants were senior professionals, responsible for the financial planning, management and allocation of budgetary funds, as well as for the general supervision of the accounting department. Accountants and bookkeepers were directly subordinate to the enterprise director and the chief accountant (Regulation “On Chief Accountants” dated 24.01.1980 N59). Hereinafter, discussion of the roles of accountants will focus on accountants as a group of individuals, without differentiating between their formal status (chief accountants, accountants, bookkeepers, etc.).

methodological matters, related to the recording of transactions and financial statements, with the appropriate administration, ministry, or other superior organ. The enterprise director, with the consent of the chief accountant of the ministry of the industrial branch, carried out the selection and firing of the enterprise's chief accountant. In addition, the regional or central office of the branch ministry resolved disputes between enterprise directors and accountants. Also, under the conceptual framework of accounting provided by the federal organizations, chief accountants:

*[...] had to institute proper accounting procedures and practices, maintain accounting books, and submit accurate and complete reports. (Djatej, 2006, p. 319 citing Weitsman)*

Obviously, the regulation "On Chief Accountants" described the duties (functions), responsibilities and rights of accountants. The regulation mirrored expectations of accountants and interpretations of accountants' role from the state's standpoint. Now, I continue by describing the roles from the Soviet state's point of view.

Amongst the duties (functions) of accountants were the following: the accountant was expected to use data processing automatization to a large degree. In addition, he or she was supposed to ensure the total recording of transactions connected with monetary, inventory and fixed asset inflows and outflows. Moreover, the accountant was responsible for accurately recording all transactions dealing with the costs of production and distribution, as well as the financial results. Accountants were also required to calculate and transfer on time payments to the state budget funds, state social security funds, etc. Besides, they were expected to:

*[...] actively participate in the legal service activities dealing with recording the results of embezzlement and shortage of cash and inventories [...].*

as well as to take part in the analytical activities of the enterprise:

*[...] implementation (jointly with other services) of the economic analysis of enterprise activities and assistance to the line production meetings with identification of internal economic reserves. (Chapter 2, paragraph 10 of the regulation “On Chief Accountants”, dated 24.01.1980)*

Then, the accountant was supposed to prepare and accurately compile the financial statements based upon the source documents and accounting entries. He or she was also to participate in all activities connected with state discipline compliance and the security of accounting books.

During this period, the official daily newspaper of the Communist Party and the Soviet Government, *Pravda*, acted as a mouthpiece for the party. Therefore, publication in this newspaper was considered to be the main message coming from the party. In 1977, a major article devoted to the role of the Soviet bookkeeper was published in *Pravda*. It stated:

*[...] The book-keeper is required to be unremitting and steadfast in the struggle against waste and mismanagement. He is empowered to refuse to act upon and record documents contravening current legislation. The bookkeeper is not a passive official recorder of figures. He is required to appraise correctly the essence of economic processes. The prime responsibility of the bookkeeper is ensuring that stock and financial discipline is observed strictly in all sections of production [...]. (Pravda, 20 April 1977, transcribed in Alexander et al., 2006)*

Thus, the duties of accountants in the regulation “On Chief Accountants” accorded with the aforementioned authoritative statement.

In addition, the accountant was required to monitor thoroughly the acceptance and distribution of inventories. He or she was supposed to ensure the accuracy of salary payments and the setting of official salary rates. The accountant was further responsible for strict adherence to personnel, financial and cash discipline.

Accountants were expected to keep the schedules and procedures for stocktaking of the monetary assets, inventories, fixed assets, payments and liabilities. Moreover, they were required to collect receivables and repay payables in due time. He or she was supposed to control the legality of write-offs of shortages, receivables and other losses. In addition, in cases when enterprises had financial services, the accountants were responsible for the financial, payment and credit transactions, their legality, timeliness and accuracy.

According to this ordinance, the accountant was required to notify management in writing about illegal actions (such as inflating data or 'window-dressing', etc.) and that such actions would constitute a violation of law. Moreover, they were required to refuse to carry out any criminal act. If accountants received orders in writing from management, requiring actions violating regulations or accounting and reporting, then they were obliged to comply but then to inform their superior organization and Communist Party organs (see e.g. Weitsman, 1978, Djatej, 2006).

Further on in the regulation, the rights of accountants were also discussed. As a leader, the accountant was responsible for defining the duties of all members of the accounting department and of assuring that all members knew their range of duties. All services and departments of the enterprise were obliged to follow requirements given by accountants concerning the recording of transactions and reporting practices. Moreover,

*[...] selection, release and transfer of persons responsible for inventories, goods and other valuables (cash officers, stock keepers, etc.) is approved by the chief accountant. (Chapter 3, paragraph 18 of the regulation "On Chief Accountants" from 24.01.1980)*

In addition, it was demanded that all contracts and agreements, dealing with the release of goods or other valuables from the enterprise and with the setting of the

official rates of salaries and paying of bonuses, were signed by the accountant (Sokolov, 1991).

As the official newspaper, *Pravda*, maintained in an article:

*Bookkeepers can truly be called state controllers. Upon them have been bestowed wide powers in the field of accounting and control for the proper expenditure of monetary and material resources. (Pravda, 20 April 1977, transcribed in Alexander et al., 2006)*

Thus, accountants had the right to require the enterprise director, all heads of departments, line managers, etc. to ensure the safety of socialist property. They had the authority to revise overstated rates of use of valuables and to change, if necessary, stock-measurement devices. In addition, he or she had the right to inspect all departments with the purpose of checking how monetary, inventory and other valuables were recorded, stored and consumed. Moreover, the accountant also had the authority to propose the reduction of bonuses for those heads of departments, line managers, etc. unable to provide accurate source documents, primary recordkeeping and other requirements needed for the organization of accounting and control (see e.g. Kozlova et al., 1995).

In addition, accountants' responsibilities were described in this ordinance. Accountants were supposed to have control over an adequate accounting system, and, if he or she did not fulfil this condition, then a charge of carelessness in maintaining the accounting system and misrepresentation of financial reporting could be brought against him or her. Accountants were responsible for recording transactions concerning accepted, stored and consumed monetary, inventory and other valuables, in compliance with the applicable rules. They were also answerable for the timely and correct adjustment of bank account transactions and payments of debtors and creditors. The accountant was intended to be in control of write-offs, shortages, receivables and other losses. He or she was responsible for conducting

timely inspections and revisions in the departments. It is quite clear that accountants were answerable for the accurate preparation of the financial statements and accounting reports. In addition,

*[...] the accountant along with the enterprise director is responsible for keeping the accounting system in accordance with economic and financial rules, for the timely collection of penalties from the heads of departments and line managers, and for the timely presentation of monthly, quarterly and annual accounting reports. (Chapter 4, paragraph 23 of the regulation "On Chief Accountants" from 24.01.1980)*

According to this regulation, on receiving from officials of the enterprise instructions infringing current legislation or violating the authorized methods of performing accounting and reporting work, the accountant was obliged to notify the enterprise director in writing. Should the accountant then receive a written directive, confirming the original irregular instruction, he/she was required to advise higher organizations and organs of national control. Upon receipt of an instruction to perform criminal action, the accountant was required to immediately notify the higher organization and, in appropriate cases, the investigatory organs. In performing the role of state controller, the accountant was expected to behave like a mastiff dog (sniffing out inefficiencies) and a watchdog (drawing attention to irregular goings-on) (Alexander et al., 2006).

The aforementioned ordinance presented an authoritative statement, from the state perspective, concerning the role of the Soviet accountant. Most of all, accountants were required to maintain state and financial discipline. As, the official newspaper, *Pravda*, described:

*The Soviet bookkeeper is a protagonist for the economic policy of the Communist Party and the Soviet Government. It is the sacred duty of this great contingent of specialists to direct its efforts to the successful realization*

*of the tasks adopted at the XXIV Party Congress, to struggle to implement the state plans with the least amount of labour and material expenditures, strict observance of the regime of economy and to cherish and augment their social responsibility. (Pravda, 20 April 1977, transcribed in Alexander et al., 2006)*

Nevertheless, Enthoven, Sokolov, & Kovalev (1994, p. 8) state that:

*The financial results of business activities were calculated carefully although the management and employees of an enterprise were not particularly interested in the results.*

Furthermore, the results had no practical effect on the economic and financial position of the enterprise and its employees. Incidents of falsification of profit calculation were quite rare in the centrally planned economy because the amount of profit did not influence staff incomes.

Accountants were also required to work as agents for the superior organization and control agencies. These authorities closely monitored and controlled the activities of the accountants, in particular the chief ones. To maintain efficient control and exercise administrative control, party officials and superior organs monitored the process of appointing chief accountants and the size of their compensation. Thus, the chief accountant ended up in a position where his loyalties and responsibilities were divided between the enterprise and superior organizations (see e.g. Weitsman, 1978; Djatej, 2006).

During the Soviet legacy, accounting had been described thus:

*the establishment of the presence of the thing, the measurement and registration of its quantitative and qualitative aspects and provides continuous information about all spheres of economic activities and social life* (Alexander et al., 2006, citing Bailey)

At that time, the accountant was fulfilling the aims of national economic accounting, which:

*presents a qualitative reflection, and the particular features of economic activity for the purposes of control and guidance, [...] to take into consideration and to control the fulfilment of the plan<sup>22</sup>, to disclose and analyse the reasons for hindering or promoting its fulfilment, to uncover untapped reserves in respect of an under-fulfilled plan and to promote in every possible way an increase in efficiency of social production.* (Mazdorov, 1972, p. 122)

So, from the state's standpoint, the accountant was expected to fulfil the plan with the least consumption of allotted resources, thereby yielding a "profit" on the realized output (see e.g. Alexander et al., 2006). From the point of view of the planned economy, the accountant's role was not just as an official recorder of figures. He or she was expected to appraise the essence of the economic processes, in other words, represent the economy in numerical terms.

The accountant's role in Soviet times provides evidence that this role was not only useful in making reasoned choices and interpreting plan fulfilment but also, as the state regulation emphasized, in behaving like a mastiff, sniffing out inefficiencies, and as a watchdog when drawing attention to irregular goings-on (Alexander et al., 2006). This picture portrays the role of the accountant from a state perspective

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<sup>22</sup> Five-year plan, i.e. the National Technical and Economic Plan



during Soviet times as nothing other than a bookkeeper with some privileges and without many possibilities to be of use in providing a professional service.

### *Perestroika*

However, at the beginning of 1985, when *perestroika* arrived and the transition from a planned economy to a market-oriented one was announced, accounting also became subject to restructure. In January 1987, the Soviet Government approved regulations for joint venture operations (decrees N48 and N49 of January 13<sup>th</sup>, 1987)<sup>23</sup> and, in May 1988, adopted the Law “On Cooperatives”. In 1990, the Law “On Enterprises in the USSR” came into effect. This law made the rights of state-owned and private enterprises equivalent. In addition to presenting issues concerning the establishing, organization and reorganization of state-owned and privatized companies, the law contained articles dealing with accounting issues: the necessity to conduct operational accounting and bookkeeping in enterprises, the responsibility to observe accounting and tax regulations, and to participate in legalized government inspections for tax purposes. In June 1990, the Soviet Union published its first tax law (N1560-1). It incorporated the emerging forms of joint ventures and private enterprises. This law also established the institution of tax inspectors.

As a consequence of the great economic changes, accounting had to be changed. For central government, the aim of this change was to contribute to the fulfilment of the objectives of the transition process, namely to operate in the same way as in Western capitalism. Under such circumstances, the system for accounting and reporting originally developed for Soviet state-owned enterprises was not entirely suitable for new Soviet enterprises, including joint ventures. Accounting reports

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<sup>23</sup> Decree of the Council of Ministers of the USSR No. 48 “On the formation and activities of joint ventures, international associations and organizations of the USSR and other countries which are members of the Council for Mutual Economic Aid”; Decree of the Council of Ministers of the USSR No. 49 “On the formation and activities of joint ventures with the participation of Soviet organizations and companies from the capitalist and developing countries”

were not considered appropriate for providing information relevant for the management of the enterprise as a market entity (Djatej, 2006). Therefore, from 1987 to the end of the Soviet Union in 1991, the Ministry of Finance and the State Committee for Statistics (the former Central Statistics Agency) published hundreds of directives and regulations, outlining set-up procedures and accounting requirements for new business enterprises in the Soviet Union.

The adoption of legislation regulating the activities of joint ventures opened up the Russian market for foreign direct investments. At this time, the term 'auditing' was first mentioned in governmental decrees issued in January 1987<sup>24</sup>, regulating the activities of joint ventures (Samsonova, 2006). These documents, in addition, contained articles stating that reporting data about the company's activities, its assets, as well as information on profits and losses, was required to be presented to the participants of joint ventures, in accordance with its constituent documents. Then, joint ventures were supposed to ensure the compliance of their operational, financial and statistical accounting with the accounting regulations for Soviet state enterprises. Furthermore, based upon Soviet legislation, joint ventures, with the help of accountants, were required to keep records and to ensure the reliability of accounting data and reports. Finally,

*Checks of financial, economic and commercial activities of joint ventures on the correctness of tax calculations are to be carried out by a Soviet self-financing audit organization for a fee. (Chapter 5, paragraph 46 of Decree of the Council of Ministers of the USSR No. 49 from 13.01.1987)*

In the late 1980s and early 1990s, the Soviet Government, led by Gorbachev, lowered the trade barriers between the Soviet Union and Western countries and ratified

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<sup>24</sup> Decree of the USSR Supreme Soviet N6362-XI "On formation and activities of joint ventures, international organizations and associations with participation of Soviet and foreign companies, organizations and institutions" and decrees N48 and N49.

regulations on joint ventures and cooperatives to also support the formation of new – private – forms of businesses (Mennicken, 2004). The appearance of new types of business, such as cooperatives, corporations, unions, commercial banks, and public organizations, as well as the privatization of state-owned enterprises, resulted in the need to present enterprise management with the financial reports for decision-making processes, instead of supplying the higher organs with information about costs and production. Through the ratification of these regulations in response to new economic conditions, the role of accountants gradually shifted from that of state controllers to one of preparers of financial reports for decision-makers.

### **Discussion and conclusion**

This paper draws on research paying attention to the organizational and social contexts in which accounting operates (Hopwood, 1978; Miller, 1994). It is concerned with the reasoning surrounding accountants' roles during the period of change from one socio-political and economic situation to another, as the starting point for further discussion.

We can begin by discussing how the state institution context influenced accountants. The context of the centrally planned economy and *perestroika* has been previously described, and it is believed here that the interface between state and social process is an essential part of the reflections about the role of the state in defining the role of accountants.

Several studies discuss 'the state' concept in accounting research (see e.g. Puxty et al., 1987; Rose and Miller, 1992; Cooper et al., 1989; Bergevärn, Mellempvik, & Olsen, 1995; Miller, 2001; Bourmistrov and Mellempvik, 2002; Cooper and Robson, 2006, etc.). Most studies of accounting and government are connected with the debate regarding the use of power and the relationship between 'the state' and interest groups by e.g. Cooper et al. (1989), Puxty (1990), Roslender (1992) or

governmentality studies by e.g. Miller and O’Leary (1987, 1994), Miller (1990), Foucault (1991), and Burchell, Gordon, & Miller (1991).

The guiding principle of the state, or “hierarchical control” (Puxty et al., 1987), is considered a significant element in the formation of the roles of accountants and compliance with the regulative pillar. When Scott (2008) describes the regulative pillar, he states that it plays a stabilizing role through the prescription of formal and informal laws and rules that regulate, monitor and govern activity. It provides a legally sanctioned basis of legitimacy and works primarily through coercive mechanisms in the form of laws and rules, together with sanctions for non-compliance, which together create order through regulation (Zhang et al., 2014). Coercive isomorphism (DiMaggio and Powell, 1983), which is one of the institutional mechanisms corresponding with the regulative pillar, led accountants in Russia to adopt expected roles, due to the pressures exerted by state regulations, government legislation, mass media and academic texts. By this, the state sought to hold accountants accountable for their behaviour and ensured that accounting reports and information were made available for state bodies. The organizing principle of the state ensured that the accountant undertook all accounting procedures and fulfilled their roles in accordance with current legislation.

It seems that accountants are influenced in different ways by societal institutions, such as the state, under the centrally planned economy and *perestroika*. This study argues that the state places its expectations on accountants’ roles in relation to the context in question.

The previous chapter describes very thoroughly that, in Soviet times and during *perestroika*, when everything was centrally planned, the actions, functions and day-to-day roles of accountants were also planned and documented. The empirical evidence shows that the state authorities regulated almost every step of the accountants’ work and their duties via detailed instructions, recommendations, etc.

Such a situation can prove problematic, since overall controlling by manuals, recommendations, etc. runs the risk of manuals growing obsolete or inadequate when changing circumstances occur. However, during Soviet times, these regulations were issued on a regular basis, although not more often than once in 10 years. Empirical evidence shows that stability ensured productivity in accounting work.

Soviet state ideology and the economic policy of central planning required that accountants took an active role as state controllers. The role of the accountant, from the state's perspective, was to have detailed overall control and the ability to provide continuous information on all spheres of the economic activities of the enterprises concerned.

The evidence presented in this article indicates that all the efforts of Soviet enterprises at that time were aimed at the implementation of the five-year plans. The best role of the accountant, from an enterprise point of view, was considered to be one of assisting in any possible way to fulfil the aforementioned task. Accountants were supposed to be on the alert concerning any possible deviations from the techno-economic plans. The accountants' ability and skills in presenting particular accounting decisions, based on their economist, engineer and mathematical education<sup>25</sup>, aimed at implementing the five-year plans, made them very valuable employees.

Evidence also indicates that the right and opportunity to access information at any time concerning the economic activities of an enterprise offered accountants a certain position of power. They were the only ones with access to all accounting information and were obliged by the ministries to control the fulfilment of the plan.

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<sup>25</sup> For further discussion on features of accounting education in Soviet times and *perestroika*, see Dybtsyna (2011).

In addition, one attribute of holding the position of power was the signing authority related to financial and cash documents. The necessity to countersign all such documents gave accountants the opportunity to be aware of all the economic activities of the enterprise, even in cases when it was not directly connected to the registration of the transactions. Documents, signed by the director and countersigned by the accountant in the majority of cases, could be used to commit illegal or improper actions and transactions, such as fraud, forgery, embezzlement, etc. Therefore, accountants were supposed to be very careful what, when and where to sign. Since the main responsibility for all economic activities rested with the director, the relationship with the director concerned was important for accountants. Keeping good relations was a way for the accountant to avoid the role of 'silent witness', when forced to sign illegal accounting documents.

Soviet times and the *perestroika* period show the role of the accountant, from the state's point of view, as the well-informed, mechanical engineer-economist with accounting knowledge, able to keep accounts whenever and whatever happens, to have control over state property at any point in time and to present to the respective ministry numerous reports in detail about any deviations. All of this was supposed to assist in achieving the goals of the national economic plan. This means that central planning concerning state regulations, educational programmes and the efficient production of enterprises also penetrated into the roles of accountants. In other words, the role of the accountant was somewhat like an accounting engineer, as he or she had to be able to fulfil techno-economic tasks with accounting knowledge (Dybtsyna, 2011). The evidence presented in this paper shows that the main day-to-day roles of accountants were defined by the goals and ideology of the national industrial and economic policy. Being an accountant was perceived as being very mechanically oriented and representing the enterprise and its activities in terms of numbers.

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## HOW STATE FINANCING INFLUENCES REGIONAL ECONOMY DEVELOPMENT

### **Summary**

The paper discusses both the social and economic development of regions of the Russian Federation and the way in which the state regulation influences the system “Centre-Region”. The paper also maintains a historical approach to the system of prognosis and strategic planning. This is followed by budget level estimation for successful state regional policy, with the relevant assessment of political mechanisms to be used to solve regional problems.

**Keywords:** Regional policy, budget level, reformation of financing, regional typology.

Economic and financial development policies in the regions of modern Russia are being influenced by complex factors such as market forces, public interests, social sphere, globalization, schemes of transnational corporations and monopolies, and local, national and regional specificities. It seems that only the governmental guidance system, with its immense organizational, financial, political and intellectual resources, would be able to take all these factors under control. Thus, it may be possible to create a relevant background for economic development, to protect people against economic and financial crises and social instability and to ensure the survival of society and the implementation of major social and regional projects.

Analysing the challenges of the reformation period, it is now time for us to comment on the results of the first 10 years of reforms, especially in the public sector.

By 2001, the new budget system had appeared, the new Budget and Tax Codes had been adopted, and the economy had shifted towards a treasury system of budget execution; tax policies focused on a systematic expansion of production; stock market infrastructure was established. Thus, a set of measures and reforms required for the development of a market economy were implemented. But these were just the first steps: there was a continuing necessity to proceed with the reforms in the banking sector and in the financial markets; in the production and real sector of the economy; in the education, health and social sphere, let alone in pension reforms. Of particular importance, as a tool for preserving the real achievements in the market economy, should be the reform of the administrative and judicial system, which quickly slipped to structural changes and bureaucratic runaround, without any real result or creation of structures and "institutions" to ensure the progress of reforms in budgetary and economic development (RANEPA, 2012).

In modern Russia, realization of governmental interests and control has taken the shape of regional policies, understood as a complex of specific goals and principles of governmental measures in the field of regional development (Shastitko, 2002). These objectives can be expressed as follows:

- geopolitical goal, meaning the economic control and economic presence in every region of the state, the pursuit of economic development, settlement and conservation of the population;
- preservation and strengthening of the uniform economic space, facilitation of the economic ties between the regions, avoiding economic separatism;
- control and maintenance of the necessary territorial proportions and territorial structure of the economy;
- formation and maintenance of the acceptable economic conditions in every region; there should be no regions where business is unprofitable;

- promoting the regions' own economic base for social development, including the tax base; reduction in unjustified differences in the level of socio-economic development between the regions, gradual increase in the minimum social standards throughout the country;
- optimal application of the regional resources and capacities to cope with national problems.

Another part of the target setting is provided by the regions' own social and economic policies, which are based on regional development strategies. In many ways, they are common to most of the regions or to their groups. They include:

- ways to overcome crisis in the region, stabilizing the situation and creating proper development conditions;
- identification of priority areas for further socio-economic development, based on the new economic strategy;
- development of regional domestic markets through encouraged production and consumption of local products, proficient use of local resources;
- development of the regional infrastructures and improvement of economic conditions in the regions;
- establishing the minimum levels of energy and food security in the regions;
- determining the optimal division of powers between the regions and the federal government in the areas of ownership, financial relations and foreign economic activities.

These objectives and principles should be reflected in the structure and specific areas of budget expenditures related to regional development. Table 1 below shows the basic data characterizing the role of the federal budget in the accomplishment of regional policies.



Table 1. Federal spending for regional policies in 2015-2017. \*

Types of expenses	% of total
Fund for Financial Support of Constituents of the Russian Federation	
including:	
Grants for levelling the fiscal capacity, subsidies for "northern supplies", subventions for electricity tariffs, compensation for shortfall in incomes to large regions (Moscow, Moscow region, St. Petersburg)	50-55
Support for the regional road sector	10-12
Support for the closed regions and single-industry towns	5-6
Support for the Republic of Crimea and Sevastopol city	3
Social compensation to the regions for implementation of the federal laws	27-30
Funding of the regional programmes	5-6
Other expenses	1
Total expenses	100.0

\* Approximate ratio

The state budget of the Russian Federation is therefore one of the most effective tools of regional policies and the solution of regional problems in the current economic situation. The process of formation of the state budget and construction of inter-budgetary relations shall be based on the typology of the 85 regions of Russia and, in particular, the existence of various types of regions, differing in terms of financial criteria or financial sufficiency and the ability to "fill in" their own budgets. These are the four types of regions categorized by the above criteria:

- regions that are permanent major contributors to the federal budget and extra-budgetary funds with a significant surplus in their financial balance ("donor regions") - 8 regions;

- regions with a financial basis sufficient to satisfy the current needs of the budget consumers and to finance extra-budgetary funds (self-sufficient) - 8 regions;
- regions that need constant financial aid to cover up to one third (and sometimes more) of their needs (regions-recipients); - 52 regions;
- regions with low levels of economic development, unable to finance their own needs and which survive mainly due to allotments from the federal budget - 17 regions.

Estimating the federal budget funds allocated to regional development, it should be noted that their overall share in the budget expenditures has reached 20% (Granberg, 2003). The major part of these costs is provided by the federal fund for financial support of the constituents of the Russian Federation, with its grants for levelling the fiscal capacity of the regions (over 90% of all funds). Transfers are annually received by 72–77 regions. This fund subsidizes the delivery of goods and equipment for the northern territories and subventions for the payment of electricity tariffs. Another important part is the compensation fund, from which the regions receive subventions for child support benefits and subsidies to the budgets for the social protection of disabled people. The third largest source is represented by the grants and subventions allotted to nearly 40 closed administrative territorial units (Federal Law №126-FZ, 1997) (CATU), the Republic of Crimea and the town of Sevastopol, the town of Baikonur (Kazakhstan), Sochi and others. "Financial aid provided to the budgets of the other levels" encompasses the major multi-billion-dollar funding to the regions to finance their road sector. The Regional Development Fund was formed within the federal budget, which provides grants for the implementation of federal target programmes of regional development (Budget code №145-FZ, 1998). This is a very important instrument of governmental regulation of regional development. Based on

national interests, the budget annually provides financial support for the implementation of several dozen regional programmes.

Let us consider the four important areas of reforming the public sector and assess their impact on regional development, using the example of the North-West Federal District of the Russian Federation.

1. Reforming the budget system and budget process is seen as the necessary condition for improving the investment attractiveness of regions of the North-West Federal District; this process is influenced by economic and political reasons.

- Economic reasons include the ongoing fiscal policies failing to create favourable conditions for investment and sustainable economic growth in the regions.

- Political reasons include the budgetary system and budgetary process of border areas (Kaliningrad, Pskov, Leningrad, Murmansk regions, Republic of Karelia), which must simultaneously meet the requirements of the Government of the Russian Federation and the Ministry of Finance of the Russian Federation, [8] presented to budgetary policies of the constituents of the Russian Federation and creating preconditions for cooperation between the region and the European Union. St. Petersburg and the Leningrad region, as advanced regions, can participate in the implementation of Russian practices (the best experience) in the field of fiscal policies, as well as the promotion and dissemination of innovations in the North-West Federal District and Russia as a whole.

2. The variety of models and options for reforming the regional financial systems.

These include the main directions for reforming the regional finances, recommended by the Government of the Russian Federation, and using best practice to increase the revenue side of the budget in the donor regions and recommendations to reform inter-budgetary relations based on the European experience.

3. The possible approaches to developing a regional financial reform model are considered, as existing financial and economic constraints, as well as the lack of authority, impede the full use of the recommendations of the Government of the Russian Federation in the regional reform model.

Regional experience of reforming is seen as a source of the replenishment and modification of tax and budget codes and, based on selection of pilot regions, reforming of inter-budgetary relations (St. Petersburg, Vologda, Kaliningrad, Leningrad region).

4. Possible consequences, potential problems and risks of reforming the budget system and budget processes in the regions.

Half-hearted decisions and curtailment of individual elements of the reform of regional development led to a reduction in the fiscal capacity of the North-West Federal District (NWFD) and failure to fulfil the goals adopted by the regional perspective documents (Saint Petersburg: Petrostat, 2014). The deficit in regional budgets is increasing. Due to the uncontrolled build-up of public debt, the Finance Ministry proposes amending the budget and tax codes.

According to the Ministry of Finance, the total budget deficit of the Russian regions in 2013 more than doubled and amounted to more than 670 billion rubles (Moscow: Rosstat, 2014). The question of accomplishment of regional budgets in 2014 is becoming most important for balancing the whole budgetary system, and, while the budget deficit in 2013 could be covered by remnants of resources accumulated by the constituents of the Russian Federation in previous years, in 2014 such an opportunity is gone.

The main reasons for the deterioration in financial performance of the Russian regions, according to Standard and Poor's (S&P) analysts, are Presidential Decrees, adopted in May 2013, providing additional sources of costs associated with the increase in public sector employees' salaries. These salary increases led to an increase

in the running costs of the regions by an average of 7% in 2014. Another reason for the fall in regional incomes is the decline in income tax collection, due to the formation of consolidated groups of taxpayers and accelerated depreciation of investment.

Now we proceed with the current situation, through the example of the North-West Federal District of the Russian Federation.

The decline in proceeds from income tax is observed in almost all regions of the North-West Federal District (except St. Petersburg), and an increase in proceeds from income tax is provided at the expense of property tax and personal income tax. The unfavourable market conditions currently existing in the steel, timber and agricultural industries exacerbate the situation for enterprises in the regions of the North-West Federal District. The inclusion of North-Western enterprises such as "Vorkutaugol", "Karelian Pellets" and "Alcon" into the consolidated group of "Severstal" Holdings has had an impact on the budget revenues of the Republic of Komi, Karelia and the Murmansk region. The benefits from the "Severstal" group consolidation have been enjoyed by the Vologda region, but the scale of budget problems there (a deficit in 2014 of 4.065 billion rubles) is so great that the efforts of a single taxpayer will not be enough.

Nevertheless, compared to the other federal districts, the indicator of expenditures coverage by own revenues in the North-West Federal District is very promising (93.1% at the end of 2013; 89% according to the report for 2014) (Saint Petersburg: Petrostat, 2014). In St. Petersburg in 2013, revenues exceeded expenses only due to a high tax collection. So, corporate income tax exceeded the plan by 8.8% (8.3 billion rubles). In addition, in 2013, Saint Petersburg received from the federal budget more than 5 billion rubles for the development of its transport infrastructure (Saint Petersburg: Petrostat, 2014; Economy of Saint Petersburg and Leningrad region in 2013, 2014). As a result of 2014, the consolidated budget of St. Petersburg was accomplished with

a surplus of 28.3 billion rubles. Regional governments' priorities now include the social sector, while the allocation of funds for the development of the budgets and the promotion of business is secondary. Indicators of the targeted programmes of governmental support for small and medium-sized businesses show that regional funding either declined or rose slightly in 2012–2013. The decline occurred in St. Petersburg, in the Republics of Karelia and Komi, Vologda and Arkhangelsk regions and in the Nenets Autonomous Area. In such a situation, the need for borrowed funds increases in the regions. Over the past four years, the state debt of the North-West Federal District has more than doubled, and, as of December 1, 2013, amounted to 141.7 billion rubles. On average through the Russian Federation, the debt in 2013 amounted to 47% of the constituents' own revenues. In 2014, the average debt load at the national level rose to 63% in terms of "debt / own revenues". The proportion of regions with a debt level higher than 50% could reach 70% (Saint Petersburg: Petrostat, 2014; Economy of Saint Petersburg and Leningrad region in 2013, 2014).

The North-West regions of Russia experiencing the highest debt load in 2014 were Vologda region, the Republic of Karelia and Novgorod region, in which the national debt reached respectively 92, 83 and 74% of their own annual budget revenues. Approximately 70% of the revenues was the national debt of Kaliningrad and Arkhangelsk regions, about 60% - of Pskov region. The lowest rates were expected in the Leningrad region (9%) and St. Petersburg (5.2%) (Saint Petersburg: Petrostat, 2014).

In the context of economic stagnation, the regions tend to fall short on the budget expenditure in order to reduce the magnitude of the deficit (see Table 2). The remaining sources – bond issues (internal and external), bank loans, or contributions from the federal budget – are not available in all regions. The opportunity for external – the cheapest – borrowing is limited in the regions due to EU sanctions against the leading Russian banks. According to the decree of the Government of the Russian Federation "On requirements for the minimum level of credit rating of constituents

of the Russian Federation", the constituent of the Russian Federation, who wishes to use external borrowing, should be rated not lower than nationwide. This rating should be confirmed by the two international rating agencies, accredited by the Ministry of Finance (the register of accredited international rating agencies includes Fitch, Moody's and Standard & Poor's). These criteria are currently met only by Moscow and St. Petersburg.

In 2013-2014, regions of the North-West Federal District increased the number of auctions to attract bank loans: Murmansk region has attracted more than 10 billion rubles of bank loans (at the end of 2011 there were none), Arkhangelsk about 10 billion, Leningrad 800 million, and Pskov region more than 4 billion rubles. Experts believe that the regions can enter the bond market to reduce interest payments and extend the maturity of liabilities. In line with that, St. Petersburg budgeted for 2014 the possibility of issuing 33 billion rubles of bonds.

Table 2. Parameters of the budgets of the North-West Federal District \*

Constituent of the North-West Federal District	2013, report bln. rubles			2014 report, bln. rubles		
	Incomes	Costs	Deficiency (surplus)	Incomes	Costs	Deficiency (surplus)
Arkhangelsk region	58.7	66.9	- 8.2	75.4	82.8	- 7.4
Vologda region	40.7	46	- 5.3	56.4	60.7	- 4.3
Kaliningrad region	37	47	- 10	62.7	61.8	0.9
Leningrad region	71.4	82.4	- 11	122.3	108.9	+ 13.4
Murmansk region	42	50.3	- 8.3	57.7	67.4	- 9.7
Nenets Autonomous Area	13.8	13.6	+ 0.2	19.1	19.7	- 0.6
Novgorod region	24.6	30.3	- 5.7	28.1	32.7	- 4.6
Pskov region	23.5	30.9	- 7.4	30.1	32.4	- 2.3
The Republic of Karelia	24	28.8	- 4.8	34.1	37.8	- 3.7

Komi Republic	52.7	63.7	- 11	65.8	76.7	- 10.9
St. Petersburg	408.7	393.4	+ 15.3	433.6	448.2	- 14.6

\* Rosstat data (Moscow: Rosstat, 2014; Saint Petersburg: Petrostat, 2014; Saint Petersburg: Petrostat, 2015)

Table 3. The debt load of a number of constituents of the North-West Federal District of the Russian Federation \*

Constituent of the North-West Federal District	Public debt, bln. rubles		Public debt to own income ratio, %	
	2013	2014	2013	2014
Vologda region	28	34	92	102
Leningrad region	5	22	9	35
Murmansk region	7	21	22	58
Nenets Autonomous Area	No public debt	12	-	10
Novgorod region	12	17	74	91
The Republic of Karelia	13	17	83	93
Komi Republic	11	26	27	49
St. Petersburg	21	54	5	14

\* Rosstat data (Moscow: Rosstat, 2014; Saint Petersburg: Petrostat, 2014; Saint Petersburg: Petrostat, 2015; Economy of Saint Petersburg and Leningrad region in 2013, 2014)

The Ministry of Finance is going to expand the range of indicators determining the debt sustainability of the constituents of the Federation, to encourage more responsible borrowing policies. The list of debt sustainability indicators of the regions adopted by the budget code of the Russian Federation is insufficient, according to the



Ministry of Finance. In particular, there is no provision for a common approach to the procedure for admission of the constituents of the Russian Federation on the various borrowing markets. The Ministry of Finance registers the borrowing conditions only on bonds of regions; this practice does not apply to conditions for attracting bank loans from regional banks by constituents of the Russian Federation. Information on the debt load of constituents of the North-West Federal District of the Russian Federation is presented in Table 3.

It is necessary to fix debt sustainability indicators on the normative basis, including such as the ratio of the debt of the constituent of the Russian Federation to gross regional product, the ratio of the annual amount of public debt repayment and servicing to tax and non-tax revenues, and limitation of the maximum share of the short-term debt in the total debt. It is expected that the Budget Code will include the rule that, if arrears of the budget debt of the constituents (regions) exceed 10% of the revenues of the regional budget, the constituent will be obliged to conclude an agreement on measures to restore solvency, with the Ministry of Finance of the Russian Federation to approve the recovery plan. If these measures do not lead to a reduction in the outstanding debt, it could become the basis for initiating the process of dismissal in respect of the head of the constituent of the Russian Federation. Another measure proposed by the Ministry of Finance is the introduction, in the Budget Code, of the requirement to develop at the regional level and to adopt, along with the regional budget, the main directions and focal points of debt policies for a period of at least three years, and to submit this document to the legislative authorities, along with the budget plan and the governmental programme for implementation of social and economic policies in the region.

The fiscal crisis in Russia has aggravated the contradictions between all levels of the budget system.

Regions are experiencing an acute shortage of resources. Economic growth in Russia in 2014 was close to zero, due to the large impact of the international situation, and this will continue until Russia keeps creating its resource potential through the sale of natural resources. Effective use of funds is critical for the regions to ensure their development prospects.

In 2012-2014 all regional budgets have retained their social orientation. In some, the social part reaches almost 100%. It is a vicious circle: the government increases salaries to public sector employees and regains some of these funds in the form of personal income tax. Regions' debts grow and it is unclear how the loans will be repaid. Expenses for investment programmes and budgets do not grow proportionally to social commitments. A part of budget funds remains in state bank accounts at the end of the year. These are the unrealized projects: no roads constructed, no subway stations, unaccomplished welfare projects. The budget deficit of St. Petersburg in 2014 was forecast to exceed 63 billion rubles, but in fact the surplus reached 28.5 billion rubles. But the method of covering the gap between the revenues and expenditures for the previous year with unused budgetary funds may prove ineffective ([spbstrategy2030.ru](http://spbstrategy2030.ru)).

The excess of expenditure over income was incorporated into the budgets of all regions of the North-West Federal District for 2015. The growing deficit is largely due to a decrease in the pace of social and economic development against the backdrop of commitments undertaken in accordance with the decisions of the federal authorities. Not every constituent of the Russian Federation can afford to cover its budget deficits by borrowing; it is rather an opportunity for the large regions, such as St. Petersburg, with the experience of bond issues (Saint Petersburg. Key facts, 2013).

The growth of the regional budgets' deficit is natural in general, as the main sources of budget revenues – income tax and personal tax – have been declining. The pace of social and economic development stagnates – enterprises lose profits, reduce wages

and, accordingly, the amount of tax deductions. Revenues from excise goods are also declining in the regions (alcohol, tobacco, petrol). The budgets of the regions of the North-West Federal District in 2015, despite the crisis, remained socially oriented, and social obligations made up the bulk of expenditure, so that in the Republic of Karelia the level of social spending on the draft budget was as high as 92%.

St. Petersburg, too, kept its budget socially orientated, and in 2015 it was planned to increase spending on all social issues – education, health and social policies. Against this background, the level of expenditures for housing and roads is decreasing, and the growing gap between income and expenditure is compensated for by loans and under-fulfilment of the previous years' budgets. Obviously, it is impossible to infinitely adjust the budget and borrow. In the meantime, the burden of servicing the national debt is increasing, but, in the structure of total costs, this figure is not so significant. In St. Petersburg, 2.2 billion rubles were incorporated for servicing state and municipal debts in 2014, but this figure was hardly noticeable in the overall cost structure. The increase in the debt load has a negative impact on regions' investment attractiveness ([spbstrategy2030.ru](http://spbstrategy2030.ru)).

Financial plans developed by the regions, including St. Petersburg, nowadays need to be supported by anti-crisis programmes or anti-crisis plans for growth of regional economies. This is also necessary to ensure that funds from federal and regional budgets for specific projects are used under well-structured and understandable programmes.

The Russian government approved a draft budget for 2015-2017. The document was developed in difficult macroeconomic and geopolitical conditions. Nevertheless, we managed to avoid the imposition of sales tax, to find funds for the Republic of Crimea and the town of Sevastopol, to form anti-crisis provisions and to provide for public sector employees' salary increase.

In the draft of the Ministry of Finance of the Russian Federation, revenues for 2015 were declared in the amount of 15.05 trillion rubles, while expenses were 15.53 trillion rubles; 30 billion rubles were allocated for additional reserves, and the deficit was 0.6% GDP. At that, there was no VAT increase, nor the introduction of sales tax (EPT), and the problem of income of constituents of the Russian Federation was addressed by finding internal sources within the existing tax system. The Russian government was forced to tighten its approaches to the budget, with the oil price over the next three years averaging less than US \$ 70-85 per barrel. But now oil prices are even lower – 50–60 US dollars per barrel, and the demand for oil may decline due to slowing economic growth in the largest consumer countries.

The basic socio-economic forecast prepared by the Ministry of Economic Development of the Russian Federation for three years, and already twice revised, suggests that GDP growth in 2014 is expected at 0.5%, in 2015 – 1.2%, in 2016 – 2.3%, in 2017 – 3.0%. Inflation in 2014 is projected at 8.9%, in 2015 – in the range of 5–7%, in 2016 – 4–5%, in 2017 – 3.5–4.5%. Industrial production growth in 2014 is expected to reach 1.7%, in 2015 – 1.6%, in 2016 – 1.7%, in 2017 – 2.1%. The decrease of investment in capital assets in 2014 is projected at 2.4%; in 2015–2017 it is expected to grow by 2.0%, 1.6% and 2.9%, respectively. The outflow of capital in 2014 is projected at 130 billion US dollars, in 2015 – 50 billion US dollars, in 2016 – 30 billion US dollars, in 2017 – 20 billion US dollars. Statistical observations of November and December 2014 confirmed the increase of 10–15% in the inflation rate and an increase in prices averagely above inflation for basic essentials.

The most difficult regional problems include:

- instability of the regional and local budgets;
- limited fiscal powers of the regional authorities and local authorities;
- dependence of regional and local budgets on the annually set proportions (ratios) in splitting the federal taxes;

- reduction in tax base for the filling of the regional and local budgets due to the ongoing centralization of the main budget-generating taxes at federal level;
- unclear delineation of expenditure responsibilities between budgets of all levels due to incompleteness of the process at the federal level;
- overloading of regional and local budgets with obligations imposed by federal legislation without providing sources of funding;
- imbalance of resources and liabilities of the consolidated budget and, consequently, the problem of selective financing of budget expenditures;
- tax indebtedness.

Regional and local governments are overwhelmed by the obligations imposed on them by the federal legislation, without the provision of the necessary funding sources \*(Federal Law №131-FZ, 2003). Thus, the bulk of costs of regional and local budgets, including salaries in the public sector, as well as funding for a network of public institutions, are governed by federal regulations. At the same time, the federal budget does not compensate for the actual budget expenditures of the regions. Subventions and subsidies allocated from the Federal Compensation Fund provide for only 50% of the funding needed for implementation of the Federal Law "On social protection of disabled persons in the Russian Federation", while implementation of the Federal Law "On veterans" is fully entrusted to the regions.

The following are the most important goals of the regional authorities relating to the efficiency of state and municipal management (Khodachek, 2012):

- institutional reform, promoting effective owners – business entities – in different sectors of the economy;
- creation of the consistent legislative and regulatory framework for business activities in new conditions;

- implementation of anti-crisis measures, promotion of enterprise restructuring, economic restructuring;
- reforming the financial sector, creation of a favourable macroeconomic environment for producers;
- promoting the development of an efficient market infrastructure, beneficial for the real economy;
- facilitating the development of competition and de-monopolization, active regulation of natural monopolies;
- protection of regional producers;
- regulation of the population's incomes, providing for the economic and financial foundations of social stability;
- regulation of the monetary sphere, control over maintenance of the financial equilibrium of the goods and services market;
- normalization of common conditions for all economic entities.

Specific directions and tasks of governmental regulation of economy and finance in the regions and municipalities include:

- development of proposals for the region's economic development strategy and medium-term socio-economic policies;
- implementing measures to ensure balanced and proportionate social and economic development of the region, finding complex solutions for regional problems;
- identification of measures to revitalize and restructure enterprises, economic revitalization of various entities in municipalities;
- working out measures for Antimonopoly Policies;

- elaboration of proposals on tariff policies, particularly in the housing sector;
- development of investment policy measures to improve the investment climate and attract investment, preparation of proposals for the development of mechanisms to manage large investment projects;
- implementation of industrial development strategies in the region, formation of financial-industrial groups, inter-regional and agro-industrial co-operation;
- definition of measures for the effective functioning of regional infrastructure, energy, transport;
- development of measures to comprehensively address the region's social problems, maintaining stable living conditions;
- socio-economic monitoring of the region, identification, analysis and evaluation of regional and local issues;
- socio-economic assessment of the budget and medium-term fiscal policies, working out measures for the development of the tax base and tax policies;
- implementation of proposals for coordination and cooperation of the regional administration and municipalities with companies, banks, business entities;
- definition of measures for more efficient territorial organization of the regional economy, interaction of regional and local authorities;
- preparation of proposals for improvement of the regional legislation in the financial and economic spheres;

- development of measures to improve cooperation of the region with the federal agencies, foreign trade and inter-regional cooperation.

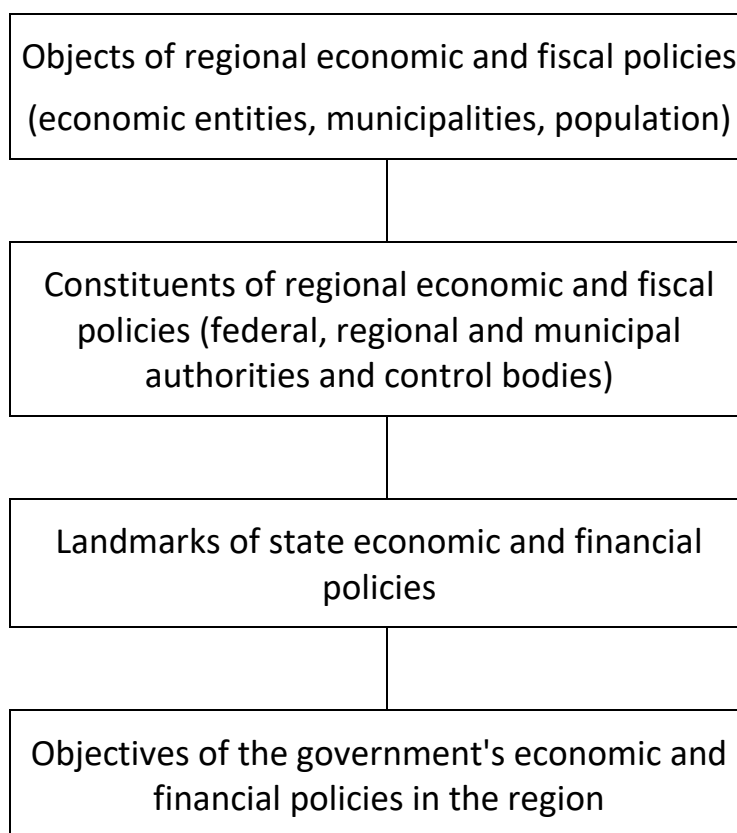


Figure 1. Scheme of implementation of regional economic and financial policies in the sphere of state and municipal control in the region

The sequence of stages in formation and implementation of the regional economic and financial policies in the sphere of governmental and municipal management is shown in Fig. 1 and is based on the following principles:

- a clear statement (qualitative distinctness);
- quantitative distinctness;
- targeted orientation (addressees and recipients to be clearly indicated).

## Conclusion

"The concept of development of inter-budgetary relations in 1999–2001" was aimed at improving the efficiency of budget spending and the equilibrium of budgets of different levels, as well as increasing budget revenues.



Implementation of the concept was negatively influenced by lack of equilibrium between the financial resources and the appropriate powers of the regions. Difficulties arose in the division of powers between the budget and funding organizations of the federal and regional level in the regions. The disadvantage of inter-budgetary relations was the so-called unsecured federal mandates, when the powers based on Federal Law 122-FZ were transferred to the regional and local levels without adequate funding (2004). In 2000, over 100 directions within powers transferred to the regions were not provided with funding, which amounted to more than 7% of GDP. The current situation with formal decentralization of budget spending leads to uneven fiscal capacities of the regions and municipalities. The difference in the fiscal capacities of rich and poor regions is as high as 50 to 100-fold. In 2001, the Ministry of Finance of the Russian Federation adopted the "Programme of fiscal federalism in the Russian Federation for the period up to 2005", which was aimed at the further development of inter-budgetary relations. The objectives of the programme were as follows:

1. Improving the budget structure of the Russian regions;
2. Reduction of unfunded mandates and the division of powers;
3. Allocation of revenues to budgets of different levels;
4. Improving financial management at regional and local levels.

Federal Law 131-FZ "On general principles of local self-government in the Russian Federation" (2003) formulates the basic principles of inter-budgetary relations. It identified the division of expenditure powers and financial responsibility levels – between the centre, regions and municipalities. Disparate sizes of tax bases do not allow the reduction of differences in levels of socio-economic development in the regions of the Russian Federation. Measures aimed at reducing regional disparities and aligning fiscal capacities deprive regions and municipalities of any interest associated with the development of their own tax base.

Since 2010, budget allocations have been interrelated with the target programme principle of allocation and the use of budgetary resources. First came the federal target programmes of social and economic development in some regions, which later turned into state programmes, a part of the mechanism of implementing decisions regarding the prospective socio-economic development of regions: concepts, programmes, strategies worked out for at least three-year fiscal periods or for longer stretches – from 5 to 15 years (Granberg, 2003).

The development of inter-budgetary relations allowed the:

- achievement of greater centralization of budgets' expenditures and revenues;
- reduction in the financial independence of regional and local budgets;
- improvement in the mechanism of inter-budgetary relations;
- increase in the responsibility of various control bodies for providing budgetary services.

Assessing budgetary reforms in the regions and federal centre, it should be noted that, without increasing the level of responsibility, fiscal discipline and financial independence, it is impossible to pursue the development of the regions and local authorities. Federal Law 172-FZ "On the strategic planning in the Russian Federation", adopted in June 2014, has determined the list of strategic planning documents, terms and conditions for the development of regional social and economic development programmes and has defined cycles of planning and forecasting for the current period and for medium- and long-term perspectives. In this connection, we feel the necessity to adjust regional perspective documents.

Challenges to be faced shortly by the Russian regions include the growing deficit in regional budgets, the unclear situation in the distribution of funds, and distortions and imbalances in regional budgets. Particularly urgent is the problem of the lack of

coordination between regional development programmes, as well as sectorial strategies and the business strategies of large corporations.

Regarding the prospects of regional development, we must firstly point out measures to reduce administrative barriers to doing business, as well as issues about the sustainability and efficiency of regional finance reforms, based on using the best domestic and foreign practices.

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## PERFORMANCE MEASUREMENT IN THE RUSSIAN PUBLIC SECTOR: DRAWBACKS AND CHALLENGES

### **Abstract:**

The purpose of this paper is to study performance measurement according to the changes in public sector reform by focusing on performance-based budgeting in Russia. One of the reasons of this study is the every citizen demands greater understanding of where their tax rubles go and spend. This paper suggests that the construction process of performance measurement should be aligned with outputs and outcomes of budget policy. Subsequently, we aim to investigate the latest Russian reforms in evaluation and measurement systems for public sector. The main research materials for this paper are based on data from surveys and follow-up interviews of Russian budgetary managers and accountants at mostly local authority level. The survey result sets priorities and weighted some indicators to the measurement of effectiveness in the public sector. Texts and contents from different

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sources such as financial annual reports and budgetary entities' websites provided insightful and interesting findings. In addition, the research result lightens the most important drawbacks and challenges facing during the public sector performance measurement.

**Keywords:** public sector key performance indicators (PSKPIs), budget policy, performance measures, outputs, outcomes, inputs.

## **Introduction**

Every citizen demands greater understanding of where their tax rubles go and how they are spent. "Citizens expect accountability and transparency. They expect to have easy access to details on how jurisdictions are using funds and how well departments and agencies are performing. Linking data on available financial and human resources to the current performance level of services gives citizens a multi-faceted view of services and performance, while providing elected officials with an evidence-based budgeting tool" (Phillips, 2013, p. 71). So, "Responsiveness and citizen engagement are common themes among public management scholars in performance measurement, e-government, as well as public budget and finance" (Melitski & Manoharan, 2014, p. 40). For this reason, it is important to understand how social welfare fits into the conventional set of performance indicator distinctions. Hereby, "Government performance measures should be clearly defined and remain stable over time" (Bosin, 2012, p. 40), while "Standard typologies of indicators generally posit three broad levels of indicators – inputs, outputs and outcomes" (Reid, 2008, p. 4). This three-level hierarchy of indicators according to author's interpretation is shown in Figure 1.

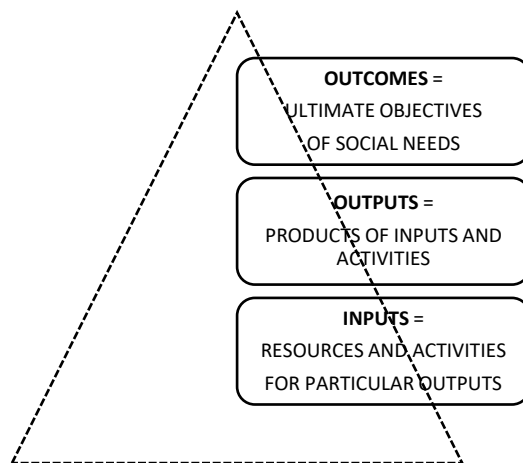


Figure 1. General levels of performance indicators

In addition, a useful typology of these indicators may be one that “subdivides them into two broad sets: (1) rules of the game and (2) descriptors of capacities of the various agents involved in a given governance system” (Reid, 2008, p. 7). Performance measurement is only one of the management tools. The basis of this position is simple: if the organization is complex and consists of many different components, evaluation of this activity should be complex and multifaceted. It has been said that the public sector cannot improve what it does not measure, especially given the “significant reduction in government funding with increased community demand for quality services” (Hoque, 2008, p. 468). Public-sector key performance indicators (PSKPIs) need to be based on a comprehensive system of indicators (Modell, 2005; Curristine, Lonti, & Journard, 2007) and criteria for the public sector, adapted to the strategic goals of public policy (Rhodes et al., 2012; Phillips, 2013; Cordery & Sinclair, 2013).

There is a very large body of literature on indicators. On 22nd August 2014, one attempt alone to find research papers on the ABI/INFORM Global database, using the search terms “(Performance measurement) AND (public sector OR government) AND ftany (yes)”, gave us 14061 results on these words. Despite the extensive literature on this topic, there is relatively little evidence that the contributions of governance dimensions to public sector performance actually determine the quality with which a

particular governance system function requires careful, systematic and replicable measurement. The indicators system should provide evidence on “how well that system is achieving each of its functional objectives. Such indicators capture the extent to which the immediate objectives of specific institutional reforms are being achieved. More specifically, such indicators measure aspects of organizational behavior and practices whose variance reflects the extent to which a particular governance system is achieving its various functional performance objectives” (Reid, 2008, p. 9). As monetary value creation is not a relevant measure for budgetary entities, “These organizations are encouraged to measure and manage their performance in pursuit of their non-financial mission...Accounting measures are a common basis to performance reporting” (Cordery & Sinclair, 2013, p. 198).

Many researchers point out that “Differences in policy interpretations can make it difficult to clearly define performance measures, particularly outcome measures” (Bosin, 2012, p. 40), because government organizations (as well as budgetary entities) are invariably connected to multiple internal and external institutions, such as government, the media, communities, politicians, and the global economy (Guthrie, Olson, & Humphrey, 1999; Modell, 2005; Hoque, 2008). Most budgetary entities need a clear, precise statement of purpose and a description of the work assignment, in conjunction with readily identifiable responsibility for the quality of their work (Stevens, 1984). In this case, one of the main effectiveness criteria should be an assessment of how well they manage to achieve outcomes and/or outputs according to NPM, despite the fact that “There is a paradox associated with using outcome data as a basis for making decisions about future resource allocations” (Melitski & Manoharan, 2014, p. 40). Also, governance facilitates, rather than directly delivering, both outputs and final outcomes, bearing in mind that “One needs to employ an additional typology of indicators in order to be able to shed light on both (a) what factors contribute to improving the performance of any given governance system, and (b) what impacts those governance systems have on both outputs and outcomes



of government policies and programs, as well as how those impacts are conditional on other factors (e.g. context)” (Reid, 2008, p. 4).

We have chosen to study the changes in public sector performance measurement by focusing on performance-based budgeting in Russia. The rhetoric of these reforms under NPM promises increased efficiency of public sector organizations and, in this sense, the rhetoric also promises modernization of the public sector (Antipova, 2014; Antipova & Bourmistrov, 2013). “The ideas of NPM have been observed in many countries. Their adoption and existence does not necessarily mean that the potential contribution of NPM is easy to realize, nor does it mean that they are accepted” (Carvallo et al., 2006). We have used the budgetary entities’ managers as an exemplar to explore performance measurement of the Russian public sector. Russia has made efforts to implement NPM ideas but remains resistant, for a variety of reasons. Our study is concerned with the development of a simulation model of a system of common indicators for the whole of the public sector, similar to the system of national accounts (SNA), which can be used in any country, regardless of the authorities there. SNA works in any country and is a system of indicators across the whole country. We pay attention to the development of an indicators system to assess the public sector, which will operate in any public sector, regardless of the management system, like SNA, but on a narrower level. The model is only being developed using expert method, based on the intuition and experience of the authors in the process. We are currently conducting only a qualitative case study of the possibility of creating a system of indicators across the public sector as a whole. This paper continues with a brief introduction of the theoretical approaches to public-sector performance measurement by focusing on performance-based budgeting in Russia. The next part describes in more detail the methodology of the public sector performance assessment. The paper discusses and concludes with some considerations to be taken into account by developing Russian performance measurement for the public sector.

## **Methodology**

The absence of performance monitoring systems in Russia prompted this series of interviews to explore the key performance indicators of the public sector. To extend and deepen our previous research (Antipova, 2014; Antipova & Bourmistrov, 2013), we have analysed theoretical and realistic indicators from public sector managers and accountants. For this purpose, we developed a questionnaire, consisting of several questions, which were important to characterize the attitude of Russian public sector reforms. The one-page questionnaire was designed to be relatively short but informative. It was composed of 16 questions, only seven of which are considered in this paper. The remaining eight questions were not taken into account, as they were unsuitable for this study. For example, one of the unsuitable questions asked about the degree of GFSM knowledge.

Interviews, lasting about 10–15 minutes, were conducted with each participant before the beginning of the competence improvement courses. The purpose of these interviews was an open discussion around indicators' assessment results to obtain practitioners' own interpretations. After completing the questionnaire and interviews, the completed questionnaires and interview notes were again thoroughly analysed.

The questionnaire was distributed to 82 respondents (vs 13 in previous study – Antipova, 2014) during a workshop and follow-up interviews. The seven surveys took place on 11.07.2013, 07.10.2013, 28.10.2013, 25.11.2013, 31.01.2014, 14.02.2014, 23.04.2014 in Perm (Russia) and consisted mostly of practising local-level authorities' managers and public sector accountants from different types of organizations, such as educational establishments (e.g., colleges, universities, schools), healthcare institutions, employment institutes, etc. Finally, 74 completed (vs 82 distributed) questionnaires were received (90%). Because it is quite difficult to handle a lot of

questionnaires manually, we designed and installed a computer programme to count the surveys' results.

Firstly, we asked general questions about age, experience, type of entity funding, budget and scope. Basic information about all the respondents in these surveys is provided in Table 1.

Table 1. Total number of responses in seven surveys

Age			Experience in a budget area			Type of organisations			
Younger than 30	Between 30 and 50	Older than 50	Less than 5 years	Between 5 and 15	More than 15 years	Autonomous	Budgetary	Agency	Other type
19	43	12	17	41	16	17	23	30	4

Funding budget			Scope							
Federal	Subject of Federation	Local	Government management	Municipal management	Healthy	Culture	Education	Social protection	Employment	Another type of activity
3	31	40	3	22	17	3	19	1	1	8

The majority of respondents work in an agency (40%) and budgetary entities (31%), with between 5 and 15 years' practical experience (55%), and are aged between 30 and 50 years (58%). It should be noted that 81% (60 of 74) of the respondents had received higher education in Economics.

We then asked (in Table 1 of the questionnaire) about the significance of the most important (in the authors' opinion) indicators. These indicators were chosen as a result of decades-long research and many interviews with professional public sector managers and accountants in the setting of a competence improvement course. Views in the survey were recorded under the following 10 indicators: (1) the social significance of the entity; (2) the accessibility of rendering services to the population; (3) the quality of rendered services; (4) financial result; (5) the duration of service

delivery; (6) resource endowment; (7) the share of the financing to buy fixed assets; (8) the level of assets acquired by the budget; (9) the share of unused fixed assets in total assets; and (10) the number of PSKPIs used in the evaluation. These indicators were marked on the questionnaire, and participants were required to rate them on a five-point scale. The surveys were then subdivided into two parts, according to performance indicators: by the authors' opinion and by the respondents' opinion. There were two tables in the questionnaire: Table 2.1 and Table 2.2, the first of which consisted of an assessment of the authors' chosen PSKPIs. An example of a completed Table 2.1 is presented below.

Table 2.1. Assessment of proposed indicators on five-point scale by one of respondent

	<b>Public Sector Key Performance indicators</b>	<b>1 (not important)</b>	<b>2 (fairly important)</b>	<b>3 (middle important)</b>	<b>4 (important)</b>	<b>5 (the most important)</b>
1	The social significance of the entity				V	
2	Accessibility of rendering services to population			V		
3	Quality of rendered services				V	
4	Financial result					V
5	Duration of service delivery					V
6	Resource endowment				V	
7	The share of the financing to buy fixed assets					V
8	The level of assets acquired by the budget				V	
9	The share of unused fixed assets in total assets				V	
10	The number of KPIs used to evaluation			V		

As a result of respondents' answers, we counted an average rating for each indicator represented in Table 2.1. The average ratings of these indicators, after seven surveys, are shown in Figure 2.

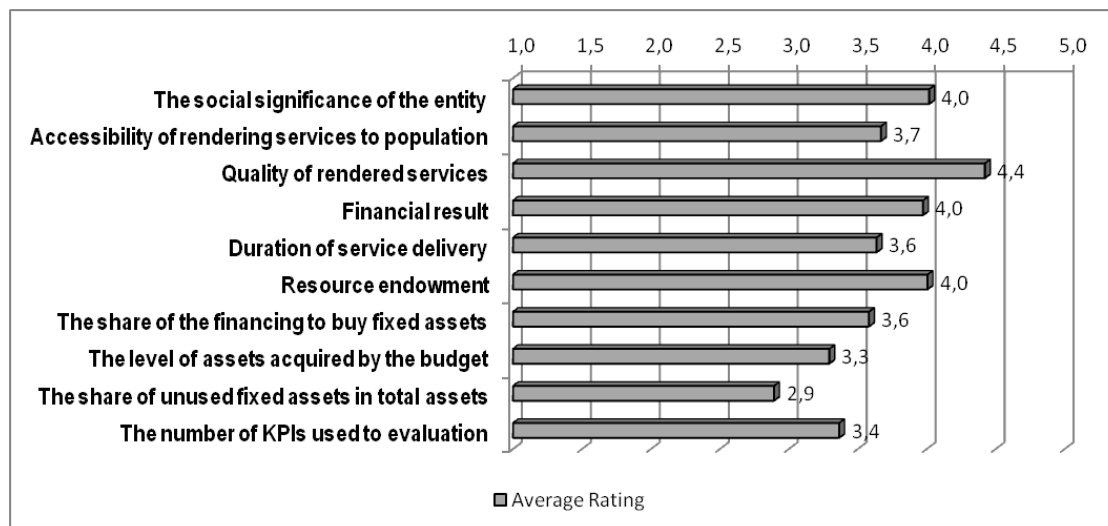


Figure 2. Rating of entities' PSKPIs.

As can be seen in Figure 2, the highest rating of all is given to the quality of rendered services (4.4), followed by social significance of the entity (4.0), financial result (4.0), and resource endowment (4.0). It seems that the public sector must offer people more quality services and they have to start demanding better opportunities from their government. Social significance should be used to encourage public sector entities to perform their services more effectively. It is also interesting to notice that, despite the fact that the number of respondents increased (82 vs 13) compared to previous research (Antipova & Antipov, 2014), the most important indicators remain mostly the same: quality of rendered services (4.5 vs 4.4), followed by social significance of the entity (4.3 vs 4.0) and financial result (4.3 vs 4.0).

Finally, in Table 2.2 of the questionnaire, we asked about the significance of the most important (in the respondents' opinion) indicators. Respondents should be determining the extent to which they perceive a need for PSKPIs and any difficulties which may arise in compiling a schedule of such indicators. The respondents noted that the focus should be wider than just the usual financial figures. In their opinion, the PSKPIs of public services should reflect the level of satisfaction with these services. In addition, the quality of public service has no less significance, as well as the duration of this service delivery. It is necessary to observe that it was not evident how to take such an initiative forward, with different views on the most appropriate body

to be responsible for their development. They agreed that the indicators would be an extremely useful management tool, with the potential to increase the quality of service. On the other hand, they were concerned that the indicators can be used as a discrimination tool (for removal of bonus, different sanctions, dismissal, etc.).

Table 2.2 shows the PSKPIs determined by respondents. There could be any number of PSKPIs, but no less than three were required. An example of a completed Table 2.2 is presented below.

Table 2.2. Respondents designed indicators and its assessment on five-point scale

	<b>Public sector key performance indicators</b>	<b>1</b> (Not important)	<b>2</b> (Of little importance)	<b>3</b> (Of medium importance)	<b>4</b> (Important)	<b>5</b> (Most important)
1	Number of entity's customers				V	
2	Quality of delivery services				V	
3	Share of total funding used for rendered services					V

As a result of seven surveys, 265 indicators were proposed from all respondents. Many of these indicators were simply repeated and written in other words or taken from the working instructions. During the surveys, the following drawbacks were pinpointed:

- someone just did not want to answer the questionnaire. They considered it non-useful, not worth their effort;
- someone forgot to mark their choice of answer, which led to difficulties in the results and the rating calculation;
- some people responded differently on different days. For example, on 30.06, during a preliminary survey, someone assessed "social significance" at 5 and on 11.07 at 3, while "financial result" was firstly assessed at 3 and then at 5;
- they offered indicators, the significance of which they evaluated as non-important;

- they used to work with mainly offered by them indicators and there is nothing new in them head does not come.

Nonetheless, we chose some interesting indicators and have arranged them in order of their ranking. The selected and sorted indexes, according to the authors' interpretation, are shown in Table 3.

Table 3. The most interesting proposed respondents' indicators

Name of indicator	Rating
Coverage of the population by public sector services	5
Socialization of disabled children	5
Index of children's health for kindergarten	5
Coverage of fostered children in difficult life situations	5
Prestigious institutions	5
Cleanliness of territories	5
Electronic workflow	5
Financial motivation of employees	5
The importance of institutions in the field	4,7
Quality process of service delivery, timeliness of services	4,6
The quality of the accounting, the timeliness and accountability of reporting	4,5
Delivery of equipment	4,4
Availability of human resources	4,3
Effectiveness of work with citizens	4,3
Accountability and transparency of public sector information and documentation	4
Demand for the public sector services by the population	4
Condition of the property complex	4

Equitable distribution of budget	4
Fundraising	4
Timeliness of budgetfunds	4
Legality of the income and expenditure	4
Share of non-settled contracts for a certain period	4
Level of explanatory work	4
Participation in international projects	4
Effectiveness of the protection of citizens' rights	4
Public awareness	3,7
Effectiveness of control measures	3,5
Turnover of staff	3
Volume of tax arrears	3
Effectiveness of judicial protection	3
Effectiveness of institutions	1

Indeed, it is extremely important to know the assessment indicators' frequency, estimated in Table 3; sometimes it changes the pattern of significance. We calculated the indicators' frequency and obtained the data regarding some indicators shown in Table 4. We do not present the full result, due to limited space in the paper.

Table 4 data shows that "Quality process of service delivery, timeliness of services" has a rating of 4.6 but a frequency of 15, with 20.27% of respondents. Therefore, this indicator is more important than e.g. "Prestigious institutions" despite the lower ball (4.6 vs 5.0).



Table 4. Frequency of indicators

Name of indicator	Rating	Frequency	Percentage
Coverage of the population by public sector services	5	1	1.35
Socialization of disabled children	5	2	2.7
Index of children's health for kindergarten	5	2	2.7
Coverage of fostered children in difficult life situations	5	2	2.7
Prestigious institutions	5	1	1.35
Cleanliness of territories	5	2	2.7
Electronic workflow	5	1	1.35
Financial motivation of employees	5	8	10.81
Quality process of service delivery, timeliness of services	4.6	15	20.27

## Discussion

Through the research, we found several drawbacks and challenges.

One problem cited is the cost in terms of data collection and analysis; many budgetary entities lack this specific expertise and must employ consultants to assist them. A further challenge is the difficulty in attributing performance to a specific budgetary entity. Perhaps “The largest challenge to performance measurement is attribution. This may increase the ability of a collaborative group to claim attribution – it should bring about a better understanding of working together to achieve outcomes. Nevertheless, future research is urgently needed into how participatory methods such as outcome mapping can be achieved operationally and subsequently reported at an organizational level” (Cordery & Sinclair, 2013, p. 206). However, when the budgetary entity works with others towards more complex goals, such as economic and community development or advocacy, isolating a specific budgetary entity’s success or failure for attribution is very difficult. Sometimes it is impossible to identify

one single reference framework for performance measurement adaptable to all types of budgetary entities. Given this, “Each reality has unique characteristics that can not be incorporated into standard structures” (Gori & Fissi, 2014, p. 115). What is more, any performance evaluation system must take into account the fact that performance is the result of effective activity. So, one of the practical drawback in the Russian evaluation models lies in the problem of linking performance indicators that must objectively reflect the dimensions of budget funding. Consequently, budgetary entities are often afraid to report bad news in case it affects their future funding. Moreover “Any performance result that does not meet its expected target undergoes careful review. Decisions on future funding can be based on current data rather than on past funding trends. Arriving at this point was not a quick or easy journey...” (Phillips, 2013, p. 71). It must be borne in mind that lack of differentiation in performance evaluation is also a very clear drawback factor. In addition, unless experimental methods are used to isolate a research group and a control group, attributing any outcome in a beneficiary’s life to a specific budgetary entity intervention will also be challenged. However, the need remains for budgetary entities to show the difference they make in their communities, to be clear about the outcomes they are working towards, and to use performance frameworks to utilize scarce resources effectively. This has been supported by Lee and Fisher (2007), who found that outcome measurements remain a challenge, particularly when the expected impact on beneficiaries is influenced by external environmental factors, which are outside the budgetary entity’s control.

Some drawbacks related to an understanding of what the essence of effectiveness is and to the fact that the list of indicators was not always accurate.

## **Conclusion**

Through the questionnaire, we were able to deduce the weight of some performance indicators in the public sector. In particular, we found several drawbacks and

challenges while performing the surveys: lack of specific public sector expertise; attributing performance to a specific budgetary entity; lack of differentiation in performance evaluation; dimensions of budget funding; choosing the research group; non-understanding the essence of questions or evaluation (assessment); accurate list of indicators; claiming attributions; computerization of surveys' results.

Although the data was not too great, the study led to an understanding of how effectiveness is seen by budgetary managers and how measurement systems should be structured, in their view. Also, this study's result helps to clarify what sorts of things have to be measured. The result highlighted that public sector effectiveness cannot be developed and discussed without taking into account the issue of state and budget strategy and policy, and special attention is needed when comparing effectiveness in different organizations. Also, the result of this study will allow comparisons of the PSKPIs among different budgetary areas. As a result of decades-long research, it was concluded that such a system of indicators should be aligned with the outputs and outcomes of budget and social policy and welfare. However, we must bear in mind that governance facilitates rather than directly delivers both outputs and final outcomes.

In Russia, the development of a state performance evaluation system is still at an initial stage, because detailed action-implementation law regulations have not yet been issued. While a raft of legislation has been delivered, the system of performance measurement and evaluation in Russia remains mostly on paper. This system is based on police assessment rather than on implementation. There is a coherent police-management focus, but it is disconnected from actual performance management.

Finally, to develop a Russian performance measurement for the public sector, we have the following ideas for future research:

- design and install a clearly defined comprehensive universal computerized performance evaluation system, including constant systematic monitoring of how the

system is effective and acceptable for each budgetary institution. Also, this system must be flexible and adjustable to meet public needs;

- optimize a realistic budget process to make accountability and transparency explicit and understandable for each citizen;
- establish an easy, distinct, and overall accounting and control system for the public sector;
- effectively train and certificate civil servants for performance purposes. An untrained staff may not be interested in performance measurement or may disagree that it is necessary. It is essential to clearly communicate with staff about what effectiveness is, what managing for results entails, and the benefits of linking resources to performance.

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## THE METHODOLOGICAL FOUNDATIONS OF BALANCING SOCIOECONOMIC AND BUDGET PLANNING IN RUSSIA'S REGIONS (THE CASE OF SAINT PETERSBURG)

### **Abstract**

The paper considers the methodological foundations of balancing socioeconomic and budget planning employing the principles of standardization and regulation of the state budgetary services. It concerns the case of St. Petersburg and the adaptation of the citizens' quality of life standards, such as standards of living, and also the budgetary financing standards.

**Key words:** strategic planning of region's socioeconomic development, budget planning, methodology of balance strategizing.

### **Introduction**

During the last 10–15 years, the practice of strategic socioeconomic planning has spread in the regions of the Russian Federation, according to the initiative of the federal centre. As a result, all federal entities have already approved strategies for socioeconomic development. Unfortunately, not all of them are of high quality. We have carried out an analysis of the regional strategies for 2005–2012, which has revealed the following:

- the strategies vary in terms of the perspective of vision, trend, development methodology, specificity and details, and, on the whole, in terms of their quality. Some of them are too general, redundant, inconcrete; others are too detailed, full of operational issues and so are not strategic per se;
- almost all strategies fall short of the estimate of the resources supply of strategic plans, firstly the financial ones.

Along with the development of strategic planning, and even ahead of it, budget reform was carried out. During the reformation, the techniques of goal-oriented planning were mastered on the basis of budgetary financing, result-based budgeting and expansion of the perspectives of budget planning.

Public finance reform started at the turn of the Millennium with the changes in Russia's Budget Code. In Saint Petersburg, the first inquiry into the possibility of applying a norm-oriented approach to goal-oriented planning was employed in 2003–2006 to form the departmental special-purpose programme. By 2006, the city government had adopted the initial laws and regulations on the transition to goal-oriented budgeting and the introduction of norms in planning the education, social and transport expenditures. Further, with the appearance of federal laws (FLs) № 83 and № 210, the government developed the Register of State Services for each branch of the public services and defined the procedure for state tasks for government institutions in Saint Petersburg, as well as the procedure for financial security of the fulfilment of government tasks. At the same time, the list of branches for the normative approach application to the budget planning was enlarged, and the standards themselves were adjusted, with the advances in the experience in their usage.

The most significant results of the use of budget planning norms have been seen in general education. Educational institutions have been switched to financial and economic independence, with well-known foundations. Transparent financing of



educational institutions has been achieved and the administrative methods in money distributions have been excluded. The network of educational institutions of St. Petersburg has been optimized (Ivanovskiy, 2009).

The norm-based approach has approved the efficiency under short-term budget planning, and has been extended to medium-term (three years) planning hereafter.

The transfer to the new principles of budget planning was accompanied by the implementation of performance scores of budget expenses and the shifting of the responsibilities of the main controls for budget execution.

Here, we must note that the measures undertaken in the framework of public finance reformation led to an upgrade of short-term and middle-term (three-year period) budget planning; however, they did not concern the long-term periods, which are specific for strategic socioeconomic planning.

As a result, a rupture appeared between the demand for strategic planning in the forecast of budget resources for the long term and the capacity of budgeting approaches for their evaluation.

In 2014, the law “On strategic planning in the Russian Federation” was adopted, which established the legal bases of strategic planning, as well as the coordination of state strategic governance and budget policy. The law has codified such strategic planning categories as the principles of balance and resource security.

The principle of balance refers to the coherence and consistency of strategic planning documents for financial and other resources. The principle of resource security means that financial and any other sources covered by these documents must be determined, when developing and adopting the documents on strategic planning in the framework of planning and programming.

Elaborating the idea of balance in the Budget Code of Russia and the above law provides for the development of certain regional documents on strategic planning for

the budget forecast of the entity for the long term. This means the official authorities' recognition of the importance of balancing socioeconomic development and resources for the aims of strategic planning. The importance of the task, which could also be defined as that of the achievement of socioeconomic planning documents' coherence, is proved by the negative experience of regional strategies' implementation, when a number of highly ambitious plans collapsed due to shortage of budget finances.

Unfortunately, this task of the highest importance has yet to be solved. The methodological foundation of balanced socioeconomic and budget planning in the federal entities is not developed yet. However, the research foundation and the empirical data allow us to start addressing this challenge.

### **The purpose and the design of the study**

The purpose of the paper is to form a methodological foundation for balanced strategizing on the basis of generalization of St. Petersburg's scientific and practical experience in the field of regional strategic planning. Strategizing refers to the process of synchronizing the foundation of socioeconomic and budget strategic planning documents with common goals, resources and terms.

As the research and methodological basis of the investigation, we chose the edifice of Saint Petersburg's strategizing school, presented in works by Prof. B.S. Zhikharevich (2004; 1998; 2014), V.E. Rokhchin (2004; 1998), L.E. Limonov (1998; 2014), B.M. Grinchel (2000), L.V. Ivanovskiy (2005; 2004) and others, and the system methodology developed by the Russian scientists, V.N. Sadovsky (1974), V.D. Mogilevsky (1999), G.B. Kleiner (2013) and others.

As the empirical basis, we took the experience of St. Petersburg in developing strategic planning documents, implementing goal-oriented budgeting, including regulations, as well as the working out of three city development strategies in 1997, 2007 and 2013–2014, in which the author participated.

St. Petersburg's strategizing school developed the nomenclature and the procedure for strategy foundation; it elaborated the method of socioeconomic comparativistics, the evaluation of the competitive environment, economic forecasting and goal-setting. It formulated the foundation system of the regional socioeconomic development scorecard and socioeconomic monitoring. While formulating the third St. Petersburg strategy, the elaboration of the methodological foundations of balanced socioeconomic and budget planning started, the first results of which are presented in the paper.

For the present research, we have studied and taken into consideration the basic theses and ideas of foreign authors in the field of strategic planning (Osborne et al., 1993). Special attention was drawn to the works by R.S. Kaplan, D.P. Norton [Kaplan and Norton, 1996; 2004]. We studied in detail the experience of the city of Charlotte, NC [Harvard Business School, 1998-1999; Marstall et al., 2010], i.e. regarding implementation of the balanced scorecard conception.

Analysis of the experience of socioeconomic development in the regions of Russia has revealed that the most frequently chosen main goal was the improvement of the quality of people's lives. St. Petersburg has chosen the same goal for the period up to 2030.

### **Quality of life as a key goal of state strategic planning**

On the basis of analysis of the most well-known Russian papers in the field of sociological investigations, we suggest considering "quality of life" as an integrated characteristic of economic, political, social, ideological, environmental, and other factors that define the position of a person in society and their living conditions. Among the structural elements of the quality of life, one could distinguish the following main components: level of health and lifespan, social standard of living and lifestyle. These components are significantly approximate, for one may trace certain interrelations per se.

The separation of the element of “level of health and lifespan” as one of the main structural components of quality of life has been argued by the fact that it is the practice of the world to give the first rank to the level and dynamics of health indicators and estimating the quality of life, since they are considered basic human needs, the main condition of a person's life.

Another highly important element of quality of life is social standard of living, which reflects the degree to which the material and cultural values of people, their prosperity, the conditions of social security are met.

Herewith, the level of prosperity is estimated in both absolute figures (average income in rubles, provision of household appliances in units per family, food expenditure in rubles, etc.), and satisfaction with the existing volume and quality of these goods. In the absence of the adopted systems of quality-of-life standards, the same volumes of income, salary, quality and content of the foodstuff are associated with different levels of living for different population groups. That is why the average statistics data of the level to which people are provided with material and cultural goods must be accompanied by suitable estimated figures that characterize how people appreciate the existing level of consumption.

Finally, the third element of the quality of life principle is lifestyle. This category gives an opportunity to make a complete and interrelated observation of the contents of such aspects of living as the position and development of personality, social activity, as well as attitudes to labour, politics, family and married life, law and order, and the values of various social groups, etc.

### **The methodological foundations of balancing socioeconomic and budget planning**

We have chosen the purpose of the improvement of quality of life as a starting point, so we now introduce the main ideas of the suggested methodological foundations of balanced socioeconomic and budget planning.

1. In the paper [6], we demonstrate that describing quality of life demands a large number of scores, a significant part of which could not be measured accurately. Straightforward use of the scores for quality of life in the foundation of the regional socioeconomic development strategy makes the task so multidimensional that it becomes irresolvable. It is expedient to use the idea of an enlarged standard of the average quality of life of the region's population by the end of the planning period to register the quality of people's lives.

The assumption is that each citizen is entitled to the same (comparable) standards of comfort, security, transportation, specification of quantity and quality of consumption, compared to any other citizen who lives in another territory, regardless of the region, in the city or in the countryside, no matter whether one has some special conditions for a "growing point" or not. However, as the Russian Federal State Statistics Service (a.k.a. "Rosstat") announces, the budget will not be adjusted in the immediate future. So, one should aim for the quality-of-life standards that could be achieved, depending on the region's circumstances, in using the suggested methodology.

The existing quality-of-life standard allows the definition of its financial equivalent – the norm which reflects the people's expenses, regional and municipal budgets, and off-budget sources for the achievement of standard-given scores. Analysis shows that the most financially capacious ways of meeting people's demands are:

- purchasing goods and services at the expense of people's income;
- getting state and municipal services' financing at the expense of the budget.

To decrease the volume and simplify the task of defining goal-oriented norms for guaranteeing quality of life, we will confine ourselves to the indicated ways of meeting the people's demands.

2. The goal-oriented value of people's expenses' norm, for guaranteeing the standard quality of life of one person per year, is substantiated by the forecast of the content

and cost of the consumer's basket that is in accordance with the idea of people's future material demands (future quality-of-life level).

There is a direct relationship between the working population's level of income and the structure and quality of jobs, i.e. this relationship is defined by the structure of regional market economics. This means that the norm of people's expenses for the standard quality of life may be a controlled variable in the pattern of the foundation of the optimal regional economic structure.

With an objective of providing the population with budget services, we suggest using standards of living. The latter are referred to as the complex of demands for people's quality of life in a specific region (city), the meeting of which is the concern of the local executive authority. The expediency of applying the standards of living to estimate the budget demands in socioeconomic planning is explained as follows. Firstly, these standards have a simpler scorecard, but, at the same time, they reflect the part of quality of life that is achieved at public expense. Secondly, standards of living demonstrate the obligations of the authorities towards people, which is in accordance with the development strategy.

As follows from the above, the standards of living are a part of the quality-of-life standards. They concern those criteria of quality of life that an individual person cannot achieve alone, since they require public efforts. It is the executive authorities who are responsible for the control process of quality-of-life assurance.

The standards of living are fulfilled by the provision of public services in education, healthcare, social protection, habitation (transport, public utilities, gardens and parks, environmental issues, security, etc.) to the people. These services are financed, either fully or in part, at the expense of government and off-budget sources that the authorities apply to. Thus, the standard-of-living area seems to be an obligation of the authorities to the people. Specifications regarding the quantity of these obligations are reflected in the standards of living over the planning periods. People

achieve the other criteria of quality of life (the volume of material goods' consumption, the quality of foods, etc.) with their own income. In this situation, the authorities focus on improving the business environment, business development support and job creation.

To define the demanded level of providing people with budget services, goal-oriented specifications of the living standards at the end of the planning period can be used. They are to be calculated on this basis of the goal-oriented specification of a financial standard, of budget expenses for the standard level of a person's quality of life per year.

The ratio of the norms of people's expenses and budget for a standard quality of life may be a controlled characteristic, when defining the regional (urban) economic structure. The budget load from the obligations for providing the standard quality of life at the budgetary expenses may be controlled, due to these characteristics.

3. The goal-oriented specification of the expenditure volume at the end of the planning period may be defined on the basis of a goal-oriented specification of the expenditure volume to provide a person with a standard quality of life and the forecasted quantity of the services' consumers, as well as on the basis of existing budget obligations and the forecast of the field of public service development (the forecast of capital construction).

The goal-oriented specification of the expenditure volume allows the demanded volume of tax revenues to be defined and, thus, the requests to the future regional economic structure to be established, in accordance with its tax potential.

As a rule, the main income sources of a regional consolidated budget are value-added tax, corporation tax, personal income tax, assets tax, transport tax, earnings from the use of regional and municipal property, uncompensated receipts and earnings from business or any other profitable activity. Most of the above mentioned taxes directly depend on the regional economic structure and distinguish the terms of its

optimization. At that, the current sectoral structure of the tax revenue can be used as the basic data in the optimization of the regional economic structure.

4. In the development and substantiation of the strategy and strategic plan (including the resource views' plans) it is necessary to take into consideration the influence of system resources. We will use a new term, "economics' system resource", which has recently been coined in the economic and system theories in the works by G.B. Kleiner (2013). In terms of its novelty, the term demands some comments.

In neoclassical economic theory, the following economic resources are defined as basic: labour, capital, land (natural resources) and entrepreneurial skills. However, these resources do not create any new values themselves but only as a part of one economic system or another. G.B. Kleiner has demonstrated that it is necessary to consider one more resource: the system one, which the author defines as the total of actual and potential economic systems that combines the factors of production and implementation of the processes of production, distribution, exchange and consumption (Osborne and Gaebler, 1993). There are four types of economic system resource: object, environmental, process and project.

The object resource of economics is represented, firstly, by the total of profit and nonprofit organizations, regional and municipal public authorities, including the government as a political organization.

The environmental resource of economics is shown by its infrastructure, communication industry, transport, media, terms for the formation of channels to redeploy material, financial, information and other resources in certain fields. An important part of the environmental resource is the institutional field, that is, the total of formal and informal institutions.

The process resource of economics is the complex of means and opportunities to organize the redeployment of goods in the economic field. We speak about the haulage of goods or passengers, financial asset redeployment, data transfer, etc. The



level of the process resource ex post could be estimated due to the scores of the volume of the values redeployment per year.

The project resource is a sum of the projects organizing opportunities at all levels of economics, via the concentration of labour, material, financial and other resources in the restricted area within a limited time.

From the above, it follows that the project resource of economics has an active (innovative) origin, the environmental one has a passive (conservative) origin, while the object and process resources embody both in their own ways.

The management of the mentioned system resources permits the control of the characteristics of the differentiation of economics in space and time. The goals of a region define the choice of a crucial system resource. In accordance with this, the economic policies of a region and of cities can be primarily object-, project-, environmental- or process-based. Thus, for instance, the structural economic conversion on the basis of an innovative approach suggests an increasing and efficient use of planning and process elements with the immediate parity of various types of system resources.

To characterize the economic condition, the scores of homogeneity/heterogeneity of economic field and volatility/stability of the inter-period connections are important. This has a special meaning for Russia, where there is a very high level of social, territorial, inter-sectoral, cultural and other differentiation in the economic field, and the economy itself is not sufficiently sustainable. Each of the four types of system resource makes a unique contribution to the dynamics of these indicators. For instance, the object system (say, of a company) decreases the homogeneity of the field, including the new types of production, and, at the same time, it decreases the volatility of time due to the reproduction process, which renovates the resources and the terms of production in the new cycle.

Thus, the four types of variative process (decreasing/increasing of field's homogeneity and decreasing/increasing of inter-period range ability) are logically distributed between the four types of economic system. Moreover, each system implements two of the four variative functions, depending on its type. Here, as in case of the redeployment of general economic functions, the reliability of economic functioning is provided with doubling the systems, with the system of one type executing each of the functions as the main one and the other one doing it as complementary.

It transpires that it is possible to control the characteristics of various economics in terms of both space and time. These characteristics depend on the scale of the development of the system resource of one type or another. Thus, to overcome the existing differential economics, it is necessary to develop environmental and process systems. In terms of strategy, it is impossible to overcome social stratification, by only a rise in salary and pensions. To improve the quality of resources of economics, it is necessary to organize the processes of vertical, reversible mobility of citizens, creating a henotic environment in educational, cultural and leisure institutions, developing interschool and inter-university communication among the youth, etc. Modernization projects must gain an intergenerational character.

5. The general notion of the operating procedure over the regional strategy, regarding St. Petersburg, could be described by three connected elements, which are:

- the procedure for the development of the main subject of the strategy, in which the city is considered an integral system, the city's mission is defined, and the future, priorities and system of goals of socioeconomic development are observed. The latter system includes three levels of hierarchy: the general goal, strategic trends and strategic goals;
- the estimation of the strategy's resource provision, regarding financial, labour, territorial, energetic, engineering types of resources;

- the decomposition of the strategy on the level of certain territories, which are desirable to live in and limited by the realm of living (habitat) of the human beings.

6. On the basis of quality-of-life improvement, we offer the idea of synchronization and balance of the processes of quality-of life improvement and economic development.

In terms of a megalopolis, each person who thinks of him/herself as an inhabitant of St. Petersburg takes his/her place only on a certain part of its territory, as a matter of fact; that forms the human being's realm of living. The territory of the realm embraces the place of residence and work (study), underground transport stations, trading enterprises and public utilities, social institutions (school, hospital, etc.), public authorities, recreation areas, including summer cottages, and others. Because of the abundance of the listed objects, the area of the modern realm of Saint Petersburg's inhabitants is so large in many cases that it comes close to the limit of human physical capacity. The main content of living in the megalopolis becomes covering long distances. Life becomes a challenge rather than fun. The contraction of the areas, upon which the realm of the principle population could exist, is possible via social and other institutions, i.e. forming distinctive sub-agglomerations. The latter are, to put it literally, "cities within cities", well-equipped and dense. The points of economic advancement must become the centre of gravity, around which an area of balanced development could form. These points of advancement can represent different branches; that is why the areas of balanced development will differ from one another in terms of branches. Within the area of balanced development, there must be some comfortable accommodation, modern working places, a well-developed social and cultural infrastructure, recreation, transport infrastructure, resources for business (land, power, etc.). The boundaries of the economic areas may not be the same as those of the wards.

Thus, decomposition of the strategy on the level of certain territories may be considered as the first stage of balanced planning. It permits the equation of territorial development to be achieved in social and economic terms. If one fails to achieve a balance of the urban areas, it is necessary to correct the strategic goals.

7. The balanced notion of the future level of quality of life and the economic development of the city and its territories must be adequately supported with the suggested resources. Regarding the subject of the paper, from those listed above, we will further consider only the financial resources. The existing fixed standards of living and goals' specifications permit us to estimate the expenditure budget, firstly, and the revenue, secondly, using the norm-oriented approach. The next step is the comparative estimation of the necessary and planned tax potential of the economy. The balance of the aforementioned figures, which could be achieved with iteration procedure, reveals that a balance between the strategic plan of socioeconomic development and the financing plan, crucial for its implementation, i.e. the budget, has been reached.

The methodological positions above are viable for working out the methodological foundations for the development of a region's balanced socioeconomic development strategy.

### **Application to the case of strategy of Saint Petersburg**

Let us dwell upon the previously mentioned methodological notions to get the following enlarged consequence of the inquiries into elaboration of the strategy (Figure 1):

1. Strategic analysis of the initial socioeconomic situation;
2. Strategic synthesis of the key factors of socioeconomic development;
3. Foundation of the goals and tasks of socioeconomic development;
4. Foundation of the demand for the financial resources to achieve the strategic

- goals, and definition of the target value of the expenditure budget;
5. Comparative analysis of the current opportunities and the future financial demands to reach the main goal;
  6. Formation of a desirable future image of a regional economic structure;
  7. Elaboration of the appropriate (reasonable) economic structure and the strategy of structural recomposition of a regional economy;
  8. Elaboration of a strategic plan, including one for the provision of the different types of resources;
  9. Decomposition of strategies at the territory level;
  10. Estimation of the dangers of non-balanced economic development of the branches and areas, and the risks associated with the implementation of the resources' provision plans;
  11. Elaboration of the managerial mechanisms to implement the strategy.

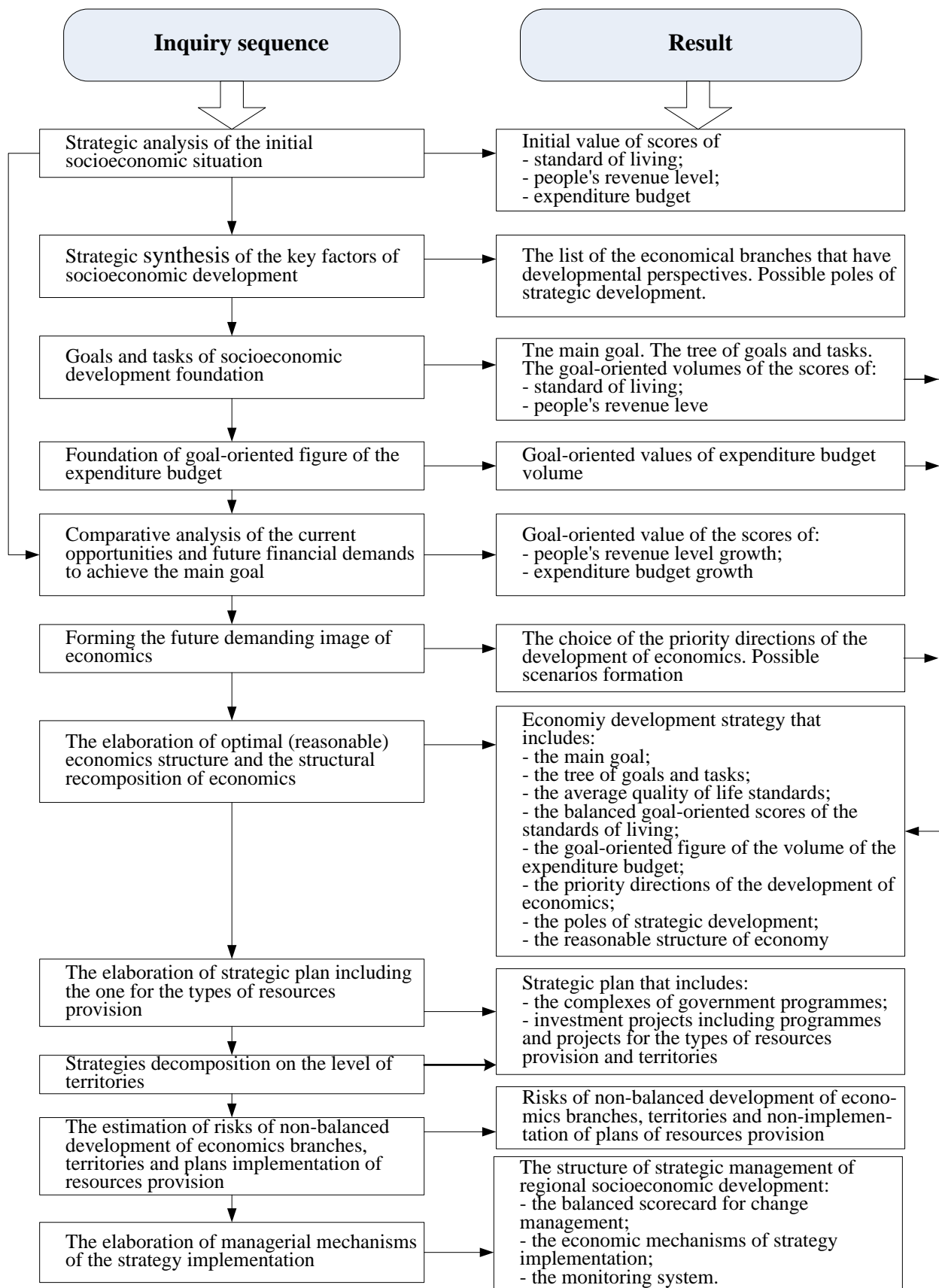


Figure 1. The inquiry sequence and the expected results of elaboration of the regional socioeconomic development strategy, on the basis of balanced socioeconomic and budget planning

The main results of the inquiries, using the suggested methodology, are the following:

1. The development strategy for the city's economy, which includes:

- the main goal;
- the tree of goals and tasks;
- the average quality-of-life standards;
- the goal-oriented scores of the standards of living:
- the goal-oriented figure of the volume of the expenditure budget, balanced in accordance with the financial resourced demand that is necessary to achieve the strategic goals;
- the priority guidelines for economic development;
- the poles of strategic development;
- the appropriate (reasonable) economic structure for the planning period.

2. The strategic plan, which includes:

- the complex of government programmes;
- the capital investment projects, including programmes and projects for various types of resource provision and territories;

3. The structure of a strategic management system for regional socioeconomic development:

- a balanced scorecard for change management;
- the economic mechanisms of strategy implementation;
- the monitoring system.

This methodology suggests using a wide range of scientific inquiry methods. Firstly, they include general methods and those of economic analysis, extensively used, such as the method of direct and structural and genetic analysis, the general scientific method of synthesis, the methods of logical generalization, abstraction, system analysis, expert rating, socioeconomic comparativistics, economic forecasting, competitive environment estimation, goal-programming planning, etc. After that, it is necessary to note the viability of the particular methods, which are used to found the strategy for the development of regions and cities (the methods of SWOT (strong, weak, opportunities, and threats) and other analyses, foresight management, scenario analyses, etc.).

At the same time, the specific character of the problem demands the additional involvement of particular research approaches. They are elaborated by the representatives of St. Petersburg's school of strategizing. The most significant methods, in terms of the main results, are the following:

- those for the formulating of strategic goals, which permit the founding of the scores characterizing the main specifications of the future economy;
- those of the poles of strategic planning of economics research;
- those formulating an appropriate (reasonable) economic structure;
- those elaborating balanced strategic plans and regional politics in the field of resource provision for socioeconomic development strategy;
- those for the foundation of the balanced development of the territories.

The results of the work on balancing the financial demands for the achievement of strategic goals and the predictive capabilities of forming the revenue are drafted, in accordance with the law on strategic planning in Russia, as a document entitled "The Budget Forecasting of The Federal Entity for a Long-Term Period".



The core point of the introduced methodological approach is to standardize and financially normalize. Basically, this idea permits the offsetting of the balance on each level of the hierarchy of strategic goals and tasks. To do this, it is crucial to have a well-developed hierarchy of socioeconomic standards and financial norms. This development is a difficult and time-consuming task. The practical way to solve it is step by step, gradually increasing the scientific and methodological apparatus.

The St. Petersburg strategy has one main goal, four strategic directions and 17 strategic objectives.

The strategic directions include the following: the development of human capital assets, improving the quality of the urban environment, the provision of sustainable growth, the provision of efficient management and the development of civil society.

For each of the 17 strategic goals, the government programme has been elaborated, and a certain authority has been appointed to be responsible.

The quality-of-life standards and the standards of living appear on the level of strategic goals and below, i.e., on the level of government programmes that are elaborated for each of the strategic goals or on the level of a sub-programme.

No matter how these government programmes are structured and named, they are those that distinguish all the branches of the social sphere, such as education, healthcare, social protection, culture, public transport, physical education and sport, etc. This simplifies the task, as in most cases the idea of standards has already been formed. On the next level of hierarchy, i.e., on the level of strategic directions, the number of standards must be lower. However, the level of standardization in them will be significantly lower or nonexistent. On this level, a sample estimate for the known scores has been made. For the scores which do not belong to the methodological apparatus, the estimation is viable, due to the accumulation of scientific knowledge, while the strategy is under correction.

After ample consideration, we suggest describing the main goal of socioeconomic development via three standards:

- that of economic success (which distinguishes the level of development of an economic basis);
- that of budget activity (which defines the demanded budget power);
- that of people's satisfaction with their quality of life.

The goal-oriented specifications of the aforementioned standards could be given, correspondingly using the following scores:

- gross regional product per capita;
- the ratio of public funds in the material component of the quality of life;
- the quality-of-life satisfaction index.

The first score is invoked to prove there is sufficient economic basis for the goal's achievement. The second score defines the contribution of the regional control authorities to increasing people's quality of life, as well as people's contribution to problem solving. The third score defines people's satisfaction with the achieved quality of life.

On the lower level, one may use industrial regulatory documents, including financial ones which are used in budget planning.

To build the tree of quality-of-life score standards, embracing all the hierarchy levels in full, it is necessary to decompose all significant elements of the quality of life. The higher the level, the larger is the scale of the norm-setting object. Let us illustrate this idea in the case of education (Figure 2). On the lower level on which the sub-programme measures are being planned, the norm setting object is an i-type student in an n-class educational institution. On the next level on which sub-programmes are planned, the n-class educational institution becomes the norm-

setting object. On the government-programme level, there is a network of educational institutions.

For the educational institutions' network, the following scores could be used for norm setting:

- education index;
- people's ability to join pre-school facilities;
- people's ability to join primary and secondary schools.

On the level of the strategic direction of “The Development of Human Capital Assets”, a norm-setting object may be human potential, with a specified parameter of “The Developmental Index of Human Capital Assets”. In this parameter, the score of the strategic goal (government programme) of “The Rise of the Educational Level” must be pictured.

On all the above levels, there must be a basic standard cost. With respect to a student, it will be the directly measured scores. To the higher levels of the hierarchy –sub-programme, government programme (strategic goal), strategic direction – it is viable to apply the additive forms.

An important element of balanced strategizing is the scorecard that permits evaluation of whether or not the set goals have been achieved. In the case of elaboration of St. Petersburg's strategy, we used the scorecard-forming method as in (Ivanovskiy and Rokhchin, 1998). The main idea of the method is the revelation of the features of the study system (process) that provides the achievement of a purpose within the tree of goals. In this case, a well-known mnemonic device of system theory: “goal” → “feature” → “score”

is used, which means that the pairs of “system goal” and “system feature” have been preordained by the score that helps to measure the intensity of the features.

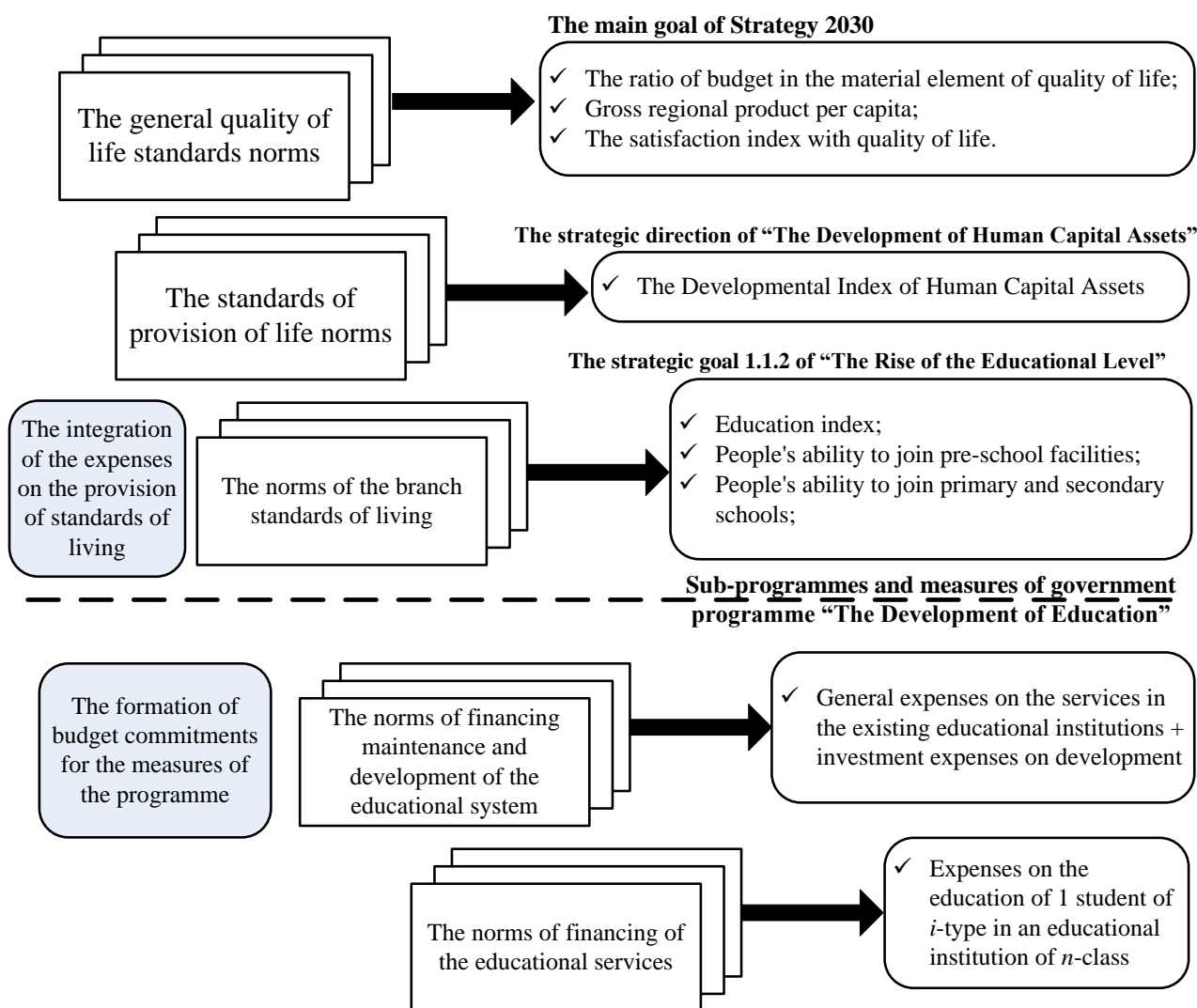


Figure 2. The structure of normative standards of Saint Petersburg's living (in the case of education)

In the framework of the existing St. Petersburg strategy, they use 41 scores to describe 17 strategic goals, and from the mentioned number eleven scores allow estimating people's quality of life. Besides the scores for educational level mentioned above, there are those of lifespan (life expectancy at birth, overall death rate, infant mortality, resident population growth), as well as gross regional product (work potential per capita, quantum index of gross regional product, general unemployment level, occupational level). These scores are used in the elaboration of government programmes, in which their number increases due to the procedure for decomposition of sub-programme forming. At the stage of project discussion by the

authorities' representatives, they wished to continue elaborating standards and financial regulatory documents to include healthcare, cultural and other social standards in them at the further correction of the strategy and other government programmes.

The government programmes are both strategizing and budget planning. They connect the strategy and budget so as to provide balanced strategizing. Essentially, it is a new, better-developed and goal-oriented form of budgeting.

The main peculiarity of goal-oriented budgeting is using a scorecard, in which the financial parameters are complemented with the non-financial. This kind of system was called a "balanced scorecard" (BSC) and its usage is connected with works by D. Norton and R. Kaplan (1996; 2004). BSC is mainly oriented to corporate governance. One of the first municipal units to apply BSC in the USA was the city of Charlotte. Perhaps the most significant aspect of Charlotte's experience is turning the city to a strategy-oriented system (Marstall et al., 2010). How far could Charlotte's experience be used in our case? Obviously, very locally. First, Russia and the USA are fundamentally different in their organization of managerial mechanisms and principles of urban administrative division. Secondly, the municipal services for Charlotte's administration are a form of business, while, for the Russian cities, they are civil service, i.e., a social task. Thirdly, the native (salary) motivation of the staff system is firmly determined by the federal law on civil service, which is different from the flexible American system. Finally, the connection between five priority directions, distinguished by the urban council (which are community security, "city in the city (centre)", economic development, transport, and government restructure), and four score groups classified by D. Norton and R. Kaplan (which are clients, finances, domestic business, training and career development), is poorly founded and makes an impression of an artificial one.

To do justice to the practical value of D. Norton and R. Kaplan's recommendations, we have to note that, in terms of methodology, they have a serious deficiency. There is no evidence that the named four elements of the balanced scorecard are necessary and sufficient. The authors themselves recognize the drawback. This means that their principle of transformation of the goals and tasks into an adequate scorecard fails. The strategies of regional and urban development in most cases are structured differently, which is demonstrated by the example of St. Petersburg. The strategic directions it includes may not be the same as in the recommended parts of BSC papers (Kaplan and Norton, 1996; 2004). We think that the parts of BSC should be formed in accordance with strategic goals of the first level (strategic directions). In this type of approach, a strict accordance of BSC with the planning results will be achieved. This is what is demanded for translation to goal-oriented budgeting.

Today, in St. Petersburg, the methodology of implementing strategy monitoring is elaborated, in which the author participates. The monitoring is thought to be conducted via the previously mentioned strategic directions. Moreover, for each of the directions, the scorecard is formed to include non-financial scores, embodied in the strategy, and financial ones, used in the city budget. A similar approach will be applied to government programmes. As a result, we expect to receive a hierarchy-balanced scorecard that permits the achieved purposes on different levels of management to be estimated in full.

### **Summary and conclusions**

To summarize the above, we will characterize the theoretical and practical value of the results obtained.

The author has elaborated a theoretical basis for balanced strategizing in the field of socioeconomic development of the regions (cities); namely, he has formulated the methodological foundations of balanced socioeconomic and budget planning for the long term. To reach a balance between strategic socioeconomic goals and resource

opportunities, the principle of standardization and a norm-oriented approach for the estimation of the financial resource demand has been used. The set and the hierarchy of standards were founded. At the level of strategic goals and below, quality-of-life standards, as well as standards of living, have been used. The procedure and expected results of the region's socioeconomic development strategy have been elaborated on the basis of balanced socioeconomic and budget planning that forecasts decomposition of the strategy on the level of certain territories, as the first stage of balanced planning. The order of the evaluation of the revenue and expenditure budget, balanced with the socioeconomic development, has been offered. The method of balanced scorecard-forming, permitting the evaluation of the achieved results on different levels of management overall, has been elaborated. The obtained theoretical results are the development of the scientific ideas of St. Petersburg's school of strategizing.

The introduced methodological approach received approval at scientific and methodological workshops for the policymakers of Saint Petersburg's socioeconomic strategy up to 2030. It has also been implemented in the above strategy in those social sphere branches, in which standards of living and working approaches to the calculation of fiscal capacity standard for the long-term perspective have been adopted. This experience may be applied in other regions.

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## EXPLORING BUDGETING PRACTICES AT A RUSSIAN STATE UNIVERSITY AFTER NEW NORMS' ADOPTION

### **Abstract**

This paper will study budgeting practices in one Russian state university following new norms compliance. From 2012, state universities (like other state entities) must comply with new norms of financing, budgeting and accounting, comprising such tools as 'per capita normative financing', 'state tasks' and 'multi-year performance budgeting'. While changes in accounting and performance practices are extensively discussed at university level, there is a lack of research into the implementation of new budgeting techniques, such as performance budgeting. Taking into account the previous research about accounting 'shocking' in state universities (Timoshenko, 2008), and the perspective that the university the universities view the new situation in the light of: "We need to comply, but if we do everything that the new rules tell us

to, the university will be destroyed” (interview results), we try to understand how state university workers (practitioners) make sense of new budgeting and funding norms and put them into practice.

**Keywords:** NPM, performance, output funding, university budget, reform, sense-making, institutional theory

## **Introduction**

During the last decade, there has been increasing interest in the importation to public universities of New Public Management (NPM) (Hood, 1991, 1995) and private sector philosophies, raising such issues as corporatization, marketization and commercialization of higher education (Christopher, 2012; Christopher & Leung, 2015; Goedegebuure & Hayden, 2007; Lapsley, 2008; Parker, 2011, 2012; Ter Bogt & Scapens, 2012).

At the current moment, it is quite evident that NPM has transformed the educational environment in developed countries (Parker, 2011), where knowledge generation has been replaced by concerns for profit/revenue generation (Parker, 2012). In terms of financial aspects, the New Public Financial Management (NPFM) transformation process led to the adoption of accounting and management control systems from the private sector as a response to pressures for efficiency and effectiveness in the public sector, i.e. ‘giving more with less’ in general (Guthrie, Olson, & Humphrey, 1999; Olson, Guthrie, & Humphrey, 1998). In the particular context of higher education, accounting studies have tended to focus on financial reporting, accrual accounting (Christiaens & Wielemaker, 2003; Venieris & Cohen, 2004), performance measurement (PM) (Modell, 2003, 2005, 2009; Pettersen, 2015; Townley, 1997) and the university sector’s funding systems (Frølich, Kalpazidou Schmidt, & Rosa, 2010; Jongbloed, 2004; Jongbloed & Vossensteyn, 2001; Pollitt & Bouckaert, 2004; Salerno, 2005; Salmi & Hauptman, 2006).

In many countries, state funding of universities is partly based on their performance in teaching and research. However, there is a lack of research into the connection between PM systems and funding (Pettersen, 2015). According to Treuthardt & Näsi (2010, p. 2), the relationship between performance and funding is quite complex: “The performance-based steering and management processes can be seen as *dialogues*, both between the Ministry of Education and each university (the ministry-university level), and inside the universities between the university’s central administration and the responsibility units, such as faculties and departments (the intra-university level). ‘Steering’ as our key-concept, refers primarily to the Ministry of Education – a university relationship, whereas ‘management’ refers to the intra-university relationships... the nature of the dialogues inside the universities is affected by the dialogues taking place between the Ministry of Education and the universities.”

When it comes to the mediator of these *dialogues* in the university context, budgeting manages the ‘resource interface’ between the external and internal environments at universities (Raudla, et al., 2015). According to Parker (2011), accounting and accountability become conduits for redefining university identity and roles, where budgets play the central role in financial planning and control as well as strategic planning. Budgeting “arguably becomes a vehicle and language for strategy shaping, performance monitoring, funds re-allocations, expansions and contradiction decisions... [which] are oftentimes hidden from view but palpably influential structures and processes through which accounting weaponry is employed both to redirect university missions and strategies towards the corporatized commercial agenda while also meeting the financial and economic agendas of government” (p. 446). Thus, budgeting can be an aid to obtaining resources and legitimacy from the central authorities, on the one hand, and to redirecting internal universities’ values, on the other (Parker, 2012).

According to Frølich et al. (2010), a performance-based funding system is part of the ‘package’, together with new accounting and budgeting tools, such as accrual

accounting and performance budgeting. However, according to Moll & Hoque (2011), the introduction of new budgeting models should take not only external legitimacy issues into consideration but internal ones as well. The university is “not a monolithic actor and its response is univocal” (p. 99). At the university level, managers, academic staff and other workers represent significant legitimating agents with different interests and logics, which influence the decoupling or loose coupling of budget or accounting systems from internal and external use.

Seeing the budget as an important element/mediator between performance-funding relations and the university as an ‘unmonolithic actor’, we would like to shed light on *how state university workers make sense of new budgeting/funding reforms and how this is reflected in changing practices?*

To answer this research question, we investigate budgeting practices in one Russian state university during the reforming process. The funding and budgeting systems in Russian higher education have faced dramatic changes over the last decade. From 2012, state universities (like other state entities) must comply with new funding and budgeting norms. However, general state funding for Russian higher education began to grow after 2006 (Rosstat, 2014). This is in complete contrast to world trends in reducing funding (Parker, 2012). Thus, Russia may present a sort of ‘extreme’ case to investigate, lying somewhere between world trends and its own way.

In terms of world financial trends in particular, currently, it seems that NPM ideas became a Russian way to bring reforming and foreign experience into the Russian public sector (Antipova & Bourmistrov, 2013; Timoshenko & Adhikari, 2009a), introducing such tools as accrual accounting and performance-based budgeting for the public sector in 2004. Russian public-sector accounting reforms were seen as a top-down push process of changing norms and its penetration into local settings, practices. However, from the top down, new NPM tools of accounting are partly materialized in local settings, decoupling and contradicting the Russian accounting

tradition (Antipova & Bourmistrov, 2013). According to previous Russian accounting studies (Timoshenko, 2006, 2008; Timoshenko & Adhikari, 2009b), at the university level, accounting changes are more rhetorical than real, presenting a 'shocking therapy' for state universities.

Budgeting practices at the university level were partly studied (Timoshenko, 2006, 2008; Timoshenko & Adhikari, 2009b), but these studies are based on data from 2006. Thus, after 10 years, it is unclear what is happening with university budgeting practices, as well as funding. In order to fill this gap, we study<sup>26</sup> (1) what kind of new budgeting and funding norms were introduced to universities in Russia; (2) how these new norms were reflected in changing university budgeting practices.

Thus, our expected contribution is threefold. Firstly, we will add new knowledge about Russian universities' budgeting and funding practices, in terms of future comparative research. Secondly, by studying sense-makers and changing practices, we will contribute to the current calls to turn greater attention to the micro-dynamics and role of actors behind macro-level processes (Modell, 2009; Moll & Hoque, 2011; Thornton, Ocasio, & Lounsbury, 2012). Thirdly, by studying the budget as an important element/mediator between performance-funding relations, we will contribute to the current call to see the connection between PM systems and funding (Pettersen, 2015).

The remainder of this article is structured as follows. The theoretical frame of reference is first presented. Secondly, the methodology of the study is explained, followed by an introduction to the university case. Thirdly, a brief description of the new budgeting and funding norms is presented, followed by the preliminary findings from the university case. And finally, due to the 'work in progress' status of this paper, further directions for improvement are presented.

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<sup>26</sup> As our sub-questions

## **Theoretical frame of reference**

Over the last decade in accounting literature, new-institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977) has become one of the main theoretical lenses for explaining public sector change (Adhikari & Mellempvik, 2011; Carpenter & Feroz, 2001; Goddard, 2010; Jacobs, 2012).

In higher education terms, new-institutional theory and its further developments have become one of the dominating ways to understand universities' corporatization and marketization (Parker, 2011, 2012). There is an increasing tendency from central governments, on the one hand, to reduce funding for higher education, while, on the other hand, requesting universities to be more efficiency-, performance- and accountability-oriented. In order to respond to these coercive pressures, universities began to mimic private sector ideas such as: value for money, market generated revenues through students' fees, changing structures, processes and missions, competition relations and benchmarking, and performance measurement (Parker, 2012). In the new educational environment, students became customers, education and programmes (products, external environment) – the market place. Academics became the vocational servants of corporate universities' missions, where decision-making is in the hands of executive management, who replace old academic values (Parker, 2011). However, previous studies showed that changes in universities were often slow but continuing in a way in which the collegial and new corporate cultures may co-exist, adopting an adapted version of NPM. This creates a sort of hybrid, corporatized higher education, where professionals and academics operate together (Christopher, 2012; Christopher & Leung, 2015; Parker, 2012).

In terms of financial aspects, there is some evidence that accrual accounting reforms in universities represent a slow-moving 'learning' process (Christiaens & Wielemaker, 2003; Timoshenko, 2008; Venieris & Cohen, 2004), where new regulations have raised many conceptual conflicts/contradictions on the university practical level, which



leads to decoupling. Performance-based funding is increasingly developing, replacing traditional incremental mechanisms (Frølich et al., 2010; Pollitt & Bouckaert, 2004). In spite of the existence of different forms of funding (Jongbloed, 2004; Jongbloed & Vossensteyn, 2001; Salerno, 2005; Salmi & Hauptman, 2006), there is evidence that universities have become large-scale, complex, demanding businesses, where 'money talks' is replacing issues of knowledge generation (Frølich et al., 2010) and academic norms are in risk of being replaced by KPIs (Parker, 2012). Quality assessment (measuring outcomes and outputs) is not an easy task in higher education. Universities are highly complex, in terms of management, and the results of PM systems are debatable in different cases (Ter Bogt & Scapens, 2012). For example, there is evidence that the PM was unlikely to have a significant influence on improving services in higher education (Adcroft & Willis, 2005). Modell (2009) revealed the growing awareness that most public sector PM reforms were presented as a coercive process in a 'top-down' manner, where PM practices cause decoupling or loose coupling (Modell, 2003, 2005; Townley, 1997). Studying quality assessment systems in higher education, Pettersen (2015) discovered that institutions had moved to multiple institutional logics during universities' corporatization and marketization (Parker, 2011, 2012). Mainly, managerial/business logics from the business world and professional academic logics can co-exist and lead to unintended consequences.

Particularly in the Russian case, scholars use new-institutional theory to understand Russian public sector accounting reform, where practices are seen as isomorphism, decoupling, a search for legitimacy, hybridization or sedimentation (Antipova & Bourmistrov, 2013; Parker, 2012; Timoshenko, 2006, 2008; Timoshenko & Adhikari, 2009a, 2009b).

Thus, studying the development of new management control tools in higher education, new-institutional theory has evolved from an emphasis on pressures and isomorphic behaviour to emphasizing multiple institutional logics in shaping new systems and strategic responses to pressures. However, little is known about the

“micro dynamics involved in (re-)constructing accounting systems within individual organizations through their implication in everyday practices and how this is conditioned between institutional logics” (Modell, 2009, p. 289). One recent response to this issue is an awareness of the role of actors who create institutional logic and responses to institutional pressures in the case setting (Rautiainen & Järvenpää, 2012).

In general, over recent decades, institutional researchers began to move away from a discussion of “how institutions effect organizational practices and structures and ... pattern of isomorphism” to “how actors effect the institutional arrangements within which they operate” (Lawrence, Suddaby, & Leca, 2009, p. 3). This alternative was marked as a ‘new stream of institutional theory’, known as institutional work (IW). It is concerned with the practical actions, through which institutions are created, maintained, and disrupted (Lawrence et al., 2009; Lawrence, Suddaby, & Leca, 2011). According to Lawrence et al. (2009, p. 1):

IW highlights the intentional actions taken in relation to institutions, some highly visible and dramatic, as often illustrated in research on institutional entrepreneurship, but much of it nearly invisible and often mundane, as in the day-to-day adjustments, adaptations, and compromises of actors attempting to maintain institutional arrangements.

IW can be rewarded as investigating how actual practices of management and production happen in institutionalized settings (Mouritsen, 2014, p. 99). For the public sector, IW can be understood more as the variety of day-to-day actions in public-sector organizations, where professionals and other actors associated with the professions are concerned with the ambiguous conditions that they face routinely. In our case, these conditions are new budgeting and funding systems at the university, where university workers interpret, translate, transpose, edit, make sense of, modify and recombine ideas in a specific university routine.

According to Lawrence et al. (2009), one of the promising ways of studying the micro-dynamics of individuals' actions is sensemaking theory (Weick, 1995; Weick, Sutcliffe, & Obstfeld, 2005), where new systems/technologies/tools in an organization are seen as the ongoing interplay of action and interpretation by organizational members. In our case, sensemaking theory can help to study how practitioners make sense of and enact new ideas of budgeting and funding in their daily activities at the university, i.e. give meaning to new ideas by scanning, interpreting and defining new systems and giving them meaning in university practices.

However, IW scholars neither deny nor ignore the effect of institutional pressures and logics on organizational practice (Lawrence et al., 2009, 2011). Thus, while new-institutional theory and institutional logic can describe and explain how political pressures, professional logic and institutional constraints construct the context, in which new budgeting and funding systems are implemented at university level, IW is useful in describing how individuals respond to pressures through sensemaking to comply with new. In particular, we see state university workers as organizational members, who face new situations, where there is no 'best' way to act and where a high degree of ambiguity or uncertainty is experienced (Weick et al., 2005).

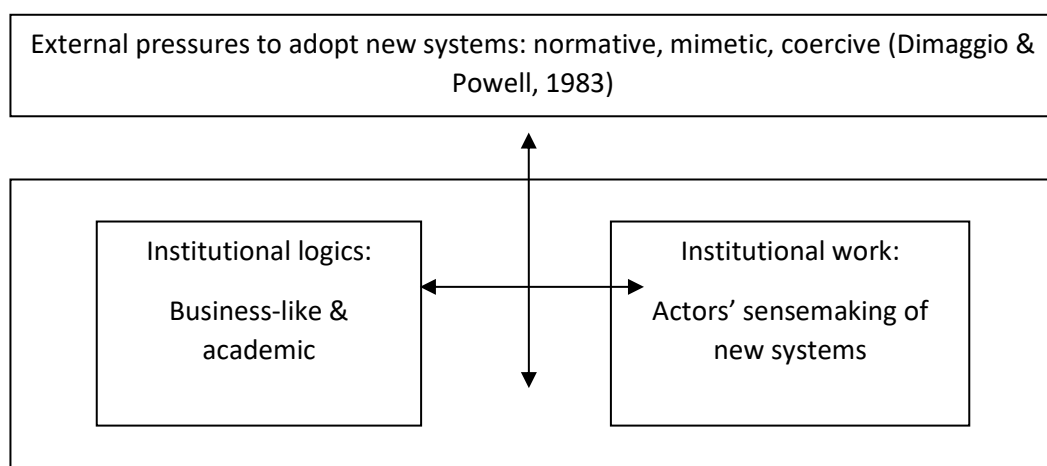


Figure 1. Theoretical frame of study

Thus, in order to see *how state university workers make sense of new budgeting/funding reform and how this is reflected in changing practices*, we apply

the constructs of new-institutional theory (isomorphism), institutional logic (business-like logics and academic logics) and institutional work (sensemaking). In Figure 1, we present the general theoretical frame for our particular case setting.

## **Methods**

Based on our research question and theoretical considerations, this paper represents the qualitative research, applying a case-study strategy. The case study involves an empirical investigation of a particular contemporary phenomenon within its real-life context (Robson, 2002). Our contemporary phenomenon is the reforming budget and funding practice at one Russian state university.

The structure of our empirical part is based on Bergevrån, Mellempvik, & Olson's (1995) norms–actions approach. The norm system represents the institutional environment of accounting action (i.e. accounting regulation). In our case, by 'norms' we assume the new regulation introduced by the Russian central authorities. 'Action system' represents the instrumental daily activities (i.e. organizational practices). Hopwood & Miller (1994) associate studies of accounting practice with the "meanings and perceptions of those actors who develop and use accounting techniques and systems in particular settings, actual and real world situations" (p. 15). In our particular case, these actors are administrative workers at the university, who face new budget and funding norms and make sense of these norms in practice.

Thus, it is intended to use the norms perspective to analyse the content and ideas of the new regulation, mainly Federal Law #83 (2010). There is great discussion of the federal law on the Internet and among Russian politicians, experts, practitioners and scholars. As we do not have the opportunity to contact the new law's designers, we propose using official legislation documents to analyse the content and the discussion of new norms in the mass media and by scholars. The action perspective is presented as the study of the practices of one Russian state-owned university, which has been involved in adoption of the new norms since 2011.

The university choice for the study is mainly limited by accessibility. However, being a part of an organization gives the ability to know people involved in the phenomenon and to study how they make sense of their day-to-day actions and situations in specific work settings (Eriksson & Kovalainen, 2008, pp. 152-156). For ethical considerations, the original name of the university is concealed.

Data collection is based on two sources: documentary analysis and semi-structured interviews.

(1) According to Silverman (2010), we should not and cannot ignore texts in our research. All people are “routinely, often extensively, involved in the production and consumption of written records and other kind of documents” (p. 78). Documents can be seen as ‘social facts’. If we wish to understand how new budgeting and funding systems work and how people work with them, then we cannot afford to ignore their various activities as readers and writers. In our particular case, documentary analysis is based on official laws, decrees, statutes and instructions regarding university budgeting and funding systems, as well as the university charter and reports. Most of these documents are available online on the official websites of the Ministry of Finance, Ministry of Education and the university. Some internal university documents (rector’s decrees, guidelines, etc.) were used based on interviewees’ permission. In an addition to official documents, web articles and newspaper articles, regarding new budgeting and funding systems, were analysed.

(2) To date, three semi-structured interviews with university staff members have been conducted (more are planned) with: the chief accountant, the chief financial and planning administrator, and the school faculty dean. Each interview lasted between 40 and 60 minutes without tape-recording<sup>27</sup>. The general goal was to talk to the new norms’ main interpreters and sense-makers. The interview guide included general concerns about: a) when and why did you [staff members] begin to adopt new norms?

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<sup>27</sup> Tape-recording was not permitted by interviewees

b) what is new following the adoption of new systems and how is it different, compared to previous experience? c) what kind of difficulties, challenges, problems did you face during the transition period to the new norms and now? d) if you could revise your previously made actions and decisions, what would you do differently?

### **Changing budgeting and funding norms for Russian universities**

The central changes to Russian higher education over the last five years were the introduction of new budgeting and funding norms in 2010. These new norms were introduced by the Russian central authorities as Federal Law #83<sup>28</sup>. New norms were announced as the way to increase the quality and efficiency of the public finance management of state organizations (Lavrov, 2011). According to Deputy Minister of Finance, Aleksey Lavrov (2011, p. 1), the new law “was quite unique. This law was launched at an almost-ready legislation basis at federal, regional and local levels... It’s first time when reforms we launched don’t start to slip. But the most difficult step arose from the implementation of the legislative norm into practice (real actions).”

If we take the background to public sector reforms’ “slipping”, it is worth mentioning that ideas of budgeting and funding systems’ reform first appeared more than 10 years ago. The first modernization ideas were proposed in the “Social-Economic Development Strategy of the Russian Federation for 2000–2010” programme in 2001. The programme addressed such issues as transition to a “subsidiary” model of state finance as a long-term perspective and the need for a high quality of welfare. Some of these ideas were reflected in a programme of budget federalism development until 2005. The need for budget modernization was further formulated as “Principles of the restructuring of the budget sector in the period 2003–2004 to 2006”, where four main routes were followed: the optimization of the existing net of public funds’ spenders, the reorganization of budget organizations, the transition to new models

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<sup>28</sup>No 83-FZ "On Amendments to Certain Legislative Acts of the Russian Federation in connection with the improvement of the legal status of state (municipal) institutions. " Transitional period for the introduction of the law is one and a half years, from January 1, 2011 until July 1, 2012.

of funding and the implementation of result-based budgeting methods in state organizations. In 2004, the federal authorities introduced the Concept of the Budget Process Reform for 2004–2006. The concept supposed transformation of budgeting and accounting practices in the public sector, mainly the transition from incremental to performance budgeting and the introduction of accrual, instead of cash, accounting (Timoshenko & Adhikari, 2009a).

In terms of the new funding system for state organizations, central government stated a new plan of actions, setting a new principle for the allocation of state funds. It was expected that this principle would be based on a performance model, which can help to control the results of state programmes and analyse the costs of public services. For state organizations, and universities in particular, this principle intimated the transition from a cost/inputs method of financing towards goals and outputs. A further idea of the transition from cost/input to result-oriented financing was introduced in 2006 in the president's budget message<sup>29</sup>: “We need changes in budget legislation concerning the opportunity to give funds to state organizations based on state tasks” and “More autonomy for state organizations is needed in the field of finance allocation”. In further presidents' messages (2007–2010), ‘talks’ about the modernization of public-sector finance became more and more evident, accompanied by ‘talks’ about the modernization of public services and the attraction of the private sector to public-service delivery.

The real movement from ‘talks’ to decisions was introduced as Federal Law #83, dictating new rules of existence for state organizations in Russia. The new law has invoked considerable discussion in the mass media on topics such as “modernization vs commercialization of Russian public services”, “hard times for public servants” and “quality vs quantity financing”. In general, the new federal law introduced new norms of functioning for all public-sector organizations in the fields of education, medicine,

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<sup>29</sup> “About budget politics for 2007”

sport, etc. Particularly in higher education, the realization of the federal law was delegated to the Ministry of Education and Science of the Russian Federation. This realization was reflected by the ministry in plenty of decrees introduced on the official website. Based on the official texts of these decrees and the federal law itself, the core ideas for higher education can be seen as follows.

*(1) More autonomy and accountability.* Based on the new law, state universities would have greater economic autonomy through a decrease in the Ministry of Education's control. This autonomy would give universities the ability to dispose of their funds in a self-determined form, while, at the same time, introducing the budgets to the Ministry of Education for approval. All the financial and budget reports should be open for all users. Thus, strengthened transparency and accountability of university activities would be expected. At the same time, the documents would motivate the universities to increase revenue-generated activities.

*(2) From cost/output to normative per capita financing.* As previously mentioned, one main feature of the law was the new scheme of financing. According to the new scheme, all state universities would move away from the inputs (so-called 'smeta' financing) towards outputs financing in 2012. This would suppose the transition of budget allocation based on the per capita system: "the money follows the student". The general idea of the new system was that the Ministry of Education would define the amount of budget resources to allocate among universities, based on the number of enrolled students (so-called 'state tasks') and the normative costs per student. Both the number of students enrolled and the normative costs per student would be formulated by the Ministry of Education, while universities would compete for the resources.

The normative costs per student would depend on the field and specialization of higher education (bachelor/master/specialist/PhD, engineer/economist, etc.) plus an adjustment for the regional location of the university. However, the general idea was



to create uniform normative costs, which would give the ability to cover the salaries of the administrative staff and faculty, communal and building services, library expenses, etc. at universities. Thus, it was expected that normative costs per student would cover all university-functioning costs, i.e. the education service. When it comes to knowledge generation, research financing would be regulated by a separate norm. In terms of the number of students to be financed from the state budget, each year (from 2012) the Ministry of Education would announce a competition between the higher education institutions, where state and private universities compete for the number of students for each field and specialization of higher education. After that, based on competition results, the Ministry of Education would form the number of students to be enrolled on a budgetary basis for each university. Based on these numbers, the institutor (the Ministry of Education) would set a state 'task' for each state university to deliver educational services for a particular number of students on a budgetary basis (*'kontrolnie cifri priema'*). Depending on these tasks and the special normative cost/ratios per student, the current volume of funds would be determined as a subsidy for the pursuance of a state task at the university.

State programmes give main priorities to state tasks. For example, a state programme such as the development of Russian higher education should require the university (and the Ministry of Education) to achieve a concrete quantity of graduated students in the corresponding professional field. The state task became an economic and administrative tool for the realization of state programmes. State tasks can be seen in principal-agent dimensions, with the Ministry of Education as a principal, which finances the agents (state universities), which produce public services (education). At the same time, there are other principals (students).

*(3) From line-item budget to multi-year performance budget.* Before realization of the new law, in order to acquire budgetary money, the universities formulated and submitted the budget proposal (*'smeta'* proposal) to the Ministry of Education.

Generally, this budget presented a one-year line-item incremental budget, rather formalized, routine and very detailed, without any serious capabilities for amendments or carryover from one budget year to the next (Timoshenko, 2006). Relationships between universities and their institutor existed in a strict control of funds' spending.

In the new law, the line-item budget (*'smeta'*) was replaced by the multi-year performance budget (plan of financial activity). The new multi-year performance budget should give information about how the university would manage its resources (both budget and off-budget) in order to complete the state task. Budget horizons were extended to three years (the same as federal, regional and local budgets). The full instructions and the content of how to plan the financial activity were introduced by the Ministry of Finance. The universities could allocate received funds according to their needs and have a carryover from one budget year to the next. The performance part of the budget should include the three-year strategic action plan of the universities and the planning results for each year.

*To summarize*, the new federal law became the decision from the long 'talks' about the modernization of state organizations and fitted very well into the modernization of the whole budget system, such as the adoption of programme-based budgeting. The most important elements in the current universities' funding model would be the numbers of students enrolled, i.e. output funding. The Ministry of Education is the main financier of the universities, deciding the amount of budget money allocation, based on competition results and developed normative costs per student. The multi-year performance budget became the main contract, made annually between the university and the Ministry of Education. The general scheme of new financial relations between the Ministry of Education and the university is presented in Figure 2. The next section is devoted to an examination of how the new norms were reflected in the practice of one state university.

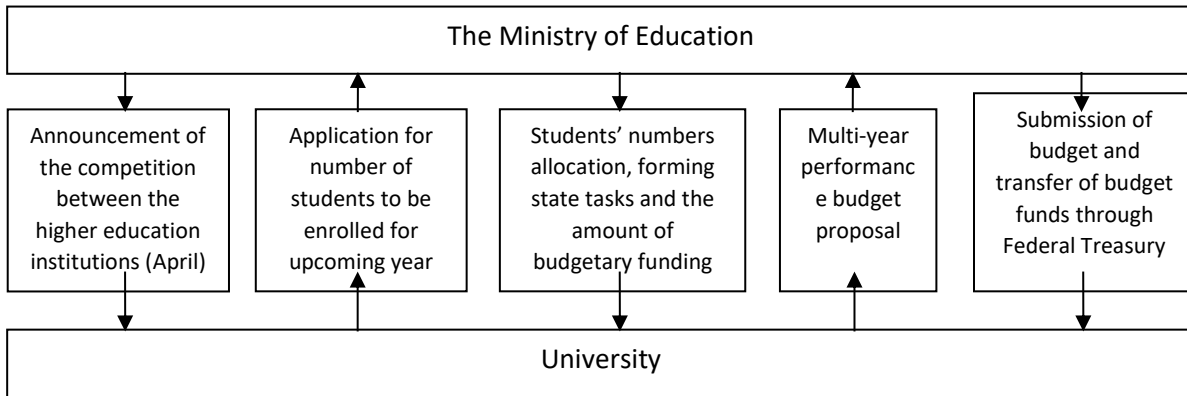


Figure 2. New financial relations between the Ministry of Education and the university

### Background to research case

The university under our investigation is located in the territory of one of the two biggest cities in Russia. The university has a long, rich history, starting from the creation of a handicraft school. Under Soviet rule, it was converted into a technical school and later into a state institute. In 1992, by order of the Ministry of General and Professional Education of the Russian Federation, the institute was transformed into the State Technical University (further the STU).

Currently, there are five schools at STU, providing bachelor and master degrees. Four schools belong to the engineering area and one school provides education in humanities and business. Officially, STU is licensed to have 6500 students, but practically the number of students is less, due to its very high academic standards. Therefore, many students are dismissed before graduation. In addition, there are many additional courses for students, and professional development courses for engineers/managers at STU, as well as technical research activities. The university faculty numbers about 420 people, and there are about 100 administrative staff.

Every year the university is allowed to provide about 1000 budget positions on a competitive basis (funded by the federal budget) for bachelor degrees; plus, about 25% (of the number of graduated bachelors) of budget positions are provided for applicants to the master's degree programmes. In addition, about 250 more students

from each year's cohort can enter for so-called 'contract' fee condition training (2,000 to 3,000 euro, depending on the field of study). The university also has several postgraduate programmes in 12 research areas, to which students are admitted on both a budgetary and fee basis. The number of budget positions in the graduate school is determined by the Ministry of Education.

STU is a federal university. As a government (state) entity, STU is under the direct jurisdiction of the Ministry of the Russian Federation for National Education and Science (further, Ministry of Education). Thus, the founder of STU is the Ministry of Education (University charter, 2015) and STU is accountable to the latter for its activity, representing a not-for-profit organization, financed from the federal budget and other sources authorized by the Ministry of Education. The total financing of STU was 809 mln. rubles in 2013 ([www.bus.gov.ru](http://www.bus.gov.ru)). Of total STU financing, 74% comes from budgetary sources: 55% comprises budgetary subsidies from the federal budget, 11% so-called 'target subsidies' and 8% budgetary investments. The 26% remainder includes revenue-generated activities, such as fee-based educational services, research efforts, dormitory services, etc. For 2015, the total financing of STU was 818 mln. rubles ([www.bus.gov.ru](http://www.bus.gov.ru)). However, the financing structure has changed compared to 2013: 62% budgetary sources, 38% revenue-generated activities. Thus, we can observe increasing off-budgetary revenue generation, supplemented with reduced state funding at STU.

### **Transforming budgeting and funding systems at the practical university level**

The formal implementation of the new funding and budgeting systems at STU began in April 2012 after the first competition announcement by the Ministry of Education (2<sup>nd</sup> April, 2012). This new law gave the universities many challenges, as the chief accountant noted: "The transition was very hard but we did it". However, before that, there were several seminars organized by the Ministry of Finance and the Ministry of Education for university workers. During these seminars, the ministries'

representatives announced the main features of the new law and what university workers would face. The chief financial and planning administrator commented on these seminars thus: “coming there with the questions and going back to the university realities with even more questions”.

The general response to the new regulation was reflected as compliance by STU. As the chief accountant noted: “Compliance is necessary. As a state organization, we are fully dependent on the Ministry of Education and cannot ignore the new rules.” However, the chief financial and planning administrator noted: “We need to comply, but if we do everything that the new rules tell us to do, the university will be destroyed.” This citation indicates the challenges and some contractions which the university faced during implementation of the new funding and budgeting systems. The preliminary reflections (only three interviews) of university workers are structured, based on the norms section.

*More autonomy and accountability – “imaginary autonomy and more control”*

All three respondents described the increase in university autonomy as an “imaginary” one. According to the interviewees, the idea of own responsibility and own financial management is highly limited by the state task and other regulations. According to the chief accountant, “...Even if we want to spend money on something else, we cannot because it is just enough to cover the state tasks... i.e. to educate the particular number of students.” In addition, the university also has many other regulations that limit their actions in terms of additional revenue generation. For example, it is not so easy to generate the additional revenue from rents. As the chief accountant noted, “Even if you have some free, unused spaces at the university, it would be quite difficult to rent these free spaces to the market. The bureaucratic procedure and negotiation for permission will take more than two years... And there are many such examples of possibilities for effective use of resources which are limited, unfortunately...”.

*From cost/output to normative per capita financing – “good idea, but too many inconsistencies”*

As reflected by the interviewees, the first experience of competition for students in April 2012 was actually unclear. How, and on what basis, the STU got 600 students was not clear. The same issue goes for normative costs/ratio per student. As the chief financial and planning administrator noted: “It seems that the normative ratio and allocation of student places was mainly based on historical grounds, rather than on any formulas. There was the example that the normative ratio for the same specialization was 40,000 rubles at one university and 160,000 rubles at another one”. Thus, the normative criteria were not transparent, as well as the completion results justification.

According to respondents, currently, the Ministry of Education is trying to create uniform normative costs per student, which will be the same for all universities. These normative costs per student would be adjusted to the specific region and the specialization, giving the ability to cover the salaries of the administrative staff and faculty, communal and building services, library expenses, etc. at universities. However, items specific to the university are missing. For example, at STU, “We have a lot of old buildings with specific architecture and requiring a special approach to reconstruction and maintenance, as well as electricity costs for heating. For us, this means that we pay more to maintain these buildings. However, our normative costs per student do not take this into account. Thus, we have to cover these costs through off-budget funds” (the chief financial and planning administrator).

In general, state funding was based on the quite simple formula (funding = students\*normative). However, as the chief financial and planning administrator noted, “It is not clear what we got for each financial year... and what we should do with it”. The general example of calculations by the chief financial and planning administrator was as follows:

STU receives a normative cost of 63,000 rubles per bachelor mathematics student. Will it be enough to educate 25 students for one year?

The total amount of financing:  $63,000 * 25 = 1,575,000$  rubles.

According to the educational standard (1 teacher to 10 students), we need 2.5 teachers for this group. The average salary for teachers in our region for this year is 40,428 rubles.

Thus, the total salary =  $40,428 * 2.5 * 12 = 1,212,840$  rubles.

So, we have some additional money to cover other costs. However, according to Presidential Decree (#597 07.05.2012), university salaries should be 200% of increase by 2018. For us, this means that we should increase our workers' salary each year... But we do not have money for that, so we have to cover additional costs from our off-budget funds.

*From line-item budget to multi-year performance budget – “the field for creativity”*

The transition from a line-item budget to a multi-year performance budget was made by the financial and planning department at STU. It was surprising that there were no instructions for the new multi-year performance budget. This was reflected by the chief financial and planning administrator as “the field for creativity”: “There is one big problem for economists – we do not have any rules or regulations in our work. Before now, we had to make ‘*smeta*’; now we have to work with a financial and economic activity plan. Within this plan, I manage, according to my convenience or something that is written in the regulations of the university or other issues, half the information collected from the accounting reports.”

The new multi-year performance budget covers both budget and off-budget funds. Thus, as commented by the chief accountant, this gives the state institutor the ability to see how STU manages the off-budget resources in order to cover state tasks. In terms of the multi-year feature of the new budget, respondents noted that the goal

is not clear. “Why should we make a plan for three years if we only have financing for one year and don’t know what will happen during the next two years? ... So, we place ‘0’ in all items” (the chief financial and planning administrator, the chief accountant).

The possibility of the carryover in the budget was not actually used by STU. The chief accountant argues thus: “If we leave the carryover for the next year – then the cost of our education is too high, and, accordingly, the next year our funding can be reduced.”

In terms of performance, it seems that there is no clear link between finance and performance. As the chief financial and planning administrator commented, “The only thing we do for performance is to make a strategic plan for university development and plan some performance results in our own form... However, this performance plan is more like the last additional page in the budget. And it is loosely connected with the financial part...”

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## PROGRAMME-TARGET MANAGEMENT AS A BASIS FOR THE DEVELOPMENT OF THE BUDGET PROCESS IN THE ARKHANGELSK REGION

### **Introduction**

The aim of the article is to establish a theoretical-methodical foundation for the definition and management of the budget process in the Russian Federation, as represented in the Arkhangelsk region. The article examines the trends and results of reforming the budget process, conducted within the framework of the administrative reform in the Russian Federation in 2004. One of the main reforms was to increase the efficiency and transparency of the public sector, including the formulation and execution of the state budget.

During the last 15–20 years, similar reforms have been carried out in most developed countries. These reforms include a transition to Performance-Based Budgeting (PBB), which involves linking performance information with the allocation of scarce budgetary resources and is achieved through the use of programme-target

distribution costs, as well as the ongoing monitoring of their performance, and using this information to evaluate the performance of the public sector.

International practice confirms the need for this kind of reform, which is carried out to improve the efficiency of public sector activities and to achieve public policy objectives (Khan and Hildreth, 2002).

The authors offer a description of reformation of the budgeting process, using the examples of foreign countries and the Russian Federation. Particular attention is given to the model of PBB, drawing conclusions on its relevance and benefits and the need to implement at all levels of the budgetary system, taking into account national and regional particularities.

The transition to performance budgeting shows an example of the budgetary process in the Arkhangelsk region. It is demonstrated that performance budgeting brings together all the ways to achieve public policy objectives, at the federal, regional and municipal levels. In this regard, it can be considered one of the most promising tools for improving the efficiency of the public sector.

### **Russian budgeting system**

The state budgetary system functions within the specific administrative activity of public authorities and local self-government: the budget process. This activity is regulated by legislation of Russian Federation activities in relation to the preparation, review and approval of draft budgets and by monitoring their execution and budget reporting.

The budget system of the Russian Federation consists of budgets at three levels (Art. 10 of the Budget Code of the Russian Federation):

- level one: the federal budget and budgets of state extra-budgetary funds;
- level two: the budgets of Russian regions and budgets of territorial state extra-budgetary funds;



- level three: local budgets.

The state budget is the state's main financial plan for the current year and is enforced by law. It is approved by the Russian parliament.

The republican budget of the Russian Federation (or the federal budget of Russia) is the main link of the budgetary system. It concentrates the bulk of the budgetary resources of the country. The republican budget is the economic monetary relations, mediating the formation and use of a centralized fund of state funds, and is approved by the Federal Assembly of the Russian Federation as a law. Through it are mobilized funds from enterprises of different ownership forms and partly incomes of the population. These funds are used for: the financing of the economy, socio-cultural activities, strengthening the country's defence, the maintenance of public administration, the creation of state material and financial reserves, financial support for regional budgets, and the repayment and servicing of public debt.

The budgetary system of the Russian Federation is the organization of the budget system, the principle of its construction. It is based on economic relations and the state system of the Russian Federation. It regulates by the law the totality of the federal budget, the budgets of subjects of the Russian Federation, local budgets and state extra-budgetary funds (Art. 6 of the Budget Code of the Russian Federation).

The unity of the budget system provides a single legal basis, the use of uniform budget classifications and forms of budget documents, the agreed principles of the budget process, single socio-economic and tax policies.

Article 28 of the Budget Code provides principles of the budgetary system of the Russian Federation: unity; an independent budget; transparency of income and expenditure budgets; budgets of the state extra-budgetary funds; a balanced budget; efficient and economical use of budgetary funds; general (total) cost budgets; the accuracy of publicity; targeting and targeted nature of the budget.

The development of relations in the “centre–regions” is largely due to the development of fiscal federalism, one of the fundamental principles of justice, which serves the regions, treated as social justice in the distribution of scarce resources to territorial entities.

Fiscal federalism is a system of public finance management, based on the distinction between different levels of government budgetary rights and responsibilities in the field of budgeting, considering the interests of participants of the budget process at all levels of the budget system of the country and the interests of society as a whole.

The budget process involves several stages, each with their own goals and objectives and components, combined to complete the cycle of the system for budget management organization within a certain fixed statutory financial period.

The main objectives of public authorities and local governments in the implementation of the budget process are: the formation, distribution and use of budgets of various levels of the budget system; the improvement of the efficiency of their formation and use in the financing of public education; the optimization of the redistribution of financial resources between levels of the budget system: and the exercise of control over the completeness of enrolment in the budget and targeted use of budgetary revenues (Mukhina, 2013).

In the last 15–20 years, budgetary reforms have been carried out in most developed countries. These reforms include a transition to PBB<sup>30</sup>, which involves linking performance information with the allocation of scarce budgetary resources, and is achieved through the use of programme-target distribution costs, as well as the ongoing monitoring of their performance and using this information to evaluate the public sector’s performance.

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<sup>30</sup> The term ‘programme-target budgeting’ is used as the Russian equivalent of the English concept of ‘performance budgeting’. Translations of the term as ‘performance-based budgeting’ are largely responsible essence of the phenomenon, as in English literature there are examples of use of the term ‘results-oriented budget’ as a synonym for ‘performance budget’.

A PBB system meets all the requirements that apply in the evaluation of public authorities: the results achieved, the area of responsibility, and accountability to consumers of public services (Wildawsky and Caiden, 2003).

In this case, performance evaluation becomes an important step in the use of PBB, as all the activities including budget development, its adoption and evaluation of the results are objects to deep analysis, through which is achieved the best understanding between the participants of the budget process (Rabin, 2006).

The main difference between the PBB model and the traditional (expensive) model is the fact that the main goal of the traditional (expensive) model is to get information on the administrative and managerial problems. At the same time the main goal of the PBB model is to estimate the occurred changes. Thus, the PBB system talks about the strategy's success or failure to achieve the desired results (Shah, 2007), focuses on achieving outcomes, and provides a visible social effect (Kusek and Rist, 2004).

There is no unified approach to the definition of PBB. Analysis of the scientific concepts of this category allows you to select two basic approaches to its treatment: in the first, PBB is defined as a system of organizing the budget process and the state (municipal) administration, in which expenditure planning is carried out in close connection with the achieved results. According to the second approach, PBB is defined as a system of budget planning, which exists, in one form or another, to bind the structure and volume of budget financing to the results of the activities of public authorities (Leonov and Solomko, 2012). In our opinion, the first position is more valid. All stages of the budget process and the activities that make up the content are closely interrelated and need to be methodologically consistent.

The disadvantages of the Russian model for organizing the budget process and implementing the principle of fiscal federalism are (Gaizatullin et al., 2014):

- differences in the proportion of tax revenues covering the expenses of regional budgets in the undeveloped distribution methods of transfers from the federal

budget; these make it possible to manipulate the centre of fiscal transfers and are the source of growing regional disparities;

- vertical imbalance in the Russian fiscal system, associated with the transfer to the regional level of a large part of social spending, not providing sufficient tax base;
- the vicious system of 'special budget conditions' gives the federal state an 'asymmetric' form. This is reflected in the rules of budget legislation, declaring the political and economic equality of the Federation.

In addition, the effective implementation of the principles of fiscal federalism prevent:

- a significant differentiation between the region's economic and fiscal potential;
- the limited ability of most of the regions and local authorities to ensure budgetary self-sufficiency;
- the absence of horizontal fiscal equalization of contractual arrangements between the subjects' relations;
- social differentiation;
- lack of sufficient resources in the federal budget for levelling the budget supply to regions within the formalized procedures for the disproportion between financial resources transferred to the subnational level and responsibility for their use.

The authors determined the content of models of intergovernmental relations reforming in accordance with the principles of fiscal federalism, namely:

- radical (single-channel) model, under which income from tax revenues within the territory in the proportion 80:20 is credited, respectively, in the subnational and federal budgets;
- organizational model, in which the number of tax benefits is reduced, channels diverting revenues from the regional budget are liquidated. It activates the

activity of the tax authorities, aimed at improving tax collection, expanding the list of its own sources for replenishing the budget revenues;

- evolutionary model, which involves the formation of the budget, in accordance with specific indicators, on the basis of the objectives and targets of social and economic policy in the region.

In the transition from the ‘management of budget expenses’ to PBB budget development should be tied to specific indicators, on the basis of the objectives and the expected results of the regional social and economic policy. When planning costs should focus on the justification of outcomes within budget programmes, allocations should be clearly linked to the functions they perform.

### **Performance-based budgeting: experience from foreign countries**

Rich experience of budget planning was accumulated from Western European countries: Germany, the UK and Austria, and also from Canada, Australia and the USA. Recently, many developing countries such as Thailand, Turkey, New Guinea, Bulgaria, Hungary and Kyrgyzstan are also practice oriented in performance-based budgeting.

International practice has proved the success of PBB and integrated medium-term expenditure planning as the two major conceptual and practical approaches to improving the efficiency of budget expenditures, in terms of achieving public policy goals. Both approaches pursue the same goals: optimization of budget expenses, orientation of the priorities of the state policy and improving the overall efficiency of public finance management.

Table 1. PBB tools used in foreign countries (Likholetova, 2014)

<b>Country</b>	<b>Characteristics of PBB tools</b>
USA	The budget does not reflect the structure of expenditure by types of costs and the expected results from the implementation of specific programmes → Using ‘planning - programming – budgeting’ → Management by Objectives → Budgeting → Budget development from zero → Developing long-term development

	plans and annual reports on the objectives and the expected results programmes
Australia	The government defines socially significant results, which it intends to achieve in each field → Parliament approves the appropriations required to achieve certain results → Ministries and departments determine the target values of the indicators they must reach
France	Budgeting is built on a system of contracting, where contracts are concluded between the central authorities and service producers. To this end, the cost estimate of public services is carried out, its quality indicators and criteria for the effectiveness of the ministries and agencies are developed
New Zealand	The system used provides a contractual relationship between 'departmental' customers and suppliers. The essence of the system is that the contracts are concluded, on the basis of which the government buys services at prices agreed at the ministries, as well as contracts, on the basis of which departments and agencies purchase services from other organizations
UK	The budgeting system includes two basic elements: an agreement on public services and an agreement on the quality of services. They establish the purpose and objectives of each ministry, the target values of quality and quantity of public services and the expected impact of their provision
Sweden	The emphasis is on improving the quality and flexibility of public services. This is achieved by measuring the socio-economic impact of the services provided

The main reasons for PBB implementation are the increase in world practice, the role of the public sector in economic systems and the development of public services. The foreign countries examined use the PBB budget-planning model, but each of them uses its own, specific budgeting tools (Table 1). This is due to the fact that, historically and legally, these states have different enshrined mechanisms for public finance functioning, as well as varying degrees of economic development and political systems.

An analysis of the experience of the US, the UK, Australia and New Zealand in implementing and improving performance budgeting reveals the following advantages of this approach:

- financial resources are allocated by the programme or the strategic objectives, not by cost, and;
- programmes are formulated on the basis of shared goals and strategic priorities, agreed with the legislative authority;
- transparency of the budget process is provided;
- budget and strategic planning are combined;
- distribution of budgetary allocations, on the basis of a set of interrelated problems of socio-economic development;
- evaluation of the effectiveness of budget spending from point of achieving a position of strategic and tactical tasks of industry and region development.

The experience of developed countries' use of PBB provided some very valuable findings for Russian practice (Budgeting in Russia), namely:

- there is no single model for the construction of PBB and each country needs to develop its own approach, taking into account the political and institutional characteristics;
- it is critical to plan in integrated budgetary expenditures;
- information on the impact must necessarily be reflected in the budget process;
- it is inadmissible to automatically transfer the results to assess the effectiveness of the resource allocation process, because such an approach can lead to a distortion of incentives; this is especially important in the case of low performance (Performance Budgeting...).

The task of improving the efficiency of the whole system of public finance is getting more actual, because of new, more stringent requirements for the state, in terms of

the performance of its functions. As a result, this led to the formation of a completely different model of public financial management (Afanasyev and Shash, 2014).

Analysis of international experience confirms the relevance of using such approaches in Russia. In essence, the programme budget – a programme-target expenditure management tool – provides budget allocations on the basis of the priorities and objectives of social and economic development. Overall, the new format of the budget is intended to replace the valid until recently model of the estimated budgeting, in which there was no link between the results, the execution of expenditure and the use of funds .

As the experience of countries in the OECD (OECD, 2007) to improve the efficiency of public administration and budget spending, to improve the quality and accessibility of services provided by the state, it is necessary to require the introduction of programme principles of budget planning.

The methodological principles are based on objective economic laws and market economy principles, trends and patterns of the national economy, which is an integral part of the budget system of the country.

As all carried are out in the framework of jobs, which aim to achieve the same purpose, they should be grouped under one programme, regardless of funding source.

Programme objectives should be clearly defined and different from one another, must comply with the budget classification used in the state fiscal plan for unification in the distribution of funding and decision-making in the preparation of the budget. All kinds of public expenditure are to be covered.



Table 2. Summary of budget planning:

<b>Principles</b>	<b>Description</b>
The principle of timeliness and availability of information	A systematic review of the results of targeted programmes in the budget process
The principle of sufficiency of information	Creation of the means to obtain simple and accessible information
The principle of integration	Integration mechanisms, review of priorities of budget financing and efficiency programmes in the budget process
The principle of synergy and cooperation	Medium-term planning in the sector, particularly in health, education, infrastructure and economic activities, can be a source of necessary information for the key ministries responsible for making decisions on funding programmes. We need to fully integrate planning into the budget cycle. In addition, planning at the national level acts as a sort of coordination tool.
The principle of management flexibility	Flexibility in the choice of the resources necessary to implement programmes. The need to revise the traditional process used in the economic classification of budgeting expenditures. The flexibility of the administrative process, i.e., ensuring the possibility of reducing the number of civil servants in the lower-priority or ineffective programme areas.
The principle of the restructuring of the current budgeting system to programme budget	A certain ministry should be responsible for the programme implementation. The content of the programme should correspond to the activities of the ministry.

Performance budgeting allows us to combine all methods to achieve state goals. In this regard, it can be considered one of the most promising tools for improving the efficiency of the public sector.

## **Performance-based budgeting: Russian experience**

Improved governance in the Russian Federation is the most important condition for the effective and timely achievement of the objectives of public policy.

The introduction of the programme-target method of budget policy in Russia began in 1995, and the implementation process can be divided into five stages (Fesik, 2014):

1. 1995–2003 - The period of the emergence of targeted programmes. To solve the concept of priority, socio-economic, defence, scientific, technical, environmental and other important tasks of an interdepartmental character received a target programme or similar programmes at the regional and municipal levels. During this period, there were programmes for social and economic development and sectoral development strategies. On 26 June 1995 Order of the development and implementation of federal target programmes and intergovernmental programmes was adopted.
2. 2004–2006 - The period of the emergence of departmental programmes. On 19 April came the Resolution of the Government of the Russian Federation № 239 “On Approval of the development, approval and implementation of departmental target programmes”. During this period was enacted the concept of reforming the budget process, which identified the goals, objective and, indicators for all activities of the executive power and the transition, defined in the federal bodies of the executive authority, to the management of the results and the mid-term Performance-Based Budgeting.
3. 2007–2010 - The period of the emergence of long-term programmes. In 2007, the Budget Code included a special article dedicated to long-term programmes.
4. 2010–2012 - The period of implementation of government programmes and the transition of the federal budget to a programme format. Acted Programme of the Government of the Russian Federation, aimed to improve the efficiency of budget spending, defined legal framework for programme format of the

budget system of the Russian Federation and a new form of government institution, providing public services (planning of activities and evaluation of results achievement is carried out on the basis of the indicators of performance of institutions).

5. 2013 to the present time - The period of transition of most of the expenditures of the federal budget, on the principles of programme-oriented planning, monitoring and subsequent evaluation of the effectiveness of their use. The achievement of the objectives of the period contributes to the state programme of the Russian Federation "Public Financial Management".

In the current year in the Russian Federation, there have also been tremendous efforts to modernize the management of public finances.

The Budget Message of the President of the Russian Federation on budget policy for the period of 2014–2016 was also devoted to questions of the budgeting system in the Russian regions and in the whole of the Russian Federation. The main directions of the activities of the federal executive authorities, regional executive authorities and local authorities on improving the efficiency of budget costs were approved by the Government of the Russian Federation and the decisions of the State Council of the Russian Federation in 2013.

In 2010–2012 the development of the budget system of the Russian Federation was carried out in the framework of the Russian Government to improve the efficiency of budget costs for the period up to 2012. In most areas of its implementation, significant progress has been achieved:

- approved the Russian Federation's list of state programmes;
- adopted the procedure for developing, implementing and evaluating the effectiveness of state programmes;
- approved the guidelines for the development and implementation of state programmes;

- in 2010–2013 developed analytical distribution of budgetary provisions of the federal budget for state programmes, conducted for the purpose of testing technologies of formation of the federal budget, according to the programme-target principle;
- optimized functions of state and municipal management and improved the effectiveness of their security;
- formed and developed the system of state and municipal financial control, contract purchasing system of goods and services for state and municipal needs;
- reformed the system of budget payments;
- developed an information system for public finance management;
- continued the process of approval of state programmes of the Russian Federation<sup>31</sup> (their structure is shown in Figure 1);

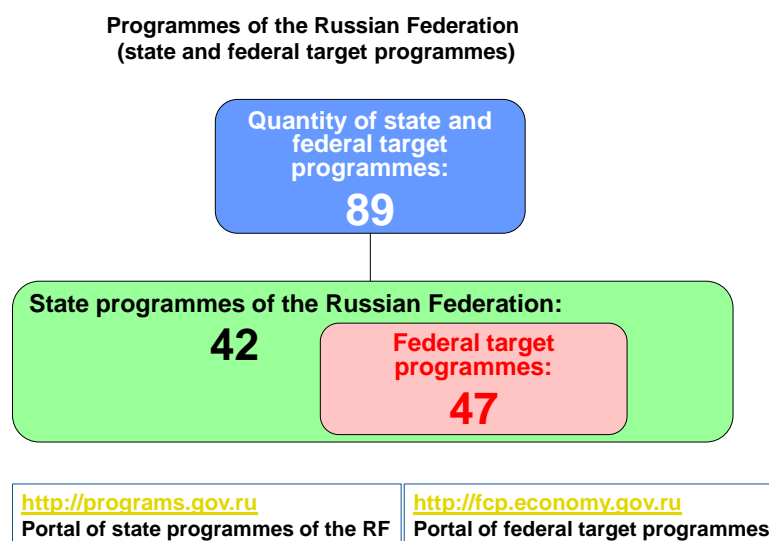


Figure 1 Structure of the state programmes of the Russian Federation

<sup>31</sup> A list of 42 state programmes of the Russian Federation approved by the Federal Government on November 11, 2010 № 1950-p (as amended by the Decree of the Government of the Russian Federation of December 15, 2012 № 2394-p).

- increased long-term balance and stability of the Russian Federation's budget system. Since the federal budget for 2013 and the planning period of 2014–2015, the federal budget has been based on 'fiscal rules'. The federal budget for 2014 and the planning period of 2015–2016 was formed firstly as the structure of the Russian Federation's approved state programmes. With the support of the Russian Ministry of Finance, methodical implementation of the programme structure of the budgets at the regional level is going on. In 2013, 45 Russian regions adopted legal acts about the procedure for the development and implementation of state programmes for the Russian regions.

The overall tasks of the programme for improving the efficiency of budget costs have been solved. They ensured the continuity of the development of the public finance management system and created a qualitatively new foundation for the creation of a new programme in this area – the programme for improving the efficiency of the state and municipal finance management for the period up to 2018.

Formulated for the period up to 2018, the strategic goals and tasks for social and economic development require the continuation and deepening of budget reforms, with the raising of the system of public finance management to a new level.

On this basis, the application of the mechanism limiting the growth of the federal budget costs, under the unconditional implementation of decisions taken (current liabilities), including within the approved state programmes of the Russian Federation, as well as the recovery of sufficient quantities of reserves, which are the source of new revenues from oil and gas exports for their possible use in the case of deterioration of the macroeconomic situation, are priority measures to ensure the long-term sustainability of the budgetary system of the Russian Federation and countermeasures to fiscal risks.

The transition to the formation of the budget system of the Russian Federation, on the basis of state and municipal programmes, imposes additional requirements for budget system stability, regarding the guaranteed provision of financial resources for existing expenditure commitments and the transparent and competitive allocation of available funds.

Thus, we have the possibility of full application of the programme-target method for state policy implementation. It creates a solid foundation for the system efficiency improvement of budget costs and the concentration of all the state's resources onto the most important activities.

The main components of the programme budget are state and municipal programmes.

State Programme - a system of measures (interconnected by problems, timing and resources) and public policy instruments that provide, as part of key government functions, the achievement of the priorities and objectives of the state policy in the sphere of socio-economic development and security.

The main difference from a traditional programme budget is that all or nearly all the expenses (subsidies budget and autonomous institutions in the implementation of the state and municipal tasks, the provision of public services, support of the public institutions and authorities, and others) are carried out under government programmes, and each programme is directly aligned with the priorities and expected results of the activities of the executive branch. At the local level, these goals should be closely linked to the objectives of the functioning of local self-government as the guarantor of municipal services to the population.

Beyond government programmes, there will be expenditure, carried out the system of executive power (for example, the costs of the judicial system, the Audit Chamber, the Electoral Commission and others).

The introduction of a 'target' budget involves the changes of rules of the drawing up, approval and execution of budgets, the adjustment of the budget classification and budget reporting system, the introduction of new forms and types of state and municipal financial control, the rejection of the practice of decision-making on individual objects and narrow areas, and the transition to the system evaluation of budgetary cost impact, to achieve the objectives of state and municipal programmes.

This suggests that the state and municipal programmes are a key mechanism for linking strategic and budget planning. The efficiency of the 'target' budget as a tool for the implementation of state and municipal policy will be determined by the results of a comprehensive reform of state and municipal management.

The terms of use of the programme-target method demonstrate its inherent classical principles, outlined in the Budget Code of the Russian Federation, namely:

1. the principle of unity and integrity ensures the unity of economic and social objectives, common approaches to the planning, organization and control of the execution and financing of budget expenditures;
2. the principle of targeting and the targeted nature – all the activities of management bodies decomposed into clear and specific goals, objectives, activities and indicators for their implementation; the budget shall be notified to the concrete recipients of budget funds, stating the purpose of their use;
3. the principle of reliability and validity – this refers to the reasonable opportunity and resource support to achieve their goals, as well as the validity of indicators, used in the process of budget planning;
4. the principle of internal balance – this is the consistency of basic elements of public strategic planning with each other, i.e., dates, expected results of the implementation of public policies established in the state's strategic planning documents, the parameters of their resource support measures, linked to

- government regulation in the public sector, including the long-term fiscal strategy for the entire period of long-term state's strategic planning;
5. the principle of effectiveness and efficiency – selecting the means and methods of achieving the objectives, based on the need to achieve the desired results with rational resource costs;
  6. the principle of fullness – this is the need to reflect all the costs of the programme expenditure budget for the next fiscal year and planning period;
  7. the principle of self-selection of ways to achieve these goals – within their competence, participants of the budgetary process shall be independent in the choice of ways and means of achieving the goals and objectives of social and economic development;
  8. the principle of accessibility and transparency – all documents shall be officially published; draft documents are the subject of public discussion. This principle allows us to make power more transparent to the public; improving social policy through more informed budget spending is essential for anti-corruption activities in the budget process.

According to some researchers (Fesik, 2014), for the full implementation of the programme-target method in the budgetary process of the Russian Federation, the above principles must be supplemented by the following principles:

1. autonomy – the goals, objectives and activities of one programme should not duplicate the goals, objectives and activities of other programmes. Programmes expenditure should not be crossed. Depending on other programmes is possible only within the framework of constructing a hierarchical structure of the target budget programmes ('tree of objectives');
2. the responsibility of the budget process – actors are responsible for the effectiveness of problem solving and the implementation of activities to achieve their goals within their competence and in accordance with the legislation of the Russian Federation. This principle eliminates the blurring of



- responsibility for implementation of the programme, therefore increasing the likelihood of success in the implementation of goals;
3. information security – with the formation of the budget for the next fiscal year and planning period, data on the implementation of programmes are recorded and analysed. These monitoring programmes are integrated into the budget process to review the main directions of budget policy change or to eliminate low-priority programmes;
  4. the adequacy of the information – this refers to building an information system to ensure the implementation of comprehensive programme evaluation, focused on the achievement of qualitative and quantitative results of the programme at some stage;
  5. synergy – is the exchange of information between the decision initiators and responsible persons for its adoption;
  6. adaptability – programme-target method gives an adequate response to organizational system by adjusting the objectives and ways and means of achieving them.

These principles will create a transparent mechanism for the formation of the programme budget and to establish levels of responsibility for achieving programme results.

The transition to programme budgeting provides a number of new features, the most significant of which are the assessment of budget spending to achieve the specific social and/or economic purpose, the analysis of budget expenditures and the emergence of the possibility of comparing the results achieved with the costs.

Thus, the use of the modern concept of budgeting allows the problems of the allocative and economic efficiency of budget spending to be solved, which is a key factor in increasing the efficiency of the public sector as a whole.

However, studies in the field of reform of the budget process in the Russian Federation have revealed some problems:

- evaluation of the effectiveness of Russian programmes is now seen as a tool to assess the economic sectors and not a tool for making budget decisions.
- the separate planning of capital expenditures and operational costs (maintenance, operation, etc.) leads to negative consequences such as unfinished construction projects, extension of terms of construction contracts and others.
- the financial departments of the ministries ensure coordination of the budget process within ministries, performing mostly traditional accounting functions.
- recipients of the budget each year provide reports on their activities, which are then consolidated in a single document by the Ministry of Industry and Trade. However, Parliament does not receive the report data, and they are not used for budgeting purposes.
- planning is separated from the budgeting process. Integrated planning and budgeting can be improved by placing both functions within a single ministry.

In addition, it should be noted that the state programme of the Russian Federation and the subjects of the Russian Federation are developed in an environment, in which there is yet to be formed a unified approach to the organization of the strategic planning process, involving the determination of the composition of strategic planning documents, at both the federal and regional levels<sup>32</sup>. Today, therefore, studying and evaluating the practice of the principles of programme budget planning in some regions of Russia, which have already taken the first steps along the way, is of particular interest.

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<sup>32</sup> Federal Law “The strategic planning in the Russian Federation” was adopted on 20 June 2014, so the process of developing key strategic documents is in the initial stage

## Budget reforming: the case of the Arkhangelsk region

Programmes of the Russian Federation and its regions are developed in accordance with:

- long-term strategies (programmes, concepts) for socio-economic development;
- federal and regional laws and other normative legal acts of the Russian Federation;
- orders of executive authorities.

In the Arkhangelsk region, programmes are additionally developed in accordance with:

- the interdepartmental and interregional nature of the tasks;
- the possibility of a significant reduction in terms for solving priority interdepartmental tasks in the result of using government support;
- the long-term (sustainable) results of the programme's implementation;
- the ability to attract funds from federal and local budgets, as well as non-budgetary sources.

**Basis** - Budget Code of the Russian Federation (assets 79, 179, 179.3)

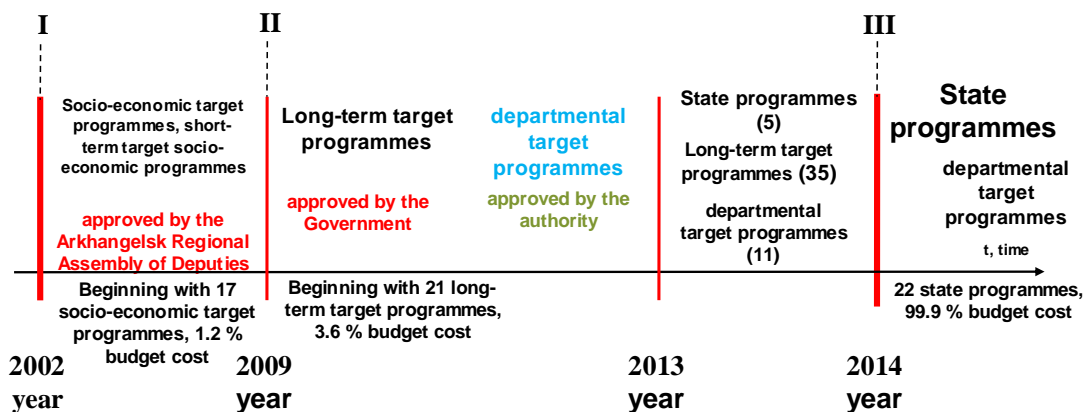


Figure 2. Evolution of programme formation in the Arkhangelsk region

2009 was the start of the implementation of a long-term and departmental target programme in the Arkhangelsk region. Since then, the number of approved programmes has increased and the share of the regional budget, which is formed in the programmes, has grown (Figure 3): in 2009 - 4.3% (30 programmes); in 2010 - 9.1% (41 programmes); in 2011 - 22% (56 programmes); in 2012 - 38.3% (68 programmes), in 2013 - 80.5% (57 programmes, including five state programmes, which cover 76.6% of the regional budget costs).

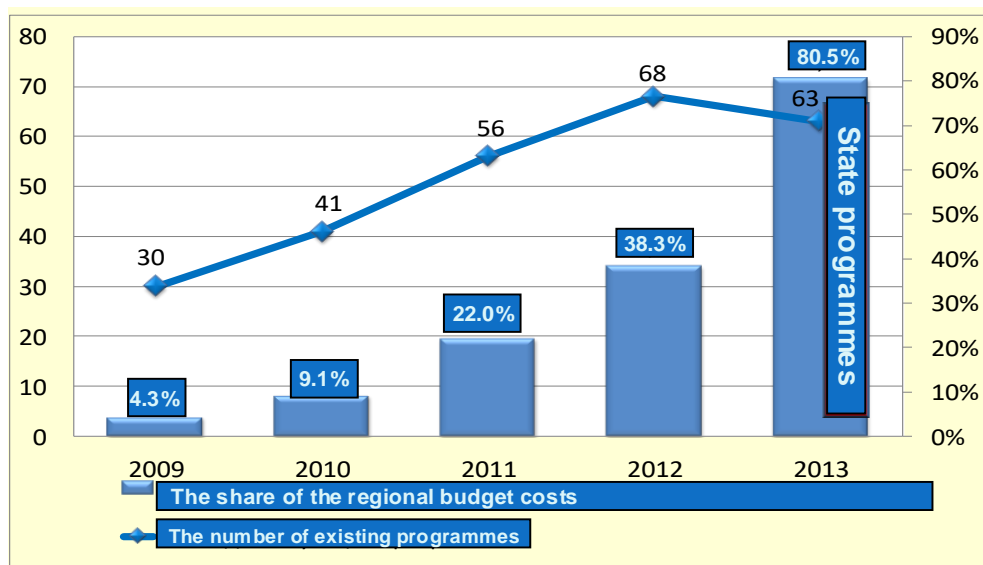


Figure 3. Dynamics and structure of programme implementation in the Arkhangelsk region

In 2013, the implementation of the programme-target method for the regional budget formation was continued. In 2014, 18 new state programmes in the Arkhangelsk region were accepted and approved. Thus, now 23 state programmes have been realized in the Arkhangelsk region. Each state programme has a list of key target indicators for the development of a defined area for a three- to five-year period, which is aligned with the Decrees of the President of the Russian Federation, adopted in May 2012 (these Decrees of the President of the Russian Federation received the name “May decrees” and relate to achieving the targets for economic development, social services and public administration). The result is a set of key indicators for the Arkhangelsk region for a three- to five-year period.

According to the Arkhangelsk regional law (December 19, 2013 № 59-4-OZ) “The regional budget for 2014 and the planning period of 2015-2016”, the regional budget finding for state, addressed and other programmes is 58,316.8 billion rubles. The share of the regional budget costs of the Arkhangelsk region, formed in the framework of programmes in the total costs of the regional budget (excluding subsidies for performance of delegated authority), increased from 85.4% in 2013 to 98.9% in 2014.

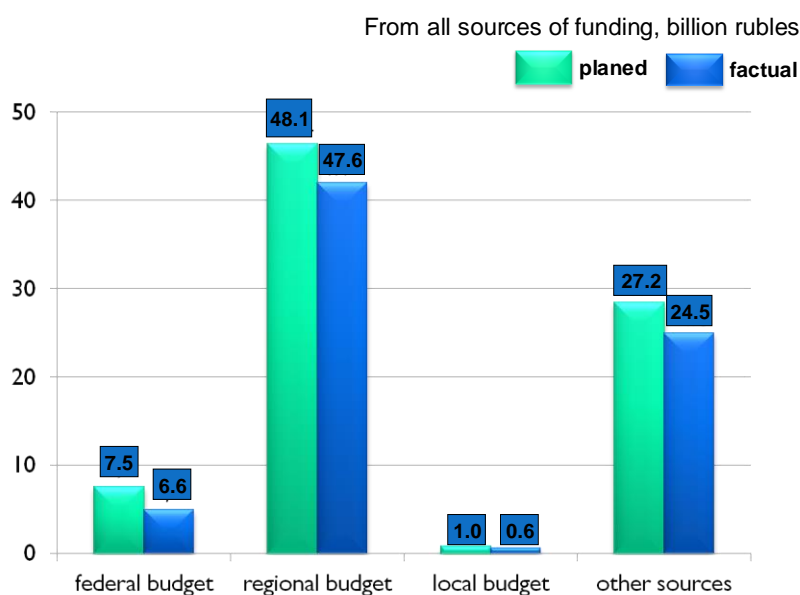


Figure 4. Structure of programme financing in 2013 by source of funding

It should be noted that the main source of programme funding is the regional budget (Figure 4), and the socio-cultural sphere is the main area of programme implementation (Figure 5).

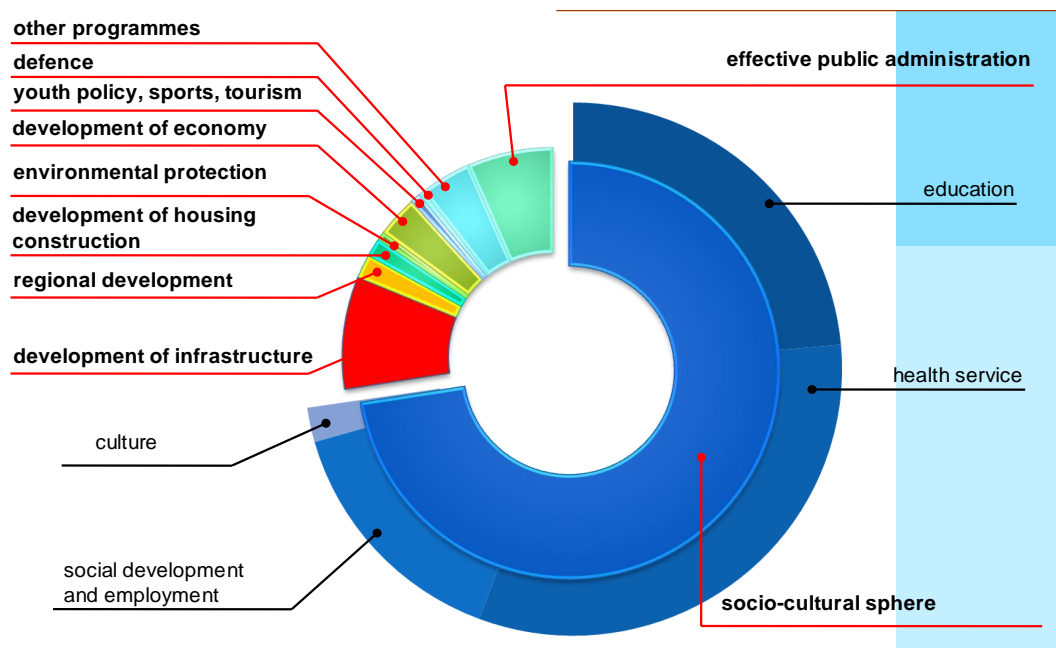


Figure 5. Structure of programme financing in 2013 (in areas)

The advantage of the programme-target method is a focus on solving socio-economic problems. But, in general, the main areas in which the programme-target method is involved in regional problem solving in the Arkhangelsk region are the following (Figure 6):

- the formation of new facilities or the development and support of existing advanced production facilities, social and industrial infrastructure;
- the provision of financial and economic stability for the region; social, economic, environmental security;
- the creation of favourable economic conditions for the functioning and development of regional businesses and industries, by improving the investment climate;
- the activation of legal and other forms of assistance to small and medium enterprises in the region;
- the development of market infrastructure.

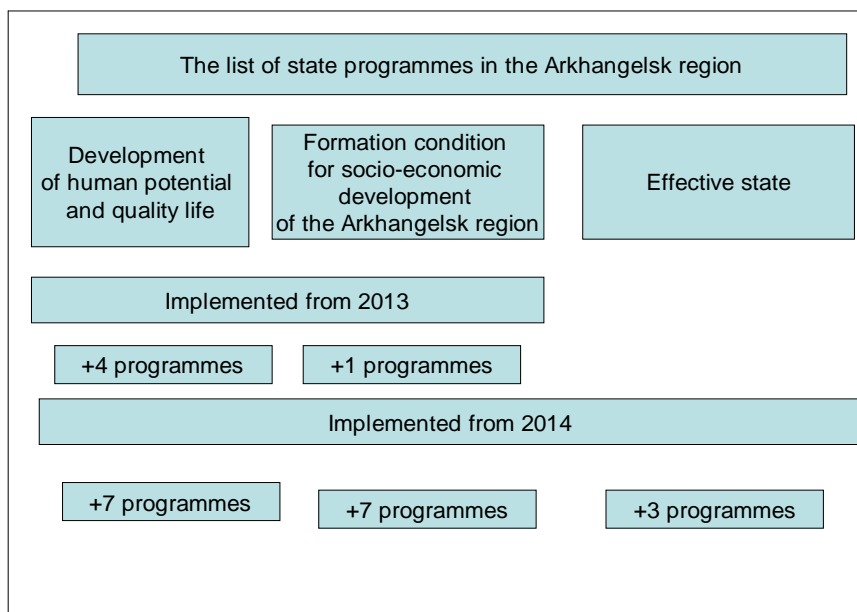


Figure 6. List of state life programmes in the Arkhangelsk region

The Arkhangelsk region is actively involved in the implementation of federal target programmes and different kinds of projects. The volume of attracted funds is growing. So, in 2012, the region's income was raised by 7.491 billion rubles, while, in 2013, this figure was 8.597 billion rubles (115% compared to 2012). In 2013, the Arkhangelsk region took part in 20 federal target programmes and in one project of a non-programme part of a federal addressed investment programme.

### **Problems and further directions of development of budgeting process**

Despite the obvious advantage of using the programme-target method in the implementation of the budget process, there are problems and issues that require special attention, such as:

1. In the state programmes' preparation, there are constantly problems with additional funding. At the same time, it is important that the basic version of the state programmes ensures the achievement of the necessary and priority goals.
2. The difficulty in choosing performance indicators for state programmes;

3. The existence of differences among the participants of the budgetary process in relation to the composition and structure of federal budget expenditures for the implementation of government programmes;
4. The sectoral characteristics of some government programmes that need to be considered when assessing the effectiveness of their implementation;
5. Assessing the effectiveness of selection tools, including the definition of performance indicators for state programmes;
6. It is necessary to solve the problem of strategic planning documents' formation. We still do not know how the various strategic planning documents relate to each other, as well as to the budgetary, investment and other strategies. There is a need in the future to ensure adequate alignment of the programme documents' priorities at the regional and municipal levels;
7. There is a need to clarify the methodological and regulatory framework in the process of approval and implementation of state programmes;
8. There is a transition from state programmes as a planning tool to state programmes as a management tool.

Technically, it is not so difficult to begin using the programme budget. The main task is using the programme budget form, to ensure that each programme has become an effective management tool. The problem is that the state programme is still perceived only as a tool for obtaining additional financing. But it is a new tool, which differs from the current instruments in four important characteristics:

Firstly, the state programmes include not only budgetary provisions but also all the tools available to the state to achieve its goals: legal regulation, control, licensing, and so on. The combination of the legal-regulatory and financial instruments in one document is a qualitative change in the whole system of planning and management. As a result, without presenting the requirements for the content of the state programmes, the programme budget promotes the reform of public administration in general.



Secondly, the state programmes cover all government activities of the Russian Federation (or the regional government) and, accordingly, the costs of executive authorities.

Thirdly, in the state programme there may be a unified subsidy to support similar state programmes in the Russian regions with an estimation of their contribution to the results of the state programme.

Fourthly, state programmes help to build interdepartmental cooperation within the plan's framework for their implementation, taking into account the responsibility for their subcontractors and participants.

Thus, we can argue, that general conditions for reforming have been created; a new system as a whole has worked. Preliminary results of budget planning programme principles' implementation in the Arkhangelsk region have indicated that the Arkhangelsk region has passed the first stages of the programme principles of budget planning. As a result, the regional government has found some solutions and developed effective mechanisms and instruments that can be recommended for use at the municipal level.

In addition, as with the practice of other countries (Afanasyev & Shash, 2014), the distribution of budget resources is constantly in need of further optimization in connection with the adjustment of the socio-economic priorities and public policy objectives. Moreover, due to non-market provision of public services, it is necessary to constantly enhance the work aimed at improving the efficiency of budget spending. Thus, achieving a certain level of performance becomes another step towards improving the efficiency of the public administration sector. In this regard, despite some obvious achievements, the process of reforming the budget, especially in the implementation of performance budgeting, continues to evolve. The idea is that, in the coming years, the subjects of the Russian Federation, in the framework of the transition from 2016 to programme budgeting principles, must do a lot of work,

including the incorporation of existing disparate federal targets programmes and various regional programmes in the new budgeting model. Another important trend in the Russian part of the continuation of budget reforms is the transition to long-term fiscal planning, which will be carried out within the framework of fiscal rules and a system of strategic planning, due to the already adopted law “On state strategic planning”. In accordance with the requirements of a major upgrade of the budget legislation, it is planned to prepare a new version of the Budget Code, which should become more systematic and user-friendly so that it meets the new economic realities. Especially in times of economic instability, we cannot exclude the emergence of new serious challenges, due to the worsening of external and internal economic imbalances that require constant adjustments to fiscal strategy and fiscal policy of the Russian Federation.

### **Acknowledgment**

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## EVALUATION OF THE EFFECTIVENESS OF SUBSIDY PROGRAMMES OF LEASING OPERATIONS AND THEIR IMPACT ON BUSINESS ACTIVITY IN THE ARKHANGELSK REGION

### **Introduction**

State support of small and medium-sized business entities is a separate subject of government policy in the Arkhangelsk region and the Russian Federation. It is based on the principle of creating favourable conditions in those kinds of business activities, which give the maximum socio-economic effect.

In spite of the overall positive trend of growth in the business activity of small and medium-sized businesses and the growth of economic indicators from that activity, in general, the sphere of active state support in the Arkhangelsk region is not currently well developed.

One of the major factors restraining business development in small and medium-sized businesses is the lack of financial resources. In addition, for many small and medium-sized businesses, financial leasing is the only way to obtain investment for the acquisition of fixed assets and the further development of their entrepreneurship. Support from the government to subsidize leasing operations is an additional stimulus

for the leasing mechanism for the updating or purchasing of fixed assets by small and medium-sized enterprises.

### **Frame of reference**

Arkhangelsk region belongs to the group of regions where such subsidies are enshrined in law: at no cost and on an irrevocable basis, small and medium-sized businesses (producers of goods, works and services) receive financial support through subsidy on a competitive basis. There are two programmes in the region:

- subsidizing part of the lease payments under financial leasing agreements arranged for the implementation of investment projects;
- subsidizing down payments in financial leasing contracts for production equipment and machines (Regulation №140-pp., 2012; Regulation №95-pp., 2012).

Funding sources for the programmes are the federal and regional budgets.

Financial leasing is already a mechanism for improving the economic situation through targeted investment in fixed assets. The main purpose of this article is to determine the effectiveness of government programmes supporting leasing operations in our region.

The development stages of state programmes supporting leasing operations in the region during the period 2011–2013 are presented in Figure 1.

The diagram shows the common ratio of the budget programmes under review. In the diagram, we can see two forms of support: subsidizing part of the lease payments under financial leasing and credit, and subsidizing down payments in financial leasing contracts. These forms of support differ in their main target group; the first one involves the support of all forms of loans and financial borrowings, while the second one is for renewing the fixed assets of small and medium-sized enterprises (SMEs).

Based on the total increase in funding, we can say that the programmes have

achieved their purposes. But what are these purposes? In the regulations for subsidies, there is no specific term concerning the programmes' goals. The only reference on this score in the programmes' rules is the following: "The purpose of providing subsidies is the first payment of lease payments under a financial leasing of equipment by small and medium-sized enterprises" (Regulation №95-pp., 2012).

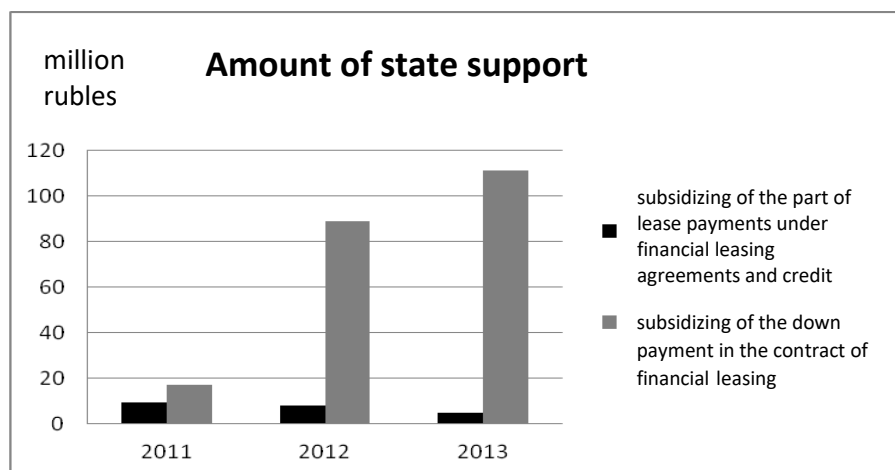


Figure 1. Amount of state support for financial leasing in Arkhangelsk region. (Regulation №140-pp., 2012; Regulation №95-pp., 2012). The figure shows (1) subsidizing part of the lease payments under financial leasing agreements and credit and (2) subsidizing down payments in financial leasing contracts

This means the following: the aim of the programmes is to expand the total amount of subsidies; it is not the way to determine the effectiveness of the programmes. That is why these criteria should be considered not from the perspective of formalizing aims but from the viewpoint of purposes, which are based on the policy of support of entrepreneurship in general.

## Methodology

The key question of any action is the degree of achievement of its objectives, its effectiveness,. In our case, direct assessment of the programme's results is not possible for several reasons:

- the inability to estimate the contribution of the programme to GDP growth in

the region;

- the presence of other factors that affect the amounts of tax revenue;
- the absence of direct correlation between the amount of support and the volume of acquisition of fixed assets;
- various other reasons.

In other words, there is currently no complete system for evaluating these programmes, which are held, as in the Arkhangelsk region, in other regions of the Russian Federation.

For each party participating in the support programme, the key results are different:

1. for the state apparatus: the development of allocated funds; improving the efficiency of production in order to increase tax revenues and improve living standards in the region;
2. for small and medium-sized enterprises: victory over the competition and a subsidy to develop their own businesses through the renewal of fixed assets.

## **Discussion**

In this article, the evaluation of programmes is carried out by means of an analytical approach, based on the overall benefits for all the support, in terms of general economic benefits. The analysed data is based on the results of the implementation of leasing-support programmes from 2008 to 2014. The main source of information comes from interviewing leasing companies, lessees and the Ministry of Economic Development. The present format of the work implies dividing criteria into the following main groups:

- A. Relevance to the objectives and overall programme evaluation;
- B. The presence of external programme effects;
- C. The social significance of programmes and other criteria.

First group of criteria: Relevance to the objectives and overall programme evaluation



The evaluation was conducted on the purposes, which were set for the programme in the regulations, as well as on the consequential results.

*The main strengths of the programme are as follows:*

- 1) Contribution to the key manufacturing sector of the economy: compliance with the basic activity of competitors, with an approved list of industries that give the maximum socio-economic benefits in the region;
- 2) Due to the distribution mechanism, carried out by the leasing scheme, support reaches companies, which are actually functioning and solvent, rather than "phony companies";
- 3) The support of the leasing transactions to be received only for production purposes.,
- 4) It increases the attractiveness of legal working schemes;
- 5) The programme increases the level of employment: one criterion of the programmes is the creation of additional jobs;
- 6) It increases the volume of tax revenue from the increase in production – budget efficiency.

*The weaknesses of the programme are as follows:*

- 1) There is an absence of further control over the recipients of support: the subsidy system does not include for effective monitoring of the status and activities of small and medium-sized businesses that have received support. The programme analyses the financial position of the applicants before the competition, their compliance to the criteria and the target spending of the support but no further.

The second group of criteria: The presence of external programme effects

If we consider the results of the programme, in addition to the obvious reduction in the price of the renewal of fixed assets and the increase in the attractiveness of the leasing mechanism, there are a number of external effects (externalities):

- 1) The multiplicative effect of an increase in tax revenues: the initial growth in paid taxes increases appropriations for government programmes, including subsidy programmes for leasing operations, which again leads to an increase in tax revenues.
- 2) The increase in revenues and earnings, due to the expansion of production capacity, leads to the further growth of companies.
- 3) Expansion of production capacity leads to an increase in investment attractiveness, improving the capacity for infrastructure development, etc., which is also beneficial for the region.

The third group of criteria: The social significance of programmes and other criteria

- 1) Due to the increase in production – as a result of modernization and expansion – there is an increase in the well-being and standard of living of the Arkhangelsk region, improving the labour market situation.
- 2) The rules of the competition are constantly updated: in contrast to the large number of municipal programmes, given once and for all, the regulations for subsidizing leasing operations in the Arkhangelsk region are regularly reviewed and refined, meeting the needs of the priority areas of the economy and of the region.
- 3) The Commission that decides on providing the support, is approved by order of the Ministry of Economic Development and competition policy. The Commission consists of specialists in the Ministry of Economic Development and competition policy, representatives of the executive authorities, members of the Arkhangelsk Regional Assembly, representatives of public associations of small and medium-sized businesses, thus eliminating a biased attitude to certain candidates, areas and businesses in the region.
- 4) According to the results of the "Integral rating socio-economic status of the subjects of the Russian Federation", in 2013 Arkhangelsk region was in 38th place (in 2012 it was 35th). In one criterion of the rating: "Investments in fixed

assets per capital", it took 37th place (in 2012 it was in 16th place) with the index – 67.5 thousand rubles per person, which is almost two times less than it was in 2012: 123.9 thousand rubles per person) (Riarating, 2014).

However, in Arkhangelsk region, this indicator decreased by slightly more than 5%. This is higher than a decline rate in the capacity of a number of productions in the forest complex. The value of the index did not dramatically decrease, partly due to the action of programmes subsidising leasing operations.

## **Conclusion**

Despite the difficulty in estimating the subsidy programmes of leasing operations and their inability to make a precise quantitative analysis, the usefulness and effectiveness of these programmes is not in doubt. The analysis of programmes identified weaknesses, which might be taken into consideration for the next edition of the programme's rules.

Municipal support of lessees (small and medium-sized enterprises) is an effective way of supporting developing companies, as well as stimulating the investment activity of enterprises in the region and improving the efficiency of the usage of budget funds. These programmes have high multiplicative and socio-economic effects, which assist the modernization of technological processes and increase the assets of enterprises.

## **In an extension of the present article**

- forming quantitative indicators for the research;
- a deeper analysis of foreign experience of the issue;
- practical approval of the evaluation methodology;
- formulating suggestions on the topic for the Ministry of Economic Development;
- etc.

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