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THE PERFORMANCE OF STATE AND MUNICIPAL PROGRAMS IN THE SYSTEM OF SOCIO-ECONOMIC DEVELOPMENT OF TERRITORIES

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Abstract

The basis for the successful funding of any socio-economic project of a territory is its performance. The current practice of assessment of the effectiveness of Russian investment programs, implemented at the state and municipal levels in the process of socio-economic development of territories is considered herein. The main problem of existing methods is the lack of universality; for many areas of funding, individual methods have been developed that complicate their performance assessment. The objective of the study is to propose directions for the improvement of the performance assessment of state and municipal programs in the system of socio-economic development of territories. The existing methods for the performance assessment of the utilization of budget funds at all levels of the budget system are summarized by the authors.

Keywords

State and municipal programs – Socio-economic development of territories – Municipalities

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Introduction

The socio-economic development of Russia requires the well-directed effort of the state and the business sector, ensuring the formation of a favorable investment environment and improving the quality of life of the population. A variety of forms of ownership is the basis of investment processes, the development of which occurs with the active participation of the state apparatus that regulates investment relations throughout the national economy and acts as the investor¹. The relationship between economic growth and investment activity is obvious; at the same time, the role of the state in investment activity during crises increases².

Under budgeting reform and in relation to the difficult economic situation, budgetary funds utilization performance becomes the priority, which is the basic principle established by the Budget Code of the Russian Federation. The problem of budgetary performance has almost constantly been noted in the messages of the President of the Russian Federation since 1998. At present, regulatory legal acts and systems of measures aimed at improving the efficiency and economy of budget expenditures in the socio-economic and investment spheres have been developed.

Considering the state as an investor, it should be noted that investment activities are supported at all levels of the budget system. The investments are financed through the program-targeted method based on the formation of state and municipal programs, which are strategic documents, determining the stages of implementation of the goals and objectives of the state and municipal socio-economic policies.

The specificity of investment activity and its orientation depend on the authority, the subjects of reference assigned to each level of government. Investment activity at the local level is carried out within the framework of municipal programs that comprehensively address issues of local importance, while the formation of any separate municipal investment program is not carried out. The principles of investment policy aimed at the socio-economic development of the territory include: 1) the unity of approaches to all entrepreneurs and investors within the framework of publicly declared priorities; 2) the provision of the necessary information in a generally accessible manner; 3) the consideration of the interests of investors and entrepreneurs in the process of preparing decisions taken by authorities; 4) the application of best practices in the implementation of investment policy³.

The Budget Code of the Russian Federation pays special attention to the concept of a “federal targeted investment program”, which takes into account all federal budget funds allocated to capital construction projects or the acquisition of real estate in the form of budget investments or subsidies to legal entities. The socio-economic effect of creating the state property or increasing its value can be expressed by the improvement of the

¹ N. N. Lityagin, “Investment activity of the state and municipal entities. Legal regime of the public investments”, *Financial University Journal* Vol: 1 (2011): 56-60.

² S. Iamsiraroj, “The foreign direct investment–economic growth nexus”, *International Review of Economics & Finance* Vol: 42 (2016): 116-133; K. Makiela y B. Ouattara, “Foreign direct investment and economic growth: Exploring the transmission channels”, *Economic Modelling* Vol: 72 (2018): 296-305 y D. Ciesielska y M. Kołtuniak, “Outward foreign direct investments and home country’s economic growth”, *Physica A: Statistical Mechanics and its Applications* Vol: 482 (2017): 127-146.

³ D. P. Malyshev y A. S. Kostinboy, “Methodological aspects of the region investment policy formation”, *Regional economics: theory and practice* Vol: 40 (2015): 16-32.

environmental situation, development of the energy infrastructure, provision of modern housing and utilities infrastructure, development of the material base of education, culture, healthcare systems, etc.⁴

Formation and implementation procedure of the federal targeted investment program is established by the Government of the Russian Federation, taking into account the requirements established by federal laws, in particular, by the Federal Law of February 25, 1999 No. 39-FZ “On Investment Activity in the Russian Federation Carried out in the Form of Capital Investments”.

Targeted investment programs are also developed at the regional level. For example, in the Moscow Region, such a program has been developed to create a unified information resource containing data on the implementation of budgetary investments in capital construction projects and events implemented by the state authorities and local governments in the region. The structure of the investment program of the Moscow Region includes all investment expenses of the budget, evidenced in the composition of individual state programs of the subject.

In accordance with the Budget Code of the Russian Federation and the Federal Law “On the General Principles of the Organization of Local Self-Government in the Russian Federation” dated October 6, 2003 No. 131-FZ, the local budget and municipal programs provide for budget investments in capital investments related to the socio-economic sphere. Costs associated with investments in municipal property are included in municipal programs, indicating all sources of funding, including private ones.

Improvement of the system of socio-economic development of territories is based on the creation of a normative methodological base governing the assessment of the effectiveness of the use of budget funds. Currently, many methods have been developed to assess the efficiency of the projects and programs at different levels of the economy, amid qualitative and quantitative criteria. The benchmark is strategic goals and tactical objectives, as well as the expected socio-economic results of the activities of budget planning entities⁵. The direct relationship between the activities and program performance indicators is an important condition for efficiency⁶. However, there is a problem of ambiguity in approaches to assessing the effectiveness of budget funding in the implementation of state and municipal programs in this field. This is not a problem purely characteristic of Russia, because the governments of most countries that have switched to a program budget format have not managed to solve the problem of creation of holistic standardized performance assessment for budget programs⁷.

Therefore, the objective of the study is to offer directions for the improvement of performance assessment of state and municipal programs in the system of socio-economic development of territories.

⁴ L. I. Sergeev y D. N. Revyakin, “Problems of performance estimation of program and target funding of the budget investments”, Bulletin of Kant Baltic Federal University. Series: Humanities and social sciences Vol: 3 (2013): 23-34.

⁵ E. F. Nikitskaya y I. A. Gorbacheva, “Role of financial control in maintenance of performance of municipal investment programs”, Scientists' notes of the Russian Academy of Entrepreneurship Vol: 47 (2016): 37-50.

⁶ A. Barilari y M. Bouvier, *La LOLF et la nouvelle gouvernance financière de L'Etat* (Paris: LGDJ, 2010).

⁷ I. S. Rabin, *The politics of public budgeting* (Washington: CQ Press, 2006).

To achieve the objective, it is required to solve the following tasks:

1) to study the existing methodologies for performance assessment of state and municipal programs (in the world, in Russia), to consider their pros and cons;

2) to propose the directions for improvement of the performance assessment of state and municipal programs.

The hypothesis of the study is the provision that it is possible to develop a universal system for the assessment of the effectiveness of state and municipal programs in the system of socio-economic development of territories.

Materials and Methods

The main groups of performance assessment methods used in world practice include: cost-benefit analysis (CBA), cost-effectiveness analysis (CEA), cost-utility analysis (CUA), weighted cost-effectiveness analysis (WCEA) (Markov, 2012). In Russia, at the level of regulatory legal acts, a number of methods and algorithms are practically used, for example: performance and efficiency assessment of state and municipal programs; performance assessment of the use of budget funds for capital investments; assessment of the effectiveness of investment projects for inclusion in the programs; a comprehensive assessment of the efficiency of the investment projects in the framework of state programs, etc. The methods listed above use standard methods and methodological techniques, the characteristics of which are shown in Table 1.

Methodological techniques	Methodology content	Scope of application
Plan-fact analysis	Comparison of the actual achieved values of the program indicators in relation to the planned values	Used to assess the progress and results of the implementation of a state or municipal program after receiving funds, as it is carried out annually during the program
Point-based method	Based on the assignment of points to each quality criterion and the establishment of acceptable ranges of values	Used to assess the efficiency of budget funds utilization for capital investments (a single method at three levels of the budget system)
The method of economic indices	Economic indices, expressing the ratio of the magnitude of a simple or complex phenomenon in time, in space, or relative to a plan, forecast, standards, etc. The method is based on the calculation of a system of coefficients representing the ratio of two aggregated absolute or relative indicators that can not be summed up directly	The method makes it possible to identify the trends that cannot be determined using absolute values and to compare disparate elements, in particular when assessing financial, budgetary, socio-economic and other varieties of the performance of state programs
Rating assessment	Rating assessment is characterized by the value of an integral indicator, which synthesizes certain aspects of the activity of the object of study, obtained on the basis of analytical	It is used to evaluate investment projects, to include in the program, to carry out the integrated assessment of the performance of investment projects, to calculate the

	processing of a system of particular indicators	co-funding ratio, as well as for the competitive selection of investment programs
Discounted evaluation criteria	Discounted criteria for the performance assessment of the projects and programs based on the application of the principle of the value of money over time, according to which equal amounts of money arising at different points in time are unequal and require an analytical discounting procedure	It is used to calculate project performance criteria, including the net present value, the profitability index, the internal rate of return, and the discounted payback period

Source: compiled by the authors

Table 1

Types of methods and methodological techniques used for the performance assessment of state and municipal programs

Practically significant assessment results for the budget funds utilization performance can be obtained subject to certain principles of a universal nature, including⁸:

- *the principle of distinguishing one qualitative performance indicator*, meaning that when assessing the effectiveness of budget expenditures, one qualitative performance indicator should be allocated as a basis for calculation, reflecting the purpose of funding a particular social sphere;

- *the principle of temporality*, namely, that the assessment of performance of budget expenditures should include a dynamic analysis to identify the nature and tendencies of changes in performance indicators and performance of the utilization of budget funds;

- *the principle of comparability*, which means that when evaluating the effectiveness of budget expenditures, it is required to conduct a comparative analysis of performance indicators using generally accepted options adopted in the case of applying the comparison method;

- *the principle of factoriality*, based on the analysis of changes in the factors affecting the changes in the level of budget expenditures and the performance of budget funds, which is necessary to adjust the implementation of municipal programs and informed managerial decisions making on this basis.

The unified, normatively fixed methodology based on a plan-fact analysis has been developed in the Moscow Region (Russia) to assess the effectiveness of municipal projects and programs. It determines the indices of performance and efficiency, draws conclusions about the performance of the program. In accordance with the methodological recommendations and regulatory legal acts of the region, state and municipal programs are developed for five years.

The formation of municipal programs in the Moscow Region is supervised by the authorized executive bodies of state power that control the presence in these programs of mandatory indicators provided for by the relevant regulatory legal acts of the federal and regional levels. It is practiced to provide municipalities with model program templates

⁸ S. N. Markov, "Methods of estimation of performance of use of budgetary expenses by educational institutions", Economic system management Vol: 43 (2012).

containing indicators required to be reflected, on the basis of which information exchange agreements are concluded. According to this agreement, the local executive authorities are required to coordinate the indicators of municipal programs with the central executive bodies of the region.

To date, the orders of branch ministries and federal target programs feature a significant number of methods, algorithms, and performance evaluation criteria. No standardization can be observed in this direction. The industry specifics can be referred to in order to justify the existence of such a variety, but on the other hand, methods of economic analysis have the property of invariance, that is, the independence from the economic conditions of their application.

The study of federal normative legal acts establishing certain methods for performance assessment of the investment projects and programs made it possible to identify two enlarged groups depending on the stage of their implementation (Table 2).

Program implementation phase	Applied methods	Examples of federal programs
Assessment of programs (projects) for the purposes of competitive selection	Rating assessment, economic index method	Calculation of the coefficient of co-funding of expenditure obligations of a constituent entity of the Russian Federation for competitive selection of regional investment programs (Order of the Ministry of Industry and Trade of the Russian Federation of April 12, 2016 No. 1131 “On Approval of the Procedure for Competitive Selection of Regional Programs in order to Provide Subsidies from the Federal Budget to the Budgets of Constituent Entities of the Russian Federation for Co-Funding of Expenses for Reimbursement of Costs for the Implementation of Investment Projects for the Modernization and Development of Industrial Enterprises”) Evaluation of the integral effectiveness of investment projects within the framework of the “Industrial Parks” subprogram of the state program of the Russian Federation “Development of Industry and Increasing its Competitiveness” (Order of the Ministry of Industry and Trade of the Russian Federation dated October 2, 2014 No. 1970 “On Approval of the Methodology for Assessing the Integral Effectiveness of Investment Projects under the Program “Industrial Parks” of the State Program of the Russian Federation “Development of Industry and Increasing its Competitiveness”)
	Point-based method	Verification of the investment projects for the performance of utilization of federal budget funds allocated for capital investments (Resolution of August 12, 2008 No. 590 “On the Verification Procedure for the Investment Projects for the Efficient Use of Federal Budget Funds Allocated for Capital Investments”) Federal Target Program “Development of Domestic and Inbound Tourism in the Russian Federation (2011-2018)” (Order of the Ministry of Culture of the Russian Federation, Federal Agency for Tourism of April 22, 2013 No. 120-Pr/13 “On Approval of the Regulation on the Competitive Selection of Investment Projects for Inclusion in the

		Measures of the FTP “Development of Domestic and Inbound Tourism in the Russian Federation”)
Performance assessment of the implementation of programs (projects)	Plan-fact analysis	The Federal Target Program “Housing” for 2015-2020 (Decree of the Government of the Russian Federation of December 17, 2010 No. 1050 “On the Federal Target Program “Housing” for 2015-2020”). Federal Target Program “Education” (Decree of the Government of the Russian Federation of May 23, 2015 No. 497 “On the Federal Target Program for the Development of Education for 2016-2020”)
	Discounted criteria method	The Federal Target Program “Development of the Transport System” (Decree of the Government of the Russian Federation of May 12, 2001 No. 848 “On the Federal Target Program “Development of the Transport System of Russia (2010-2020)”)

Source: compiled by the authors

Table 2

Methods for performance evaluation of the federal projects and programs

According to the table, the following methods have been developed: 1) assessment methods for the programs for competitive selection, using mainly rating, economic indices and the points-based method; 2) assessment methods based on a plan-fact analysis and discounted criteria for the programs implemented. It should be noted that the individual algorithms for calculating the integral performance indicator have been developed for each federal program based on a combination of the above methods and methodological techniques as a rule.

A variety of methods for the performance assessment of state and municipal programs makes it impossible to compare the performance of the projects from different funding streams: it is difficult to compare the level of performance of the capital (federal capital investments, municipal capital investments, investment costs for the development of tourism or funding housing programs for the population, etc.) for the territory. In this regard, there is a growing need to develop a universal performance assessment method for state and municipal programs.

Results

Normative legal acts of executive bodies of state power authorities and local administrations establish not only the procedure for the development and implementation of the programs but also the control over their implementation. Control is carried out by the authorized executive body in the form of collection and analysis of reporting data, which are submitted quarterly, according to the results of the year (operational) and once every three years (comprehensive). A similar approach is used in world practice when program managers commit themselves to achieve certain results, as enshrined in the annual executive plan. In this case, using the combination of financial data and indicators for evaluating the implementation of the program in one document, one can measure the effectiveness of public policies⁹.

⁹ J. B. Gilmour, “Implementing OMB’s Program Assessment Rating Tool (PART): Meeting the Challenges of Integrating Budget and Performance”, OECD Journal on Budgeting Vol: 7 num 1 (2007). Retrieved from: <https://www.oecd.org/gov/budgeting/43412639.pdf>

Based on the operational and comprehensive reports, the performance of the state or municipal program is evaluated according to the approved methodology, in accordance with which the performance index and the efficiency index are determined. Thus, performance evaluation is carried out during the execution of the program.

It should be noted that the purpose of the evaluation is the effectiveness of the program as a whole, which is expressed in achieving the goals and objectives and obtaining a social effect in the framework of solving local issues. Based on the results of the assessment, a rating of municipal programs from inefficient to highly effective is formed. The conclusion is transmitted to the head of the local administration, who can decide on the advisability of maintaining or continuing the municipal program (subprogram), on the reduction (increase), starting from the next financial year, in the budget allocation for the implementation of the municipal program (subprogram), on early termination of the implementation of the municipal program or subprogram. At the same time, a decision must be made before the beginning of budgeting for the next financial year.

Performance assessment methods for municipal programs in the Moscow Region are aimed at assessment of their effectiveness and performance. They are based on a methodology approved by the Government of the Moscow Region. An example is the methodology developed in the Odintsovsky District, Dmitrovsky District, Klinsky District, and Volokolamsky District. These methods are the example of a plan-fact analysis, used to assess the progress and results of the program after receipt of the budget funds, is carried out annually during the program implementation.

The expenditures of the local budget directly depend on the legislatively fixed powers to resolve the issues of local importance taking into account the diverse and heterogeneous nature of the latter in terms of their economic content. Considering that there is an unequivocal correspondence between local issues and budget expenditures, a conclusion arises about the possibility of applying the grouping method to budget expenditures.

Context analysis makes it possible to identify the expenses of the local budget that have an investment focus at the first stage and to group them in two directions at the second stage. The first area provides for the separation of issues of local importance and related budgetary expenditures into measures aimed at the development of human capital and measures ensuring the development of the territory. In the second direction, focused on the forms of implementation of the issues of local importance, it is proposed to distinguish 4 groups of expenses:

- the expenses for capital investments;
- the costs of financial support for the development of business and entrepreneurship;
- the organizational and administrative expenses to support the development of business and entrepreneurship;
- the investment costs in the framework of municipal-private partnerships (Table 3).

Investment expenses by forms of implementation of local issues	Groups of local issues	
	Human capital development	Territory development
	<i>Education, physical education and sports, culture and youth policy</i>	<i>Infrastructure, land improvement, housing construction, security</i>
Capital expenditures	Construction and reconstruction of schools, kindergartens, further education establishments, fitness centers, sports facilities, cultural centers and youth centers	Construction and reconstruction of housing facilities, roads, bridges (junctions, parking lots), construction (acquisition) of municipal housing, creation of a video surveillance and warning system
The costs of financial support for the development of business and entrepreneurship	Granting of subsidies and partial compensation of expenses of entrepreneurs operating in the fields of education, physical education and sports, culture and youth policy	Partial compensation of business expenses for the purchase of equipment in order to create, develop or upgrade the production facilities related to the solution of issues of local importance in terms of the creation of infrastructure, improvement and security
Organizational and administrative expenses to support the development of business and entrepreneurship	Holding tenders for the selection of entrepreneurs for the provision of subsidies and cost compensation; information support regarding the provision of benefits and preferences, participation in regional and municipal competitions; conducting seminars; construction assistance; implementation of a set of measures to increase competitive procurement; forming a list of priority industrial sites to attract potential investors	
Municipal-private partnership investment costs	Co-funding of the construction and reconstruction of schools and kindergartens, other educational institutions, fitness centers, sports facilities, cultural centers and youth centers	Co-funding of the construction and reconstruction of underground passages, facilities for the treatment, recycling, disposal and placement of household waste, landscaping facilities, lighting facilities, communication lines and communications

Source: compiled by the authors

Table 3
Grouping of the investment costs of municipal budgets by areas and forms of implementation of local issues

The substantial content of investment budget expenditures for specific social and economic measures, presented in Table 3, shows that it is the grouping of these expenditures by forms of implementation of local issues that reveals their economically homogeneous subspecies.

The above analysis is the basis for the development of a concept for the performance assessment of the utilization of budget funds, recommended for use in efficiency audit, which is intended for financial control over the efficiency of using budget funds in implementing municipal programs. Among other things, performance audit evaluates such characteristics as profitability, productivity, and efficiency.

Profitability characterizes the relationship between the amount of budgetary funds used by the objects of verification for the implementation of their activities, and the achieved level of its results, taking into account ensuring their appropriate quality.

The productivity of the use of budgetary funds is determined by the ratio between the volume of manufactured products (services rendered, other results of the audit object) and the material, financial, labor and other resources spent on obtaining these results.

Efficiency is characterized by the degree of achievement of the planned results of the use of budgetary funds or the activities of performance audit facilities and includes the determination of economic performance and social and economic effect. It cannot be neglected that performance can be achieved with an increase in budget expenditures, with the same quality of public services, and in some cases with a decrease, that is, it can be of an extensive and even destructive nature¹⁰.

For the quantitative assessment of the above characteristics, relative indicators are developed – the profitability index, productivity index, performance index applied to such types of investment budget expenditures as capital investments, financial and organizational and administrative support for the development of business and entrepreneurship.

Incitement of the investment activities and attraction of investments in the economy of the territory is carried out through the state support for the investors implementing investment projects in the territory. In this regard, to assess the performance of investment costs in the framework of municipal-private partnerships, the methodology developed for the state program of the Russian Federation “Development of Industry and Increasing Its Competitiveness” should be adapted (Table 4).

The form of implementation of local issues	Assessment methods applied	Performance indicators (groups of indicators)
Capital investments	Plan fact analysis, points-based method, rating assessment, discounted criteria method	1) <i>The performance index</i> , defined as the ratio of actual budget expenditures for the creation of capital construction facilities to the corresponding planned volume of budget expenditures (during and after the implementation of the project). 2) <i>The index of achievement of social norms</i> , defined as the ratio of the level of provision of the population with objects of social infrastructure before and after the implementation of investment programs (projects). 3) <i>The profitability index</i> , defined as the ratio of the cost of capital investments to the average cost of creating an object of similar quality in the territory of the subject, taking into account the elimination of the price factor. 4) <i>The productivity index</i> , defined as the ratio of net discounted income from the implementation of investment projects to capital expenditures (excluding costly projects).
Financial support for business and entrepreneurship development	Plan-fact analysis, index method, rating assessment	1) <i>The performance index</i> , defined as the ratio of the actual value of the inflow of extra-budgetary investments to the corresponding planned values of the indicator as a result of financial and organizational and administrative support for business and entrepreneurship.
Organizational		2) <i>The profitability index</i> , defined as the ratio of total costs

¹⁰ S. Peacock, An Evaluation of Program Budgeting and Marginal Analysis Applied in South Australian Hospitals (Melbourne: Centre for Health Program Evaluation, 2008) Retrieved from: <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.617.7770&rep=rep1&type=pdf>

and administrative support for the development of business and entrepreneurship		for financial and organizational and administrative support for business and entrepreneurship to the inflow of the off-budget investments into the territory. 3) <i>The productivity index</i> , defined as the ratio of the volume of created additional domestic products in the whole municipality to the total budget expenditures for financial and organizational and administrative support for business and entrepreneurship.
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Source: compiled by the authors

Table 4

Methods and estimated indicators of the performance of utilization of budget funds, depending on the form of implementation of local issues

Discussions

Under the existing conditions, there are a number of reasons why this system of performance assessment evaluating cannot be fully implemented. First, the amount of funding in municipal programs is set in terms of tasks and activities, but not in terms of indicators characterizing the fulfillment of tasks, while the amount of financial costs for their achievement is not determined. For individual activities, only the results to be achieved are established, without quantitative criteria being defined. Moreover, according to some authors, the results also require division into economic and social ones¹¹.

Secondly, the effectiveness of municipal programs, on which the integral performance assessment depends, is defined as the arithmetic mean of the ratios of the achieved and planned indicators. Therefore, the significance (weight) of the indicators reflecting the achievement of a particular result and the dependence on the share of the cost of achieving specific results in the total cost of financing the program are not taken into account. Accordingly, a situation may arise in which an overfulfilment of the indicators with the lowest costs can result in the performance indicator evidencing the high efficiency of the program, while the indicator with the highest costs may not be achieved.

Conclusions

As already noted, the head of the executive body can make a decision on the advisability of maintaining and continuing the program, reducing or increasing the budget allocation for the implementation of the program and early termination of its implementation according to the results of the assessment. However, the performance evaluation methods for the municipal programs lack clear criteria defining the conditions for termination of the program or alteration of funding.

It should be noted that the inefficient use of budget funds entails only disciplinary sanctions against the officials responsible for the inefficient use of the investment budget resources. Thus, it can be concluded that the results of performance assessment of the municipal program and the performance audit of the use of budgetary funds are mostly recommendatory in nature.

¹¹ A. N. Dombrovsky; T. V. Konovalova y V. K. Moskvich, "Estimation methods of the region road complex development investment programs performance estimation", Bulletin of the Saratov State Technical University Vol: 72 (2013).

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