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Activity of state-owned enterprises: how to evaluate their effectiveness?

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Abstract

We show that economic well-being is determined by various factors. But at the same time objective attributes don't always affect the subjective measure of personal well-being. However the formation of stable macroeconomic environment is a core condition of a social development. Modern society claims to increase the number of state functions related to human wellbeing, economic growth, national defense capability etc. Such expansion has to be evaluated. In this paper, we define some approaches to the performance evaluation of the state institutions of development. We analyze the activity of State Corporation Deposit Insurance Agency in the context of the human wellbeing in Russia.

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Keywords: government expenses, state corporation, economic and social effectiveness.

1. Introduction

It is generally accepted that the state amid the mixed economy is a full participant of social life and therefore, its functions shall not be specified only through the revision of market failures. At the same time, the development of economic system shall be considered not only in the framework of effective allocation and consumption of resources but also taking into consideration development of social environment which would encourage improvement of life quality of each member of a society. Measure of state social expenditures, level of population income differences could be taken into account to give quantitative assessment of such processes whereas the degree of accessibility to socially important welfare such as education, health care etc. fall under the category of qualitative parameters. Consequently, evaluation of state expenditures' effectiveness is a question of interest.

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2. Main part

Social and economic effectiveness

Modern society has strict requirements concerning public authorities, particularly, performance of government functions. Government is significantly increasing its influence on economic life of a society with widespread authority across many sectors. Therefore, it is important to understand and evaluate such expansion. However, it is vital to understand that functions and goals of a government are frequently aimed at establishment of a welfare system and distributing socially important welfare to all people. Thus, it makes it impossible to apply classical approaches to understand the effectiveness of government performance. Effectiveness shall be classified in the following way:

- 1) economic – benefit-cost ratio;
- 2) social – ratio of socially significant result to direct parameters of performance;
- 3) social and economic –ratio of socially significant effect which resulted from achievement of the corresponding goal set by a government to resources spent on its achievement.

Economic effectiveness is calculated as a ratio of produced benefits (goods, services, work) as a result of the performance of government functions (for instance, implementation of a national project (program) and resources required to carry out its activity.

Social effectiveness is understood as achievement of corresponding social goal. Social effectiveness is one of the major parameters of expenditure of state funds. If the expected social result is not achieved, low-cost manufacture of goods and services indicates ineffective use of state resources. Thus, social and economic effectiveness is understood as achievement of social effect at optimal costs.

Social effect of activity of the state-owned enterprise “Deposit Insurance Agency”

An important condition of social development and improvement of wellbeing is maintenance of stable and sustainable microeconomic environment. Furthermore, the state is facing the major problem of performance assessment of established Institutes for development, particularly, state-owned enterprises. Our research paper focuses on experience of establishment of the state-owned enterprise “Deposit Insurance Agency”.

Establishment of such organizational and legal form has become a unique innovation: emphasis on social objectives made it impossible to use existing forms of joint-stock companies and state unitary enterprises (Smirnova, N. 2008).

Currently, financing of major activity is carried out at the expense of bank deposits (68 % in the structure of welfare fund) and the profit of a state-owned enterprise (27%), asset contributing of the Russian Federation is only 5% (Report on 2013 of the state-owned enterprise “Deposit Insurance Agency”, (2013).

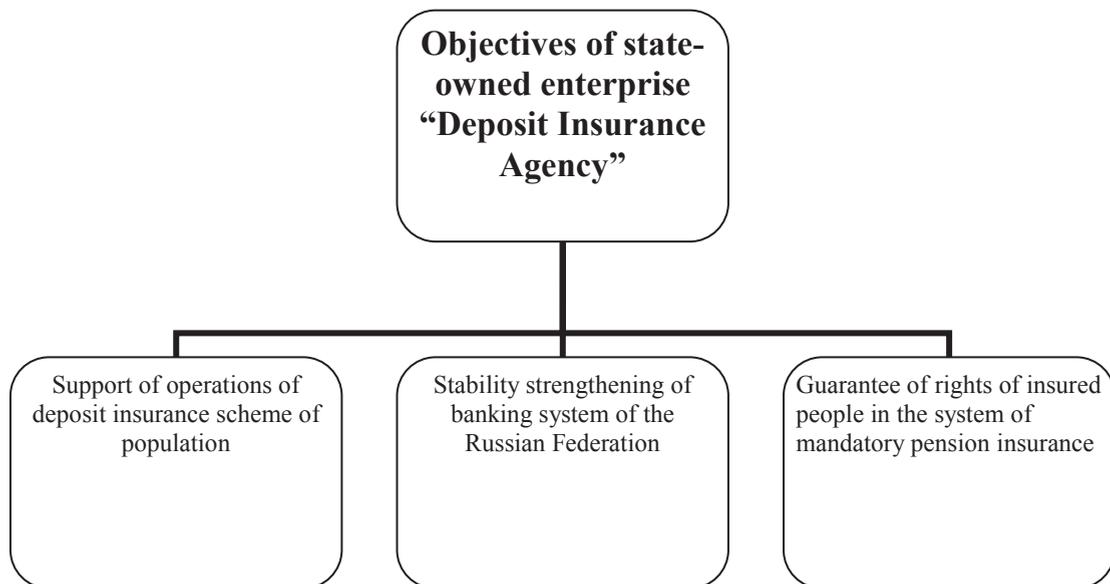


Fig. 1 - Purposes of activity of state-owned enterprise “Deposit Insurance Agency”

Every state program includes desirable results of its implementation which can be divided into two groups: direct ones (quality and quantity of provided services) and final results which reflect achieved social effect (Afanas'ev M. P., 2006).

Achievement of set objectives and solution of the problems is a crucial moment of effectiveness evaluation for performance of state-owned enterprise. Structure of objectives of the state-owned enterprise “Deposit Insurance Agency” is shown in the Fig. 1. The aspect of possibility to evaluate the effect of this enterprise performance is worth taking a look at. Let us take the second purpose – stability strengthening of banking system of the Russian Federation.

Qualitative characteristic which defines social effect could be trust building to financial institutions. It may be assessed in quantitative terms as amount and timeframes of deposits attracted by the banking system.

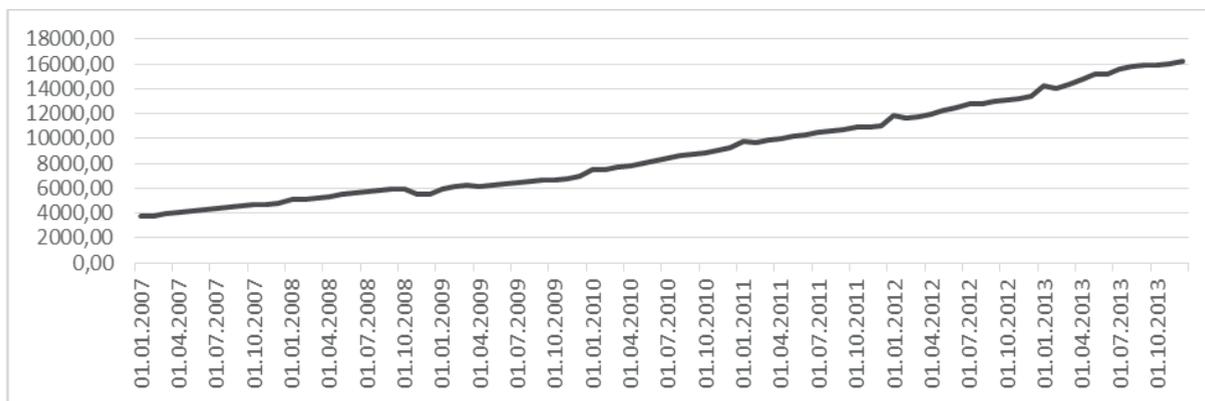


Fig. 2 –Dynamics of deposits from physical persons attracted by credit organizations in 2007-2013 (Bank of Russia, 2014)

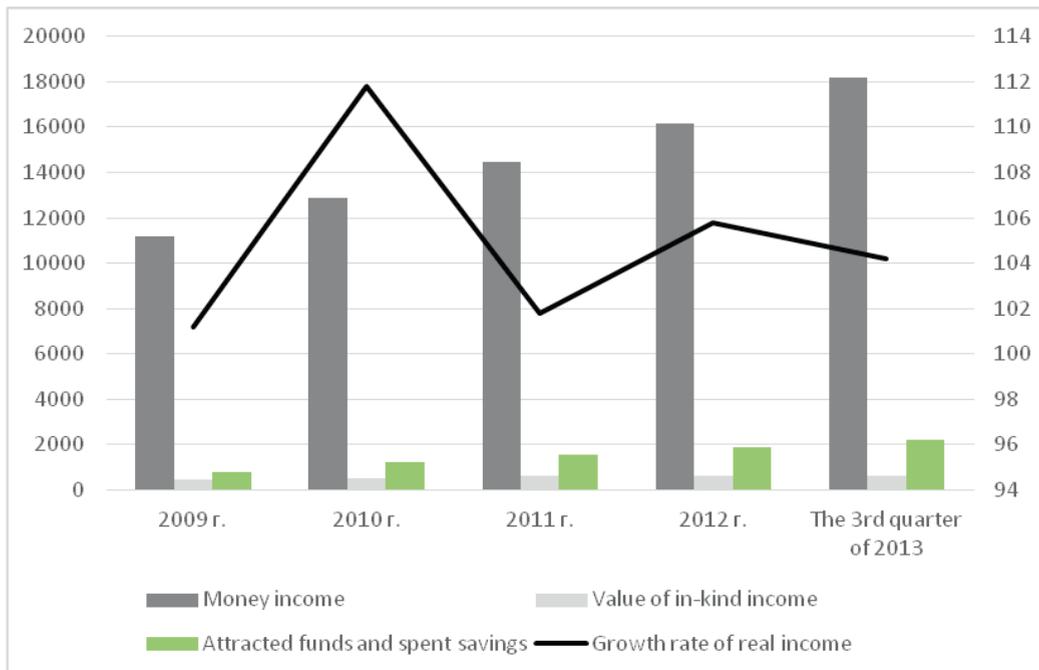


Fig. 3 –Dynamics of profit from households in the Russian Federation (rubles per one family member) (Rosstat, 2014; Statistical survey, 2014)

Taking into consideration data from the Fig. 2, we can draw a conclusion that the amount of finance attracted by banks by means of population deposits has increased for the last 7 years. According to the data from the Fig. 3, nominal money income of Russian people has been growing steadily for the last few years. There has been upward trend in real income. Share of attracted funds in the resources’ structure of Russian households varies from 9 to 10%. At the same time, post-crisis stabilization has led to active borrowing.

Attitude of Russian people to savings’ deposit has not changed for the last 10 years: about 30% of Russian people deposit savings. It is important to note that financial and economic crisis has not significantly affected their strategies. Deposit insurance agency carried out a research in 2009. According to the data of this research, 36% of Russian adults are depositors. In addition, approximately three quarters of depositors have not withdrawn savings from banks and have not planned to withdraw savings before expiration of the contract (DIA and VTsIOM, 2014).

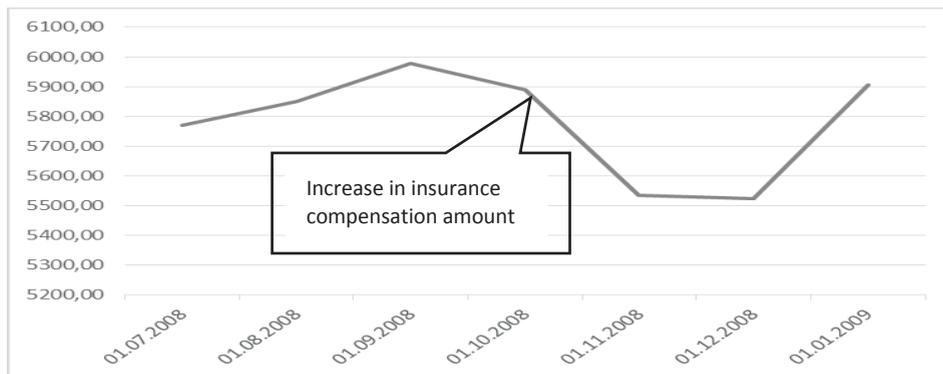


Fig. 4 - Dynamics of deposits from physical persons attracted by credit organizations in the second half year of 2008 (Bank of Russia, 2014)

All things considered, we want to emphasize stable performance of the banking system even in the time of crisis. Outflow of deposits from physical persons occurred in September, 2008 and is now considered as short-term. The amount of deposits increased at the beginning of 2009 providing a stable funding base for banks (Fig. 4). It is important to note that a special role in trust building to financial institutions was played by an increase in insurance compensation amount for bank deposits in October, 2008.

3. Conclusion

Thus, performance of Deposit insurance agency meets the specified purpose to strengthen banking system. Although number of loss occurrences has increased for the period from 2013 to 2014, this state-owned enterprise is fulfilling its mission. However, the company could face the problem of strain on liquidity in case of a big bank bankruptcy. Consequently, it is important to update the question of financial strength improvement.

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