IMPLICATIONS OF FINANCIAL DECENTRALIZATION ON THE LOCAL BUDGETS BALANCING POLICY

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Abstract

Decentralization is a mechanism by means of which the local administration authorities receive the authority and the resources allowing them to make decisions concerning the provision of public services.

The balancing of the local budgets in Romania is the consequence of the financial decentralization, according to which the local communities were entrusted with/allotted their responsibilities and then they were entrusted with/allotted their resources as well.

The separation of the attributions of the central and of the local administration conditions the way the revenues and the expenses were distributed between the two levels. This process depends on the degree of regional development, on the concentration of the population on its welfare degree, on the tasks each community has to face, on the possibility of financing the foreseen expenses from local resources.

Key words: local budget, decentralization, balancing local budgets, public-private partnership

1. Introduction

The substantiation of an adequate policy for the realization of the financial and administrative decentralization and the balancing of the local budgets in Romania cannot be achieved without respecting several basic principles that the research work and the long-term practical experience of the developed countries have highlighted.

The allotting of the financial resources able to support the decentralization process, the unitary implementation of the logistic resources, the adequate human resource and the objective working standards represent criteria for the realization of the efficiency and quality of the public services provided.

2. The financial decentralization and the local budgets balancing policy

The local budgets of the local public administration authorities in Romania include a section related to functioning (comprising the current expenses needed to realize the attributions
and competences foreseen by the law) and one related to development (comprising capital-related expenses), which are approved as annexes of each budget. In the process of local budget balancing shall be analyzed the possibility of covering the section related to functioning from one’s own revenues, and only where such is the case, there will be sums proposed for balancing this section so as to assure the minimal cost and quality standards to provide the necessary public services to the population. After that, within the limit of the sums that can be assured from the state budget, shall be established the sums to be included in the local budget development section [1].

In order to assure the vertical and horizontal balancing of the local budgets, the administrative-territorial units have been allotted, from some state budget revenues, certain sums divided on special destinations, namely ratios and sums divided so as to balance the local budgets. The structure and the criteria of allotment of the ratios and sums divided so as to balance the local budgets are established by means of the law of the local public finances. The amount of the sums divided so as to balance the local budgets is established by the state budget law [2].

The realization of this balance is an obligatory condition for carrying out the payments from the local budget whose purpose is to finance certain categories of expenses such as: education, culture, health, social care and protection.

The principles laying at the basis of the allotment of the balancing grants [3] are the following:

- **The principle of correlation** – it supposes that the vertical and the horizontal imbalances should be balanced simultaneously by means of the proposed system, which includes both conditional grants (transfers with special destination), and unconditional grants (transfers with general destination);
- **The principle of adequacy** – it relies on the rule according to which the balancing formula has to assure to the local authorities adequate resources corresponding to the national priorities and assuring local autonomy;
- **The principle of allotment** – it allows a correct resource allotment by assuring higher sums to the administrations with a lower fiscal capacity and higher financial needs;
- **The principle of transparency** – according to which the balancing formula needs to be simple, oriented towards the leveling of the fiscal capacity and/or the fiscal needs, to be understood by all those involved and to be substantiated on the basis of objective factors, so as to have no possibility of exerting manipulations or negotiations concerning it;
- **The principle of the differential approach in order to realize the budget balancing** – it relies on two ways of obtaining the balancing:
  - The first balancing method aims to balance the fiscal capacity per inhabitant, which supposes the measuring of the local tax basis and of the local fiscal effort;
  - The second balancing method concerns the equalization of the differences in needs per inhabitant which supposes the reflection of the differences between the local administrations concerning their demographic, socioeconomic and geographic features.

- **The principle of motivation** – supposes that the balancing formula should not generate negative stimuli in the gathering of one’s own revenues (local taxes and tolls) and should not include inefficient choices in the spending of the funds;
- **The principle of the limited use of conditional grants** – it relies on the rule according to which the transfer of new responsibilities to the local authorities and the limited use of conditional grants imposes the increase of the number of indicators contained by the balancing formula.

Although we are talking about decentralization, especially in the financial domain, the available balancing sums are allotted according to a recentralization criterion associated to a strictly statistic sharing. On the one hand, it is not the local public administration authorities that share most of these sums, but the deconcentrated institution that is the General Direction of Public Finances (Direcția Generală a Finanțelor Publice) and this happens on the basis of a strict formula that does not take into account the concrete situation in the territory (it is known that we have local communities that are large as area and small as population and, at the opposite end,
communities that are large as population and small as area, yet their problems can be identical or different regardless of this quantitative issue).

On the other hand, although it is desired that the administrative territorial units in Romania should build first of all a budget for functioning, the Departmental Councils can allot 20% of the balancing sums only for co-financing infrastructure projects that concern local development. Under these circumstances, the local administration intervenes mathematically, without considering the needs, the subsidiarity, the decentralization, etc. and allows as well the sums that used to remain until now directly at the local authorities for balancing.

The revenues from the central level have as a main objective the correction of some imbalances intervening locally:
- both vertically (the level of the local taxes and tolls does not cover the necessary expenses for the provision of the public services);
- and horizontally, as not all the local communities have an adequate financial capacity, although they have the obligation of providing equivalent services qualitatively and quantitatively.

The way the local budgets balancing is realized triggers waves of discontent every year. The issue of the impossibility of covering local needs using a mathematical formula has been often invoked, especially by the local public administration authorities, in parallel to the insufficiency of the funds allotted from the central level. However, as a result of the decentralization, the responsibility for assuring sufficient local revenues should be the problem of the local administration authorities, who should be concerned first of all with finding solutions to supplement their revenues locally and only then should they request funds from the central level [4].

A balancing system that does not rely on a transparently used calculation formula cannot be considered an objective and efficient system. Seeing the lack of a clear formula, uniformly applied for all the localities, the balancing policy remains subject to subjectivism and arbitrariness, unable to accomplish its main goal: to reduce the differences related especially to the localities’ financial capacity. The revenues from the central level must not be sufficient, but must come as a complement, for the local authorities to be stimulated to realize their own revenues. At the same time, one should assure the balance between the competences of the local authorities and the decentralized resources.

The need to rationalize the spending from the local budgets becomes a must for the local authorities, in the context in which the share represented by contributions from the state budget tends to become increasingly low. The government claims the insufficiency of the state budget resources and asks the local public authorities to make supplementary efforts to increase their own resources.

It is also advisable that the sums allotted from the central level should be predictable for a longer period of time so as to allow the local authorities to make expenses according to a strategy, to long-term goals.

3. Opportunities of financing the financial decentralization

In the circumstances of the increase of the decisional autonomy and of the limitation of the state intervention, the responsibility for resource management is transferred almost integrally to the local authorities [5]. Insufficient resources compared to the needs implicitly determine the need to implement adequate public policies by rationalizing the local public spending, as well as by attracting supplementary European funds.

The condition of respecting the demands of efficiency, efficacy and rational and opportune use has to be applied as well concerning the accessing of the structural funds, as this international financial support is of a public type (from the EU budget and from national cofinancing).

The structural funds are funds that the European Union has available for its member states being part of the “Cohesion policy of the European Union”. Between 2007 and 2013, the reformed cohesion policy of the EU will try to provide a better answer to the goals established through the Lisbon and Göteborg strategies, namely: competitive economy based on knowledge, research and technological development, sustainable development, employment.

In fact, the correct denomination of these funds is that of structural instruments. The structural instruments are a form of non-
reimbursable financing, but they function on the basis of the co-financing principle. The projects are co-financed especially from public funds of the Member State, but they can be drawn from private funds as well.

Among the structural instruments are included community funds meant to reduce the differences in development between the EU member states and between their regions. For ERDF (European Regional Development Fund), ESF (European Social Fund), EAFRD (European Agricultural Fund for Rural Development), and EFF (European Fisheries Fund) the maximum ratio for the EU intervention is of 75%, yet for Romania it will be of 85% of the total eligible costs, while for the CF (Cohesion Fund) it is either of maximum 80% of the total eligible costs or maximum 85% of the total cost. For Romania, the intervention rate of the European Union in the case of the Cohesion Fund will be as well of 85% [6].

The structural funds and cohesion funds are the financial instruments by means of which the EU acts to eliminate the economic and social disparities among its regions, in order to realize an economic and social cohesion, putting the accent on knowledge and innovation, on the creation of more and better jobs, on interregional cooperation and on the transformation of the regions into attractive places for investment and work.

The cohesion policy has three goals:
- Convergence – to support the regions left behind from the viewpoint of their economic development;
- Regional Competitiveness and Employment – to support the regions, other than those left behind from the viewpoint of their economic development, to attain the targets of the Lisbon Agenda;
- European Territorial Cooperation – to promote a balanced development of the whole community area, by encouraging cooperation and good practices exchange among all the EU regions.

The European Regional Development Fund (ERDF) finances mainly the infrastructure, the job-generating investments, the local development projects and the support for SMEs.

The European Social Fund (ESF) promotes the reintegration of the unemployed and of the underprivileged groups on the labor market, by financing professional training acting activities and recruitment support.

The Cohesion Fund – a structural instrument intervening on the entire national territory and on the territory of the member states whose GDP/inhabitant is situated below the 90% threshold compared to the European average, meant to co-finance not programs, but large projects in the domains environment and transport (trans-European transport networks and sustainable development domains bringing benefits to the environmental protection – efficient energy use, renewable energies, intermodal transport, urban transport and ecological public transport). The Cohesion Fund supports these member states to comply with the European norms in the above-mentioned domains.

The European Agricultural Fund for Rural Development (EAFRD) has the following purposes: to increase competitiveness in the agricultural sector, to develop the rural environment and to improve the standard of living in the rural areas by promoting the diversity of the economic activities.

The European Fisheries Fund (EFF) invests in the development of the living aquatic resources, in the modernization of the fishing boats and in the improvement of the processing and trading of fish products. At the same time, EFF supports the implementation of sustainable development strategies in the coastal areas.

The main documents substantiating the financial assistance of the EU for Romania during the programming period 2007-2013, and ensuring its management are:
- The National Development Plan 2007-2013 (NDP) – a document of strategic and multiannual planning, guiding and stimulating the economic and social development of Romania for attaining the goal of economic and social cohesion of the European Union; it substantiates the access to Structural Funds after Romania’s adhesion to the EU, in quality of Member State; it constitutes the basis of the negotiations with the EU concerning the financial assistance provided to Romania during the above-mentioned programming period.

The national priorities established in the NDP are:
- To increase the economic competitiveness and to develop the knowledge-based economy;
- To develop and modernize the transport infrastructure;
To protect and improve environmental quality;
To develop human resources, to promote employment and social inclusion and to consolidate administrative capacity;
To develop rural economy and to increase productiveness in agriculture.

- The National Strategic Reference Framework (NSRF) – a strategic document connecting the national development priorities, established in the National Development Plan for Romania 2007-2013, and the European priorities concerning the economic and social cohesion and the creation of employment opportunities. According to the National Strategic Reference Framework, for the programming period 2007-2013, Romania elaborated 7 Operational Programs within the Goal “Convergence” (Increasing economic competitiveness, Environment, Transport, Regional development, Human resources development, Administrative capacity development and Technical assistance) and collaborates with its neighboring countries and other EU member states to elaborate 11 more Operational Programs within the Goal “European territorial cooperation”.

- The Sectorial Operational Programs (SOP) and the Regional Operational Program (ROP) – they constitute strategic documents detailing the development priorities for each sector and for the promotion of regional development. They represent the mutual engagement of both EU and Romania to find solutions to the aspects identified in the National Development Plan and in the regional development plans concerning the development of the high priority domains and the territorial development. For each priority are established measures and eligible actions. Each Operational Program or Operational Sectorial Program is a chapter with its own strategic approach. The strategy of each operational program comprises Priority Axes that include major intervention domains from which the indicative operations (namely the actions that should be found in the future projects) and also the beneficiaries that can ask for financing derive.

- The Complement Programs (CP) – these are documents detailing the content of the Operational Programs (beneficiaries, activities, grant level etc.) and the implementation system.

The recourse by the Romanian public administration to borrowings, seen as well as the most probable solution for advancing the sums that are to be reimbursed later on within the accessing of the structural funds, raises a series of problems, of which the most significant are related to:

- the absence of an adequate and favorable legislation;
- the lack of total clarity concerning the patrimonial problems of the local public authority;
- the persistence of certain inadequate mindsets among the local representatives and public clerks;
- the lack of specialists in the carrying out of such operations;
- the weak operating capacity of the state treasury;
- the lack of financial credibility of the public authorities in front of the Romanian banking environment (which, in its turn, is quite unstable);
- the motivation of the population, of the local representatives or public clerks concerning the choice and support of such a financing alternative;
- the determination of the maximum indebtedment level that can be managed, under good conditions, by a local public administration authority, avoiding in this sense an over-indebtment etc. [5]

The local public authorities need to become knowledgeable in the practice of financial planning, in close correlation with the development programs and strategies, in order to know exactly how much, when, and why to allot the public money, in conditions of efficiency.

Making use of the credit market is just one of the solutions that can support local development and can help access structural funds. Another solution, worth considering, is the public-private partnership, a particular interest going to the inter-community development associations, aimed expressly as potential demanders of international funds [5].

The concept of public-private partnership expresses a way of cooperation between a public
authority and the private sector, respectively NGOs, businessmen associations or companies in order to realize a project producing positive effects on the labor market and on the local development. A development of the public-private partnerships will not be possible, in the businessmen’s opinion of, without a profound modification of the legislation, which is at present full of gaps and leaves room to interpretations. Moreover, the system application framework is relatively restrained; the actual implementation framework is not motivating enough to attract significant investments and lacks decisional transparency. In the average and long run, this situation will affect the development of the public sector in Romania itself, as it will be unable to take over from the private sector the managerial experience needed for an efficient and coherent management of the public resources.

4. Conclusions

The issue of the administrative and financial decentralization remains an important issue for the actual context of the public policies in Romania. The process of decentralization of the administrative activity has no content and can become dangerous if it is not accompanied by the financial decentralization able to support the accomplishment of the new responsibilities incumbent to the local public authorities.

In order to improve the public services financing and the budget balancing system, by means of the Law no. 273/2006, the criteria of repartition of the balancing sums on the administrative-territorial units of each county were modified, using the principle of the “exclusion” so as to assure a minimum revenue per inhabitant out of the tax on income at least at the level of the average per county.

In the repartition of the balancing sums for the administrative-territorial units in each county, transparency has grown, through the replacement of the county councils, which are a political organism, by the general public finances directions, which are administrative structures.

The access to the Structural and Cohesion Funds will allow Romania to develop in a balanced way the regions left behind, to modernize the transport and environmental infrastructure, to support rural development, to create new employment opportunities, especially in the rural area, to promote social policies leading to the improvement of the standard of living.

At the same time, the public-private partnership introduces a new paradigm in the assurance of social welfare and is a means for the attainment of multiple purposes: savings in public expenses, the improvement of the public services quality, increasing the efficiency of the public administration organs operations and improving the chances of efficiency of the policies chosen and implemented.

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