

SUMMARY

UNIVERSITY OF CRAIOVA FACULTY OF ECONOMICS AND BUSINESS ADMINISTRATION

SUMMARY of the PhD paper entitled “LOCAL PUBLIC FINANCE IN THE CONTEXT OF DECENTRALIZATION AND AN INCREASED FINANCIAL AUTONOMY”

**Scientific Supervisor: Professor Dr. Gherghe MATEI
PhD candidate: Olivia MANOLE**

A. CONTENT OF THE PhD THESIS

INTRODUCTION

Chapter 1

THE PLACE OF LOCAL PUBLIC FINANCE WITHIN THE FINANCIAL SYSTEM

- 1.1. The concept of local public finance in the contemporary period of time
- 1.2. Main differences between local and central public finance
- 1.3. The organisation and operation of local public finance
- 1.4. Local budgets, main tools in financing local communities
 - 1.4.1. Local budgets. Concept and structure
 - 1.4.2. Local taxes and rates, main sources of local budgets own revenues
 - 1.4.2.1. The distinction between taxes and rates from a fiscal point of view
 - 1.4.2. . Local taxes and rates, tools of measurement of the degree of decentralization
 - 1.4.3. The budgetary process within the local administrative units
 - 1.4.3.1. Competences and the calendar of the budgetary process within the administrative territorial units
 - 1.4.3.2. Methods and techniques used in drafting local budgets
 - 1.4.3.3. Approving local budgets
 - 1.4.3.4. Execution of local budgets
 - 1.4.3.5. Fiscal year ending and preparing budget execution account
 - 1.4.4. The role of local budgets in the process of expanding responsibilities towards local public units

Chapter 2

DECENTRALIZATION OF PUBLIC ADMINISTRATION AND LOCAL AUTONOMY

- 2.1. Administrative decentralization in the contemporary period of time
- 2.2. Fiscal autonomy, main condition in decentralizing local public units
 - 2.2.1. The concept of local public administration autonomy
 - 2.2.2. The principles of local public autonomy in the context of the European Charter in Strasbourg
 - 2.2.3. Responsibilities and competences of local public units supported by financial resources

- 2.3. Fiscal decentralization, main factor of influence on local autonomy
 - 2.3.1. Public administration decentralization, a complex process
 - 2.3.2. Instruments of measuring the degree of decentralization
 - 2.3.3. Aspects concerning the fiscal decentralization
- 2.4. The allocation of revenues in the practice of fiscal decentralization

Chapter 3

THE EVOLUTION OF LOCAL PUBLIC FINANCE DECENTRALIZATION IN THE WORLD

- 3.1. Decentralization in unitary vs. federal states
 - 3.1.1. Decentralization in France
 - 3.1.1.1. Decentralization causes
 - 3.1.1.2. The features of the local public administration in France; local expenditures and revenues
 - 3.1.1.3. The trend of the French decentralization
 - 3.1.2. Decentralization in Germany
 - 3.1.2.1 Fiscal balancing in Germany
 - 3.1.2.2. Decentralization in taxes management in Germany
 - 3.1.3 Decentralization in Great Britain
 - 3.1.3.1 The evolution of the decentralization process
 - 3.1.3.2 Funding sources and expenditures at the regional level
 - 3.1.3.3 Aspects concerning regional politics after decentralization
- 3.2 The process of decentralization in developed and developing states
 - 3.2.1. Imbalances in the implementation of the decentralization process in developed states: Spain, Ireland, Canada and Nordic countries
 - 3.2.2. The effects of decentralization in developing countries: Bolivia, Uganda, countries from Central and Eastern Europe - Poland

Chapter 4

PROSPECTS IN THE EVOLUTION OF LOCAL PUBLIC FINANCE IN ROMANIA

- 4.1. The features of local public finance in Romania
 - 4.1.1. The evolution of local public finance in Romania before 1989
 - 4.1.1.1. Local public finance in Romania between 1900 - 1940
 - 4.1.1.2. Local public finance during the socialist period
 - 4.1.2. Local public finance in Romania after the year 1990
 - 4.1.2.1. The fiscal politics in Romania just before EU accession
 - 4.1.2.2. The evolution of the structure of local budgets revenues centralised at the country level
 - 4.1.2.3 The evolution of the structure of local budgets expenditure centralised at the local level
- 4.2. The current state of fiscal decentralization
 - 4.2.1. The contribution of the state budget at the formation of the revenues of local budgets of the administrative units in Romania
 - 4.2.2. Regional fiscal autonomy reflected in the budget of the Region of Development South Muntenia
 - 4.2.2.1. The economic activity of the Region of Development South Muntenia
 - 4.2.2.2. The development strategy of the region
 - 4.2.2.3. The degree of fiscal autonomy of the region

- 4.2.3. The degree of fiscal autonomy reflected in the budget of the Council of Arges County
- 4.2.4. The evolution of own revenues in the structure of the local budget of Pitești
- 4.2.5. The administrative territorial organisation in the context of the current fiscal decentralization, forerunner of the regionalization process
- 4.3. Strategic managerial instruments useful for the development of the fiscal autonomy at the local level
 - 4.3.1. Multiannual budget
 - 4.3.2. Models and practices of forecasting local revenues and expenditure within a multiannual budget
 - 4.3.2.1. The concept of forecasting
 - 4.3.2.2. Case study: The budget of the city of Pitești versus that of the commune of Boteni
 - 4.3.2.3. The forecasting of revenues and expenditure of the city of Pitești using econometric models of correlation and time

CONCLUSIONS

BIBLIOGRAPHY

TABLE INDEX

INDEX OF GRAPHIC REPRESENTATIONS

INDEX OF FIGURES

ANNEXS

- B. KEY WORDS:** local autonomy, financial decentralization, local budget, multiannual budget, regionalization, local public services, the degree of financial dependence, central government, administrative public units.

C. SUMMARY

The present macro economic context, marked by the world economic crisis and by a series of changes such as the passing from a command centralized economy towards a market economy with a globalisation trend, imposes the change of old fiscal rules, which no longer correspond with the new challenges.

Romania, as a new member of the European Union must implement a great part of the community aquis and it should also deal with the inherent problems which occur as a result of the fiscal harmonization. These challenges are present at all levels of authority: national and local. A great part of the Union legislation was and is to be implemented at local governments. Although at first sight it seems to be opaque and inflexible, the system of public administration influences directly all the other state institutions and also the private sector. That is why, a reform in this field is not only a trend that already exists at the European level, but it is a necessity if one wants to perform locally.

The nonperforming status of economy, as well as the birocracy at the central level determined the economists to consider that decentralization would be a solution to the problems of developing countries. That is why, most of the countries began to include decentralization in their developing programs.

Decentralization means the transfer of authority and responsibility of public functions from the state to local governments. The necessity of local autonomy and the reason of the delegation of state tasks concerning public needs fulfillment between central and local level of government are justified by the fact that local authorities are able to mobilize and manage more efficiently the revenues because they are in a better position to identify the priorities, the objectives and the performing criteria in producing and supplying public services.

There is a direct relation of dependence between the local governments tasks and competences, on one hand, and the fiscal revenues at their disposal, on the other hand.

Decentralization, due to its inter sectoral feature, is a very difficult process and requires constant coordination between the actors involved, as well as the undertaking by them, including by the recipients (local public administration authorities), of the measures agreed on. Thus, for this process to be successfully implemented, the transfer of administrative responsibilities must be correlated with that of the financial resources.

The new regulations concerning local autonomy and the decentralization of public services, in the context of the continuous dialogue of our country with the institutions of the European Union, bring about a reconsideration of the relations between local communities and the Romanian society on one hand, and the public administration and the other public institutions on the other hand.

In this context, the research and study of these phenomena and processes represent exclusive priorities, corroborated with the training of specialists in this field.

Studying such themes like decentralization as well as fiscal autonomy is a current trend and it approaches the problems that Romania and other countries deal with. The improvement of local public services supplied to the citizens requires a careful analysis and a constant correction of the implementation and evolution of the decentralization process in general.

The theme of research proposed „*Local Public Finance in the Context of Decentralization and an Increased Financial Autonomy*” is structured in four chapters such as: a) the first chapter presents the concept of local public finance and its place within the fiscal system; b) the second chapter analyzes the decentralization phenomenon in general, its forms of appearance, as well as the link to the fiscal autonomy; c) in the third chapter one studies the process of decentralization and its trends in the world. In order to get an overall image as clear as possible, one makes use of a sample of diverse countries: both developed and developing with unitary and federal administrative systems; d) the last chapter is a case study where one analyzes the current state of decentralization in our country. It also presents some new strategic managerial instruments which should help local governments to develop within the spirit of local autonomy, such as adopting a multiannual budget.

The first part of the paper presents the concept of local public finance, the structure of local budget, as well as the budgetary process within the local administrative units. One lays stress on the current role of the local budget in the process of responsibilities' expansion towards local governments.

There are three dimensions of decentralization: administrative, political and fiscal. The second chapter deals with questions such as: what determines a country to adopt decentralization, and especially what determines a country to decentralize more one dimension (administrative, political and fiscal) in contrast to another. The degree of decentralization varies from one country to another, as well as the type of decentralization differs within the same country.

A total fiscal decentralization includes a political decentralization, and, to a certain extent an administrative one. Thus, all three components must be present. The percent of these elements in this mixture may vary, and when the administrative dimension prevails, we are in the situation when the decentralization is closer to devolution, or when all three components are equally present, we deal with a total decentralization by a transfer of power.

Fiscal decentralization influences to a great extent the autonomy of a local public administration. The more local governments depend on the central transfers, the less freedom they have to take decisions concerning the public services supplied, and the degree of local autonomy is limited.

The degree in which local governments get involved in the process is different from one country to another and depend on the economic, politic and social context, the historic legacy as well as the cultural environment specific to every state. The decentralization process is a continuous one, it never ends. Many states experienced different levels of the process: implementation, experimentation (partial decentralization), continuation (total decentralization), and finally, recentralization (in case no positive results were obtained). We consider that every stage must be prepared and surveilled carefully, so as the passing towards the next level should be as safety as possible. Only in this way the initial targets proposed could be accomplished.

Another problem dealt with in this chapter is up to which limits local revenues may be decentralized. Most economists trained in the decentralization phenomenon consider that there are no local governments totally financed from own revenues and moreover, this is not a desirable fact. A general rule agreed on is that administrative units must collect own revenues up to a certain extent and afterwards operate with budgetary constraints. This means that the amounts deduced from certain taxes, transfers and grants should only be a collateral funding.

In the third chapter one presents the evolution of decentralization within different countries, and one makes a brief analysis of the effects of this process in unitary and federal states. In order to outline the effects of the process of decentralization in unitary and federal states, three countries were chosen as an example, being representative for the administrative structure of the three fundamental types of public administration organization: France, representative for the unitary states, Germany, for the federal ones and Great Britain, which is a heterogeneous structure, with elements common to federal and unitary state types.

Starting from these aspects, the last part of the chapter followed the impact that the process of decentralization had in developed and developing countries, if it did have an influence or not on the economic growth. In order to get an overall view as accurate as possible it has been used a varied sample of countries: developed countries (Spain, Ireland, Canada and Nordic countries) and developing countries (Bolivia, Uganda and states from Central and Eastern Europe – Poland). It has been proved that for developed countries, from an economic point of view, decentralization had an insignificant influence, but it improved the quality of decentralized services. As far as developing countries are concerned, decentralization did not bring about a significant economic growth.

Despite the growing interest in this phenomenon, the fiscal reform in developing countries seems to be rather a slow and difficult process, due to the fact that the politic and economic environment hostile to decentralization does not change easily and moreover, the mechanism used in the process has a limited practicability.

The last chapter is a case study. In the first part it is studied the current state of decentralization in our country and one makes a synthetic analysis of the main stages

undergone by Romania concerning the evolution of local public finance, starting from 1900 until 2012, laying stress on the last period of twenty years. It has been tracked the evolution of the own revenues (indicator of the degree of financial decentralization) from total revenues of the local budgets centralized at the country level, as well as the way they are composed. Also relevant for the state of decentralization process in Romania in this period of time is the way these revenues have been used, namely the structure of expenditures realized at the local level. Generally, it has been analyzed whether decentralization has achieved its main goal, namely the improvement of the quality of the services supplied and the growth of the citizens degree of satisfaction.

Consequently, after the analysis of the evolution of the structure of revenues and expenditure of the local budgets centralized at the country level and afterwards gradually from the region level to the county, municipality and village level, between 1991-2012, one jumps to the following conclusion. In theory, Romania is a country with a certain degree of decentralization and fiscal autonomy, but in reality, there are several problems that have been identified:

- own revenues (formed especially from local taxes and rates) are not enough for the fulfillment of the fiscal needs of local communities;
- revenues formed of amounts deduced from the income tax are not present at most of the administrative local units level, which reflects a weak concern for local business development in the area;
- an important contribution at the local budget revenues represents the amounts deduced from the value added tax. Often, these revenues receive from the state a special destination and local authorities cannot make use of these amounts at their will;
- as far as loans are concerned, it has been noticed that local administrative units do not make use very often of this form of completing the revenues. A possible explanation would be the lack of funds used for cofinancement, but also the lack of skills of the personnel involved in projects development. We appreciate that, in today economic context, loans should not be too much promoted, as they run the risk that local public administrations should become insolvent. Local services supplied through some forms of lending become inefficient as the real costs arrive to be paid by other communities or may be passed on to the next tax payers generation;
- as a result of the decentralization process, expenditures registered a real evolution. Despite all these, local authorities did not have the proper skills to handle the new delegated tasks. Unfortunately, the weight of spendings for investments in total expenditure is insignificant. As a result, local services become inefficient as far as their quality is concerned. The fiscal dimension of decentralization consists of financing local expenditures with own revenues, while transfers from the state should be just a form of completing them. We appreciate that generally, in Romania, the transfer of local expenditures has not always been correlated with that of fiscal revenues;
- the degree of European funds absorption is limited compared to the existing potential.

To conclude, one might outline the fact that local administrative units face with quite difficult problems: they do not have enough funds for investments and the dependence on central authority is still felt with an intensity high enough, especially in villages, even if over twenty years since the fall of socialist centralized system have already passed.

All these aspects lead us to the conclusion that in Romania we deal with a partial decentralization.

A possible solution to increase the local revenues following the principles of fiscal autonomy is to attract the European funds by applying the regionalization. Thus, the European funds would be accessed directly by the regions. By taking this measure bureaucracy would be very much attenuated and central administration would be relieved by the burden of some significant expenditures.

The last part of the paper presents new strategic managerial instruments which should help local communities to develop in the spirit of decentralization and local autonomy, namely adopting a multiannual budget at the local or regional level that would facilitate the access to the European funds.

In this respect it has been collected data about the evolution of revenues and expenditures for a period of thirteen years in the case of a municipality and for a period of eight years in the case of a village. The aim of this study was to produce a forecast of local revenues and expenditures making use of the econometric models of correlation and time with the help of the informatic programme Eviews. Therefore the result obtained may be considered a simulation of multiannual budget.

As a result of the simulation, we might jump at the conclusion that the implementation of a multiannual budget is realised differently from a local administration to another, due to the differences that exist at the administrative level between urban and rural communities.

Thus, the lack of historic data at the rural administration concerning the evolution of revenues and expenditures made impossible the use of extrapolation techniques at this level. Due to the emerged problems, the multiannual budget may be implemented only at the level of urban or at least regional collectivities, after the end of the regionalization process. It is important to create a steady environment as far as fiscal rules and regulations are concerned, as the current changes generate instability and chaos, rendering the multiannual budget impossible to function properly. Moreover, the implementation of a multiannual budget generates later on especially at the rural level quite a controversial problem such as how the fiscal equilibrium be realised since the new budget has more than one year period of time. But this topic is to be debated by future research papers in the field.