



ANALYSIS OF THE PROCEDURE FOR BALANCING THE LOCAL BUDGETS IN ROMANIA

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Abstract

This paper aims to provide a short analysis of the procedure for public financial resources allocation throughout the country to supplement the local budgets. Is there a proper, objective and balanced distribution of public funds among the Romanian counties? Does any county face disadvantage by the allocation of amount from certain state budget revenues? An unequal, irrational economic development within a country results in changing the equilibrium and influences the overall balance and the individuals of the state. Local budgets are highly dependent on the funds they receive from the central budget. Very few local communities contrive to generate sufficient revenues by their own. Balancing local budgets is a necessity, but the balancing procedure suffered many legislative changes. Inadvertency consists not necessarily in the procedure of distribution of public money, but in the efficiency and effectiveness with which they are used locally.

Keywords: budgetary allocations, balancing local budgets, public appropriations procedure, public procedure, VAT repartition

JEL Classification: H72, H61

1. Introduction

Public administration reform is one of the priority themes of the current government, focusing on its financial component. When the economic crisis is felt at all levels and in all areas it is not hard to make it obvious that the procedures and practices currently followed by the Romanian authorities are at a higher level of austerity and they are challenged by the current government. Balancing local budgets remains a current topic and it is subject of many debates.

Also, another issue that has made its make in the past, present and future is the local autonomy of an administrative-territorial unit. Local autonomy is only financial and

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administrative. It is exercised according to Romanian laws. The idea of local autonomy for ethnic, linguistic or territorial operational criteria cannot be discussed. The local autonomy means engaging the right and effective capacity of local authorities to solve and manage an issue within the boundaries of the law that results in its own benefit and in the benefit of local population, an important part of public affairs (European Local Autonomy Charter, 1985). This right shall be exercised by local councils, mayors and by county councils. Local autonomy of a town targets an operational organization, competences and duties, resource management of the territory, city or county.

The national economic policy provides to the local authorities the right to have their own sufficient financial resources. They are able to use them freely for public services or investments. Their resources come from local taxes. Own financial resources of a local community may be in excess or deficit for financing the local public needs. Thus, annually, the Ministry of Finance allocates money from the state budget to balance the local budgets. There will always be a contradiction in views between communities that have own sufficient income and the ones that do not have sufficient funds for maintenance costs of a locality. Local representatives of the first category support the abolition of local budgets balancing, while the representatives of the latter will want to get as much money in this way. This dispute is taking place on two levels of governance: from central to local level and from local to central level.

Local government budget and local policy making process is a current subject of research for many specialists all over the world, such as Municipal Research&Services Center of Washington (1999) or Anwar Shah (2007, *Public Sector Government and Accountability Series - Local Budget*). An important topic in local budgeting process research is reserved to fiscal decentralization (Bahl Roy, 1999). Issues on local budgetary procedures could be found in the Romanian literature in several public finances books or public budget books, such as those of Văcărel I. (2006), Moșteanu T. (2008), Georgescu M.A. (2009), Gh. Matei, Drăcea M., Drăcea R., Mitu N. (2007), Ungureanu M.A. (2009), Popescu N. (2002). Such books do not refer to the distribution of public money from national to local level.

Bird Richard and Smart Michael (2001) underlined some lessons from international experience on intergovernmental fiscal transfers. Bahl Roy (1999) studied the intergovernmental transfers in developing and transition countries, Yun-Hwan Kim and Paul Smoke (2003) studied them in Asia (Cambodia, India, Indonesia, Pakistan and Philippines), Bergvall Daniel, Charbit Claire, Kraan Dirk-Jan and Merk Olaf (2006) for the OECD countries; Erny Murniasih (2003) in Indonesia, Jamie Boex, Randson Mwadiwa, Reckford Kampanje (2001) for Malawi, etc.

A study undertaken by the Institute for Public Policy (2005) tried to identify, through the quantitative and qualitative analyses made in 2004 in various parts of Romania, several crucial aspects meant to contribute to an improvement of the existing budget equalization system. They made an analysis of allocations from county-to-local level and of allocations from national-to-county level. Their conclusions were that the current budget equalization system should be improved, avoiding that one and the same indicator to be measured in different ways (such as fiscal capacity), that the budget equalization process to be performed directly by the Ministry of Public

Finances, without the intercession currently undertaken by the county councils, etc.

Horizontal fiscal balance or equalization, as it is usually called in research papers, is a concept with many different interpretations. A theoretical approach to the equalization of local budgets as a premise of financial decentralization in Romania was made by Glodeanu E. and Glodeanu C. (2007); they summarized some optimal solutions for budget equilibrium.

The paper is structured into three parts. The first part outlines some ideas about public administration and about local autonomy. In the second part, we have synthesized the main characteristics of the procedure for balancing the local budgets during 1992-2009. The main part of the paper includes an analysis of inter-county repartition of the VAT after 2007. Our analysis focuses on the allocations from national level to county level by type of amounts decentralized from the state budget and by destinations. We attempt to show the inequalities between the Romanian counties in terms of financing the local budgets from the state budget. Reducing the local inequalities in terms of financing should be included among the main measures of the Romanian authorities. The last part contains a number of conclusions and personal opinions. Research methods that we use include synthesis, static and dynamic comparative analysis, graphical representation of events and phenomena investigated and deductive logic.

2. Procedure for balancing the local budgets

The necessity of protecting the territorial administrative units is obvious for those that have a worse financial situation. This requires establishment of an authority responsible for creating financial equalization procedures or measures designed to correct the effects of the unequal disbursement of financial resources. Local budgets are essentially made of local revenue and revenue received from the central level. The access of local communities to the capital market leads to another source of revenues for the local budgets. This refers to local public loans. Own revenues are incomes that the authorities generate locally. The level and sources of this kind of incomes are controlled and decided by the local authorities within the limits provided by law. It can be said that the degree of local autonomy of a community largely depends on the rate of local revenues or other income resources of the local budgets. Ideally, it should be that their incomes cover the expenditures occurred by local public requirements.

Taxes are collected at national level by the Ministry of Finance through the financial district directorates. Later, a part of them is shared between different levels of state administration authorities. Local authorities receive shares of income tax and VAT. Income from central authorities have a main objective, namely to correct imbalances that occur locally both vertically (the local taxes do not cover the public services expenditures), and horizontally, because not all local communities are doing well financially. All local public administrations have the requirement to provide equivalent services as quality and quantity (Institute for Public Policy, ProDemocratia Association, 2001, pp. 41). This balance is achieved horizontally between counties and county towns.

Rates and amounts deducted from certain incomes of the state budget, the additional quotas to some state budget revenues and special purpose transfers from the state budget form local budgets revenues. Therefore, they are included as such in the budget of an administrative-territorial unit. Effective allocation of the amounts deducted from certain incomes of the state budget on villages, towns and cities is done by each county council, by decision of its head. They are distributed with priority to those administrative-territorial units which have insufficient incomes, after a consultation with mayors. The appropriations are made according to allocation criteria approved by the state budget and with technical assistance from the local public finances directorates.

In the last ten years, the allocating procedure of funds from the state budget to local budgets witnessed many legislative changes to its efficiency and improvement. This paper tries to achieve a timing of this procedure, depending on the republication of the law on local public finance:

Stage 1999-2003: Since 1999, the Law no. 189/1998 on local public finance granted to local communities shares of the income tax. Thus, to the date of wages payment, the income tax which companies owed to the state budget was transferred 50% to the state budget, 40% to the budget of villages, town or cities and 10% to the county budget.

Under Law no. 216/26.04.2001 on the state budget for 2001, funds collected from income tax were distributed as follows:

- To balance the local budgets. These amounts of money were 25% allocated to the county budget and 75% distributed to localities by the county council;
- To subsidize heat power delivered to people. These appropriations were determined by an Annex of the State Budget and they were distributed by the county council, depending on the heat delivered to the population;
- Shares of VAT tax to finance expenditure of pre-university educational institutions, nurseries and local agricultural advisory centers.

36.5% of the income tax collected to the state budget in each administrative-territorial unit was monthly allocated to the localities' budget, 10% to the county's budget and 15% to the county council to balance the budgets of localities. 2002 came with 1 percentage increase in the rate of 15% available to county councils to balance local budgets, thus reaching 16%. Shares of income tax were distributed according to these criteria: 10% territorial area, 15% the number of people assisted in social welfare institutions, 5% the number of undergraduate students and 70% financial capacity (Law no. 216/2001).

Stage 2004-2006: In this period, the amounts of money allocated from the state budget aimed to destinations such as: balancing local budgets, financing of social benefits and households heating, funding child welfare system, funding cultural institutions, subsidizing heat energy, financing pre-university education institutions, the nurseries, local agricultural advisory centers. In 2005, the government decided to appropriate money for county and municipal roads.

Distribution by county of shares of certain incomes of the state budget was done according to GED no. 45/2003, 70% depending on financial capacity and 30% on

county area. A share of 36% of income tax collected by the state budget was distributed for financing the local budgets of villages, towns and cities, 10% for financing the county budget and 17% were getting paid to an account opened on behalf of the county council to balance local budgets of localities and counties. 25% of the 17% share of income tax collected from the state budget and from other appropriations for balancing local budgets was allocated to the county budget and 75% to villages, towns and cities budget, following the criteria: 30% financial capacity, 30% town area, 25% population, 15% other criteria.

The annual budget appropriations for the destination mentioned above is presented in Table 1 of the Appendix, without considering them limited. They do not reflect corrections of the annual State Budget Law after its adoption.

Stage 2006-2010: When Romania joined the European Union, the State Budget Law has changed the structure of funds allocated to the local communities.

Amounts allocated from the state budget incomes are funds distributed to balance local budgets, to spend on special purpose, to finance decentralized public services or to finance new public spending. In this period, public money were allocated to Romanian local budgets according to the next destinations:

- a) to finance decentralized expenditures in the county,
- b) to finance decentralized expenditures in the villages, towns and cities;
- c) to finance expenditure on county roads. Their distribution is made by each local community depending on their length and technical condition, according to the decision of the county council after a consultation of mayors;
- d) to balance local budgets of villages, towns, cities and counties;
- e) to finance the governmental program for developing infrastructure and sports facilities in rural areas.

Amounts of destination a) are intended to finance the child welfare system and social welfare centers for persons with disabilities, granting rights of dairy and bakery products for students of I-VIII grade public education institutions and for preschool children in public kindergartens with four-hour program, to finance expenditures on honey as a nutritional supplement for preschoolers and students from I-IV grades, expenditures on special education and county centers for educational assistance, etc. Amounts of destination b) are intended to finance personal expenditures, scholarships and inventory objects of pre-university public education institutions, to finance expenditures for personal assistants of people with severe disabilities, to finance population welfare, domestic heat power produced from wood, coal and fuel oil, public nurseries spending, etc.

Under current legislation, the VAT allocated to balance local budgets is distributed by counties according to the following criteria:

- a) 70% financial capacity determined by the income tax collected per capita, and
- b) 30% a share as according to county area.

According to Local Public Finance Law no. 273/2006, the income tax collected to the state budget in each county is monthly allocated a **47%** quota to local budgets of villages, towns and cities, a **13%** quota to local budgets of counties, a **22%** quota to

an account opened on behalf of the public finance directorates for balancing local budgets of villages, towns, cities and the county.

Table 2 of the Appendix centralizes initial budgetary provisions from State Budget Laws over the last four years, without influences of the budgetary corrections.

Financial decentralization is a key component of the public administration reform in Romania. It is an action which has as effect strengthening the power and role of local government in managing public services. The data summarized in the previously mentioned tables make us say that in the last nine years the allocation of funds was increasingly higher to the finance local public spending. Their positive trend shows us an intensification of the decentralization process. A strengthening of the financial autonomy of local public administrations, considering that they are closest to the citizens, is revealed, too. Decentralization process effects are not visible in the short term, but they can be integrated in the quality of public services in the long term view.

3. Inter-county repartition of the VAT between 2007 and 2010

One of the major objectives of Romania is building a fair society. National Fiscal Administration Agency has over 8 million taxpayers on record, so it should care for an equitable distribution of public funds to be taken for them. Discrepancies that can occur in financial terms between different regions of the country have repercussions in time on the social and economic development. They are amplified by the differences between financial resources available to each local public administration. The main pillars for achieving a fair and balanced national economy are the state budget, the national budgetary policy, managerial competitiveness of a public manager supported by a healthy trend of macroeconomic growth.

The country's economy is currently characterized by a significant reduction of activity in all sectors. The macroeconomic context in which the allocation of public funds at inter-county level is done is as follows:

- According to data published by the National Institute of Statistics, GDP in the second quarter of 2009 decreased by 1.2% as compared to the first quarter 2009. As compared to the corresponding period of 2008, the GDP (gross figure) decreased by 8.8% in the second quarter of 2009 (National Institute of Statistics, Press Release no. 168, 2009). The Gross Domestic Product estimated for the first half of 2009 was 206.45 billion lei at current prices, down - in real terms - by 7.6% as against the first half of 2008. The quarterly evolution of GDP in 2010 was characterized by a decrease, in real terms, in each quarter as compared to the correspondent one from 2009, by 2.6 percents in the first quarter of 2010, by 0.5 percents in the second quarter and by 2.5 percents in the third quarter of 2010 (National Institute of Statistics, Press Release from 14.12.2010).
- In the first quarter of 2009, the employment rate of working age population (15-64 years) was 57.4% and the unemployment rate 6.9% as according to International Labor Office (ILO) criteria. Considering the residential environments, the spread between the two ILO unemployment rates was 1.5 percentage points (7.5% for

urban area, as compared to 6.0% for rural area - National Institute of Statistics, Press Release no. 160, 2009). In the third quarter of 2010 the unemployment rate in Romania was 7.4%, by 0.1 percent lower than at the end of 2009, and much higher than in the last quarter of 2008 (4.2% - see BNR <http://www.bnro.ro/Raportul-asupra-inflatiei-3342.aspx>). According to data published by The National Bank of Romania, in the second quarter of 2010 the employment rate was 60.1%, below the average of EU-27 (64.3%).

- In July 2009, the gross nominal average earning was 1901 lei, by 0.7% more than in the previous month. Net nominal average earning was 1390 lei, up from the previous month by 11 lei (0.8% - National Institute of Statistics, Press Release no. 173, 2009). National Institute of Statistics from Romania informed on 7th April 2010, via a press release, that the net nominal average earning was about 1,436 lei.
- Inflation rate was 7.77% in the third QUARTER OF 2010, with 3.36 percents more than in the second quarter of that year. In the last quarter of 2010 inflation rate increased to 7.96% while the inflation target for 2010 was 3.5%. (National Bank of Romania Report, February 2010).

Representatives of the central government have to fulfill through their actions the needs of the 41 counties, 320 cities, 2860 towns and 12,956 villages across Romania. The Romanian territory is divided into the following areas of development: **North-East** (Bacău, Botoșani, Iași, Neamț, Suceava, and Vaslui counties), **South-East** (Brăila, Buzău, Constanța, Galați, Tulcea, and Vrancea counties), **South Muntenia** (Argeș, Călărași, Dâmbovița, Giurgiu, Ialomița, Prahova, and Teleorman counties), **South-West Oltenia** (Dolj, Gorj, Mehedinți, Olt, and Vâlcea counties), **West** (Arad, Caraș-Severin, Hunedoara, and Timiș counties), **North-West** (Bihor, Bistrița-Năsăud, Cluj, Maramureș, Satu Mare, and Sălaj counties), **Center** (Alba, Brașov, Covasna, Harghita, Mureș, and Sibiu counties) and **Bucharest-Ilfov** (Bucharest Municipality and Ilfov County). It is a certainty that the 8 regions of the country have different levels of economic development. According to the European standards, the public funds allocation is made inversely to the degree of economic development, in order to close the gap between regions and between counties.

In the period under review, the government decided the distribution of central government funds as in Table 3 of the Appendix.

At first glance, we can say without a doubt that the sums from the state budget allocated to local public administrations are experiencing an increasing trend year by year, supported by the economic growth of recent years in Romania.

1. VAT amounts to finance decentralized expenditures of counties:

The State Budget Law of 2009 provided over 2 billion lei to cover public spending in the counties, by about 200 million (11%) more than in 2008. In 2008, these allocations were higher by 29% than in the previous year. In 2008 compared to 2007 the increases in VAT to finance decentralized expenditures in the counties held values up to 10%, in Iași County, and 65%, in Covasna County. Instead, 2009 came with much diminished growth of these amounts, so the counties budgets grew up by maximum 20 percentage points. Moreover, five counties, Vrancea (-7%), Botosani (-6%),

Constanta (-4%), Teleorman (-2%), and Bacau (-1%) experienced some reductions in the amounts received to cover county's public expenditures. Interesting is that it keeps almost constant year by year the top of the counties which receive the largest or the smallest amount of VAT to finance decentralized expenditures of the counties. Thus, in the analysis of three years, it can be noticed that two counties in north-east of the country (Iași, Suceava) and two counties in western country (Timiș, Bihor) are those that receive the largest amount of VAT to finance decentralized expenditures of the county, values exceeding 73 million/county. Oppositely, one can find counties with a reduced area, in the south of the country (Călărași, Ilfov, Giurgiu, Mehedinți, Ialomița), and Covasna (in the center of the country), which receives the lowest amount of money for this destination. These counties were allocated in the 2007-2009 period amounts of money not exceeding 27 million lei/county, 4-5 times less than the previously mentioned counties.

2. VAT amounts to finance decentralized expenditures of villages, towns and cities:

In terms of public funds allocated to these destinations, there is a growing trend by decreasing growth rates. State Budget Law on 2009 set over 11 billion lei to finance budgetary expenditure of communities. The 2008 year brought an increase in allocations to the villages, towns and cities local budgets by 26% as compared to 2007. The year 2009 came with an increase by only 7% as compared to 2008, considering the authorities' intentions to limit budget spending at all levels. Watching on distribution evolution of the appropriations by counties, Harghita, Tulcea, Galați were growing by 14-15 percentage points in 2009 as compared to 2008, while counties such as Neamț (-1%), Ialomița (-4%) and Ilfov (-8%) faced local budgetary reductions. In the analyzed three years one may find among the top counties with the largest amounts allocated to finance local public expenditures three counties of North-East region (Iași, Suceava, Bacău) and two counties from South Muntenia and South-West Oltenia regions (Prahova, and Dolj). They were receiving allocations below 350 million lei/county in 2009. By contrast, allocations below 150 million lei/county in 2009 were found in counties with small areas from south-east and south of the country, as follows: Ilfov, Tulcea, Giurgiu, Ialomița, Călărași, and Covasna in the center of the country.

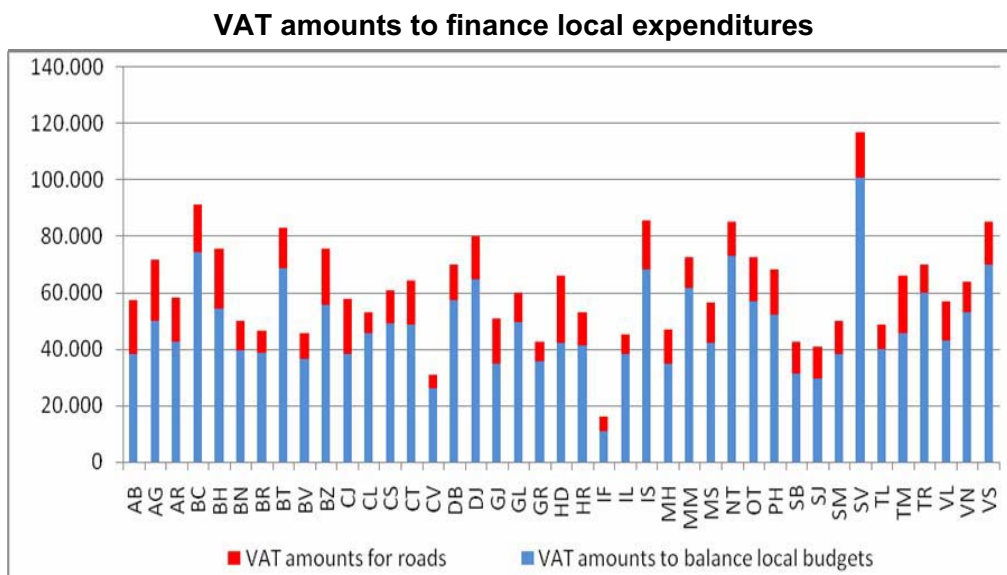
Even if 2010 was a year when the economic crisis effects were still notable and the state budget deficit increased, the VAT amounts to finance decentralized expenditures at local level experienced a slow increase. In 2010, the Ministry of Public Finances has as target a budgetary deficit of 5.9% of GDP, lower than in 2009 (7.2% of GDP). Even if public revenues have decreased as compared to 2009, the VAT amounts to balance county budgets recorded an increase of 31.2 millions RON. This increase was not the same at territorial level, 16 Romanian counties had to spend less money than in 2009 (i.e. Satu Mare, Sălaj, Sibiu, Cluj, etc.). In terms of VAT amounts to finance decentralized expenditures of villages, towns and cities, the situation was unfavorable, 29 counties receiving from Government less public money than in 2009. It can be noticed the case of Vâlcea County, which was the county with highest VAT amounts to finance decentralized expenditures (27% increase in VAT amounts for county budget, and 48% increase in VAT amounts for cities, towns and villages budgets in 2010/2009).

Inter-county distribution of VAT is detailed in Table 4 of the Appendix.

3. VAT amounts to balance local budgets of villages, towns, cities and counties:

During 2007-2009, Romania has allocated about 2 billion lei to balance local budgets. The 2008 year brought budgetary allocations increases by 5% against 2007. The 2009 global economic crisis led to a decrease by about 17% over 2008. The visible discrepancies between the amounts allocated to balance local budgets are noteworthy. If in 2008/2007 only 17 counties of 41 were recording reduced balancing appropriations, in 2009/2008 only 13 counties were receiving increased balancing allocations. In 2008, the largest increase in state budget allocations to balance local budgets was done for Botoşani, by 1.9 times more than in 2007. At the same time, the drastic reduction of allocated amounts was experienced by Cluj, by 42% down. A rule for public resources' allocation for this destination on counties can be found: the current year State Budget Law allocates to a certain county a diminished amount of money if it was raised in the previous year; oppositely, an increased amount of money if it was reduced in the previous year. In the analyzed period, the top of counties with the largest/the lowest allocations from the state budget to balance local budgets remained constant. Thus, between 2007 and 2009 five of the top ten counties with the largest allocations were from Moldavia (Suceava, Vaslui, Neamţ, Bacău, Iaşi). Each of them received over 60 million/year. Oppositely, five of the ten counties with the lowest allocations for this destination were from Transylvania (Covasna, Sălaj, Sibiu, Braşov, Hunedoara), and Ilfov. The amounts did not exceed 38 million lei/county.

Figure 1



The year 2010 does not bring some considerable changes in public money amounts obtained from central authorities for balancing local budgets. Each Romanian town or village received in 2010 the same financial resources as in 2009. This rule is not

followed by two counties. The first one is Mures. This county received in 2010 from state budget a VAT to balance their local budgets by 10% lower than in 2009, this was the biggest drop between counties. The second one is Ilfov. Ilfov County is a privileged county, it receives 3 percents more public money from the central level to balance local budgets

4. VAT amounts to finance roads:

Annually, the authorities invested, at least on paper, public funds in local infrastructure, these amounts being 1.16 times higher in 2009 than in 2008 and 1.19 times in 2008 than in 2007. The State Budget Law for 2009 provided 551.7 million lei for this destination, which means 74.77 million lei more than in the previous year. It must be said that there are not significant differences between counties in terms of increasing the budgetary allocations percentages for public roads. There is uniformity in increasing budgetary allocation for public roads in the 41 counties of Romania. Hunedoara, Bihor, Argeş, Timiş, Buzău, and Cluj were the counties that received in the last three years the largest amounts of money for local infrastructure, amounts exceeding 19 million lei/county. Annually, the rating remained constant at the opposite side. Here could be found the next counties: Ilfov, Covasna, Giurgiu, Călăraşi, Ialomiţa, Brăila and Tulcea. They were receiving the lowest annual budgetary allocations for financing public roads, exceeding 9 million lei per county. In 2010, the refurbishing of county roads was funded similarly to 2009, each Romanian county receiving the same amount of money as in 2009.

The amounts of money received from the state budget are distributed to intra-county level as follows: a **27%** share of the VAT to balance the local budget, approved annually by the state budget law, and the rate of 22% income tax is charged allocated budget of the county, and the difference (73%) is allocated to local budgets of communes, towns and cities, as follows (Law no. 273/2006 on local public finances):

- a) 80%** of the amount shall be divided into two stages, by decision of the Public Finance Direction Director, depending on the number of inhabitants, the built area in the locality and its financial capacity (i.e. $0.8 \times 73\%$);
- b) 20%** of the amount shall be allocated by the county council decision to support programs for local infrastructure development projects, which require local funds (i.e. $0.2 \times 73\%$). The amounts set for each county or city will be reduced by an uncharged degree, calculated as a ratio between the amount of local taxes, rents and royalties received in the previous year and their amount receivable in previous year.

Regarding the objectivity or subjectivity of inter-county public money distribution, such an issue is not easy to judge, the Sibiu County hovering somewhere in the middle ranking among the other counties in what regards the amounts received from the state budget. For the entire 2009, the authorities were expecting a contraction in the economic activity, from -8% to -8.5%.

The country's economic development is similar to the European area, so that the receivable amounts from the state budget will be lower than originally foreseen, especially in the context of a new amendment prepared by the Government for the end of the year. It is to be seen whether economic conjuncture gets worse in terms of local budgetary balance.

4. Conclusions

Today, the European basic concept is the economic and social cohesion. Economic and social development should be based on a balanced spatial structure. From this perspective, it is considered that an unequal development of territories reflects the overall economic weakness and is unacceptable because, in turn, it becomes a source of political and economic instability (Institute for Public Policy ProDemocratia Association, 2001). The best alternative is the solidarity of local communities. This solidarity should be calculated by the authorities in order to maintain a balance between the expectations of local communities' members. However, how the balance is achieved sparks heated discussions every year, but the allocation criteria have changed. The state still provides important resources to local communities, the largest proportion of these have special purposes, which do not allow local communities to have freedom in managing funds.

What should a good system of state budget transfers suppose? First, they must not be sufficient, so that local authorities are interested in collecting their own income. At the same time, it should be ensured a balance between the local authorities' competences and their decentralized resources. Free funds nature makes that the manner of distribution be a topic of discussion. Although the payments distribution is mathematically made according to the financial capacity of each county, it does not exclude subjective interpretations. Is the process of local repartition unaffected by political influences or is it a result of negotiations? There are questions that remain unanswered. Payments distribution for each county or other city is based on informal rules, no matter how objective we are. What county is paying to the state budget more money than it is receiving?

From our point of view, the inadvertence consists not necessarily in the procedure of distribution of amounts, but in the efficiency and effectiveness with which they are used locally. Mainly, communities that have less money are using them more efficiently than those who have higher amounts of money. Financial management efficiency of a local public administration depends on the real public acquisitions contracts, real public services contracts. Also, it depends on how household is the person who manage public money. Perhaps local authorities should first find additional solutions for generating local revenues and then go to obtain more funds from central level. Solving a local community problem depends on the available resources, the quality of financial management, but also on the collaboration between various local government structures.

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Analysis of the Procedure for Balancing the Local Budgets in Romania

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APPENDIX

Table 1

Allocations from Romania's State Budget to local budgets, 2001-2005

Destination of appropriations	2001		2002		2003		2004		2005	
	Bln	ROL	Bln	ROL	Bln	ROL	Bln	ROL	Bln	ROL
1. Budgetary allocation of income tax to balance local budgets	4000.00		9277.9		15718.3		21650		21374.9	
1.1. to own budget of counties	1019.7		1092.4		1335.6					
1.2. to local budgets of villages, towns and cities	2980.3		3216.1		3914.4		8976.6		10956.3	
1.3. to finance social benefits and domestic house heating	-		4374.8		7727.1		8526		6145.4	
1.4. to finance decentralized cultural insitutions	-		594.6		814.8		921		1021.6	
1.5. to support child welfare system (+ disabled persons since 2005)	-		-		1926.4		3226.4		3241.5	
2. Budgetary allocations from income tax to subsidize the heat energy delivered to population	2524		2151.0		3597.4		7647.1		4975.1	
3. Budgetary allocations from VAT to finance expenditures of pre-university education institutions, nurseries and local agricultural consulting centers	21660.75		31218.7		34350.91		38391		49676	
4. Budgetary allocations from VAT to finance local roads	-		-		-		-		2300	
Regulation	Law no. 216 / 26.04.2001 MO 214/ 26.04.2001		Law no. 743/ 6.12.2001 MO 784/ 11.12.2001		Law no. 631 / 27.11.2002 MO 863/ 29.11.2002		Law no. 507/ 28.11.2003 MO 583/ 2.12.2003		Law no. 511/ 22.11.2004 MO 1121/ 29.11.2004	

Source: Data processed from the laws of the state budget in the period 2001-2005 (www.legestart.ro).

Table 2
Allocations from Romania's State Budget to local budgets, 2006-2010

Destination of appropriations	2006	2007	2008	2009	2010
	Mln RON	Mln RON	Mln RON	Mln RON	Mln RON
1. Budgetary allocations from VAT for local budgets	9703.4	12767.9	15063.8	17624.5	17000.2
1.1. To finance decentralized county expenditures (child protection, disabled people protection, providing dairy products to students, etc.)	1057.8	1315.6	1702.9	2022.2	2053.4
1.2. To finance decentralized villages, towns and cities expenditures pre-university public education institutions, day care, welfare, domestic heating, etc.)	6101	8368.2	9621.4	12136.6	11580.5
1.3. To subsidize the heat delivered to population	252.1	-	-	-	-
1.4. for refurbishment, modernization and development of centralized systems of production and distribution of the heat	490.4	741.6	-	-	-
1.5. The VAT share for county and municipal roads	359.3	457.8	527	551.8	551.8
1.6. To balance local budgets of villages, towns, cities and counties	1442.8	1544.7	2402.5	1997.7	2.001
1.7. To finance the governmental program for developing infrastructure and sports facilities in rural areas	-	340	810	914.2	813.5
Regulation	Law no. 379/ 15.12.2005 MO 1151/ 19.12.2005	Law no. 486/ 27.12.2006 MO 1043/ 29.12.2006	Law no. 388/ 31.12.2007 MO 902/ 31.12.2007	Law no. 18/ 26.02.2009 MO 121/ 27.02.2009	Law no. 11/ 26.01.2010 MO 60/ 27.01.2010

Source: Data processed from the laws of the state budget in the period 2006-2010 (www.legesart.ro).

Table 3

Inter-county distribution of the VAT (1) (thousand RON)

County	VAT amounts to finance decentralized expenditure of counties					VAT amounts to finance decentralized expenditure of cities, towns and villages				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Alba	33,642	45,976	45,850	49,747	172,345	206,720	220,313	191,348	324,449	222,804
Argeş	41,367	51,596	57,723	55,501	266,458	320,733	347,372	362,408	337,241	175,766
Arad	33,280	43,293	43,222	43,856	157,709	264,529	232,203	389,920	360,468	164,392
Bacău	45,139	66,760	66,189	69,774	276,230	350,544	389,920	362,408	337,241	175,766
Bihor	51,432	65,435	73,719	73,087	261,902	329,462	360,468	337,241	175,766	164,392
Bistriţa-Năsăud	32,855	37,952	40,015	42,166	128,376	165,458	179,065	175,766	164,392	164,392
Brăila	26,127	30,461	31,694	28,350	139,356	166,301	178,999	164,392	164,392	164,392
Botoşani	36,779	52,121	49,044	51,412	197,258	225,968	250,300	246,261	246,261	246,261
Braşov	34,505	44,681	48,914	52,959	229,012	273,744	289,253	273,300	273,300	273,300
Buzău	35,049	42,761	46,252	50,700	194,585	247,286	264,456	247,133	247,133	247,133
Cluj	48,173	63,347	72,829	72,544	259,207	316,390	346,018	309,580	309,580	309,580
Călăraşi	19,664	23,763	33,288	31,336	123,382	143,924	155,540	167,476	167,476	167,476
Caraş-Severin	32,252	41,321	43,988	42,343	117,933	159,368	167,696	165,240	165,240	165,240
Constanţa	42,051	60,157	57,673	63,518	241,308	297,405	318,775	334,607	334,607	334,607
Covasna	11,322	18,645	21,953	23,677	110,132	130,852	140,806	130,518	130,518	130,518
Dâmboviţa	29,168	44,519	52,199	40,482	209,493	250,120	278,305	282,630	282,630	282,630
Dolj	36,980	47,036	53,174	43,829	276,144	372,360	376,883	373,427	373,427	373,427
Gorj	26,080	32,059	34,533	32,260	158,205	206,293	216,217	220,693	220,693	220,693
Galaţi	39,741	48,539	56,862	54,144	212,059	282,434	321,751	300,638	300,638	300,638
Giurgiu	15,300	21,519	25,460	21,705	89,775	112,040	117,570	133,464	133,464	133,464
Hunedoara	34,529	38,789	42,933	39,846	190,102	238,020	257,731	230,082	230,082	230,082
Harghita	20,316	28,570	31,658	35,720	161,229	190,542	218,891	194,471	194,471	194,471

County	VAT amounts to finance decentralized expenditure of counties					VAT amounts to finance decentralized expenditure of cities, towns and villages				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Ilfov	18,303	23,767	24,075	25,043	89,183	110,665	101,905	129,290		
Ialomița	15,805	19,937	24,379	22,065	105,328	150,221	144,608	151,772		
Iași	77,105	84,988	101,344	112,246	337,899	410,343	449,507	455,846		
Mehedinți	21,432	24,900	26,609	27,922	130,218	167,400	174,300	162,807		
Maramureș	40,678	51,190	55,006	56,541	229,520	270,279	305,047	266,371		
Mureș	40,822	59,124	64,527	64,473	229,894	303,937	339,075	306,567		
Neamț	41,597	56,047	65,666	75,398	213,062	283,592	280,379	277,781		
Olt	28,827	40,024	45,333	38,109	189,299	242,583	256,254	239,255		
Prahova	48,643	62,438	69,230	73,628	275,971	342,788	382,971	377,164		
Sibiu	37,809	50,500	59,566	58,730	168,745	211,665	219,420	214,935		
Sălaj	19,054	26,949	31,577	29,663	119,558	148,048	160,832	142,660		
Satu Mare	29,471	37,544	41,406	38,197	170,955	211,772	238,875	206,878		
Suceava	64,283	82,194	87,780	96,079	260,527	653,515	380,337	387,309		
Tulcea	21,030	28,219	30,609	31,845	110,418	113,226	129,228	116,694		
Timiș	52,753	68,729	84,801	88,990	240,779	294,057	318,529	322,148		
Teleorman	22,765	29,703	29,235	30,483	148,924	189,861	211,450	197,258		
Vâlcea	35,839	41,517	46,069	49,048	176,315	215,166	227,647	204,115		
Vrancea	29,716	37,600	35,025	44,544	158,123	184,358	204,548	303,425		
Vaslui	45,251	65,206	70,793	71,563	195,974	253,358	271,244	279,722		
TOTAL	1,415,624	1,829,876	2,022,172	2,053,407	8,381,898	10,554,429	11,324,708	11,580,546		

Source: Data processed from GEO no. 134/2007 on budget adjustment for 2007, GEO no. 186/2008 on budget adjustment for 2008, GEO no. 34/2009 on budgetary adjustment in 2009, Annexes on local budgets of State Budget Laws of 2007, 2008, 2009, 2010.

Table 4

Inter-county distribution of the VAT (2) (thousand RON)

County	VAT amounts to balance the local budgets of villages, towns, cities and counties					VAT amounts to finance county roads				
	2007	2008	2009	2010	2010	2007	2008	2009	2010	2010
Alba	40,748	38,290	38,480	38,375	38,375	13,674	16,383	18,919	18,919	18,919
Argeş	51,011	72,011	49,791	50,091	50,091	15,318	18,087	21,679	21,679	21,679
Arad	43,926	38,171	42,275	42,630	42,630	11,515	13,597	15,631	15,631	15,631
Bacău	75,368	79,458	73,643	74,385	74,385	12,582	14,856	17,079	17,079	17,079
Bihor	58,897	53,288	53,817	54,270	54,270	15,720	18,598	21,389	21,389	21,389
Bistriţa-Năsăud	42,329	53,210	39,168	39,618	39,618	7,499	8,855	10,179	10,179	10,179
Brăila	40,856	56,937	38,536	38,742	38,742	5,792	6,839	7,862	7,862	7,862
Botoşani	46,365	87,862	68,172	68,869	68,869	10,436	12,419	14,277	14,277	14,277
Braşov	41,812	33,774	36,113	36,418	36,418	6,733	7,936	9,123	9,123	9,123
Buzău	57,619	51,999	55,331	55,679	55,679	14,534	17,220	19,796	19,796	19,796
Cluj	70,111	40,749	38,943	38,262	38,262	14,408	16,953	19,396	19,396	19,396
Călăraşi	54,180	42,164	48,404	45,868	45,868	4,989	5,906	7,206	7,206	7,206
Caraş-Severin	56,490	48,457	48,904	49,195	49,195	8,685	10,255	11,789	11,789	11,789
Constanţa	51,061	58,357	48,269	48,795	48,795	11,559	13,649	15,691	15,691	15,691
Covasna	27,516	27,097	25,986	26,205	26,205	4,091	4,224	4,855	4,855	4,855
Dâmboviţa	69,066	79,082	56,757	57,238	57,238	8,735	10,359	12,880	12,880	12,880
Dolj	66,151	79,756	64,734	64,799	64,799	11,258	13,145	15,111	15,111	15,111
Gorj	31,550	48,662	34,378	34,749	34,749	11,565	13,656	15,963	15,963	15,963
Galaţi	47,571	63,805	49,263	49,561	49,561	7,769	9,158	10,546	10,546	10,546
Giurgiu	70,020	49,912	35,227	35,525	35,525	4,882	5,765	7,087	7,087	7,087
Hunedoara	42,134	37,437	41,483	42,097	42,097	17,175	20,918	24,132	24,132	24,132
Harghita	45,503	40,779	40,694	41,156	41,156	7,543	8,906	11,781	11,781	11,781

County	VAT amounts to balance the local budgets of villages, towns, cities and counties				VAT amounts to finance county roads			
	2007	2008	2009	2010	2007	2008	2009	2010
Ilfov	13,806	22,071	10,664	10,991	3,646	4,305	4,949	4,949
Ialomița	41,987	52,869	38,115	38,437	5,039	5,950	6,840	6,840
Iași	72,376	81,855	67,849	68,066	12,607	14,886	17,420	17,420
Mehedinți	42,961	53,108	38,300	34,867	8,930	10,544	12,121	12,121
Maramureș	75,501	56,926	61,387	61,905	7,938	9,373	10,699	10,699
Mureș	55,269	61,863	47,100	42,298	9,708	11,581	14,234	14,234
Neamț	82,103	90,002	72,319	73,051	8,767	10,351	12,130	12,130
Olt	67,714	84,140	56,670	56,791	10,913	12,886	15,972	15,972
Prahova	65,843	48,180	51,775	52,213	11,942	14,049	16,151	16,151
Sibiu	31,692	29,146	30,963	31,342	8,421	9,944	11,431	11,431
Sălaj	32,402	42,949	29,325	29,572	8,183	9,662	11,219	11,219
Satu Mare	45,443	52,692	37,910	38,350	8,396	9,907	11,483	11,483
Suceava	111,008	123,857	99,598	100,800	11,609	13,708	16,142	16,142
Tulcea	56,634	37,694	39,864	40,079	5,936	7,343	8,586	8,586
Timiș	45,064	42,128	45,321	45,821	14,854	17,539	20,163	20,163
Teleorman	69,159	84,495	60,113	60,144	7,116	8,403	9,668	9,669
Vâlcea	52,796	62,516	42,785	43,146	10,279	15,137	13,953	13,953
Vrancea	56,197	73,950	52,596	53,162	7,996	10,455	10,863	10,863
Vaslui	83,806	99,982	71,340	69,938	11,258	13,293	15,375	15,375
TOTAL	2,287,478	2,402,545	1,999,737	2,000,991	400,000	477,000	551,770	551,770

Source: Data processed from GEO no. 134/2007 on budget adjustment for 2007, GEO no. 186/2008 on budget adjustment for 2008, GEO no. 34/2009 on budgetary adjustment in 2009, Annexes on local budgets of State Budget Laws of 2007, 2008, 2009, 2010.