

ADMINISTRATIVE-FINANCIAL DECENTRALIZATION. TRANSFERRING COMPETENCES FROM THE CENTER TOWARDS THE REGIONS

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Abstract: In the last years the long term EU strategies were overstrained by the short term preoccupations regarding the macroeconomic and fiscal imbalances and their way to correct them. With clear proof that the Eurozone crisis was eventually over, there will be needed again strategic perspectives and at their core shall be innovation, climate changes and migration.

JEL classification: O10, F60

Key words: regional development, absorption of European Funds, state budget, local budgets, governance

1. INTRODUCTION

The theory of a new regional policy evolved in the last years. These are concentrated on the cooperation of the regional authorities, which should allow the regions to be more competitive in the global economy and to offer them financial power and other cooperation forms for poor towns so that they can effectively contribute to the economies from their regions.

2. OBJECTIVES

The institutional capacity and the well governing must go to actions which can be accomplished.

3. METHODOLOGY

The present article is based on the secondary data. Therefore, data were collected from published and unpublished materials, books, newspapers and ongoing academic working papers.

4. ANALYSES

4.1. The knowledge stage in the field

There is a multitude of studies where authors deal with the problems of regional development, decentralization, factors influencing concentration, dispersion and migration of population as well as the correlation between population concentration on one hand and its dispersion on the other hand there're are key aspects for several researchers in the world (Borgegard et al. 1995). According to Borgegard et al. (1995), the geographers identified several of the main factors influencing the concentration of the population or its dispersion. These are: demographics (natural growth, demographic structure, social capital, migrations, etc.), economic (dynamic of the workforce, the income of population, the access to larger settlements); socio-psychological (the need of social groups or of the individuals to change the residence, the attitude of the individual towards the different geographical locations, the different lifestyle and the environment) and the political factors (the protection policy of the population or of the family, social protection and regional protection etc.).

Scientific research and European experiences from the past decades pointed out the various contributions of the theoreticians regarding the causes and the consequences of the regional disparities (Petraikos and Sarantis, 2000). In several studies, some authors tried to determine how to approach the developed and the underdeveloped regions under the circumstances of a new economic environment (Sala-i-Martin, 1997). Some authors direct the research towards the position of the regions as opposed to the single European space of the European Union (Abraham and Van Rompuy, 1995; Armstrong, 1995). In Europe among theoreticians, there is a continuous debate about the old and the new regional policies (Siegel, 1999), while some authors claim a new regional policy (Söderbaum and Shaw, 2001, Mansfield and Milner, 1999).

According to Frisken (2001), the theory of new regional policy evolved in the past years. According to this, a new regional policy aims at approaching the negative consequences generated by the fragmented governmental structures. These are concentrated on the cooperation of the regional authorities which can allow the regions to be more competitive in the global economy and to offer financial power and other types of cooperation for poor cities so that they can efficiently contribute to the economies in their regions.

According to Norris (2001), the new regional policy distinguishes between governments. He underlines the fact that the existing regional institutions can be enhanced in a new way, with the help of the cooperation of regional authorities and of the citizens as well as through horizontal organizations. According to Frisken (2001), voluntary cooperation among different actors might be a tool which should be enough to reach the regional objectives, although there were not structural reforms in the past. At the same time, according to Zientara (2008), social capital plays a significant role in the new regional policy.

Although there are different opinions, it is generally accepted that the new concept of a region is based on aspects of social reality. Some studies refer to the emergence of the regional disparities in the countries from South Eastern and Eastern Europe. Some of them refer to different aspects of regional development, especially by the enlargement of the European Union (Smith, 2004). Smith noticed that the regional disparities started to appear shortly after the change of the political regimes from the former socialist countries.

A visible and explicit aspect of transition is reflected in the social-spatial polarization of the countries from South-Eastern and Eastern Europe manifested

through changes in the sectorial composition of the workforce because industry and agriculture are confronted with job losses, while new jobs appear mainly in the sector of services.

In Romania, based on the current talks about regionalization there were two arguments: the need to accomplish a reform for public administration and improving the absorption of European funds. It is wrong, to consider that a new regionalization will certainly solve the problem of unequal territorial development and the absorption of the European funds, we predict a risk for the intensification of the inter and intraregional disparities. After the research carried out by comparing the government level among the EU states and the absorption rate with the other European countries we concluded that there is no certain connection between the absorption of the funds and the administrative decentralization. We think that a good absorption of the European funds relies to a larger extent to the administrative capacity, to the ability of prioritizing the real development objectives on a national and regional level.

We assess that the current territorial division of Romania in 8 development regions and 42 counties is enough to accomplish the regional interest projects. Romania does not need a new regionalization but a currently adapted legislation. We see as a viable variant keeping the current system of regional division and continuing at the same time the process of transferring the competencies and attributions from a central to a local level, when this decentralization meets the needs of the citizen.

It is obvious that among the regions in Romania – be they historical, development or administrative regions and the living standard. These differences are neglectable but if we compare them with the enormous disparity registered by Romania as opposed to the level of many other EU states (even towards the ones being on the European average). These disparities are determined through objective factors, as natural resources penury from some regions in Romania, the high geographic distance towards Western Europe where the capitals and the investors are more accessible, but also subjective factors – as for example insufficient infrastructure and even precarious amplifying the disadvantage of geographic distance.

For more than a decade since the Law of decentralization no. 195/2006 entered into force, authorities concluded that this was not properly drafted and that a new decentralization Strategy was required. Therefore, in many situations, the transfer of competences from the center to the territory was not accompanied by the required resources which complicated the task of the authorities of local public administration. The public services without enough financial resources were decentralized correlated with the fact that the transfer of competences towards the authorities of local public administration did not consider their real financial resources and their capacity to generate significant own revenues.

Because the territorial administrative units have a low financial autonomy, they depend with more than 50% on the amounts transferred from the state budget. The highest problem with which these local authorities are confronted is the lack of funds. Therefore, although the incomes collected by local authorities come from taxes paid by citizens as it is normal, a considerable part of these taxes shall become incomes for the state budget instead of being available for the local authorities. At the same time, the tax on profit paid by the legal entities residing/or developing their activity in a place from Romania totally belongs to the state and the tax on income paid by natural people, although it is considered "own income" of the place it belongs to, will be considered a

part of the state budget and it is divided under shares in the community where it was collected from.

Although this principle of funding is assumed from a legislative point of view, the attributions of local authorities does not have substance due to the use of the mechanism of financial balancing of the counties and towns including a multitude of unusual complications and allowing the emergence of the arbitrary in the process of granting public money. Money are distributed downwards from the center to the periphery even if they are received on a local level and are produced by various local communities.

More than that in the last 10 years the percentage gained from the state increased constantly to the detriment of the percentages for towns and counties. Therefore, it is very difficult for the local authorities to self-finance its expenses especially because in the last 10 years the percentage for towns and counties is going down while the one received by the state increases so that the fulfillment of the attributions depends on the central administration and more exactly to the "VAT amounts distributed" or to subventions. The problem we notice is not the lack of fiscal revenues, but the administration of these funds which the taxpayers cannot use according to the local needs. Therefore, in spite of the legislative principles our country assumes without reserves, we notice that administrative decentralization is not completed by a real fiscal decentralization.

Therefore, in the percentage report on the level of the year 2015 between the local budgets and the state budget is 36/64 (respectively 61,4 mld/107 mld. RON) so a net report in favor of the state budget. In the case of Poland, registering significant performances in development and in the absorption of the funds, the report between the components of the budget is of 55% for local budgets (including subventions and the budget of the counties) as opposed to 45% for the state budget (2014).

In order to obtain a more balanced situation both for the regions and as report between the local budgets and the state budget we can grant additional amounts for the budget of the regions, but a net contributor will remain Bucharest. The change of the share of the two types of budgets must be accompanied by the change of the attributions between the center and the regions. Therefore, under the circumstances where regional directions receive a consistent part from the administrative tasks of the ministries it is normal to produce a reorientation of the way to share the public budget. The division of the tasks between the center and the regions represents a technical operation, a long term one and can only be implemented in stages; this division shall be made by each ministry, according to the characteristics of each minister adopting decisions regarding to the decentralization of the attributions.

The declared objective of the new decentralization strategy adopted in 2017, is the "consolidation of the public administration capacity to supply public, diversified and qualitative services, by transferring new competencies from the level of the central administration towards the local public administration authorities" (the general decentralization strategy 2017).

Therefore, after finalizing this decentralization process, the local public administration authorities shall be empowered with new competencies in seven fields: agriculture; culture; tourism; environment; health; education – extracurricular activities, youth and sport.

We know that Romania assumed both the legislation in force and also through the commitments of the political actors, the administrative and financial decentralization as well as the principles of decentralization: the principle of subsidiarity, providing the adoption of decisions on the closest level of the beneficiary respectively citizen and not on a higher, central level; the principle of predictability and the principle of transparency in the process of decentralization as well as the one of providing resources according to the competences transferred from the center to periphery. Unfortunately, even if on a declarative level Romania assumed these objectives, it did not manage to implement a real administrative reform, and our opinion is that this thing is also due to a lack of fiscal decentralization.

Fiscal decentralization is only a part of administrative and financial decentralization, but an important one because fiscal revenues represent the most important source of the public budgets. The transfer of administrative competences from the center to the periphery, that is from the central public administration organs to the local ones should be doubled by the increase of the local budget revenues, depending on fiscal decentralization respectively on the growth of the quantum of taxes and fees for local budgets, without increasing the fiscal burden.

Table no. 1. Contributions and grants to the state budget and the local budgets on development regions in 2015

mil RON

Region	Total incomings from regions for the budget	Grants from the state budget to the local budgets*	Net contributions to the state budget	Net contributions from the state budget **	Local budgets (including grants from the state budget)
0	1	2	3=1-2	4=2-1	5
Total	142089	46213	101258	5382	61462
NORTH WEST	6147	6130	17	0	8445
CENTER	5820	5247	573	0	7174
NORTH EAST	4363	6830	0	2467	8737
SOUTH EAST	8561	5315	3246	0	7280
SOUTH-MUNTENIA	5195	6238	0	1043	8257
BUCHAREST - ILFOV	104675	7490	97185	0	9602
SOUTH WEST OLTENIA	2786	4658	0	1872	6093
WEST	4542	4305	237	0	5874

Source: data processed from Filipescu D., 2017, *A forgotten subject: reform of administrative organization. Is it worth the effort?*

*shares distributed from the tax on profit, shares distributed from VAT, subventions;

**amount of county budgets

Observation: among the amounts collected by the Regional Offices for Public Finances, there is a contribution to the general consolidated budget and from the large contributors, with the amount of 93 mld. RON on the level of the year 2015, which is not included in the calculations.

It is interesting to notice this situation on a regional level per inhabitant.

Table no. 2. Contributions and grants for the state budget and local budgets on development regions, per inhabitant in 2015

RON					
Region	Total incomings from regions for the budget	Grants from the state budget to the local budgets*	Net contributions to the state budget	Net contributions from the state budget**	Local budgets (including grants from the state budget)
NORTH WEST	2195	2189	6	0	3016
CENTER	2238	2018	220	0	2759
NORTH EAST	1119	1751	0	633	2240
SOUTH EAST	2952	1833	1119	0	2510
SOUTH-MUNTENIA	1574	1890	0	316	2502
BUCHAREST - ILFOV	41870	2996	38874	0	3841
SOUTH WEST OLTENIA	1266	2117	0	851	2770
WEST	2271	2153	119	0	2937

Source: data processed from Filipescu D., 2017, A forgotten subject: reform of administrative organization. Is it worth the effort?

These figures show the disparities, already pointed out, between the regions but also a series of observations:

- from the amount 142 mld. RON, collected for the budget on a regional level in 2015, the amount of 46,2 mld. RON came back towards the regions, that is one third.

- it is registered an exaggerate disproportion between the region Bucharest Ilfov and the rest of the regions in Romania regarding the main indicators. Therefore, the capital is almost the single net contributor to the State Budget, that is 96% of the total net contributions, the contributions from the South Eastern regions, Centre and East being insignificant as shares (Bucharest Ilfov brings 73% of the total incomings).

- only 3 regions are net beneficiaries of budget allocation – North-East, South West Oltenia and South Muntenia, and the net value of these grants represents approx. 5,4 mld. RON, that is 3,8% of the total incomings on a regional level.

If a fiscal decentralization was made, through which the highest share of the fiscal incomes would go to the budget of localities, and from here on these would be transferred according to the principle of solidarity and financial equality – towards of the county they belong to, respectively to the state budget, a simulation of the budgets might look like in table no. 3.

Table no. 3. Contributions and grants to the state budget and local budget on development regions in 2015 – simulation in the situation of decentralization

Region	Total incomings from regions /counties (mil)	Grants from the state budget to the local budgets (mil)	Net contributions to the state budget/and the budget of the regions (mil)	Budget of the regions (including grants) (mil)	Budget regions/place (Ron)
Total	142089	22500	95000	90220	
NORTH WEST	6147	3500	0	11962	4272
CENTER	5820	3000	0	10747	4133
NORTHEAST	4363	5000	0	13737	3522
SOUTHEAST	8561	2000	0	12526	4319
SOUTH-MUNTENIA	5195	4000	0	12257	3714
BUCHAREST - ILFOV	104675	0	95000	11787	4715
SOUTH WEST OLTENIA	2786	2500	0	8593	3906
WEST	4542	2500	0	8611	4306

Source: data processed from Filipescu D., 2017, A forgotten subject: reform of administrative organization. Is it worth the effort?

Observation: budget of the region (column 4) = budget from table 1 + net contributions to the state budget table 1 + additional grants from the State Budget (column 2) – net contributions to the State Budget (column 3)

According to this simulation, if the same total amounts are maintained for the local budgets and for the state budget, the proportion shall change to approx. 53.5/46.5, because the collected amount on a regional level is for the regions, granting them additional grants from the state budget because Bucharest Ilfov remains the single net contributor.

The general decentralization strategy (2017) includes the following types of providing financial resources to subsidize the additional demand, on a regional level

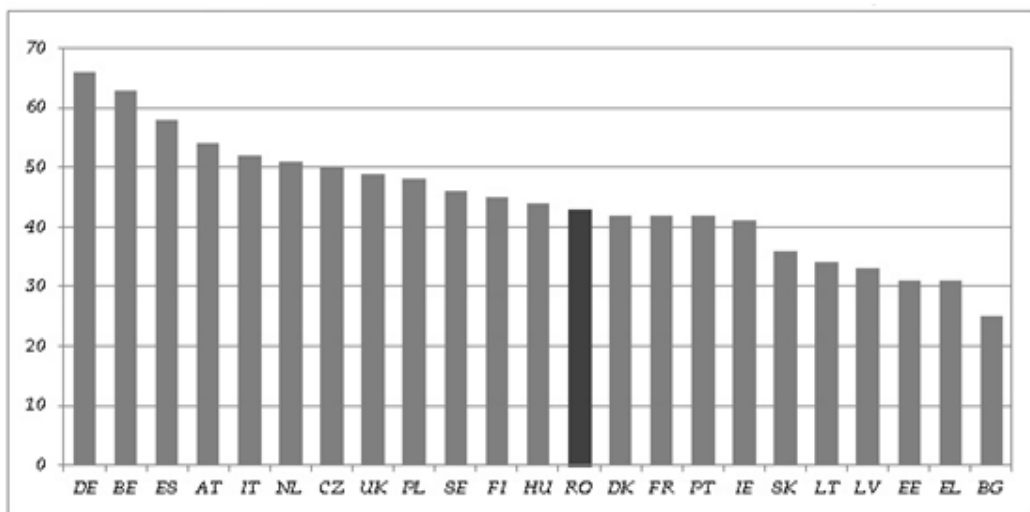
determined by the transfer of the 7 fields of competence mentioned previously by providing the financial resources based on the cost standards for public services, until these shall be approved taking into consideration the amounts approved in the previous year which shall be updated with the index of consumption prices that is: "a) in the first years, the distinct including in the annex related to the state budget law of the amounts distributed with special destination, amounts required to fund public expenses transferred or new public expenses, as well as distribution criteria; b) previous years, by including the resources in the amounts distributed to balance local budgets for administrative-territorial units except for the ones which are nominalized distinctly through the annex to the state budget" (decentralization strategy, 2017).

4.2 Importance of decentralization and of the government quality for regional development and the absorption of the European funds

Constantly, the absorption rate of the European funds in the case of our country is not mediocre, if we compare it with the evolution of absorption from the last years. At the end of 2016, Croatia and Malta were registering figures of absorption under the level reported for Romania, respectively below 90.4%.

Regarding the level of decentralization, Romania is situated slightly below the EU average from a structural point of view having a decentralization higher than the average that is in the political and functional areas and an inferior decentralization in the administrative, financial and vertical area.

The analysis of the decentralization degree is not easy to accomplish, this being determined by a multitude of factors as: historical processes of the state, the cultural specificity, the ethnical structure, the quality of the central and local government act, the economic structure of the state etc. Therefore we carried out consistent efforts in order to measure and to point out the decentralization level of a state, finalized with the development of an index of decentralization which can be expressed in values from 0 to 100 (with a high value pointing out a high degree of decentralization), being an expression of other 5 sub-indices assessing decentralization in the following fields: administrative (12%), functional (25%), political (20%), vertical (3%) and financial (40%).



Source: National Council of Small and Medium Sized Enterprises in Romania, the Impact of regionalization on the absorption of European Funds in Romania, April 2013

Figure no. 1. Index of decentralization EU -27

According to this indicator, the highest decentralization is calculated in Germany (respectively 66) and the lowest in Bulgaria (that is 25). Romania is registering a low level of decentralization being little below the EU average, with a decentralization index calculated for 43 points considering the above-average decentralization from the political and functional fields and a below average level for the administrative, financial and vertical decentralization.

On the EU level we assess that there is an important correlation between functional and political decentralization, that is the more a region is empowered with more competences, the more is considered autonomous from a political point of view, and at the same time a positive correlation between financial, functional and administrative decentralization.

At the same time, a study of the Assembly of European Regions (2009) shows that most of the former communist countries are placed at the end of the classification regarding the index of global decentralization.

The quality of the government act is very important to accomplish the welfare of the members of a community. Therefore, the global indicators point out the performance of the act of governing and to alleviate the comparative analysis between states. An indicator of this type is the index of the quality of governance built based on other 4 indicators we assess as being relevant for the evaluation of the quality of the process of government: the state, the efficiency of the governance and the responsibility and the freedom of expression. According to this indicator calculated, Romania is situated on the last place in EU (with a value of 0,059), having a level of 18,71 times lower than the one of the averages calculated on an European level and 33,52 times lower than of the first state in the hierarchy, respectively Denmark. We notice that the last two states in the

hierarchy, Romania and Bulgaria are detached in a negative way from the rest of the states, suggesting that they internalized on a considerable level the good practices and experiences in the field of governance and public administration.

Another important indicator for the assessment of the quality of governance on an international level is *Worldwide Governance Indicators* (WGI) – The GLOBAL Governance Index, which evaluates dimensions for almost 215 states, referring to the period 1996-2016. The selected indicators refer to:

1. Representation and responsibility refer to the democratic ways through which a government is chosen and the way in which it answers for its actions;
2. The political stability and the absence of violence which aims at the evaluation of perception regarding the possibility that a governance should be affected, destabilized or overturned by using violent means or unconstitutional means;
3. The efficiency of governance assesses the existing perception regarding the quality of the public services, the independence towards politics and the quality of the body of public clerks or regarding the credibility of the government related to its commitment towards the policies assumed.
4. The quality of the regulations assessing the perception referring to the capacity of the government to build and implement viable policies and regulations favouring the development of the private sector;
5. The state, indicator assessing the perception regarding the way in which the agents of the state comply with the norms of the company regarding the quality of executing the contracts, the ownership rights, the police and the court houses, but also regarding the probability of crime and violence.

Table no. 4. The evolution of indicators regarding governance in Romania in the period 2006-2016

Indicator	Year	Score Governance	Classification (0-100)
Representation and responsibility	2006	0,52	62,98
	2011	0,38	58,69
	2016	0,51	63,55
Political stability and absence of violence	2006	0,15	50,24
	2011	0,19	53,55
	2016	0,27	55,71
Efficiency of governance	2006	-0,21	48,78
	2011	-0,33	44,08
	2016	-0,17	48,08
Quality of regulations	2006	0,46	64,71
	2011	0,66	73,93
	2016	0,59	70,67
Constitutional state	2006	-0,12	50,72
	2011	0,06	57,28
	2016	0,30	61,54

Source: data processed by the author according to <http://info.worldbank.org/>

The study of the evolution of each indicator points out several interesting aspects:

- The indicator "representation and responsibility" registered a decrease as opposed to 2006, with a slight comeback up to 2016. From the elements taken into consideration in assessing this indicator, as the definition points out, only reducing the liberty of the press might be an explanation. In 2016, Romania was registering a score of 63,5 higher than the score of Hungary (57,1) and Bulgaria (59,6), but far from the "ones from the top " EU, sWEDE (99,5) and Finland (99,0) (worldbank.org);
- The indicator "Political stability and the absence of violence" experience the lowest score in 2000 (year 1999 and the lack of violence" experience the lowest score in 2000 (the year 1999, for which there was no WGI calculated might constitute a minimum because of the miner's riot from that year). The year 2009 was a peak – very strange for a year when the presidential elections were very disputed, the government coalition broke, there was a censorship motion and the proposal of a new government was refused. The year 2012 (when there was a motion of censorship, there were parliamentary elections, a president was suspended) represents a year with a serious decrease, reaching 48.42. Romania is currently registering a score of 55,7, higher than Bulgaria (47,1), Greece (41,9) and France (44,3). The best places for this indicator are occupied by Malta with a score of 89,5 and Luxemburg with a score of 97,6.
- "The efficiency of government" is the indicator with the lowest score in EU, respectively 48,08 at a considerable distance from Bulgaria, registering a score of 65 and Greece 62, on the level of the year 2016. The performances of the ones reached by Finland (score 96,6), Germany (94,2) and the Netherlands (96,2), seem hard to reach by Romania under these circumstances. Moreover, in the analysed period 2006-2016, this indicator registered a decrease, aspect which makes us think of the real development possibilities of Romania.
- The indicator "The Quality of Regulations" seems to be the strength of governance in our country but we have to take into account that there is an assessment for regulations encouraging the private sector; in spite of these, the regulations in Romania are sometimes contradictory, affecting the stability fo the economy. With a score of 70,7 we are better situated than Greece (59,1) on a position close to Hungary (71,6).
- The indicator "constitutional state" registered a decrease from 1996 up to 2000, but afterwards it registered a continuous increase, being situated close to the worldwide average with a score of 61,5, above Bulgaria (53,8) and Greece (59,1). We notice special performances for this indicator for Sweden (100,0), Finland (99,0) and the Netherlands (97,1), as EU states.

5. CONCLUSIONS

There is a considerable positive correlation between the quality of the governance and the rate of absorption for European Funds. From this perspective, the one of absorbing European Funds, the significance of the quality of governance is the highest one in the less developed countries in EU, therefore supporting a well governance might determine a positive impact of a high

intensity (if we compare it with the countries in Western Europe) on the effective capacity to mobilize structural funds.

If the level of decentralization is a factor influencing to a less extent the performance in the field of attracting European funds, by creating the circumstances for a good implementation, than it is possible that the act of governance and more precisely its quality to have a high influence. It is obvious that an efficient administrative capacity is strongly related to the quality of governance.

We think that keeping the current regions and identifying the ways to adjust the interaction mechanisms between and with the public institutions, is a solution. New attributions can be decentralized on the level of the region, but these represent a gradual process and with a real assessment of the potential socio-economic impact.

At the same time, we recommend the growth of the functionality and performance of the already functional structures created on a regional level.

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