

Grant Transfers and Financial Supervision in Romania: a Focus on Major Reforms Introduced by the Law on Local Public Finance

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Chapter 1: Introduction

1.1 Overview of the system of local government

There are two tiers of local government in Romania. The first consists of 41 county councils.² The second includes 2,948 local councils.³ Each county and local council is constituted as a legal person, having all the rights, duties and obligations assigned to that status by Romanian law. There is no real or presumed hierarchical relationship between these two tiers of local government. They are equal under the law. The geographic limits of local councils are such that they cover the entire territory of Romania. The limits of the county councils overlap with those of the local councils in their area.

Table 1 presents the number and population of territorial administrative units by type. Bucharest municipality has a special status and functions as both a municipality and a county. Nine percent of the population of Romania lives in Bucharest municipality, 36 percent in the other 83 municipalities, 10 percent in the towns and 45 percent in communes.

Tab.1

Structure and Population of Local Government Administration

| | Number | % of total | Population (millions) | % of total | Average Population (thousands) |
|---------------------------|--------|------------|-----------------------|------------|--------------------------------|
| County Councils | 41 | | 22.5 | | 549.6 |
| All Local Councils | 2,951 | 100% | 22.5 | | 7.6 |
| Bucharest | 1 | | 2.0 | 9% | 2,027.5 |
| Municipalities | 83 | 3% | 8.0 | 36% | 96.8 |
| Towns | 179 | 6% | 2.3 | 10% | 13.0 |
| Communes | 2,688 | 91% | 10.2 | 45% | 3.7 |

1.2 Recent economic developments

Compared to the Central European countries well on their way to European Accession, Romania has been slow to embrace reform and to reap its benefits. The lack of development in the small and medium-sized business sector means there is little absorption capacity for the many workers who have become unemployed from the restructuring of the large enterprises. The poor particularly suffer from the continuing high annual inflation, still above 40 percent. And budget deficits persist despite across-the-board expenditure cuts. However, the good news is that after

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² It is important not to confuse the county – a geographic area – with the county council – an elected body of local government.

³ Municipality, town and commune are names whose significance is historical and geographic, not legal. Their authority and structure is the same.

three years of negative growth, the Romanian economy began growing again in 2000 and is projected to continue to grow in 2001.

The decline of the Romanian economy and the measures taken to address its fiscal implications have had a profound effect on local finances. The magnitude of fiscal adjustment in recent years should be judged against the background of a substantial decline of the economy. This decline reduced the tax base and, presumably, increased the propensity for tax evasion. The fact that the size of the consolidated budget deficit remained close to 4 percent in 1999 and 2000, under circumstances when the public debt service has been on the rise, is a further indication of the magnitude of fiscal adjustment.

The low fiscal and non-fiscal revenues, in conjunction with the need to have a low budget deficit, forced policy-makers to cut expenditures drastically either when constructing the budget, or via rectification. The reduction in expenditure had a negative effect on public investment and material expenses. The strained budget explains also the reluctance of policy-makers to provide more resources to the discretion of local authorities.

Table 2 provides some basic indicators of the evolution of the economy and of national and local government finances relative to the economy and to each other for the period from 1997 to 2001.

Tab. 2

Trends in the Economy and Public Finances – 1996 to 2001

| | Number | % of total | Population (millions) | % of total | Average Population (thousands) |
|---------------------------|--------|------------|-----------------------|------------|--------------------------------|
| County Councils | 41 | | 22.5 | | 549.6 |
| All Local Councils | 2,951 | 100% | 22.5 | | 7.6 |
| Bucharest | 1 | | 2.0 | 9% | 2,027.5 |
| Municipalities | 83 | 3% | 8.0 | 36% | 96.8 |
| Towns | 179 | 6% | 2.3 | 10% | 13.0 |
| Communes | 2,688 | 91% | 10.2 | 45% | 3.7 |

Source: Table prepared for this report. Data on GDP, fiscal balance and unemployment from the IMF (Press release No. 01/43 dated October 31, 2001). Public expenditure ratios calculated for this report based on data from the Ministry of Finance of Romania.

Notes: a. Based on IMF estimates per the approved program for Romania.

b. Represents overall balance of general government

c. Transfers do not include revenue sharing, which was introduced with the Law on Local Public Finance in 1999.

Local government expenditures declined both in real terms and relative to the overall economy from 1996 to 1998. This trend was reversed in 1999 when local government expenditure began to grow as a percent of GDP. This up and down trend is an important factor to keep in mind when looking at the finances of any local government in Romania. While some are better off than others are, all of them have been operating in a difficult environment characterized by positive and negative year to year changes in overall expenditures largely outside their control.

Fiscal transfers (including subsidies) have followed a negative trend over the five-year period. They were equivalent to 3.5 percent of GDP in 1996 and were less than one percent in 2000. Fiscal transfers, as a share of national government expenditures also declined during the same period. However, this trend is deceptive, as there were important changes in the local government finance legislation between 1998 and 1999 that reduced the overall local dependence on fiscal transfers. Starting in 1999, local governments received a percent share of the revenues from the personal income tax (originally the wage tax). These funds are paid directly into local government accounts by the tax offices at the moment when they are collected. They do not pass through the State budget and thus, technically, they are not transfers. Additionally, revenues from local taxes and fees increased. Together, these constitute a growing importance of the local fiscal base as a key factor in shaping local finances.

1.3 Recent political developments

The recent economic recovery can be partially attributed to the previous government of the center-right coalition, Democratic Convention of Romania (CDR). In mid-1999, it embarked on serious macroeconomic reform, which helped stabilize the country's economy by late 2000. However, it was too late for CDR to benefit in the November 2000 elections. The CDR did not even obtain enough votes to pass the threshold for obtaining parliamentary seats. A minority government led by the center-left Romanian Party of Social Democracy (PDSR) instead now rules the country. Despite harsh criticism of CDR policies during the campaign, the PDSR has promised to continue the CDR policy of pursuing European integration and appears to support the stabilization and reform measures advocated by the international finance organizations.

The PDSR was born from the National Salvation Front (NSF), a grassroots movement led by the country's current president, Ion Iliescu. The PDSR led the country until the CDR won power in 1996. Other left-of-center parties include the Democratic Party, which also has its origins in the NSF, and the Alliance for Romania, which split off from the PDSR when the latter lost the 1996 elections.

The CDR that led the country from 1996 to 2000 was an umbrella alliance of the National Peasant Party – Christian Democrat (PNTCD), the National Liberal Party (PNL) and smaller parties. These represent the center right and anti-communist block in Romania politics.

Two other important political parties in Romania are the Democratic Alliance of Hungarians from Romania and the Greater Romania Party. The latter is a populist movement and has been accused of xenophobic tendencies and promoting a Ceausescu-like ideology.

Behind the frontrunner of the PDSR, the surprising strong performance by the Greater Romania Party in the 2000 elections is cause for alarm. Other parties that obtained parliamentary seats were the National Liberal Party, the Democratic Party and the Democratic Alliance of Hungarians from Romania.⁴

Elections of local government leaders have also brought the PDSR back into power at the local level, with a notable exception in the mayor of Bucharest.

NGOs and think tanks are active in public debate at the local and national level and public policy processes have become much more open at the local level. However, much of the population believes that international finance organizations make the country's economic policy. This is a result of the strict conditions placed on the Romanian government by the IMF, World Bank and the European Union to pursue macroeconomic stabilization and economic reform and the Romanian government not wanting to be responsible for the harsh consequences of these policies.⁵

Chapter 2: Local Government Legal Framework⁶

2.1 General Organization

The basic structure of local government in Romania is defined by the Constitution under which local public administration is to be carried out "...in territorial-administrative units...based on the principle of local autonomy and decentralization of public services."⁷ These provisions, supplemented by the Law on Local Public Administration, provide for the organization of local government on geographically defined administrative subdivisions. These include counties (*judet*), municipalities (*municipiu*), towns (*oras*) and communes (*communa*), consisting of one or

⁴ *Political News and Forecast*. Bucharest, Romania: Romanian Academic Society and the Center for Urban Sociology (November 2000).

⁵ Theodor Stolojan. "Policy-Making in Romania." In Christof Ruhl and Daniel Daianu (Eds.), *Economic Transition in Romania: Past, Present and Future*. Bucharest, Romania: Romanian Center for Economic Policies and World Bank (1999): 559-572.

⁶ M. Belcher, et al (1997) *Romania: Municipal Creditworthiness and Local Government Decentralization*, Washington, DC: Urban Institute Project 06610-804: 43-53.

⁷ Ch. V, Sec. 2, and Art. 119, *Constitution of Romania* (1991).

more villages. Each administrative unit is constituted as a legal person, having all the rights, duties and obligations assigned to that status by Romanian law.⁸

2.1.1. Municipalities, Towns, and Communes

As the basic units of local government in Romania, municipalities, towns and communes perform both a legislative and an executive function. At the municipal, town and communal levels, the legislative function is performed by local councils whose members are elected for four-year terms through direct, universal suffrage⁹ within the administrative territory.¹⁰ The number of council members is determined by the population residing within of the administrative territory, ranging from as few as 11 members for communes with a population of less than 3,000, to a maximum of 65 in the case of Bucharest. Once constituted, local councils elect a chair for each meeting by majority vote and meet monthly in ordinary session, or in extraordinary session, either at the request of the mayor or by vote of one-third of the council's membership. In addition, local councils establish standing "specialized committees" that are responsible for developing draft decisions in their respective areas of competence.¹¹

The executive operation of local government is carried out by a mayor and a vice mayor. Mayors are elected for terms of four years. Vice mayors are appointed by majority vote of the council and serve for the duration of the council's mandate unless removed for cause.¹² The mayor serves as the principal executive officer of the local government and is accountable to the local council for the efficient operation of the local government.

2.1.2. County Government

As noted above, Romanian's system of local government organization includes 41 county-level territorial-administrative units that substantially mirror the local government structures previously described. Council size is based on the population of the territorial-administrative unit and can range from 37 to 45 members.¹³ Members are elected for four-year terms through direct popular election. County councils are led by a chair, two vice chairs and four to six councilors (representing, to the extent possible, the political composition of the council). Together, they comprise the council's executive body, the Standing Delegation. County councils meet in ordinary session on a bi-monthly basis and in extraordinary session, as necessary, either at the request of the chair, two-thirds of the council's membership, or on motion of the Standing Delegation.¹⁴

The Council Chair serves as the county's chief executive officer and is responsible for directing and managing the operation of the county's specialist or administrative departments, as well as those of all commercial organizations under the council's jurisdictions. As in the case with the mayor of local councils, county chairs are given broad executive powers to fulfill the legal mandates of the county councils and carry out the county's day to day operations. In addition to other duties, council chairs are responsible for preparing and presenting draft annual budgets for approval by the council, authorizing public expenditures and overseeing the hiring, supervisions and dismissal of county administrative personnel.¹⁵

2.2 *Legal Framework and Recent Changes in Local Finances*

The following set of laws governs the functioning of local governments and their finances:

- Romanian Constitution (1991);

⁸ Art. 4, *Law on Local Public Administration*, No. 69, November 26, 1991, as amended by Law No. 24/96. Frequently, Bucharest is treated as a special case under law.

⁹ See *Law on Local Elections*, No. 70, November 26, 1991, as amended by Law No. 25, April 12, 1996.

¹⁰ Arts. 5,6,13, 21, Law No. 69/91, as amended by Law No. 24/96.

¹¹ Id. at Arts. 14, 21(3), 23(1), (2), 36.

¹² Id. at Arts. 37, 47. In the case of municipalities, two vice mayors are elected. In Bucharest, the law provides for the elections of a mayor general and four vice mayors.

¹³ Art. 121, *Constitution of Romania*. (1991); Arts. 60, 61, Law No. 69/91, as amended by Law No. 25/96.

¹⁴ Arts 7, 64, 65, 66, Law No. 69/91, as amended by Law No. 24/96. See also Law No. 70/1991, as amended by Law No. 25/96.

¹⁵ Id. at Art.71(e)(f)(g)

- Law on Local Public Administration (1991 as amended in 2001);
- Law on Local Public Finance (1998 as amended in 2001);
- Annual State Budget Law;
- Law on Local Taxes and Fees (1994 as amended in 1997 and 1998);
- Law on Public Patrimony and its Legal Regime (1998);
- Law on the Regime of Concessions (1998);
- Law on Local Public Services (2001);
- Law on the Transformation of Regii Autonomes (public utilities) (1997);
- Law on Regional Development (1998);
- Law on Establishing Revenues in the Budgetary System and Salaries of the Official Staff (1998).

The Law on Local Public Administration makes only a general reference to local revenues, expenditures and the local budget process. In practice, until 1998, Chapter III of the Law on Public Finances¹⁶ governed the local budget process. Since local governments depended on intergovernmental transfers for over 75 percent of their revenues, the State budget law, adopted each year, served as the principle guiding legislation regarding local revenues and expenditures. The Law on Public Finances and the annual State budget laws are the same laws that regulate national finances. In effect, until 1998, local finances were subordinated to the national budget process.

Three key legislative reforms, dating back to the end of 1997, changed dramatically the nature and structure of the finances of communes, cities, municipalities and counties. The Law on Local Public Finances,¹⁷ adopted in 1998, puts local finances and the local budget process on an equal footing with those of the national government. This law abrogates and replaces Chapter III of the Law on Public Finances that had governed the local budget process in the past. It defines the structure of local revenues and expenditures, reinforces local control over the budget and clarifies and simplifies the rules for access by local governments to the credit markets. The amendments to the Law on Local Taxes and Fees authorized in 1997 and 1998 greatly expand local control over their own revenues and authorizes local governments to administer their own taxes. The Law on Public Patrimony, also adopted in 1998, created the basis for ownership by local governments of property associated with the functions they perform.

Chapter 3: Inter-Governmental Financial Relationship

3.1 Assignment of Responsibilities

The assignment of responsibilities is generally based on the principle of correspondence and responsibilities of basic level local governments (municipalities, towns and communes) differ considerably from those of the counties. The counties generally are responsible for child protection and care of handicapped children, county public services and county roads, as well as county cultural institutions (museums, libraries, etc.). Municipalities, towns and communes carry out more direct service provision (urban transport, sanitation, public utilities); maintain roads, sidewalks, parks, and green areas; and are responsible for education, other social assistance (such as benefits transfers), local culture and sports services, local economic development and markets.

During the period from 1991 to 2000, there have been major changes in the spending of most of the six key functional areas: local administration; education; health; social assistance; public works and housing; and transport and communication. (See Table I.2: Local Expenditures by Function in Annex I.) These changes are either a direct result of national policy shifts or an indirect impact of these changes. Starting from 1993, local governments were given expenditure responsibility for health care—which became 12 to 15 percent of their budgets—but this responsibility (and concomitant spending) ended in 1998 with the introduction of a new health insurance system. In the meantime, education responsibilities were given to the local level in 1995. Education accounted for 10 to 11 percent of total expenditures in 1995-1997, but has now declined to about 8 to 9 percent, due to the addition of other functions. Perhaps the most constant shift in responsibilities has been in social assistance. In both 1993 and 1995 there were large increases, then 1997 saw a cutback in responsibilities and spending by local governments. The following year saw a sharp increase, then a decrease in 1999 and again a sharp increase in 2000. As a result of new

¹⁶ *Law on Public Finance*, No. 10 of 1991, as amended by Law No. 72 of 1996. This law should not be confused with the *Law on Local Public Finances* adopted in 1998.

¹⁷ *Law on Local Public Finances*, No. 189 of 1998.

and changing responsibilities in other areas, the ability of local governments to spend on public works and transport has varied considerably during this period.

It is interesting to note that the aggregate share of the six key functional areas now represents only 82 percent of total local government expenditures, compared to 94 percent in 1998. This considerable change is the result of a new “functional” category, special earmarked expenditures. These are expenditures that are financed by targeted grants and funds (mostly for investment purposes), such as the road fund and housing fund. Part of the motivation for making this change may have been to ensure that earmarked funds are being used for the purposes for which they have been allocated. Part of the reason also may be that certain ministries want to recapture control over local spending decisions. Whatever the motivation, these new earmarked funds reduce local budget control. Because they are treated outside the functional classification of expenditures, they also make it more difficult to measure the sectoral impact of local government activities.

While the new Law on Local Public Finance had a mixed, but generally favorable impact on local revenues, it failed completely to correct a problem in the assignment of local expenditure responsibilities that has existed since the current system was implemented in 1993. The Law on Local Public Administration adopted in 1991 (which has since been amended and republished) lists the “tasks” of the local governments. However, these tasks are not functional competencies, but authorities to act. For example, local governments can lease public services or assets. They can establish local companies. They appoint and dismiss managers of their local companies and public institutions. They prepare and adopt the local budget. The functional responsibilities (services provided by the local self-governments) are in fact determined each year through an Annex to the Annual Budget Law. This annual determination and modification of local expenditure responsibilities reflects the lack of an overall consensus or “vision” of the role of local government in Romania. In fact, such a vision has not been proposed or discussed.

The problems in the assignment of expenditure responsibilities are further compounded by the way they are implemented. It is a common practice to assign responsibility to local governments for specific types of expenditures (salaries of social workers assisting the handicapped or education investments) or for specific existing public institutions (centers that care for handicapped children or homes for the aged). There is no sense of a broad local authority to identify local needs and design and implement local strategies to address them.

At times these practices take on the characteristics of unfunded mandates. A good example of this is the price support payments for residential heating. The amount of the subsidy and the beneficiaries are determined by national policy. Local governments implement and fund the subsidy. The most recent practice is to set limits by law on local spending discretion in very specific areas. For example, the State budget for 2001 includes a provision that sets the maximum number of persons that may work for a local government based on the population served.¹⁸

The instability in the assignment of local expenditure responsibilities and the manner in which they are implemented also mean that the financial management and budget practices of the local governments themselves are subject to continual uncertainty. The implementation of any local policies or strategic development plans can be seen as futile, as long as local officials are uncertain of what their budgets and expenditure assignments for future years will be.

3.2 Financing of Local Governments from Local Sources

With the implementation of new or amended local finance legislation in 1999, revenues from local sources have become increasingly important in the overall composition of the sources of financing for local governments. (See Table I.1: Local Revenues by Source in Annex I.) The Law on Local Public Finance, adopted in 1998 and implemented in budget year 1999, introduced tax revenue sharing in Romania and had a profound impact on the structure of revenues of local governments. Under the new arrangement the county and local councils receive a share of the income taxes collected from taxpayers in their geographic area of jurisdiction. Amendments to the Law on Local Taxes and Fees authorized in 1997 and 1998 greatly expanded local control over their own revenues and authorized local councils to administer their own taxes. Implementation of these legislative changes also redistributed revenues by level of local government, by regions and by individual local governments.¹⁹

¹⁸ These limits are included in Annex 9a to the State Budget Law for 2001.

¹⁹ C. Romanik et.al. *Romania: Winners and Losers – The Impact of the Reform of Intergovernmental Transfers*. Washington, DC: Urban Institute Project 06610-811 (1999).

3.3 Local Taxes

A previous major source of revenues—taxes on non-wage income (rental income, royalties, self-employed professionals)—have now become part of the income tax and are no longer local taxes.²⁰ In the process, local councils have grown increasingly dependent on personal and corporate property taxes. They now represent over 80 percent of total revenues from local taxes and fees. The growth in revenues from the property tax reflects largely the impact of the revaluation of the tax base by 270 percent in 1999 in an amendment to the Law on Local Taxes and Fees. This same amendment also authorized each local council to increase the tax base by the rate of inflation once each year. This is an important provision that should isolate this important source of revenues from the effects of inflation.

The principal local taxes in Romania are:

- Personal property tax (land and building taxes are separately imposed);
- Corporate property tax (land and building taxes are separately imposed);
- Personal vehicle tax;
- Corporate vehicle tax;
- Income tax on the self-employed (recently incorporated into the national personal income tax);
- Resort or tourism tax.

3.4 Tax Collection and Administration

Both the amended Law on Local Taxes and Fees and the Law on Local Public Finances shift responsibility for the administration of local taxes and fees to the local governments. This was to be mandatory beginning in January 1, 1999. Neither the local governments nor the MoF had prepared adequately for this event. At the request of both parties the laws were amended to change the deadline for mandatory conversion to January 1, 2000. Since then, all local jurisdictions have assumed responsibility for administering their own taxes and fees. The evidence from larger cities and towns suggests that the change has produced an overall increase in collections of revenues from local taxes and fees. There is no information on the impact of the change on smaller jurisdictions, particularly those in rural areas.

3.5 Fees and User Charges

The Law on Local Taxes and Fees specifies the amount that local governments may charge for certain local fees. This includes fees for construction and for advertising. As with the local taxes, local governments may adjust the amount of the fee set in the law annually to reflect the impact of inflation. In addition, special fees have grown in importance. The Law on Local Public Finance provides broad authority to local governments to approve special fees. The revenues from such fees may be used only to pay for specific expenditures. For example, a local government might adopt a fee for parking in central city locations as a source of financing for maintenance and improvements of those areas. Each local government adopts those special fees it deems necessary so there is no unique list of such fees.

User charges are an important source of financing for local expenditures. For example, the amount that households pay to utilities for basic public services, such as water or heating, can be many times greater than what the same households pay to the local government in taxes and fees. This means decisions made by the local government (subject to approval by the national government) on user charges for basic public services may have a greater impact on the typical household budget than its decisions on local taxes and fees.

User charges by and large are assessed and collected by off budget organizations. These may be public institutions or public utilities (called *regii autonome*). These organizations have their own management, operate under their own budget and maintain separate accounts from those of the local government. The local government appoints the manager and approves the budget and financial accounts of the organizations. In a simplified way, the public institutions are like off-budget departments and operate on the same financial principles as any other government

²⁰ To compensate for these lost revenues, the State budget law for 2001 increased the share of the income tax paid to local councils from 35 to 40 percent.

department. Typical examples of public institutions are local museums, libraries or specialized schools. The public utilities have their own legal personality, are more independent of the local government and operate on commercial terms.

3.6 Other Local Sources of Financing

Local governments obtain financing for operating and capital expenditures from other sources as well. These include the rental or sale of property, as well as the proceeds of the sale of certain confiscated property. They may receive donations from local or external sources. They also receive a share of the profit generated by local public utilities. In effect, these are like dividends paid to shareholders of a company.

3.7 Debt and Borrowing Issues

Until the passage of the Local Public Finance Law, there were no rules or specific authorization for local governments to borrow. That law authorizes local governments to borrow in the domestic capital markets of their own initiative, without requiring approval by the national government. The same law indicates, however, that any local borrowing in the international capital markets must be authorized first by a special commission chaired by the Ministry of Finance. According to the Law on Public Debt (No. 81/1999), loans contracted by the local governments are part of the public debt of Romania, but do not represent the debts and responsibilities of the Government. Debt servicing repayments are to be made exclusively out of the revenues with which the local authority secured the loan. The Law on Local Public Finance sets an upper limit on the debt obligations of local and county councils, such that debt service payments may not exceed 20 percent of current revenues. For purposes of debt limitations, the law uses as a base revenues from local taxes and fees, shared tax revenues and other sources of financing for operating expenditure.

Since 1999, however, and given the weak state of the banking system, high inflation, and general economic situation in Romania, the borrowing option has not been widely available to local governments. Domestic borrowing consists essentially of short-term cash-flow loans from the State Treasury. Long-term loans are at present only available from the international financial institutions, such as the EBRD, and from some domestic banks. The overall volume of financing through debt at the local level is still small.

3.8 Local budget process

The local budget process begins roughly in June or July of the preceding year with a draft budget that includes estimates of revenues from local taxes and fees and shared tax revenues and a proposal for expenditures for the next year. The individual budget of each local council is consolidated in a single county-level budget that also includes the draft budget of the county council. The budget is forwarded to the Ministry of Finance. After reviewing all budgets of local and county councils, the Ministry gives each county and local council a spending limit that they used in finalizing the draft budget for the next year. If at the beginning of the fiscal year the State budget still has not been approved, the local governments receive authorization from the Ministry of Finance to spend each month one-twelfth of their total actual expenditures for the prior year.

After the approval of the State budget, often as late as May or June of a fiscal year that runs from January to December, each local government can adopt its own budget for the year. First, however, they must adjust their draft budget in accordance with the rules set forth in the current State budget law. In each year since 1991 this has included changes in the expenditure responsibilities of both local and county councils. It also has included variations in the volume and type of transfers, both general and earmarked. In addition, the local councils must wait for the county council to allocate to each one of them their corresponding share of the equalization grants received by the county council from the State budget. This allocation process has followed different rules in each of the 41 counties. The usual practice involves some quantitative criteria, but the process is far from being based purely on a formula. No local council knows for sure what amount they will receive from the county council. The process typically involves significant individual communication between the local councils and the county council.

The budget process is a major obstacle to any attempt by the local and county councils to manage their finances on a sound basis consistent with local needs and priorities. There is no hard budget constraint that compels them to make difficult spending priority decisions within a given level of revenues. Until the State budget has been adopted by

Parliament and the equalization grants allocated by the county councils, they do not know with any certainty the full extent of their revenues or of their expenditure responsibilities. Often, this information becomes available after a third to a half of the budget year has elapsed. The adverse impact is greater in the case of the communes. On average, they are far more dependent on the transfers from the State budget than the towns and municipalities or the county councils. As a result, the communes are much more at the mercy of the changes adopted in the State budget and of the decisions of the county councils on the allocation of equalization grants.

In this context, it is not surprising that many local elected officials – the mayors and the members of the local councils – have adopted largely a passive attitude regarding the budget process. Their most important skill is the ability to negotiate with the county council and the ministries to secure the highest possible grant allocations. It is difficult to ask the mayors and local council members to engage the local community in a dialog on their needs and priorities, when these elected officials feel that they lack the authority to actually implement the spending priorities of their community.

Chapter 4: The Grant System

4.1 Roles and Purposes of Grants

Besides revenue sharing, there are both special purpose grants and equalization grants in the Romanian intergovernmental fiscal system. The revenue sharing of the income tax (this was the wage tax before 2000) addresses the issue of vertical equity between the central, county and local levels of government. Before the introduction of revenue sharing in 1999, there were general purpose grants and special purpose grants that filled this role. In an effort to increase local government autonomy, general purpose grants increased and special purpose grants decreased from 1991 to 1997. (See Annex II – Grants Structure.) However, the real achievements in local revenue autonomy came in 1999 with the introduction of the revenue sharing system. Revenue sharing represented approximately one-third of all local government revenues in 1999 and 2000.

Although the Law on Local Public Finance envisioned an almost elimination of special purpose grants, they have persisted. Most notably, there remain special purpose grants for investments, both those financed through external loans and those deemed a priority by line ministries. The special purpose grants dictated by the line ministries are a countervailing force to increasing autonomy in local government spending decisions. There are also several special purpose grants for the support of social assistance responsibilities transferred to local governments. Special purpose grants fell from their dominant position of 84 percent of all local government revenues in 1992 to 17 and 18 percent of local government revenues in 1999 and 2000.

The Law on Local Public Finance also introduced equalization grants. The purpose of the equalization grant is to reduce horizontal inequity among local governments (both at the county and sub-county level). In 1999 and 2000 equalization grants represented 11 and 10 percent of all local government revenues.

4.2 General Purpose Grants

The revenue sharing of the personal income tax can be thought of as Romania's general purpose grant. According to the Law on Local Public Finance, 40 percent of the tax was to be distributed to the local council and 10 percent to the county council. Distribution is based on origin of the tax revenues, not any allocation formula. By some analyses, this has increased the disparity of revenues among counties and local governments.

Although the purpose of the law was to establish a predictable source of revenues, the allocation shares were already changed by the first year of the law's implementation. In 1999, 35 percent of the tax revenues were distributed to the local council and 15 percent to the county council. Beginning in 2001, local councils will receive 40 percent of the income tax revenues to compensate for the fact that taxes on non-wage personal income, previously local taxes, have been incorporated into the national income tax.

By establishing a revenue sharing system and reducing earmarked transfers, the Law on Local Public Finance has granted local governments considerable more financial autonomy. However the discretionary spending power of local governments has been seriously curtailed by the national government's continual imposition of unfunded expenditure mandates to address pressing social needs. By mandates we mean those cases in which the national

government establishes the level of spending but does not provide funding to cover the corresponding expenditures. For example, in the case of means tested income transfers, the eligibility criteria and the level of the benefits are set nationally. Yet, local governments must fund the cost of the benefits from their own resources.

Evidence from individual local governments in 1999 and 2000 suggests that while earmarks have indeed gone down, the mandates now account for over 50 percent of the operating expenditures of larger, urban local governments. The problem of the mandates is not unique to large urban areas.

(Unfunded) Mandates:

- Child protection services;²¹
- Means tested income support payments (*ajutor social*);
- Payroll of the persons assisting the handicapped;
- Payment per child in institutionalized care (starting in 2001);
- Payroll of the staff of the veterinary stations;
- Payroll of pre-university education teachers and staff (starting in 2001).

The way local governments cope with the mandates is by not funding the full obligation. For example, a report prepared for the World Bank in 1999²² looked in detail at income transfer payments and assistance for groups with special needs managed by local governments in specific localities in five counties of Romania. An Urban Institute report looked at funding for child protection services in each of the 41 counties in Romania.²³ Both found evidence that local governments have not funded the full cost of the social services assigned to them. The problem appears to be particularly acute in the case of means tested cash benefits. This is not a good practice, but it is not clear that the alternative in the short run is any better. Should local governments fund the mandates fully, they could only do so by curtailing other important local expenditures.

4.3 Special Purpose Grants

The special purpose grants from the State budget provided to local governments until 1998 were of two types. The first were subsidies paid by the local governments to the local heating companies to compensate for national price caps and to the public transport companies to compensate for free transportation they must provide by law to certain categories of persons (disabled, veterans). The second were subsidies to finance local investments. This amount was given to the counties based on a negotiated, *ad hoc* transfer system and then allocated among the local councils in the county. The (State) Annual Budget Law identified priority investment categories for which the investment grants could be used. Specific investment projects needed to be approved by the Investment Evaluation Office in the Ministry of Finance, by the local Ministry of Finance Budget Office, and by the county.

²¹ This is not properly a mandate as counties are free to determine the budget for these services. However, the degree of attention that child protection receives from the European Union and certain donors, and the expectations they have regarding increased funding for these services, create many of the characteristics of a mandated expenditure.

²² *Romania Local Social Services Delivery*, Washington, DC: World Bank (report still in draft).

²³ F. Conway, et al. *Romania: Analysis of Local Funding for Child Protection Services*. Washington, DC: Urban Institute Project (2000).

** Tab. 3 **

Special Purpose Grants for Investment (1996 to 2000)
Million current Romanian lei

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|--|-------------|-------------|-------------|-------------|-------------|
| Total special purpose investment grants | 1,161,666 | 2,079,687 | 2,834,072 | 2,061,025 | 2,617,551 |
| Grants for local investments (through 1998) | 1,154,919 | 1,894,588 | 2,185,545 | | |
| Grants for investments financed by external loans | 6,747 | 81,798 | 255,033 | 632,747 | 811,619 |
| Road fund (part transferred for investment) | | 103,331 | 82,785 | 146,150 | 75,000 |
| Communal road and water works | | | 310,738 | 321,924 | 717,084 |
| Housing fund | | | | 918,995 | 930,655 |
| Other | | | | 41,209 | 83,193 |
| Special purpose grants as % of local of investments | 85% | 79% | 83% | 43% | 39% |

Source: Francis Conway, et al. *Romania Local Public Expenditure Report*, Washington, DC: Urban Institute Project 07147-000-00 (2001): 65.

The Law on Local Public Finance only prescribed special purpose grants for investments financed by external loans. However, practice has differed from the law. Special purpose investment grants managed by the line Ministries continue to direct funds to their sector priorities, such as roads, water works, and housing. For example, the National Roads Administration determines the allocations of the Road Fund to counties and municipalities. This allocation, which is published in the Annual Budget Law, is not based on a formula. Although the allocation does appear to be project driven, there is no transparent project formula for determining the amount of funds each project should receive. Note that although these are referred to as investment grants, most of the road funds are actually earmarked for maintenance of existing roads. Table 3 (above) shows the trends in special purpose investment grants in recent years. As the table shows, although the number of specialized national investment funds has increased, in aggregate special purpose investment grants represent a decreasing share of total local investments.

4.4 Equalization Grants

The Law on Local Public Finance formalized the distribution of state revenues for the purpose of equalizing revenues among counties and local councils. Equalization grants and revenue sharing both come from the same revenue source, the personal income tax. However, the equalization grants are distributed based on a formula, while revenue sharing is based on origin of the tax. Article 10(1) of the Law on Local Public Finance states that:

“In order to create a budgetary balance among certain territorial-administrative units, the budget law can provide for the amounts of the shared funds from certain revenues of the state budget as well as for distribution criteria of the latter to territorial administrative units.”

The equalization grant is funded through a transfer from that State budget that is allocated directly to the county councils for redistribution by them to local councils in their area of jurisdiction. The state budget also specifies the amount of these equalization grants that the county councils may retain for their own use, within a limit of 25 percent set in the Law on Local Public Finance.

In the past, the local councils had been obliged to wait first for the approval of the State budget, then for the county council to allocate to each one of them their corresponding share of the transfers from the State budget before knowing for sure what their total revenues would be for the year. This allocation process followed different rules in each of the 41 counties. The usual practice involved some quantitative criteria, but the process was far from being based purely on a formula. No local council could know for sure in advance what amount it would receive from the county council. The process typically involved significant individual communication between the local councils and the county council.

The intent of the Law on Local Public Finance is that each county council in turn should distribute the equalization grants to the local councils within its area of jurisdiction using a formula to determine the amount allocated to each individual unit of local government. Before the Law on Local Public Finance, the Ministry of Finance used distribution criteria that were proxies for operating expenditures, such as number of pre-university students, length of water and sewerage network, number of housing units and length of roads and city streets as well as population, to allocate subsidies. In 1999 (the first year of the law's implementation), an indicator of fiscal capacity (then defined by wage tax revenues) was added to these criteria. These criteria applied for distribution of funds among counties. In addition, the Annual Budget Law specified the maximum amount to be retained by each of the county councils and the corresponding minimum amount to be distributed.

The Law on Local Public Finance attempted to make county councils responsible for developing a set of criteria and creating an allocation formula in consultation with the local councils and with the technical assistance from the General Division of Public Finance for State Finance Control (the county-level representative office of the Ministry of Finance). However, the county councils disregarded this in 1999, so in the 2000 Annual Budget Law the Ministry of Finance directed the county councils to follow an allocation formula based on fiscal capacity. A review of a sample of county councils, however, shows that even in 2000 about half of the county councils resisted the use of any formula.

The question is why the county councils are not adhering to the requirement of the Law on Local Public Finances and of the 2000 State budget law that they use a formula-based approach to allocation of the distribution grants.

At least one part of the explanation appears to reflect the difficulty (real or perceived) of tailoring a formula that reflects the needs of the local councils. When asked what process they followed, the eight county councils surveyed referred to one of several factors that required an *ad hoc* allocation rather than a formula. These factors fall in three categories.

— **Factors related to the revenues of local councils**

- The county councils appear concerned with the “tax effort” of the local councils. That is, they suspect that the local councils are not doing enough to raise revenues through their own taxes and fees, thus increasing their reliance on equalization grants.
- The county councils also appear concerned that some local councils have lost revenues due to factors outside their control. For example, one county council looked at whether a local council had lost revenues from the shared taxes due to the relocation of the headquarters of a company. Since the share of the tax accrues to the jurisdiction where the headquarters is located, changing its location would lead to a loss of revenues of one local council and a gain for another (that might be in an entirely different county).

— **Factors related to the expenditures of local councils**

- Most if not all county councils seem to feel that they cannot allocate investments using a formula. In part, this reflects the lumpiness of investments, that is, investments represent an increase in the level of expenditures (and hence revenues) that may last one or two years as a large project is under construction, then tailors off when the project is completed. This is a common problem when attempting to construct an allocation formula.
- Many county councils also appear concerned with certain expenditure needs that are not shared by all local councils. This includes, for example, institutions that care for the elderly or the handicapped that exist only in a few local councils. This might be a case that cannot be resolved adequately through a formula. It may require an alternative method, such as special purpose grants.

— **Special factors**

- Finally, the county councils appear to feel responsible for helping those local councils that have gotten into problems over time. This includes, for example, local councils that have accumulated unpaid debts for energy or that have deferred maintenance and must make urgent repairs to a school or other such critical facility.

These factors are not unique to Romania. Rather, they represent difficulties that arise in every attempt to implement a formula-based allocation process. There are ways to account for many of these factors in a formula-based allocation process, but for the moment not much is being done in this regard in Romania.

4.5 Payment of Grants

Final grant allocation cannot take place before the state budget is approved, and this can happen as late as May or June of a fiscal year that runs from January to December. Before the Law on Local Public Finance, the late payment of grants was an onerous burden on local government budgets. This problem has been minimized by the new revenue sharing arrangement by which the local governments receive a pro rata distribution of the income tax directly deposited to their accounts as the taxpayers make their payment.

Both the overall pool of funds and the allocation criteria for equalization grants, however, are still victim to the drawn-out budget process of the national and county governments. To account for the fact that the final distribution of equalization grants may occur late during the budget year, in the interim local governments receive on a monthly basis 1/12 their previous year's share. After the final distribution is decided, a local government may be responsible to pay back funds if this year's share is less than the previous year's share. Not only do local governments not know how they will compare to other local governments based on the equalization criteria, there is a large uncertainty surrounding the overall pool of funds. As mentioned above, this is a more important problem for communes because equalization grants play a larger role in their budgets.

Special purpose grants are published in the annex to the state budget, as are the equalization grants. Therefore, the receiving local governments are uncertain of their allocation until late in the fiscal year. Although the larger local governments have greater own revenues, they also often have greater investment needs, such as degraded district heating systems. Given that long-term debt financing is not feasible for most local governments, the allocation (and the delay in the process) of special purpose investment grants is a great issue. As mentioned above, the special purpose investment grants are supposed to promote specific sector priority financing, but there are no transparent criteria for the allocation process that would demonstrate how these priorities are being implemented.

4.6 Grants to Needy Authorities

There are no systematic grants to needy authorities in Romania. However, the government has instituted favorable policies and other types of assistance for some depressed regions, most notably the mining area Jiu Valley.

The previous CDR government took steps to restructure the mining sector, which resulted in a loss of nearly 20,000 jobs within 2 years only in the Jiu Valley. In the largest municipality in the Valley the unemployment rate in July 2001 was at 43%.

Assistance programs include: designating it a special industrial zone with preferential tax treatment, projects implemented by the Regional Development Agency-West, the National Development Agency, the Agency for Rebuilding the Mining Areas, and revolving funds for micro-credits.

The Valley also benefits from EU grants of about 10 million Euro. The EU/Phare programs fund updating infrastructure, active labor-market measures, and loans and grants for small and medium enterprises.

Despite these efforts by the national government and donor agencies, the Valley's economic future remains bleak.²⁴

Chapter 5: Financial/Fiscal Supervision: Rights and Duties

5.1 Deconcentrated Offices of the National Government

5.1.1. Prefect

²⁴ S. Ionita. "Focus: Social Problems in the Mining Area Jiu Valley." *Early Warning Report Romania*. Bucharest, Romania: UNDP and Romanian Academic Society (July 2001): 31-37.

Prefects are appointed by a decision of the Government and function as “the representatives of the Government at the local level and shall direct any decentralized public services of the Ministries and other central agencies in the territorial administrative units.” Among other things, prefects supervise the activity of the local and county councils and of the mayors to ensure that they are carried out according to the law. In exercising his authority the prefect may challenge the acts of local governments in the Court of Administrative Contestations. In such cases, the challenged act of the local government is suspended until a ruling on its legality can be obtained. In practice, however, the role of the prefect appears to be less invasive than might be suggested by the law. In effect, the prefect monitors, but does not supervise or exercise direct control over the activity of elected local government officials. There is no relation of subordination between the prefect and local elected officials.

5.1.2. Court of Accounts

The Court of Accounts was established in 1992 with local branches at the county level. As a stand-alone system, the Courts of Accounts are subject only to parliamentary control. The COA “... exercises control over the formation, administration and use of the financial resources of the state, the public sector and administrative-territorial units.” Essentially, the COA performs a financial audit and control function over all expenditures of state funds and the use of state property. The COA’s jurisdiction includes oversight and audit responsibility for monitoring:

Budget preparation and execution of local governments as well as financial transfers among them;
Creation, use and administration of special funds and treasury funds; and the
Application of budget allocation for investments, subsidies, transfers and other forms of financial support for local government

The COA’s conduct both pre and post audits of local budgets.

5.1.3. County Offices of the National Ministries

Generally, each of the line ministries of the national governments is represented at the county level through a ‘deconcentrated’ office. These offices tend to have very little autonomy from the national ministry to which they belong. Largely, they carry out the instructions of the ministry within limited budget resources.

The Ministry of Finance is represented in each county by the Directorate General of Public Finance and State Financial Control (DGPF). The DGPF in turn is composed of a Directorate General of State Control, a Local Treasury Office (LTO), a Department of Taxes, Fees and Budget (DTFB) and a Tax Inspectorate. The DTFB is concerned primarily with coordinating and assisting local governments in the budget preparation process. LTOs carry out treasury operations and tax administration and collection operations at the local level. The Tax Inspectorate performs a tax enforcement function for the county.

The county office of the State Treasury is involved in all funds received and paid by to the county or local councils. By law, these local government institutions must keep all their funds in the State Treasury. All funds received by the county and local councils are kept in their individual accounts with the State Treasury. Upon written instructions by the county and local councils, the State Treasury makes all payments on their behalf. This may be the office that has the most frequent continuing contact with the county councils and all local councils.

5.2 Accounting and Financial Reporting

There is a single, uniform, national system of classification for all public financial data in Romania. This facilitates the financial and fiscal supervision of local governments by the Ministry of Finance.

Despite these positive features, the current system does not meet all the current financial accounting and reporting needs of local governments in Romania.

The system works on a strict cash basis of accounting. As such it does not produce vital information on outstanding liabilities, such as unpaid heating subsidies. In this case, the accounting system records only the payments made

(actual cash disbursed) to the heating company by the local government. There is no record of the amounts owed for heating subsidies but not paid.

Each public institution is treated as an independent reporting entity, even when various institutions are subject to the authority of the same public officials. As a result, there is no readily available report that provides comprehensive financial data necessary to reflect the full financial accountability of these public officials. This is the case, for example, of data on personnel expenditures. In an alternative approach, the local government would be the reporting entity not only for its own finances but also for those of all its subordinated public institutions. Their combined financial results would appear together in a single statement issued by the local government. In such an approach, it would not be possible to “hide” personnel expenditures in a subordinated public institution.

There are no general purpose external financial reports. All the financial reports that exist are prepared for internal users, that is, for government managers and elected officials. In fact, the very notion of a general purpose external financial report does not exist. Such reports provide essential information needed by all interested parties for a fair assessment of the finances of a government entity. The criteria to determine what is essential for the fair presentation of a government’s finances are known as generally accepted accounting principles (GAAP).²⁵

These limitations in the rules and practices of financial accounting and reporting represent a serious constraint to the continued development of the system of local government in Romania. Local governments cannot show that their actions have complied with the public decisions on how to raise and spend public funds – financial accountability. They also cannot show that they are providing services efficiently and effectively – operational accountability.

Chapter 6: Conclusion

The intent of the Law on Local Public Finance was to strengthen local fiscal autonomy by clarifying and expanding local control over revenues, expenditures and the budget process. Progress in meeting this objective has been partial at best. The rules on revenue sharing have gone through two amendments. The simplification of the system of transfers also did not last very long. The state budget laws in 1999 and 2000 reintroduced special purpose grants for roads, housing and child protection and divided the equalization grant in two parts, one general and one solely to compensate for the cost of residential heating subsidies. All these changes have eroded some of the benefits of the new local finance legislation. However, it is the continued lack of a stable definition of local expenditure responsibilities, the absence of a predictable, stable allocation of general purpose grants and the flaws in the local budget process that continue to have the biggest adverse impact on the autonomy of local and county councils.

Romania must decide what it hopes to achieve through decentralization. Is local government a mere extension of the national government that facilitates the overall management of public expenditures? Or is local government an alternative way of delivering certain public services in a way that improves the efficiency and effectiveness of those services?

In practice local government has been treated as an extension of the national government. Key program or service policy and methodology are established at the national level. Local governments implement these decisions and pay the corresponding costs from their own budgets. This is the case in the social sectors (social assistance, child protection, personnel to care for the handicapped) and with subsidies for residential heating consumers. There is little if any value added at the local level.

If this is all that Romania hopes to achieve through decentralization then there is little need for any change. Should Romania want to try to obtain greater benefits from decentralization then there will be a need for significant reforms.

- Establish clear, stable expenditure assignment by law

Local government legislation will have to be amended to define clearly the areas of local expenditure responsibility. In anticipation of such new or amended legislation it would be important to conduct a national dialog on the

²⁵ S. Gauthier. *Governmental Accounting, Auditing and Financial Reporting*. Chicago: Government Finance Officers Association (2001).

functions of local government so that the legislation reflects as much as possible a consensus among stakeholders on the subject. This, in turn, will contribute to the stability of the local expenditure assignment.

- Assign authority commensurate with level of responsibility

It is not sufficient to define the areas of local expenditure responsibility clearly. The legislation also must assign clear authority to local governments to perform their assigned functions. The level of authority must match the level of responsibility. The definition of local authority must distinguish between own and delegated functions. Own functions would be those where local governments have broad authority and discretion to determine the service policy and methodology and to decide on service quantity, quality and cost. Delegated functions are those governmental activities that the national government may assign to a local government for performance in a manner and to a degree which is determined by the central government.

- Limit earmarked funding and discontinue unfunded mandates

Unfunded mandates in general are a bad practice that should be discontinued. Earmarked funding is not appropriate in the case of own functions. The use of earmarked funding is perfectly acceptable as long as it is limited to delegated functions, such as those in the area of social assistance discussed above.

- Provide greater transparency and predictability in the allocation of grants

The intent of the new legislation is that each county council in turn should distribute the equalization grants to the local councils within its area of jurisdiction using a formula to determine the amount allocated to each individual unit of local government. To the extent feasible, before preparing their budget the communes must be able to estimate what level of equalization grants to expect in the coming year. The variation from these estimates should be a function of the size of the overall pool of funds for equalization authorized in the State budget for the specific county, not in the relative share of the pool allocated to each commune.

- Strengthen the local budget process

The national and county governments can take specific practical steps to create a framework consistent with sound and prudent management by local governments of their finances. These include:

Modifying the rules that apply when the annual State budget has not been adopted. Currently, local governments may incur expenditures equivalent to one-twelfth of the actual prior year expenditures *by line item* on a month by month basis until the State budget has been adopted by Parliament. There is no reason to limit local spending discretion simply because the State budget has not been adopted. A more reasonable approach would limit the amount that local governments may include as revenues from grants and transfers to one-twelfth of the amount in the prior year but to allow local governments to spend these revenues based on current needs and priorities. This rule should apply only to general purpose or unconditional grants. Special purpose grants, such as investment subsidies financed from external loans, might have to wait for the adoption of the State budget.

Requiring that all local and county councils develop a draft balanced budget based on their own estimates of the equalization grant they will receive by formula. Concurrently, reduce significantly the review of draft local budgets by the MoF. Eventually, this review should be limited to confirming the estimates of equalization grants prepared by the local and county councils. This will create a hard budget constraint that will oblige the local council in the commune to focus on setting spending priorities rather than on negotiating for additional revenues. The local council will be autonomous in developing and approving its own budget, including the equalization grants. It also will be clearly accountable to the local community for the spending priorities included in that budget.

- Improve local financial accounting and reporting

In the longer term, Romania will have to consider a comprehensive reform of local public financial accounting and reporting standards and practices consistent with EU directives on the subject. This probably cannot occur without being part of an overall reform of public sector financial reporting and accounting in the country.

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ANNEX I Local Government Revenue / Expenditure Structure

TABLE I.1: LOCAL REVENUES BY SOURCE (1991-2000) *

| million current lei | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|--------|---------|---------|-----------|-----------|-----------|------------|------------|------------|------------|
| TOTAL REVENUES | 58 627 | 199 667 | 712 549 | 1 767 150 | 3 336 458 | 4 998 504 | 10 468 498 | 13 454 174 | 22 243 670 | 33 393 515 |
| "Own" Revenues | 17 216 | 31 640 | 152 538 | 334 999 | 923 459 | 1 130 495 | 1 984 308 | 3 328 885 | 15 512 215 | 24 063 098 |
| of which: | | | | | | | | | | |
| Local Taxes and Fees | 16 086 | 28 845 | 92 708 | 238 839 | 734 364 | 873 017 | 1 522 937 | 2 476 571 | 5 847 479 | 8 612 514 |
| Shared National Tax Revenues | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7 480 298 | 10 802 597 |
| Transfers between Local Governments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 809 485 |
| Other Local Sources of Financing | 1 130 | 2 794 | 59 831 | 96 160 | 189 095 | 257 478 | 461 371 | 852 313 | 2 184 438 | 2 838 502 |
| From the State Budget | 41 411 | 168 000 | 560 011 | 1 430 655 | 2 402 911 | 3 821 115 | 8 434 792 | 10 052 421 | 6 368 776 | 9 330 417 |
| of which: | | | | | | | | | | |
| General Transfers | 0 | 0 | 231 770 | 668 109 | 1 203 024 | 1 972 609 | 4 644 559 | 4 997 959 | 2 522 821 | 3 323 181 |
| Dedicated Transfers | 41 411 | 168 000 | 328 240 | 762 546 | 1 199 887 | 1 848 506 | 3 790 234 | 5 054 462 | 3 845 955 | 6 007 236 |
| Loans | 0 | 28 | 0 | 1 496 | 10 088 | 46 894 | 49 397 | 72 868 | 362 649 | n/a |
| Loan payments received | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 30 | n/a |
| Ratios by major sources (percent) | | | | | | | | | | |
| Own Revenues/Total Revenues | 29,4% | 15,8% | 21,4% | 19,0% | 27,7% | 22,6% | 19,0% | 24,7% | 69,7% | 72,1% |
| Revenues from the State Budget/Total Revenues | 70,6% | 84,1% | 78,6% | 81,0% | 72,0% | 76,4% | 80,6% | 74,7% | 28,6% | 27,9% |
| Loans / Total Revenues | 0,0% | 0,0% | 0,0% | 0,1% | 0,3% | 0,9% | 0,5% | 0,5% | 1,6% | n/a |
| Other ratios (percent) | | | | | | | | | | |
| Local taxes and fees/Total Revenues | 27,4% | 14,4% | 13,0% | 13,5% | 22,0% | 17,5% | 14,5% | 18,4% | 26,3% | 25,8% |
| Dedicated Transfers/Total Revenues | 70,6% | 84,1% | 46,1% | 43,2% | 36,0% | 37,0% | 36,2% | 37,6% | 17,3% | 18,0% |

* Aggregate revenues for all sub-national level governments: counties, municipalities, towns and communes.

ANNEX I Municipal Revenue / Expenditure Structure

TABLE I.2: LOCAL EXPENDITURES BY FUNCTION (1991-2000) *

| million current lei | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2 000 |
|--|--------|---------|---------|-----------|-----------|-----------|------------|------------|------------|------------|
| TOTAL EXPENDITURES | 58 446 | 199 390 | 695 970 | 1 735 066 | 3 265 291 | 4 955 180 | 10 370 483 | 13 381 456 | 21 599 278 | 33 216 488 |
| Own administrative expenditures | 6 379 | 17 423 | 55 089 | 147 324 | 236 927 | 340 566 | 822 247 | 1 796 726 | 3 018 409 | 4 784 261 |
| Education | 0 | 0 | 0 | 0 | 338 132 | 590 358 | 1 040 997 | 1 209 236 | 1 921 805 | 2 578 194 |
| Health | 0 | 0 | 101 451 | 263 270 | 408 268 | 615 725 | 1 324 979 | 68 762 | 95 092 | n/a |
| Culture, religion and sports | 3 361 | 8 452 | 27 659 | 75 135 | 140 465 | 156 565 | 486 997 | 654 290 | 932 324 | 1 511 360 |
| Social assistance | 564 | 1 599 | 30 554 | 78 800 | 195 972 | 314 593 | 479 546 | 1 243 812 | 1 728 746 | 3 829 492 |
| Public Works and Housing | 28 172 | 117 231 | 318 085 | 739 822 | 1 270 452 | 1 864 805 | 4 042 500 | 5 532 118 | 8 720 436 | 11 962 235 |
| Agriculture | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 168 669 | n/a |
| Transport and communications | 18 675 | 52 452 | 159 027 | 419 662 | 648 895 | 985 261 | 2 034 496 | 2 711 883 | 2 661 967 | 3 873 782 |
| Other economic activities | 873 | 190 | 0 | 0 | 0 | 1 403 | 6 526 | 6 426 | 15 335 | n/a |
| Other activities | 423 | 2 042 | 4 104 | 11 053 | 24 022 | 75 304 | 90 346 | 130 942 | 174 103 | 4 677 164 |
| Special earmarked expenditures (as of 1999) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 055 678 | n/a |
| Loan and guarantee payments | 0 | 0 | 0 | 0 | 2 158 | 10 599 | 41 850 | 27 262 | 106 713 | n/a |
| Reserves | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n/a |
| Ratios (percent) | | | | | | | | | | |
| Administrative expenditures / Total expenditures | 10,9% | 8,7% | 7,9% | 8,5% | 7,3% | 6,9% | 7,9% | 13,4% | 14,0% | 14,4% |
| Education / Total expenditures | 0,0% | 0,0% | 0,0% | 0,0% | 10,4% | 11,9% | 10,0% | 9,0% | 8,9% | 7,8% |
| Health / Total expenditures | 0,0% | 0,0% | 14,6% | 15,2% | 12,5% | 12,4% | 12,8% | 0,5% | 0,4% | n/a |
| Social assistance / Total expenditures | 1,0% | 0,8% | 4,4% | 4,5% | 6,0% | 6,3% | 4,6% | 9,3% | 8,0% | 11,5% |
| Public works and housing / Total expenditures | 48,2% | 58,8% | 45,7% | 42,6% | 38,9% | 37,6% | 39,0% | 41,3% | 40,4% | 36,0% |
| Transport & communications / Total expenditures | 32,0% | 26,3% | 22,8% | 24,2% | 19,9% | 19,9% | 19,6% | 20,3% | 12,3% | 11,7% |

* Aggregate expenditures for all sub-national level governments: counties, municipalities, towns and communes.