

OPINIONS REGARDING THE BUDGETARY PERFORMANCE IN THE PUBLIC SECTOR OF ROMANIA

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Abstract:

Economic development has generated a continuous growth of public expenses. The public financial management was developed conceptually by economists as a tool for measuring the performance of public spending. Therefore, the goal pursued by all market economy states was to reform public finances in order to achieve budget performance. The study of some current issues regarding the international experience in policies and budgetary performance, presented in the specialized literature, is useful for understanding the transformations occurred in Romania. The analysis of the main synthetic indicators of revenues and expenditures in the post-accession period of Romania allows us to conclude how effective the well-known budgeting theoretical aspects were implemented. Although the theoretical principles and rules in this field have been assimilated into the national legislation, the Romanian budgets had many sceptical reviews by the international financial institutions, in the period immediately after the accession of the European Union. The accuracy of the budget programming is one of the objectives of the financial audit missions. It is carried out by the Court of Accounts of Romania on the annual accounts of budget execution. The recommendations are formulated to increase the responsibility of budget elaboration and execution. The research methodology involves the use of descriptive and comparative methods on the current situation, at international and national level.

Key words: *public financial management, public finances, budget performance, state budget*

JEL classification: E60, H61, H83

1. Introduction

The measurement of the public administration performance has been developed theoretically through the philosophy of the new public management and implies the evaluation of the results obtained in close connection with the objectives set and the creation of quality standards in public services. Having as a reference point the new public management, the reform of the management of public finances has developed as a continuous process of changes in the medium and long term, through some new tools and techniques of financial management of public services which are part of the „new” public financial management. This concept was described as “ *a label for a reforming spirit intent on instilling greater ‘financial awareness’ into public sector decision making*”.^[1]

In most definitions, the “new public financial management” is presented as an integrated system of management of the fiscal system, of the expenses and of the governmental debts and having a decisive role in the allocation of the resources and the redistribution of the income. Previous research addressing the new public financial management was focused, in particular, on OECD states, where reforms have had a slow and steady path. They concluded that the efficiency of the budget process is conditioned by the applied reforms in the field of public finance management.

The concept of “performance-based budgeting” appeared with the method of applying financial management by government agencies, checking, as the name suggests, the performance of the allocation and use of resources. From the analysis of the specialized literature, we found that a definition on performance-based budgeting was not unanimously accepted, because this notion was

used with different meanings: performance-based budget format, budget process or budget cycle.

However, we note the definition of Fielding Smith who defines performance-based budgeting as the allocation of their own resources based on specific goals and measurable results. [2]

OECD has defined it as a form of budgeting that associates the funds allocated to achieve measurable results, and in another approach, it is viewed as a system that has the purpose of turning budgeting into a powerful tool for maximizing the efficiency and effectiveness of the state.

Essentially, performance-based budgeting acknowledges the importance of performance. Since the pre-accession phase to the European Union, Romania has assimilated in the national legislation a series of budgetary concepts and principles converging with those implemented in the Member States.

2. Aspects regarding international experience in budgetary policies

Contemporary economists have identified in the public expenditure an important factor of economic growth, represented by funds used in the central and the local government of a state, to ensure the needs of current transfers and public investment. According to ESA 2010, total expenses include all transactions recorded for positive purposes within ESA and grants payable in current accounts, as well as transactions (gross capital formation, acquisition minus disposals of non-financial assets plus non-transferable capital transfers) in government capital.

Following the economic development, the public expenditures of the states experienced an upward evolution, but this did not have the automatic effect of improving the quality of life of the population. Since 2006, specialists have observed that globalization creates a much more mobile environment for capital flows, further increasing public pressure on the efficient allocation of resources. [3] The evolution of the world economy towards the abolition of national borders, also driven by the revolution of communications and information technology, has been a premise for the easier exchange of information between the states of the world. It can be said that the reforms that took place in the Anglo - Saxon states were a model for the other states.

The search for a method of budgeting to track the cost effectiveness, led to the emergence of budgeting on programs. A brief retrospective takes us to the years when the first form of program-based budgeting was applied and the term budgetary performance was defined, which originates from the *concept of efficiency*, the latter having an evolutionary development from "saving" to "Efficiency" and, later to "efficiency" and "budget performance".

The budgetary performance has been interpreted by OECD as a form of budgeting that correlates the allocation of funds with the measurable results, having the following meanings:

- performance – oriented budgeting,
- performance – based budgeting
- the performance of the budget allocation.

The idea of reforming public finances was born in the developed states, in the early 1970s, with two aims: reducing public spending and budget deficits, on the one hand, and improving the efficiency, efficiency and quality of public services. The main directions for reforming public finances, made in the OECD countries, were the following:

- ✓ Achieving savings on budgetary expenses through meticulous central controls or by providing greater flexibility for managers in the redistribution of funds to reflect changing conditions and priorities.
- ✓ Restructuring budgets to include: expenditures for all government activities, target budget goals and program allocations to facilitate results monitoring and evaluation.
- ✓ Designing multiannual budgets based on clear fiscal policies and realistic estimates of incomes;
- ✓ Frequent use of performance information in relation to the objectives set to increase the degree of responsibility.

- ✓ Switching from cash accounting to commitment accounting;
- ✓ Switching from compliance audit to performance audit.
- ✓ Implementation of information systems for timely provision of financial information useful to all stakeholders in the budget process.
- ✓ Wider use of decentralized budgeting, as well as market mechanisms such as market testing, outsourcing and performance agreements. [4]

In the literature, two models of budget formation are described, which have been applied in different variants and in states with different levels of development: the resource-based budget and the performance-based budget.

From the literature review, we note that performance-based budgeting emerged in the 1980s, with the first countries implementing it being the United States, New Zealand, Australia, the Netherlands, the United Kingdom and Switzerland. In the United States, the System of Planning, Programming, Budgeting (PPBS) has been implemented since 1965, at that time it was designed as a resource allocation tool, having three stages:

- in the planning stage, the objectives were set and the solutions for their implementation were identified;

- during the programming stage, analyzes of means and resources were performed;

- in the budgeting stage, the programs were implemented in an annual budget.

At the same time, the UN Manual on Performance and Program Budgeting was published, and this new method of budgeting was implemented in approximately 50 countries in Latin America, Asia and Africa. [5] The purpose of performance-based budgeting was to achieve a correlation between the volume of financial resources allocated to state institutions and the results achieved by them. The efficiency and effectiveness of public spending is achieved through a prioritization of public spending according to the needs of the population.

Although this system was abandoned after a period of only 6 years due to the complexity of the activities and the high volume of work, the PPBS system played an important role later, in creating functional classifications of the expenses, which proved to be very important for the economic analyzes and for evaluating government policies.

Another method of budgeting developed in the United States was Zero Base Budgeting (ZBB). This method appeared in 1970 and started the elaboration of the budget from an evaluation and a hierarchy of all within the limits of the financial resources established. Its experimental application in the practice of the United States, the United Kingdom and other states, has led to the conclusion that it is useful in the periodic evaluation of expenditure, but very difficult to use annually to substantiate the budget. The Zero Base Budgeting System had the following particularities:

- formulating objectives for each sector;
- identifying several solutions to reach the sector's objectives;
- establishing minimum levels of expenses, below their normal level;
- elaboration of "decision packages", with information on the budget and performance;
- hierarchizing decision packages against each other.

Starting with the years 1980-1990, performance-based budgeting began to be applied nationally in the US, New Zealand, Australia and the United Kingdom, with their experience being taken over by Canada, Belgium and France.

Denmark, Sweden and Finland have implemented performance-based budgeting as a means of controlling spending policy to mitigate the effects of the economic crisis since the late 1980s.

Germany has had a slow implementation of performance-based budgeting (called the New Steering Model) in administration, with reforms initially being implemented at the municipal level in small cities.

In Switzerland, the implementation of performance-based budgeting started from the central administration and subsequently expanded to the level of local public administrations.

In Austria, reform efforts were initiated, simultaneously at all levels of the public administration, this state being the precursor of the implementation of public finance reforms at all three levels of administration.

The simplest performance-based budgeting model is the **one named after its authors, the Robinson-Last model**. This is a variant of the Planning - Programming - Budgeting System, where, at the budget preparation stage, the decision makers take into account the expected results after the expenses have been made. The appropriate budgetary framework is the one in the medium-term [6].

The model assumes the existence of a budget classification by programs, which will group the expenses so as to reflect the volume of resources used to achieve the expected results. For each program, the objectives are set and how they correlate with public priorities, proposed activities, performance indicators and costs. The accounting records on commitments are kept separately on each program.

Currently, some OECD member states have a programmatic approach to budgeting. Even if there are differences from one state to another, the budgeting process includes steps to identify and clarify objectives and programs, to develop strategic plans, performance and evaluation of programs. The development of information technology systems now makes it much easier to implement such procedures. Among the advantages of performance-based budgeting, the following are unanimously recognized:

- increasing the accountability and transparency of government actions;
- detailing the budget classification;
- increasing transparency in the allocation of budgetary resources;
- increasing flexibility in resource management

3. Budget performance of the Romanian public sector

In Romania, the public budget is defined and explained from a legal perspective, by Law no. 500/2002 – The Law of Public Finances. The financial resources are structured on economic criteria, through a unitary system of budgets. All the budgets and components of the budget system, aggregated and adjusted according to Regulation (EU) no. 549/2013, form the consolidated general budget. [7]

The most important budget from an economic point of view is the state budget. The authors Inceu, A. M., Lazăr, D. T., Moldovan, B., have argued this fact in their work Finance and public budgets, by showing that the state budget:

- contributes directly to the fulfillment of the functions and tasks of the state;
- ensures the real autonomy of the local authorities within the administrative-territorial units;
- guarantees the effective realization of social protection for certain important categories of the population;
- ensures the financial, monetary and currency balance of the state;
- plays a stabilizing role of the national economy [8]

The main sources of state budget are taxes and fees, along with public loans, as a secondary source. The main areas of expenditure that are financed from this budget are also identified with the objectives of national interest of the state, these being the maintenance and functioning of the central administration, health, defense and national security, justice, environmental protection, foreign policy.

The state social insurance budget is elaborated and approved separately from the state budget. Its revenue is based on social contributions and other payments withheld from individuals and enterprises and cannot be used for other budgetary expenses than those for which they are apportioned.

The budget of the state treasury includes the revenues and expenses of the treasury regarding the activity carried out with the purpose of fulfilling its functions.

The budgets of the autonomous public institutions include the incomes and expenses or, in some cases, only the expenses of the central public institutions that are not subordinated to any other

public unit.

The budgets of public institutions financed entirely from own revenues include the revenues and expenses of the public institutions that are subordinated to the autonomous public institutions, but which work only on the basis of the own obtained revenues.

The budget of the funds from external contracted loans or warranted by the state, as well as the budget of the non-reimbursable external funds are elaborated and approved as annexes to the law of the state budget.

Local budgets are elaborated and approved on the basis of local autonomy and generically express the budgets of the administrative-territorial units with legal personality. The main source of the revenues of the local budgets are the own revenues collected from local taxes and taxes, which are supplemented by transfers from the state budget and public loans, in case of deficit. Local autonomy stimulates both the local initiative in the realization of incomes and the satisfaction of local social needs. The categories of expenditures financed from these budgets are mainly the functioning of local public institutions, local infrastructure, pre-university education and public order. As a result of the need to adapt the national legal framework to the requirements of the European Union, since the pre-accession period, the adopted decision was to introduce in Romania's legislation, elements, mechanisms and tools for strategic planning and public policies, which are in line with European practices.

The sources of inspiration were good practices and various models of strategic planning, the multi-annual budget planning and budgeting for programs in United Kingdom, Netherlands, Estonia and Latvia. The main purpose of these reforms was the elaboration and implementation of a fiscal and budgetary legislative and strategic framework that will contribute to balancing the expenses with the incomes, during the entire budget process.

Law no. 500 of 11.07.2002 of public finances is the basic document that ensures the understanding of the terminology and concepts used in the elaboration, approval, execution and budgetary reporting. It sets out the principles, general framework and procedures for the formation, administration, commitment and use of public funds, as well as the responsibilities of public institutions involved in the budget process. The normative act defines the program as *a coherent set of actions that refers to the same principal authorizing officer of loans, designed to achieve a defined objective or set of objectives and for which program indicators are established to evaluate the results that will to be obtained, within the approved financing limits.* [9] It is also regulated the possibility to realize the multiannual budget commitments, by recording and approving in the budget the commitment credits and the budget credits. The law also establishes a series of limits regarding the reduction of the revenues and the increase of the budgetary expenses, but which, however, have not been applied in practice regularly.

The following normative act, Order no. 1159 of 30.07.2004 was elaborated for establishing the instructions on the content, presentation form and structure of the programs elaborated by the main authorizing officers for the purpose of financing certain. The content, form of presentation and structure of the programs developed by the main credit authorizing officers are detailed in the content of this order. Also, a structure of the programs elaborated by the main authorizing officers is detailed and some elements of multiannual budgeting of the programs are explained.

Law no. 69 of 16.04.2010, of fiscal-budgetary responsibility, establishes the general framework for the efficient implementation of the multiannual budget programming system and represents an alignment with the international practices regarding the management of fiscal-budgetary policy. This normative act was elaborated and adopted with the following objectives:

- ensuring and maintaining the fiscal-budgetary discipline, transparency and sustainability in the medium and long term of public finances;
- establishing a framework of principles and rules on the basis of which the Government will

ensure the implementation of fiscal-budgetary policies that will lead to a good financial management of resources;

- efficient managing of public finances in order to serve the public interest in the long term, ensuring economic prosperity and anchoring fiscal-budgetary policies in a sustainable environment.

Via the Law of fiscal responsibility, a series of fundamental elements for the multiannual planning process were developed, the most important being the following:

- ✓ Statement of the principles of fiscal-budgetary policy (transparency, fiscal responsibility, stability, fairness, efficiency, efficient management of personnel expenditure from public funds);
- ✓ Introduction of new mechanisms and instruments, respectively the Fiscal Strategy and the Fiscal Council;
- ✓ Establishing the objectives and the rules of the fiscal-budgetary policy;
- ✓ Establishing limits of public debt, according to the methodology of the European Union;
- ✓ Establish rules regarding budgetary expenses, revenues and rectifications.

The effects of the reform of the European budgetary revenues on Romania were analyzed by specialists, who concluded that the issue of the low budgetary revenues of Romania is a structural one. This is mainly due to the following factors:

- reduced taxation compared to other states in the region, due to the desire to stimulate the attraction of foreign investments;
- the reduced capacity to collect the budget revenues, due to the fact that the emphasis was placed on indirect taxes (VAT) without taking measures to severely reduce the tax evasion.

In these conditions, in order to achieve a sustainable economic development in Romania, it is imperative to reform the budget policies and to improve the absorption of European funds.

4. Study on the evolution of the state budget of Romania, after the accession to the European Union

Increased government intervention in the economy has required more accurate data for planning and evaluation as the economy is also becoming a numerical science. The national accounts, which represent the source of the most used economic indicators, must meet the needs of more and faster information.

Of these indicators, gross domestic product (GDP) is the most used to measure the total size of a state's economy, taking into account the totality of the economic value produced, received and spent. For this reason, GDP is used in various analyzes as a scalar, and other values are expressed as a percentage of it.

The credibility of the national budgets adopted in Romania has often been questioned, although the national legislative provisions have been harmonized with the European laws. This fact is due to the unrealistic revenue estimates and the large deviations of expenditure from the original budget [10].

Similar conclusions are also derived in the Annual Public Reports published by the Romanian Court of Accounts as a result of the financial audit missions to the Annual General Account for the execution of the state budget:

In the case of 31 main credit authorizing officers, representing 55.4% of the number of the main authorizing officers of the state budget, the deviation between the initial provisions and the actual payments exceeds 10%, indicating a low level of budget programming accuracy. (Court of Accounts, Summary of the Public Report, 2016). [11]

In the case of 24 main credit authorizing officers, accounting for 38.7% of the number of the

main budgetary authorizing officers, the percentage deviation between the initial provisions and the actual payments exceeds 10%, indicating a fairly low level of budget programming accuracy. (Court of Accounts, Summary of the Public Report, 2017). [12]

Starting from these ideas and conclusions, in figures 1 - 3 we have graphically represented and analyzed the main synthetic indicators in the Annual General Accounts for the execution of the state budget (the execution on the CASH version of the state budget), for the period 2005 - 2018, on based on the data extracted from the Reports published by the Ministry of Public Finance and the Romanian Court of Accounts.

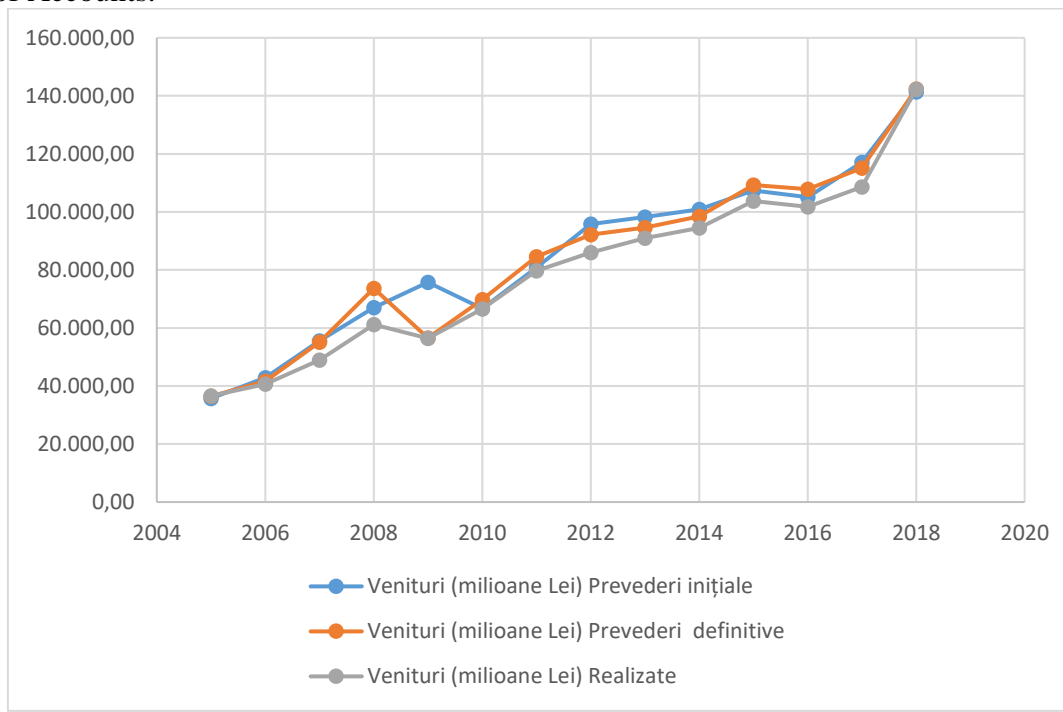


Figure 1. The evolution of initial, definitive and realized incomes for the Romanian state budget, 2005-2018

Source: authors' calculations, data from Ministry of Public Finance and the Romanian Court of Accounts Reports

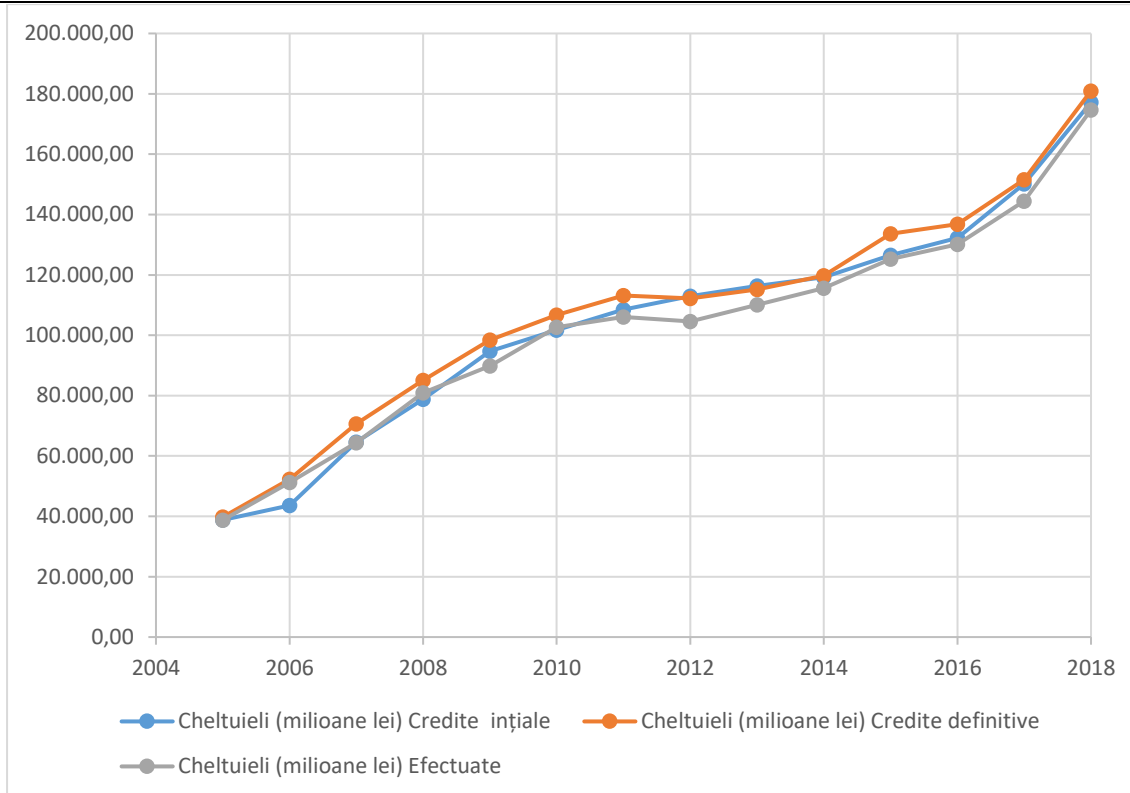


Figure 2 Initial, definitive and realized expenditure for the Romanian state budget, 2005-2018
 Source: authors' calculations, data from Ministry of Public Finance and the Romanian Court of Accounts Reports

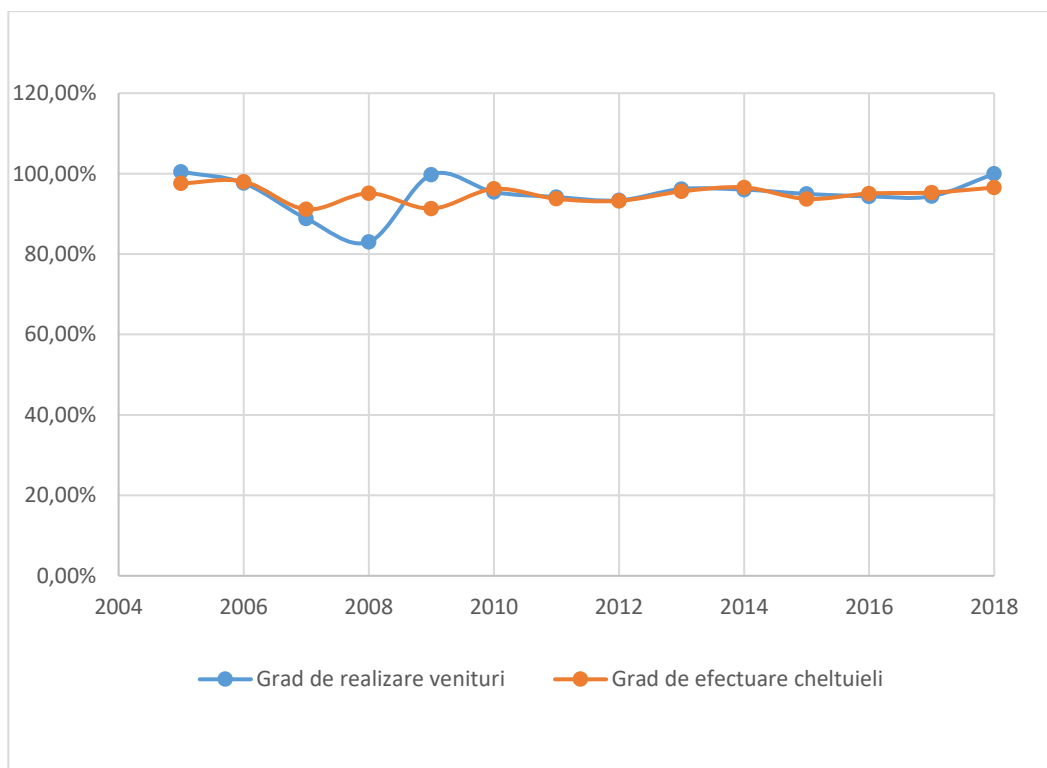


Figure 3. The Degree of expenditure and income execution for the state budget, 2005-2018
 Source: authors' calculations, data from Ministry of Public Finance and the Romanian Court of Accounts Reports

The budget execution is usually expressed by dividing the payments recorded at the end of the

year to the final budgetary provisions, resulting in most cases a near 100% execution, with small percentage differences in one way or another. However we must take into account that, during the year, once the budgetary rectifications are carried out, the budgetary provisions are rectified to a close level to the actual execution. In order to measure the efficiency and accuracy of budget programming, it is more conclusive to report the actual payments to the initial budgetary provisions. The annual evolution of these indicators in the case of Romania captures significant differences between the initial forecasts and the adjustments made at the end of the year, especially in the first part of the period.

From the analysis of the evolution of incomes and expenditures during this period, we observe that after Romania's accession to the European Union, the incomes have always been below the initial and final estimates, which indicates an inaccurate budget programming.

Between 2007 and 2010, the budgetary execution of the state budget revenues registered significant differences from the initial and definitive budgetary provisions. Afterwards these gaps followed a downward trend with the exception of 2012. The expenses followed the same evolution with the revenues, without exceeding the approved initial credits.

5. Conclusions

The reconfiguration of budgetary principles and policies at European Union level is again relevant, following the dissatisfaction of some Member States that have culminated with the exit of Great Britain from the Union and its main objective should be the flattening of the significant differences that currently exist between Member States.

Romania had significantly benefited due to joining the European Union. Beyond assimilating into law and practice the budgetary instruments and policies experienced by advanced states and the opening and transparency of public administration, the state budget has tripled in the volume of expenditures and revenues compared to 2007, and usually the budget deficit has been kept within the limit set out in Article 140 (1) of the Treaty on the Functioning of the European Union, of 3% of GDP.

In order to achieve the desideratum for consolidation and sustainability of national public finances, we consider that budgetary policies play a significant role in the implementation of budgetary programs, through an increased mobilization of budgetary revenues in close correlation with the budgetary effort. It is not enough to implement the modern principles and instruments of budget programming, if they are not applied and respected without exception.

Effective budget programming, which realistically anticipates the concrete conditions of economic and social life, is a stimulating factor for progress and economic development.

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