

# THE ROLE OF DECENTRALIZATION FOR EFFICIENT PUBLIC ADMINISTRATION

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## Abstract

*A modern public administration is focused on meeting the needs of citizens, provides comprehensive information on matters concerning their community with full cooperate with citizens and public control exercised carefully and neutral on the achievement of public services. Modern public administration seeks to determine how greater participation of civil society in decision-making process that local corporate and also provides administrative transparency and direct communication with citizens as possible.*

*In this sense, decentralization of public administration, involving public services decentralization and strengthening local autonomy in administrative and financial point of view, realizing and working to enhance local involvement in management issues they face and to build policy own - in the context of overall national economic and social development - to increase economic performance and to improve the social life of local citizens by defining and local responsibilities regarding local services and financial performance, for their accomplishment.*

**Keywords:** *decentralization, local autonomy, strategy, financial resources, financial autonomy, subsidies, fiscal consolidation, Equalize local government revenues*

## 1. Introduction

Public administration reform strategy included many aspects, the main elements among its designed to monitor the conduct of activities. In this direction were the creation of the Government for Public Administration Reform and Monitoring Unit of the Central Public Administration Reform and the groups of the ministries and counties to monitor public administration reform.

Support public administration reform process must be carried out both by measures to improve economic activity in different areas - energy, construction, research and development, etc. -, subject for specific government programs, also by developing and implementing viable programs for funding these programs, which includes making program budgets (which, generally, in financial practice are basic budgets zero) and by rethinking the system of financing public services, which involves decreasing the share of resource allocation from the central budget and the corresponding increase in funding from their local sources.

Our country, **like other** Central and Eastern European countries had, before the imposition of the communist regime, **a** strong decentralized government, composed of county and municipal councils having a significant degree of autonomy and financial management, but their powers were taken by the central authority in the period 1945-1990

In 1991, Romania adopted a new constitution, which stipulates that the responsibility of management and financing of local affairs to return to be of the local public authorities, formed as

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a result of legislation. Thus, the Act created nr.69/1991 institutional framework of local government, which shall revert to the Romanian public administration system with two-stage decision-making and management, namely the central level, represented in Romania, which is a unitary state type, the central government and local authorities, is that equal powers of decision centers at county, city, towns and villages, the latter comprising generally more rural areas.

## **2. Managerial and financial aspects of decentralization**

Although local governments are democratically elected, which means mainly political in nature, crossing local government responsibilities in their pregnancy had important economic consequences because the decision-making and financial autonomy gives local officials the opportunity to obtain information on local needs and preferences directly the beneficiaries of public services, increasing the so-called "efficient allocation". In addition, by introducing competition between operators of local services (legal or natural persons authorized to make public services), is achieved through decentralization of their lower cost, in the same quality and, of course, volume. This is characterized by the so called "technical efficiency or cost point of view", which became one of the key concerns of local public managers ..

One of the major problems they face in service delivery is the dependence of local public resources, possible to be collected in accordance with the law in that geographical area. This can significantly affect horizontal equity in the country and the access of people of with the same needs to economic and social services that promote the local authorities.

At national level, the targets of macroeconomic stability and sustained fiscal consolidation entails need for fiscal consolidation and discipline in public expenditure at all levels of government, whether public or private, central or local.

Currently, public authorities in many countries have promoted policies of liberalization, privatization, concession or public services, either on its own initiative or at the instigation of international financial organizations.

The overall objective pursued by the most important state in such actions is economic efficiency, the role carried out by the public mainly consisting in the creation of businesses able to facilitate the operations undertaken by the private sector. In this respect, the firm strives to provide the institutional infrastructure, legislative and operational activities aimed at achieving profitable by protecting domestic competitiveness in all markets. Market failures, even if often are unavoidable, will be corrected by special programs implemented for this purpose.

The private sector acts as the main instrument of economic growth in an environment of competition environment in which entrepreneurship develops the trader, who is trying to drop operating costs to be able to offer attractive prices on the market.

Through a well-run political liberalization, consumers will benefit from lower prices, manufacturers lower costs and increase production and productivity, as a whole recorded an increase of output macro.

It is also generally accepted that liberalization and privatization programs implemented in both developing countries and countries in transition towards a competitive economy meant entering a process - often lengthy - the restoration and modernization of the economy. This tendency to privatization is most often accompanied by distrust in public sector capacity to provide effective and efficient public services, the importance and correlation with demand.

Experience has shown, however, that not all public services can be privatized, but for better management, they will need to be made by public agencies, which are located closer to consumers and they may be local, in accordance with the administrative organization the state.

Many elements that advocates the principle that should be left to market to provide goods and services. Indeed, private companies are forced to survive, to produce and distribute products and benefits that consumers demand, in fact, competition between companies should ensure their production efficiency of goods and services. But privatization is not the only and best solution for improving public services, one of the alternative being the decentralization.

Decentralization is the transfer of powers and / or financial resources from the central administration at lower administrative levels and refers to a wide range of activities, from transmission to the central government responsibilities to the total local privatization.

Technical efficiency of the decentralized services may be reduced due to budget constraints. Thus, liabilities and responsibilities of institutional change may adversely affect the efficiency gains in areas where local services are used - social, educational, communal, etc.. - if too rapid decentralization can not provide adequate funding for the provision of these services costs.

At the same time it should be noted that public service providers are closely tied to government, whether central or local, because it is the main funder of public services. There are, in this sense, regulations on most of the services performed by operators other than governments themselves, but different management responsibility on the one hand and funding, on the other hand, may adversely affect the capacity to achieve the public service. An example is pre-university education, where educational activity is coordinated by the specialized ministry (Ministry of Education, Research and Youth), so the central government, while the current funding of schools is provided by local budgets, which produces often malfunction.

In this context, a cross-financing power of decision responsibility is essential, while granting real autonomy factors which manage work in a field. For example, all of the pre-university education in Romania is currently experiencing giving responsibilities - and of course, and financial resources - school directors, they must become managers of educational institutions and, of course, tertiary relationship with public authorities local.

The problem lies in the center of attention in most countries of the world refers to finding the best proportions of the duties and responsibilities of the various levels of state authorities regarding taxation and management of public services that their funding.

The balance between central and local in the unitary type states is especially important in developing countries and countries in transition, because they are faced with the need for rigorous controls carried out in all areas of economic - social instability economic, on the one hand and, on the other hand, because of the increased tendency of the power of decision awarding most direct representatives of the public, local elected officials concerned.

Decentralization and local government to develop a system based on local autonomy is a dynamic and continuous process, but this autonomy is possible only under the condition that appropriate funding. To achieve self-financing territorial units, in addition to government support is necessary to enhance the responsibilities by the local bodies of each administrative territorial unit, in line of finding new sources of revenue mobilization and spending most of their existing ones with a lot of sense of responsibility and discernment.

Local government finance represents all financial resources that fund expenses throughout the local community. The local public finance budget includes administrative units, which presents the highest share in total and other public budgets, with financial autonomy.

The role of local public finance has increased continuously, along with the multiplication of needs on the ground, as socio-economic development and growth as a result of local government functions. Self-financing, however, can not be achieved in all cases, requiring the intervention of central authorities to local funding in the form of transfers.

On the other hand, the central government develops and implements financial policies at the macroeconomic level, which applies throughout the country, also affecting and involving local communities.

Centralization / decentralization report differs from country to country, depending on the level and the peculiarities of economic development, the territorial organization and public finance, according to the directions and objectives stages of development of the country, even on traditions.

In conjunction with this report, the degree of centralization varies by concentrating financial administration of the country, the extent to which local authorities are subordinate to the central management.

Major issues of national interest, strategic, those that affect all citizens, being subject to public services are managed and, of course, financed by the central government. Among these public services can be found national defense, external public relations, justice, etc.

Also, macroeconomic and social policies at national level, regarding regulation, stability and welfare are managed and financed by central state authorities. Managerial and financial centralism can not, however, to act beyond the limit in the area use public goods and services of national interest begins to narrow, and the cost comparativ decision-making at central level is too high. From this point, must act decentralization, both managerial and financial one.

In this respect it should be remarked that not all public goods and services are of national interest, but many are used strictly local, with a restricted territorial aspect. This is the case of utilities to build roads, settlements public order, public lighting, municipal services, local transport, schools, etc. up to university level.

There are differences in the demand for public utilities and the possibility to offer them in a territorial unit to another. Moreover, local communities are open, have different relationships between them. All this requires proper management of public services for the local population and, consequently, local self-financing.

As in most local communities, their financial resources are not sufficient to cover the financing of public services consumed by local people, financial flows from central to local government are the only complete solution for local resources and for controlling and guiding land development, according to the country's overall development. Financial decentralization is given the degree of local autonomy, with the reason to extend the benefits of public goods geographical, relatively low cost of making and public control over public institutions.

On the other hand, a notable aspect is that the relevant administrative decentralization of public services, accompanied by decentralization of their expenditure, may remove the financial pressures on the central budget and lead to a better balance of public finances in general. More efficient administration of local taxes, what can be achieved due to its proximity to "the assessment" of the taxable supply, leading to appropriate administrative and fiscal management correlated to community characteristics, contributing to the stability of general government.

Relations between public authorities powers in the financing of public services applies not only to share revenues from some taxes, but to a multitude of issues, most subject to government economic policy decisions.

Under the terms of Article 3 of the European Charter of Local Autonomy, local communities should have the right to regulate and manage an important part in public affairs. In particular, one can expect them to share the power of central public sector activities in the economic and social. These activities refer to three categories: stabilization, redistribution and allocation economic and financial resources for producing and distributing goods and services.

Local participation in the stabilization and distribution activities causes some problems, it is interesting to examine its because some issues raised on this occasion will be useful for studying the introduction of adequate systems for financing local government.

Administrative decentralization is not just replacing a central decider, centrally located, with one local, it profoundly changing the reference conditions under are chosen targets, set based options and decisions.

Decentralization can be defined as a process of rationalization in the public administration, a sign of modernization.

Using methods of financing by general transfers from the central to the local levels, which are responsible for carrying out public services tends to generate decentralized expenditure overruns and loss of financial responsibility.

Thus, scheduling transfers require an evaluation and quantification, for the purposes of establishing quantitative control as a lever to encourage revenue permanent mobilization, cost-effectiveness for expenditures at sub-national level.

Also, not least to consider administrative matters. At sub-national level it is required a process of building management capacity and financial management, because the lack of professionalism will negatively affect the benefits of fiscal decentralization. For example, in terms of revenue collection, it would achieve a level lower than programmed, endangering the financial balance of sub-national government and economic objectives pursued by public finance at the macroeconomic level.

People involved in local government management have practical opportunity to establish future of the community, to provide important programs and services. Actions can be taken to progress the community must be determined locally, because the processes at this level can be managed and administered in an efficient way and well thought.

In all Member States of the European Union, it is seeking solutions to ensure an equitable distribution of financial resources as between different levels of administrative organization, taking into account the budgetary rigor required at all levels of government.

At the same time, all countries have recognized that financial autonomy is a sine qua non condition of administrative decentralization, the local authorities consisting in the possibility of having its own budget, separate from the state in which they figure their income and expenses.

It is recognized that, regardless of the concrete forms as is practiced in different countries, decentralization of public administration is a reality of present and future society, with important implications for economic and social life. Applied judiciously, with limits determined by the concrete conditions of each country, it can contribute to a significant improvement in efficiency of resource allocation and quality of administrative functions of the state.

In terms of proper planning, decentralization costs may remove local pressures at the national government budget and leads to stabilization of public finances in general. The local administration of taxes and tax efficient, sub-national expenditure decentralization can lead to obtaining successful results in the entire country, because sub-national entities were able to more accurately sized tax base.

From the national perspective, the targets of macroeconomic stability entails sustained fiscal consolidation in the context of public finance including discipline at all levels of government.

In a modern state, local communities maintain significant control over public services they provide. In addition, they can pursue activities as an agent of the state. It is important to distinguish between true local services and functions delegated by the state, because these two types of activities require different financial arrangements.

In this sense, the central authority passes a public service responsibility of the local authorities should, together with responsibilities, to deliver economic and financial resources required to create these services, resources that are intended towards these goals. Thus, although the local authority has the necessary funds, managerial capacity does not increase because services are targeted to local government and not the task effectively decentralized.

The degree of financial autonomy and fiscal decentralization are strictly related to giving local authorities responsibility in most democratic countries, whether they are developed industrialized countries, developing countries or countries in transition to a competitive economy.

The delegation is due to the statutory responsibilities of the central authorities to provide financial resources through strict sizing of amounts transferred to local budgets.

In developing countries and countries in transition, economic and social development requires a mix of policies on public administration and finance public services in many cases there are very relevant arguments for maintaining centralization, at least for a while longer or shorter, depending on economic progress. Centralization of management, financing and control refers to the main fiscal instruments - the state budget at its disposal: the tax system, public spending, public borrowing policy. In a country with an administrative - territorial strong decentralized local authorities collect and manage a large part of public revenues created on the territory, the central government will have difficulty finding the necessary financial resources to cover the budget deficit - especially since the financing needs far exceed the central resources, especially tax that may be raised at this level.

Furthermore, if the government intends to implement active fiscal policy to reign in inflation and balance of payments and, further, to stimulate savings and hence economic development, will be able to use the most powerful levers of economic policy to the authorities in a democratic state and these are: fiscal and budgetary system, including public investment, monetary system and currency regime so.

In countries with a high degree of decentralization, facing a large deficit of the central budget authorities led to the decision to restrict state spending, including transfers and subsidies to decrease the local budgets, which affect the achievement of even the decentralized public services.

Countries in transition from a highly centralized economy to the one based on relations of competition go through an extensive process of privatization of economic assets and simultaneously reforming its institutional structure and upgrading its industrial infrastructure. To achieve this, countries should adopt and implement coherent investment policy, which is another important argument for maintaining a certain degree of centralization of taxation in the national territory, as the resources to finance capital investments are limited and can produce maximum efficiency only under a financial control and strictly economic, which may be exercised only at the central level.

If local authorities have the right to manage some of the major tax in economy - the value added tax, personal income tax, income tax or turnover, etc.. - they will limit the amounts collected centrally and, thereby, the possibility of making a central government macroeconomic policies.

Conversely, centralization allows central government to allocate resources to those goods and service tax that is consumed at national level, with a lot of beneficial effects of the economic and social.

Maintaining a certain fiscal centralization is also supported by several considerations:

- transfers between levels of power are a compromise resulting from the debate of authority to collect income - and tax revenues - and the responsibility of carrying costs;
- transfers allow the central authority to maintain control over basic financial resources, but guarantees at the same time, a certain level of income. The system using grants represent a first step towards fiscal decentralization necessary to finance decentralized public services.

However, the degree of autonomy that use of grants provides local authorities with the opportunity to decide, without restriction on spending its budget depends in very important measure of the structure of grants.

Regarding the actual method of tax sharing between the central budget and local budgets, it consists in sharing public revenues collected from that tax in a good proportion between the two authorities.

In such a system, the local authority can not exercise any control over that tax rate or tax base. From this point of view, one can say that this type of allocation is, in fact, an intergovernmental transfer and not behave like a local budget own income

Main trends in European and global management of public services and financing local and regional public authorities refer to:

- optimizing relationships between central and local / regional level;
- institutional reform and / or restructuring of public services locally, including privatizing them where possible and effective;
- transition to financing investment project, as increasingly more private entrepreneurs specializes in the development of public services;
- facilitating access to local government / regional financial market, coupled with the development of national financial markets;
- improvement of legal, administrative and economic procedures in order to address the state of the wound can find some local government / regional;
- actions to improve the managerial skills of local government by training their personnel in various fields of activity, as well as the accounting and internal audit techniques, etc..

In economically advanced countries, especially in the European Union, local and regional development relies increasingly more on modern methods of funding, following in this respect, the American model. These methods calling both bank credit, commercial banks and asked for large projects, investment banks and, in an increasingly proportion more on capital market by issuing municipal bonds.

Economic and financial management of local public services is the responsibility of local governments, leaders of these governments are elected by the community, in accordance with the laws of that country. These, together with the municipalities bureaucracy carries out the operations necessary management. Form of organization and financing of local public service management is of several types, and local governments can use simultaneously two or more of these types, depending on the specific service action partners, their management skills and the legislative framework general.

As a management and surveillance tool used by the local public authority, budget, unlike traditional accounting records - which are retrospective - is a project revenue and expenditure forecasts for the next year, used as a method of controlling economic transactions and, in return, financial ones, as well as management and planning tool. Funding planning activities and objectives of each service are part of the public budget of the respective public authority.

As a means of development and operation, also as the primary purpose, it is distinguished three types of budgets:

- budget on revenue and expenditure categories;
- budget based on performance;
- program budgeting.

It should be noted that in practice, the budget of public authorities is, in most cases, a combination of two or even three of the types listed.

Any budget includes a chapter income and expenses each, but the layout and operation - meaning the way they are made revenue collection operations, on the one hand and making public spending, along with supervision of compliance with the law budgetary and spending control efficiency of public funds, on the other hand - is different from one type to the other budget, as follows:

- budget categories of revenue and expenditure is directed to the management and performance of revenue collection costs, for so-called "rated services";
- budget based on customer performant efficiency of public money, for which purpose specific indicators are constructed to express qualitatively and quantitatively, how it was done a public service scheduled in the budget;

- program budgeting is essentially a planning tool targets or actions that are considered of particular importance to the community. Depending on the activity planned budget programs will be developed with a time horizon of one year or several years, specifying the objectives for each stage and maturity. This budget, like a plane containing the business of private companies, will pursue and efficiency performance indicators and the impact on improving the socio - economic community.

In unitary states, such as Romania, the budget system consists of a coherent set of budgets and public funds, which, in addition to their financial role of public expenditure to achieve coverage of public services and the role of principal instrument rated macroeconomic policy.

The general budget includes central government and a number of special funds - to finance specific activities. The central government comprises central government budget, most commonly called the state budget, local government budgets and state social insurance budget.

### **3. Conclusions**

For local government autonomy is fully, you must refer to both managerial independence and financial autonomy of these, which is manifested primarily by the possibility of covering the costs of the local community with its own resources.

Moreover, the European Charte of Local Autonomy defines local autonomy as "the right and effective capacity of the local community to solve and manage within the law, under their own responsibility and for their population, an important part of public affairs."

With regard to financial autonomy, the practice is done in part because local authorities are not entitled to collect all public revenues that are collected from the territory, so it is necessary that local budgets receive transfers from central government.

Budget transfers from central government to local governments can serve a variety of purposes:

- Finance the fiscal deficit, covering part of the difference between own spending, imposed mandatory tasks of local authorities and their income which they can collect;

- Equalize local government revenues, which means reducing disparities between the richest local government resources and the poorest, so as to ensure all citizens access to a minimum level of vital services;

- Contribute to cover the negative externalities - the work of a community has an adverse effect on neighboring communities and to offset the positive, when a particular local government provides services that benefit other areas beyond its borders administrative and fiscal (e.g. hospital regional interest, etc.);

- enable the central government to achieve its development objectives through the implementation of macroeconomic fiscal policy, aimed at achieving specific targets.

The existence of a significant amount of transfers as a source of revenue for local budgets imply, however, some negative aspects, both for local authorities and for central government:

- Risks of managerial nature. Thus, although the use of income from transfers can reduce the need for local authorities to take unpopular measures, such as the imposition of new taxes, increase local tariffs etc., it may determine, at the same time, an increased level of intervention central government and a significant loss of decision-making autonomy;

- Economic risks. A transfer system that takes no account of the economic potential of the community may cause local governments to reduce their efforts to collect and redistribute local public resources more effectively. As a consequence, central government could be forced, according to the criterion of fairness in terms of the life assured to every citizen of the country,



increased transfers to a level well above the normal, thus diverting budget resources from other potential destinations more productive.

The grant awarded by a public authority means, in general, an expense definitively granted a public or private financial to cover in whole or in part, an obligation of that person or to encourage the achievement of certain activities. The term refers particularly to transfers made by a public authority to other public authorities, social institutions or enterprises.

Subsidies and transfers of indirect nature - tax breaks, preferential rates, etc. are subject to special regulations as they may affect free competition.

Therefore, the laws of the countries signatory to the European Charter of Local Autonomy states that subsidies which benefit local communities should be allocated to development activities, usually an investment project in your area, for example to develop the road network. Grants may finance large-scale actions or specific service, low amplitude and usually are directed strictly to carry out that action, which means that decision-making power of local authorities benefiting from the subsidy is, in most cases, limited.

In general, subsidies should be conditional or constitute a counterpart to that stimulates or local tax effort and discourage unnecessary spending. Subsidies should be as transparent and subject authority control and are granted only in accordance with the law.

Another general rules, enshrined in any law of public finances, either central or local, provided that in the budget - central or local - does not provide a public service achievement without any source of its financing.

If the central authority goes the responsibility of local government public service or if it intends to finance a new public service from the local budgets, ensure the necessary funds from the revenues of the beneficiary community and by providing subsidies and transfers or as the preferred method of democratic countries with economies based on competitive relationships, the amount deducted from certain revenues of the central budget. In this respect, it should be noted that the amounts deducted amount is considerably higher than the subsidy, because these amounts allow, in addition to the financing of decentralized services and vertical and horizontal imbalances.

Local financial autonomy also means costs, due to the role, large or small, that the central authority and assume the decentralized management and financing of public services, as follows:

- Central authority plays a substantial role in shaping local authorities resources, which decreases the risks that local authorities may face in implementing and collecting taxes;
- Local authorities assume their own financial resources management, including all financial and political consequences of autonomy, such as the risk to public dissatisfaction and loss of face voter support.

To minimize the inconvenience caused by the interference of the central authority to manage local public affairs is necessary to diminish the growth of transfers and subsidies and own funds or similar, which would ensure the real independence of local government, both financially and decision making. To this must be fulfilled several conditions, such as:

- Adoption of a legislative framework that strictly define the tasks and responsibilities of public authorities on different levels of government;
- The economic environment has to be developed properly, so that local communities can benefit from public services like quantity and quality over the entire country;
- There are, at all levels of public administration, personnel with appropriate training to acquire and manage decentralized public services, etc.

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