
LOCAL GOVERNMENT: BUDGET MANAGEMENT PERFORMANCE. CASE STUDY: REPUBLIC OF MOLDOVA

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Abstract: *The performance of public entities is a widely analyzed topic in the literature. Several researchers have attempted to identify the indicators that need to be taken into account in measuring local or central performance. No international consensus has been reached on the social and economic indicators that can be used to measure local government performance. However, each government is trying to establish its own performance indicators. In some states it is only recommendations, in others, performance indicators are included in the law, thus becoming mandatory for the execution. In literature, we will find several indicators to analyze the economic results of a State. In this research, we will analyze the economic performance of a post-Soviet State. The Republic of Moldova is a constantly evolving State that wants to join the large European family. In this context, analysis of the degree of performance at local level becomes indispensable. Because the management of the performance of public entities is a complex and multidimensional issue, in this research, we will focus on the budget execution indicator which we consider an important aspect of promoting local performance. We will analyze the local budget for the last five years through the financial resources planned and those carried out at the end of each year. In this way, we will be able to identify the degree of the economic performance of local public authorities in the Republic of Moldova. In this context, we will be able to draw conclusions and recommendations on the next steps by the Moldovan authorities to achieve a high level of economic performance.*

Keywords: *local budget, local performance, public administration, local budgeting.*

JEL Classification: *H21, H68, H72.*

1. Introduction

The budget is one of the most important financial instruments highlighting the revenue and expenditure planned or incurred at the State level. The complex evolution of the economy has led to the harmonization of the traditional conception of the budget.

At present, the public budget is not just a list of the government's likely revenue and expenditure, but a real financial plan at the economic level (Vacarel, 1992, p.338). The importance of the budget at local level is highlighted by the multitude of complex economic and financial relations that it reflects, but also by the particular role it plays in contemporary economic and social life.

The local budgets shall consist of the budgets of administrative-territorial units with legal quality, such as communes, cities, municipalities, counties or districts in the case of the Republic of Moldova. The function of the local budget is to guarantee the financing of actions, tasks and objectives of local interest. If own revenue is insufficient to cover domestic expenditure at local level, local budgets may benefit from some State budget balancing

resources in the form of amounts deducted from certain taxes or transfers in order to finance specific objectives. Similarly, local budgets can also benefit from sources of funding in the form of temporary loans from the State treasury (Danuletiu, 2013, p.55).

The concept of budgetary efficiency in the public sector is very often used by the competent ministry of the Republic of Moldova. Through this research, we aim to analyse the execution of local budgets for 2016 and 2020 and their impact on the performance of the territorial administrative unit. Scientific research will be based on a revision of literature in the field of economic management from the point of view of local performance. The qualitative research will be based on study of the data collected from the execution of the local budget for 4 years from Republic of Moldova. In the early stages we will figure out the share of the income of the local budget in the national budget revenues. Then we will identify the evolution of revenues from the budget of administrative-territorial units of Moldova in the 2016-2020 period. In the same way we will analyse the application of the local budget for 2017-2020 period. In this framework, we will study in comparison the expected and executed revenues of the local public administration. Of course, we will pay special attention at the local income classification for 2017-2020 years, not least the non-financial liabilities and assets executed.

2. Research methodology

In order to achieve the objectives proposed in this research, we will apply different research methods. The documentation method is one of the most important methods by which we will analyse the basic concepts of the local budget, its implementation and performance in the local economic management. We used this method to consult working documents, articles, publications and specific information databases.

The main research questions are about economic performance connection and local budget execution. Can local budget execution be considered as an indicator to be taken into account in measuring performance? What is the degree of implementation of the local budget in the Republic of Moldova from the perspective of economic management.

The scientific approach to research is based on the study of specialized literature. To support the theoretical research, we will analyse the patrimonial result of the local budgets in the Republic of Moldova for four consecutive years and highlight the aspects of budget implementation to demonstrate that execution is a performance indicator at the local level. The theoretical content discussed in relation to the proposed practical results will lead to a better understanding of the economic and financial situation of public system.

3. Literature Review

The authorities from the local public administration are trained to ensure social and economic well-being at the local level. The objectives achieved are very different and require a good organisation of the activity. The most important need for citizens is to benefit from quality services, and local public administrations must ensure a high level of professionalism, under conditions of efficiency and economic efficiency.

At international level, the democratic states have adopted a number of principles guaranteeing good administration: the principle of legality, non-discrimination and proportionality; the right to have their own business; the right to be heard in the event of an individual decision refers negatively to a person; the right to access any type of public document; the obligation to notify a decision to all interested persons, etc (Rainey, 2010, p.48).

Economic performance is the level at which industry achieves its objectives. It covers multidimensional aspects of profitability, innovation, quality and growth (Sava, 2013, p.328). The particularities of public institutions derive from the specific characteristics of their activity, their legal status and their mode of financing (Morariu & Suci, 2004, p.26). Public

institutions are the institutionalized economic units whose main function is to redistribute the general income and income from the provision of services at local level.

Another idea on public administration performance has been outlined in terms of tax transparency. This implies budgetary discipline at the level of the local public administration (Escolano et al, 2012, p.9). This requires local authorities to disclose the composition of expenditure and thereby ensure a higher level of performance (Onofrei et al, 2020, p.9).

From a managerial point of view, the performance of public administration means efficiency, effectiveness, economy and ethics (Doherty & Horne, 2002, p.343). In this approach, we can talk about performance based on four pillars. Another concept points out that an entity's performance depends on employees and a manager who participates in training programs (Chiriac, 2014, p.78). As a complex concept, performance shows the position of an entity in a competitive environment. It can be measured using some economic and financial indicators (Hada, 2010, p.38). In the same sense, performance is the economic and financial security of any public authority.

The concept of performance can be relate with the concept of performance management that aims to improve performance through maximum efficiency and effectiveness. The results obtained are based not only on material resources but also on the human resources involved. The performance expresses synthetically quantitative and qualitative aspects of its activity, and its measure and analysis constitute an important dimension of management.

Local authorities represented by the local councils representing the local deliberative body, and the mayor as the local executive body, are structures that realize local autonomy, whose responsibilities are the preparation and approval of the draft annual budget, the establishment of local taxes and fees, as well as special taxes. The establishment of a level of performance in the public sector at local authority level is a systematic and continuous process of measuring and evaluating its products, services and practices, comparing them with the best products of other organisations in the same sector (Abaluta, 2004, p.110).

The calculation of the degree of performance in the public administration of the Republic of Moldova can be done by analysing the coercive performance that represents the degree to which the limited amount of a type of budgetary revenue X leads to the emergence or increase of an extra-budgetary revenue category (Stefanescu et al, 2014, p.236). Performance in local public administration is a subject widely analysed by several researchers in the field, but there has been no unanimous consensus. The evolution of the company's performance is the subject of extensive debate in the field of financial analysis. It can be said that the financial analysis proposes a partial diagnosis of performance and risk that seems limited (Barbuta-Misu, 2009, p.149).

Thus, to analyse the performance of public institutions, we must address all aspects of which it is composed. The importance of performance analysis at the local level needs to be analysed based on the main objectives for which it was designed.

The implementation of the budget relates to revenue collected and expenditure made through the local budget. Several budget operators participate in the implementation of a local budget, such as the central and territorial financial staff of the Ministry of Public Finance, as well as several ministries, as well as operational public institutions receiving transfers from the State budget (Danuletiu, 2013, p.67).

The responsibility for the implementation of the budget rests with the Government, as well as with the competent ministry, which should maintain the relationship between revenue and expenditure set out in the annual budget law. The implementation of the budget is divided into several phases. The first phase is the quarterly distribution of revenue, but also budgetary expenditure. This stage is subject to certain time limits strictly laid down by the law for revenue collection, as well as by the time limits and possibilities to ensure the sources of financing the budget deficit. The obligation to distribute revenue within local governments, but also the distribution by titles on the proposal of the main authorizing officers, is the responsibility of the Ministry of Public Finance (Danuletiu, 2013, p.68).

The next step in the implementation of the budget is the opening of budget appropriations to authorizing officers and the cash implementation of the budget. Referring to the Law on Public Finance, we identify different types of authorizing officers: principal, secondary, tertiary (Law 273/2006, art.21). Thus, the authorizing officer is the head of a public institution that can use budgetary appropriations by law.

The execution of revenue is the process of collecting revenue. The realization of revenue is an obligation for all the institutions that have the task of collecting it. Income collection shall be carried out in the income account which is opened at the State Treasury.

The implementation of the budget shall be carried out no later than December 31 of the current financial year; revenue not collected and expenditure incurred, settled and ordered, within the budgetary provisions and unpaid by December 31 at the latest, shall be collected or paid, as appropriate, on the budget account of the following financial year (Danuletiu, 2013, p.70).

4. Case study

4.1. Analysis of the local budget execution at the national level in the Republic of Moldova

The analysis of the local budget implementation shall begin with the identification of the proportionality of local budgetary revenue in the national public budget for a period of five years, from 2016 to 2020.

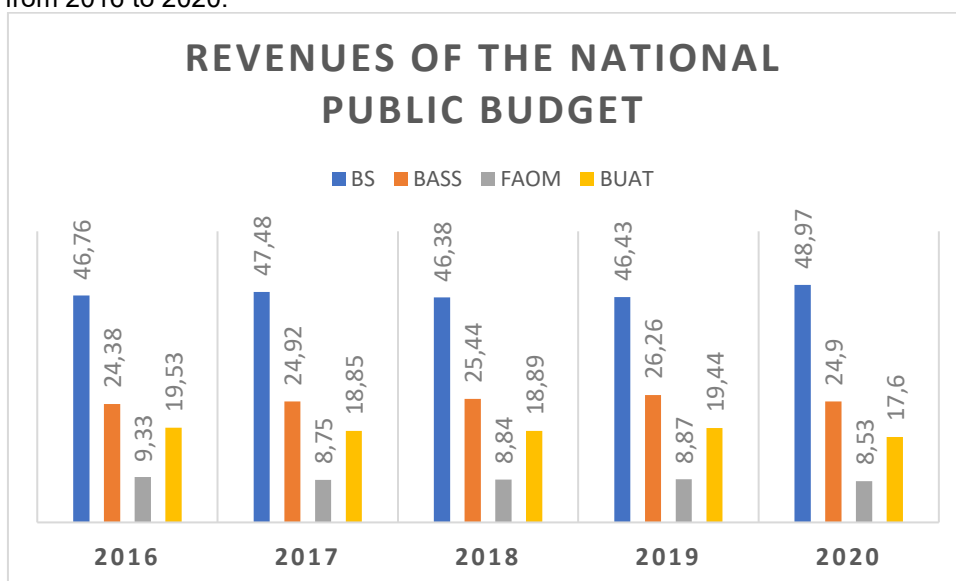


Figure 1: The share of the local budget income in the national budget revenues

Source: proceed data from <https://date.gov.md/ckan/dataset/15071-raport-privind-executarea-bugetului-public-national>

In the above figure, it is noted that from 2016 to 2020 the percentage of revenue from the budget of administrative-territorial units in the national public budget tends to decrease. Thus, while in 2016 it represented 19,53%, in 2017 we observe a considerable decrease of almost 1%. Similarly, 2018 recorded a slight increase in administrative-territorial unit account revenues, which represents 18,89%. The loss of a percentage recorded in 2017 is rewarded for the return to the same level in 2019, when the revenue balance of the territorial administrative unit represents 19,44%. The revenues of the administrative-territorial units

decreased considerably in 2020 when 17.6% were registered which represents a decrease from the previous year of 1.84%. This decrease could have been influenced by the economic recession caused by the Covid-19 pandemic.

The fact that the percentage of income in the budgets of the administrative-territorial units shows insignificant differences and, in some cases, decreases revenue, while the share of the state social insurance budget increases in the national public budget during this period, is not a positive thing. We cannot talk about progress at the local and national levels as long as local incomes increase very slowly and the local authorities do not have real autonomy and a considerable amount of income is shifted to social assistance for the population.

The following table shows the amount of revenue received from the budgets of the administrative-territorial units for the 2016-2020 period.

Table 1: The amount of revenue received from the budgets of the administrative-territorial units for the 2016-2020 period

- Millions of MDL -

Year	2016	2017	2018	2019	2020
Incomes	12,053.0	13,461.5	14,683.6	16,724.4	15,140.5

Source: proceed data from <https://date.gov.md/ckan/dataset/15071-raport-privind-executarea-bugetului-public-national>

The table shows that in the years 2016-2020, the revenues of local budgets had insignificant increases. However, it is necessary to avoid that the largest increase took place in 2019, when it was registered with 2,000 million MDL more compared to 2018. Although the political situation of that time was disastrous, being modified three times the composition of the Government of the Republic of Moldova, the status economy has still reached a small but significant increase compared to the last three years. National GDP has also increased to 5% at the end of the year.

Local budgets experienced significant revenue reductions in 2020, when there was a decrease of 1 583.9 million lei. The graphic representation shows the above mentioned data.

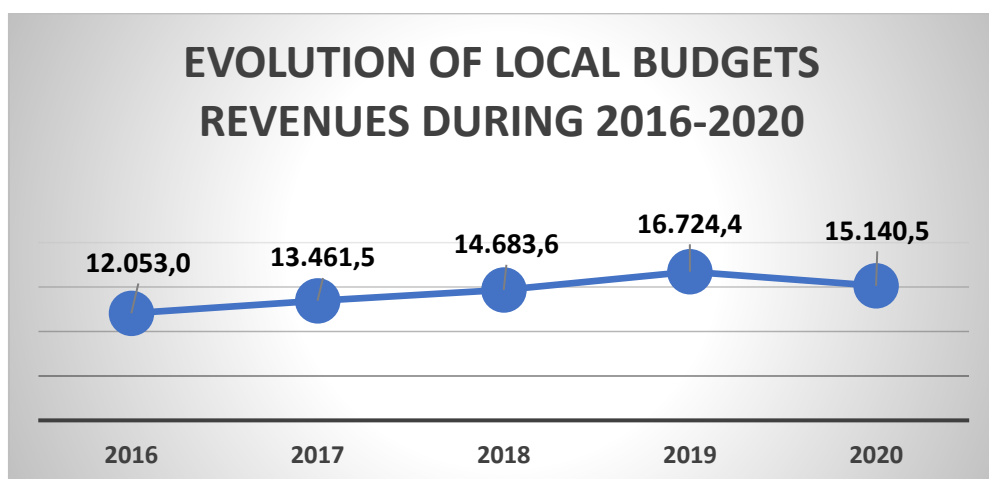


Figure 2: Evolution of revenues from the Budget of Administrative-Territorial Units of the Republic of Moldova in the period 2016-2020

Source: proceed data from <https://date.gov.md/ckan/dataset/15071-raport-privind-executarea-bugetului-public-national>

4.2. Practical analysis of the implementation of the local budget for the period 2017-2020

In the analysis of the execution of local budgets, but also of their report to performance management, we will start from the overall analysis of four situations of implementation of local budgets at the national level for 2017 and 2020. Then, we will take each highlighted aspect to identify the reasons for the differences between the specified revenues and those executed.

The revenues executed by the local public administration in the Republic of Moldova for 2017 amount to 13461.5 million MDL, and the specified revenues amounted to 13452.9 million MDL, so they have been executed compared to the forecasts of the total outputs with 100.1%. For 2018, the authorities have specified revenues equal to 14770.7 million MDL, of which 14683.6 million MDL have been executed. Thus, the level of income realization of the local public administration was 99.4%.

In 2019, 17,184.2 million lei were expected, but 16,724.3 million lei were achieved. However, in 2019, 97.3% were executed. In 2020, 96.7% was executed.

For the 2017-2020 period, we should point out that the percentage of revenues executed in relation to what is expected continues to decrease.

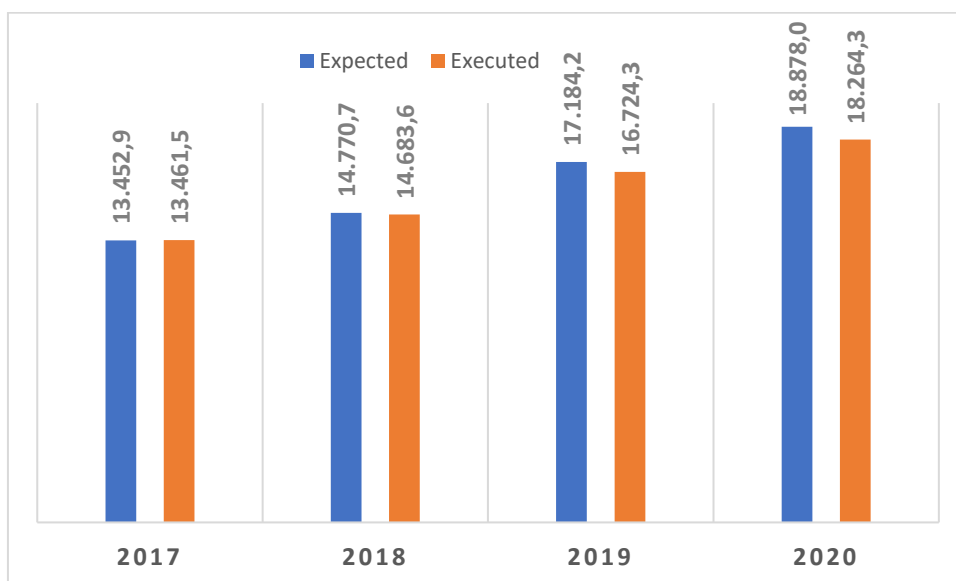


Figure 3: Expected and executed revenues of the local public administration

Source: proceed data from <https://date.gov.md/ckan/dataset/15071-raport-privind-executarea-bugetului-public-national>

According to the data analysed, we will highlight the fact that the increase in the revenues executed, compared to the one expected for 2017, was mainly due to the classification of revenue from taxes and fees. The percentage rate of determined income is 22.5%, and of the executed income is 24.3%, which represents a significant increase of this segment. By analysing the subsidies received and transfers made within the national public budget, we note that the income executed is in a downward curve from the specified revenues.

The situation for 2018 is different from that of the previous year because a higher amount of taxes and fees was executed, being expected 3490.7 million MDL (26.6%), 3602.1 million MDL were executed at the end of the year (24.5%). In terms of subsidies received, if 2017 showed a decrease, the year 2018 showed an increase of 0.1% of the specified budget, which represents 52.0 million MDL.

According to the following table in the chapter other income that consists of real estate income, income from the sale of goods and services, fines and penalties and voluntary donations, the local authorities recorded for 2018 a decrease of the revenues executed in this chapter of -91, 6 million MDL, compared to the expected initially of 763.7 million MDL, which represent 5.2% of the total structure of revenues.

The year 2019 is highlighted with a considerable decrease in local revenues executed in the chapters: taxes and fees, grants receives and other incomes.

A deplorable situation that we will identify in the chapter receiving grants for 2020. 52.4 million have been planned and 25.5 million have been implemented, which represents 46.66%. These shortcomings have been influenced both by the pandemic situation that has affected the economies of States and also by the political situation.

Table 2 : Local income classification

	Taxes and fees		Grants receives		Other incomes	
	Expected	Executed	Expected	Executed	Expected	Executed
2017	3,029.2	3,274.3	16.9	15.9	703.1	618.8
2018	3,490.7	3,602.1	48.5	52.0	763.7	672.1
2019	3,489.4	3,637.0	66.0	62.1	748.9	697.0
2020	4,039.0	3,975.0	52.4	25.5	662.5	645.9

Source: proceed data from <https://date.gov.md/ckan/dataset/15071-raport-privind-executarea-bugetului-public-national>

According to the figure below, in the non-financial expenditure and activities chapter executed a considerable difference compared to 2017 where 14794.7 million lei were specified, 13274.6 million lei were executed, meaning that they were executed compared to 89.1% only specified were realized. In 2018 were specified 16169.5 million and 14548.1 million lei were executed, which represents 90.0% were executed compared to what has been specified. We can see the difference in expenditures executed, so for 2018 more than 1273.5 million lei were spent. In 2019 were specified 18,581.00 million lei and 16,937.50 million lei were executed, which represents 91,20%. In 2020 were specified 19,985.00 and 17,927.40 were executed, which represents 89,7%,

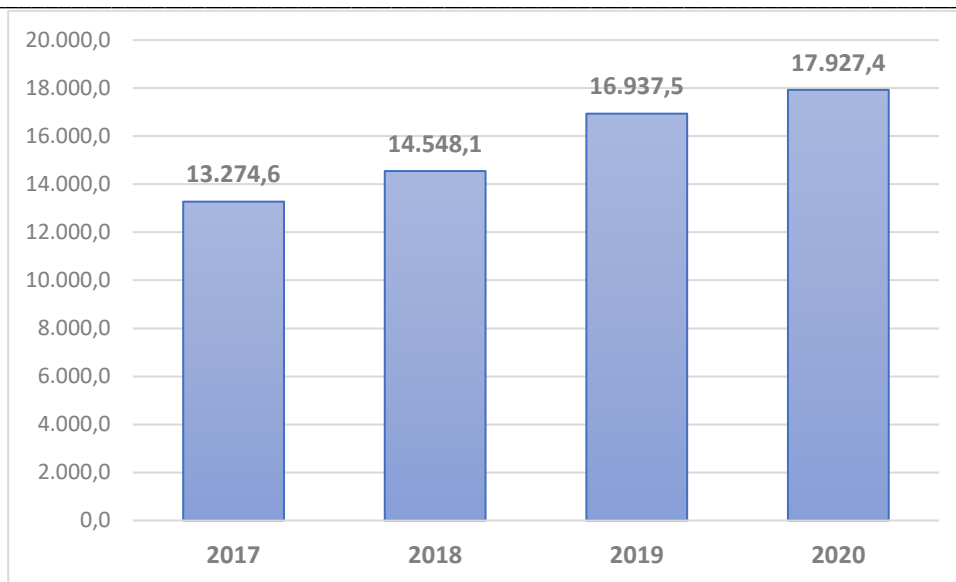


Figure 4 : Non-financial liabilities and assets executed

Source: proceed data from <https://date.gov.md/ckan/dataset/15071-raport-privind-executarea-bugetului-public-national>

Expenditure and non-financial goods consist of general state services, national defense, public order and national security, economic services, environmental protection, health care, culture, education and social protection. Thus, we note that the local authorities in the Republic of Moldova in 2017 spent 56% on education. 11% of the total expenditures was capitalized in services in the field of the economy. An aspect on which particular attention was paid in 2017 was the housing and community service households where 9% of the total presented was spent. The areas most undervalued from a local financial perspective are national defense, public order and national security, which have achieved values below 1% of total expenditures at local government level.

For 2018, a similar cost structure is presented at the local level. Local authorities have not changed the expenditure balance, so 56% (8077.5 million lei) of expenditures were capitalized in the field of education, 11% (1524.5 million lei). In the field of economy, 7% in the cultural and social protection sector, 1% (166.9 million) in health care and less than 1% in national defence, environmental protection, public order and national security. 2017, 2018 and 2019 have also distinguished themselves with a high budget deficit. In 2019 in terms of expenses and non-financial assets out of the total of 16.937.5 million lei executed, most were in the field of education (56.47%), services in the field of economy (10.5%), the household (8.6 %), general state services (8.3%). The least exploited are health care (1.02%), environmental protection (0.22%), national defense (0.07%). The year 2020 has a similar structure of expenditures with small differences in household and household communal services (9.28%) and services in the field of economy (11.69%). For example, the value of the excess expenditure was: in 2017 of -1341.8 million lei, and in 2018 -1398.8 million lei, in 2019 -1396,8 million lei.

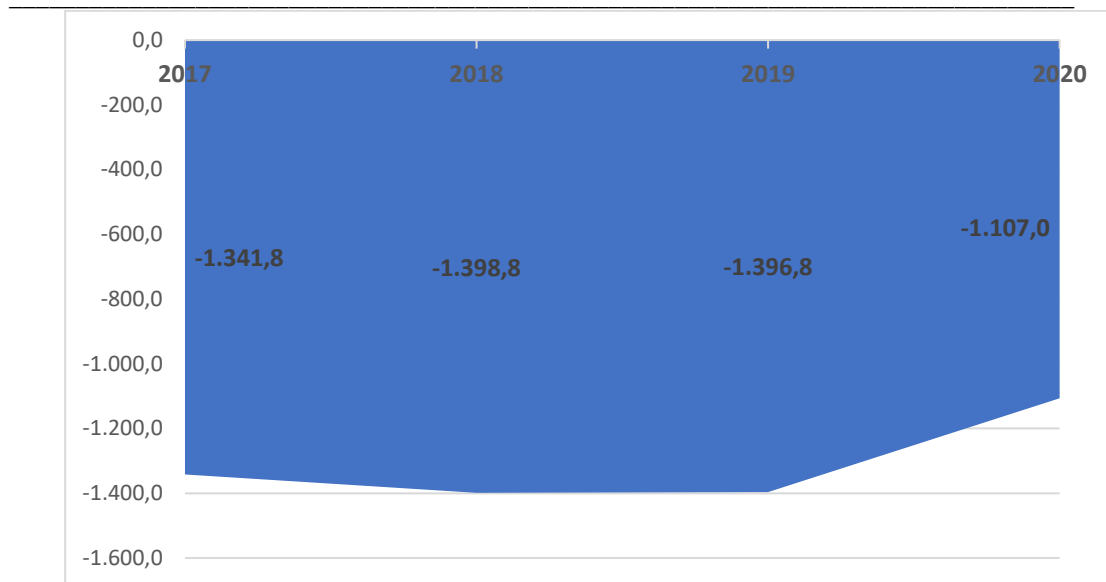


Figure 5: The budget deficit in the Republic of Moldova

Source: proceed data from <https://date.gov.md/ckan/dataset/15071-raport-privind-executarea-bugetului-public-national>

5. Conclusions

In conclusion, being strategic means taking the future seriously and resisting the short-sightedness that strikes the institutions (Mulgan, 2009, p.235). Thus, budgets are important mechanisms in the public sector, both at the local and central levels. This is a reflection of government strategy and the degree of stability of entities.

Local governance implies good management of local budgetary expenditure. The results of budgetary management are highlighted in the quarterly and annual reports, but also by the level of public satisfaction with the services provided by the executive authorities.

The implementation of the local budget and the study of the indicators of which it is composed may be a benchmark for assessing the level of efficiency and effectiveness of local government.

It is gratifying that the revenue of the budget of the territorial administrative units is increasing every year.

Finally, we note that both in 2017 and 2018 the budget of the local public administrations of the Republic of Moldova has been carried out in more than 100%. This leads us to believe that at local level the Republic of Moldova promotes a high level of efficiency in the implementation of the budget.

The 2019 was distinguished with the budget execution of 97.3%, and 2020 with 96.7%, which means a significant decrease in the execution. In this context, the authorities of the Republic of Moldova show a decrease in the implementation of the budget, which makes us consider an ineffective approach to budget implementation.

Improving the execution of the local budget we propose the following: monitoring the revenues from the budget of the Administrative-territorial units, increasing the fiscal audit and checking the individual taxpayers, reduction of illegal work at the local community level, monitoring the organization of fiscal policy according to social and economic needs at community level.

6. Limitations of the research

The results of this study have clearly shown that from the perspective of the implementation of the local budget, the Republic of Moldova had a high degree of performance in 2016-2020 years. The analysis was carried out on the basis of the local budget planned at the beginning of the financial year and the budget implemented. This quantitative research has some limitations that in the qualitative analysis could prove otherwise. For example, in the calculation of Dummy variables, the results of the research could prove the contrary. Based on this the direction for future studies is to apply Dummy variables in another research.

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