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Financial-Economic Indicators – Vectors of Budgetary Performance. Case Study Romania

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Abstract

The actions taken in order to make public administration more efficient within the last few years have been concentrated on optimizing the internal processes within public institutions. In doing so, an emphasis was placed upon the method in which public financial resources are utilized. The accumulated experience in theory as well as in practice has shown however, that optimizing the processes of planning financial resources is just as important. As a result, the emphasis can be placed on the efficiency of budgetary processes. To evaluate the budgetary performance a series of financial-economic indicators can be used in order to quantify the method in which financial resources are used, as well as producing a plan for their application. The use of statistical analysis and the evaluation of official data which is offered by public institutions, on the basis of which financial-economic indicators are calculated manages to distinguish this paper from others. The conclusions of this study focuses on the expressivity and usefulness of these indicators.

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1. Introduction

The sustainable development of the public administration depends, to a certain extent, on the level of predictability of the environment and of its actions, as is directly influenced by the importance of the financial resources in public entities, as well as by the procedures through which such resources are identified, collected and rationally assigned (Miller, 2012). The participation and involvement of citizens as partners of the public

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administration in the process concerning the use of public money is an extremely important issue, due to several reasons (Dumitrescu – Peculea et al., 2014). First of all, the functional connection between the citizen and the state, collaborating so as to identify the financing areas and priorities, is ensured. Second of all, the citizen's perception concerning the decisional transparency of the public administration, in terms of the financial resources, consolidates the feelings of trust, belonging, and social responsibility, which can lead to a higher level of tax and charge collection, and to a higher level of the citizen's acceptance of new development directions (Mortelmans and Dumitrescu, 2013). Finally, the public administration's ability to satisfy the constantly more complex needs of the citizen contributes to the sustainable development of the entire system (Romanian Government, 2008; Mortelmans & Dumitrescu – Peculea, 2015).

In terms of meeting the objectives and obtaining sustainable results, there are three major issues forming the focus of the managers (Lehan, 1991):

- The liquidity of the organization ;
- The financial resource cost;
- The financial resource efficiency.

2. Performance budgeting: Theoretical background and literature overview

Low performance, risk and limited financing options are issues (Dumitrescu & Dumitrescu - Peculea, 2014) to which the public administration must find optimum solutions. In the context of all the transformations occurring at a global and national level, the local and central authorities “*monitor the performance of the public institutions, based on efficiency, competitiveness and quality criteria*”. The common scope is undertaken so as to ensure the adequate efficiency and effectiveness of their activities - in other words, to ensure the improved supply of the services to the population, so as to implement relevant public policies and to develop projects required by the community needs (Profiroiu et al., 2013). Considering that resource allocation is made through the decisional process, a process involving a wide range of institutions, each of which having and representing different interests, the question “how can the drafting process of the public policies and the budgetary process be harmonized and coordinated?” arises.

Public budgeting was studied, in general, from at least three divergent perspectives: the economic, managerial and political sciences perspectives (Caiden, 1990). Economic studies mostly focus on the nature of the public assets and on the efficient allocation of assets for the optimum or satisfying supply of assets and services. The approach of the actor as a rational actor defined by its own interest and by its intention to maximize its own budget is specific to economic studies. Through the developed principles, mechanisms and instruments, according to Caiden's statement, it (Caiden, 1990) “provides logical and mathematical options to avoid issues determined by political values, however the economic theories provide insufficient indications to the actor to understand the empirical world”. A different approach of the public budgeting is provided by the organizational theory, focusing on the nature of the public organization impacting the resource allocation process. In this context, resource allocation influences the public organization activities (Gianakis & McCue, 2001).

In this context, the use of the resources available in organizations involves the rational management thereof not only through internal or external policies, but also through the control exercised over the administration of assets. Therefore, the rational administration of resources, in general, and of financial resources, in particular, continues to represent the basic action in the optimization of entity processes.

As part of the national budget, the local budgetary activity falls under the national budgetary activity, as, in principle, it is subject to the same stages and is developed based on the same principles, while, however, also considering the specific characteristics of the local public administration. In the opinion of certain authors (Balan, 2004), local budgets refer to “income and expense budgets, as instruments managing public finances, and collectivities established in administrative-territorial units”.

Two levels are encountered in the local budget structure (Dumitrescu – Peculea et al., 2014), respectively:

- (1) a level concerning local incomes and expenses,
- (2) and a second level concerning the amounts received from the central level.

The full local budget (and internal revenues and revenues received from the central level) follows the drafting and adoption route, while subject to the central authority, i.e. the Ministry of Public Finance.

The local budget projects are drawn up based on the internal budget projects of the local public administration, of decentralized public institutions and services, and it shall consider a number of indicators originating at the central

level. Deliberative authorities, or, in other words, local/county councils, as well as executive councils (city halls) are legally authorized to draw up the local budget projects. The drafting mission is entrusted to the chief authorizing officers.

Therefore, the competence for the drawing up of local budget projects falls with the local budget chief authorizing officers, who shall consider the following items (Mosteanu, 2008):

- the forecasts of the main macroeconomic and social indicators for the budgetary year for which the budget is drawn up, as well as for the following 3 years;
- the national and local tax and budgetary policies;
- the provisions of the concluded internal or external loan agreements, of the financing memorandums or of other international agreements;
- the sectorial and local policies and strategies, as well as the priorities established in drawing up the budget proposals;
- the detailed cost proposals of the subordinated authorizing officers;
- the programs established by the chief authorizing officers for the financing of certain actions or assembly of associations, to which precise objectives and result and efficiency indicators are associated;
- the prospective economic and social development programs of the administrative-territorial unit, in accordance with the development policies.

An efficient budgetary process depends on the drawing up and use of an indicator system reducing the informational asymmetry between the central and local level, and encouraging performance improvement.

In Romania, public entities whose managers are authorizing officers, consider the programs drawn up for the financing of certain actions, on the drawing up of budgets. Such programs are assigned precise objectives and result and efficiency indicators. It is worth noting the importance of indicators in the drawing up of budgets, however, the selection of the indicators that can measure the performance of certain programs remains under the responsibility of the authorizing officers, who have to justify the selection of such indicators.

Moreover, authorizing officers have the duty to also draw up and attach *performance reports* to the annual financial statements (Dumitrescu – Peculea et al., 2014). Such annual performance reports have the following items per program:

- Objectives;
- Forecast results and obtained results;
- Indicators;
- Legal commitment status.

3. Case study: the capacity of the Romanian state to reduce fiscal arrearses, as part of better funding processes for public institutions

There is a direct bidirectional however weak connection between efficient budget allocations and the capacity of a state to collect taxes. On one hand, an efficient budgetary allocation is impossible without sufficient funding, and there are many examples of states with public apparatus that does not function well, because it is not funded correctly. On the other hand, there is a tendency to award better funding to those institutions that show the capacity to effectively and efficiently conduct budget allocation processes (Dumitrescu & Dumitrescu – Peculea, 2014). Figure 1 shows the theoretical cycle that exists between efficient budgetary allocation and funding of public sector activities.

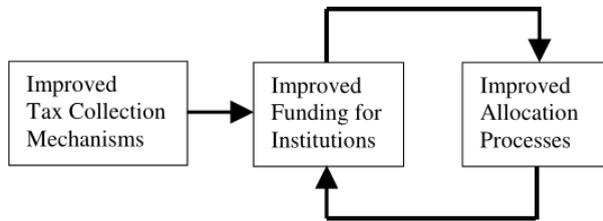


Fig. 1. The cycle of improving allocation processes by improving budgetary funding for institutions
 Source: author’s concept; (see also Dumitrescu - Peculea et al., 2014)

Figure 1 should be interpreted like this: improved tax collection has as a direct consequence the better funding of public institutions. This leads to a better budgetary allocation, since allocated funds are usually insufficient for peak optimum operations. The increasingly efficient allocation, in turn, allows a better fulfilment of objectives and, according to the principle mentioned above, better funding of activities in the next budgetary exercise. The strain that derives from this cycle is divided. On one hand, the ministry of finance must keep collection levels high, in order to be able to secure the adequate funding of public institutions. On the other hand, the public institutions must struggle to fulfil their objectives as well as to efficiently manage the budget allocation process, in order to be awarded improved funding in the next budgetary exercise.

Of course, the capacity of a state to collect due taxes is crucial for a whole lot of reasons, however for the purpose of this paper, the relationship presented above will be considered sufficient. Also, the problem of a state’s capacity to collect taxes has various facets, which cannot be all approached in one paper. For our purposes, we will concentrate on the issue of recoverable fiscal arrearages. For this, there are two main reasons:

- Romanian governments have been for years under scrutiny for not being able to sustainable reduce the amount arrearages, especially those generated by inefficient state owned companies, who accumulated debts to the national budget. Also, a frequent reason for scrutiny in this regard was the fact, that over and over again, governments erased these arrearages without collecting any taxes;
- Reducing the arrearages expressed as percent of GDP is a sustainable way to increase revenues to the national budget and to increase the financial stability of the public system.

In this regard, the evolution of recoverable arrearages in Romania is presented in figure 2. As can be seen, the total amount of arrearages at the end of 2014 was 2,5% of the year’s GDP of about 674,25 billion RON or 151 billion EURO. This translates into a total arrearage of roughly 16,85 billion RON or 3,78 billion EURO.

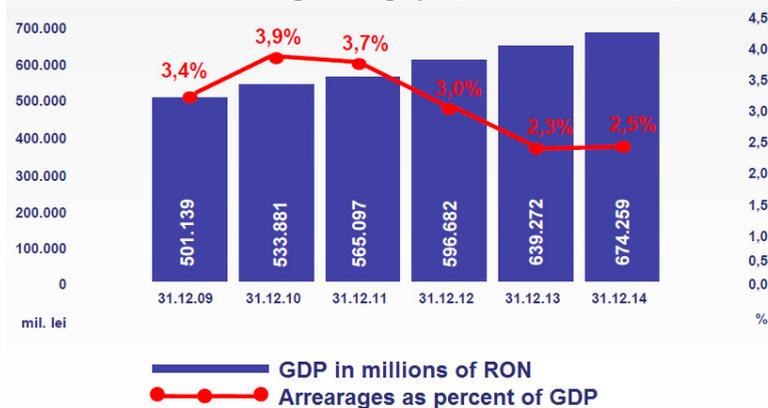


Fig. 2. Evolution of GDP and total arrearages in Romania between 2009 and 2014.
 Source: National Fiscal Administration Agency performance report for 2014

Also, from figure 1 can be derived, that the lowest recoverable arrearages were achieved in 2013 with a total figure of 14,7 billion RON and the highest in 2011 with 20,9 billion RON. For the year 2014, arrearages were higher than those of 2013, reaching somewhere in the region of the average of the studied period. However, since the financial crisis is officially considered to have passed, we consider both the increase and the value of the total arrearages at the end of 2014 to be concerning.

Table 1 shows the evolution of the arrearage recovery as opposed to the planned values of abatement for the period between 2011 and 2014. Also, for a more graphic representation, the data is represented in figure 3.

Table 1. Abatement of recoverable fiscal arrearages – planned and real values.

	2011	2012	2013	2014
Planned values - bln. RON	16,49	16,73	14,33	11,95
Planned values - bln. EUR	3,89	3,75	3,24	2,69
Real values - bln. RON	9,29	8,24	6,09	7,30
Real values - bln. EUR	2,19	1,85	1,38	1,64
Fulfilment degree	0,56	0,49	0,42	0,61
RON/EUR Parity	4,2379	4,4560	4,4190	4,4446

Source: <http://www.bnr.ro/Cursul-de-schimb-3544.aspx>

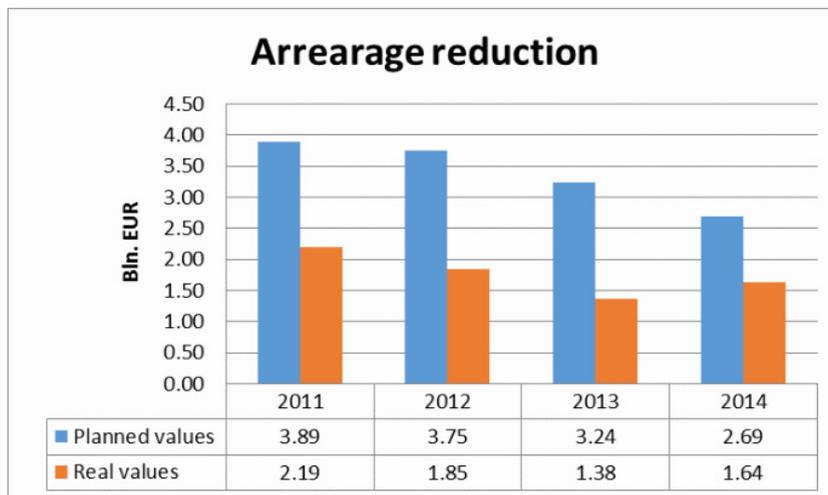


Fig. 3. Abatement of recoverable fiscal arrearages – planned and real values

Source: author's interpretation of official data

There is one striking thing about the above presented data: the real values are constantly around 50% of the planned values. The low planned value for the year 2014 is due to the low amount of total recoverable arrearages at the end of 2013, causing the fulfillment degree of the arrearage abatement to be higher, although the absolute reduction in last year was not as high as in 2011 or 2012. For a better visualization of the fulfillment degree of the arrearage abatement for the period between the years 2011 and 2014, figure 4 is to be referred to.

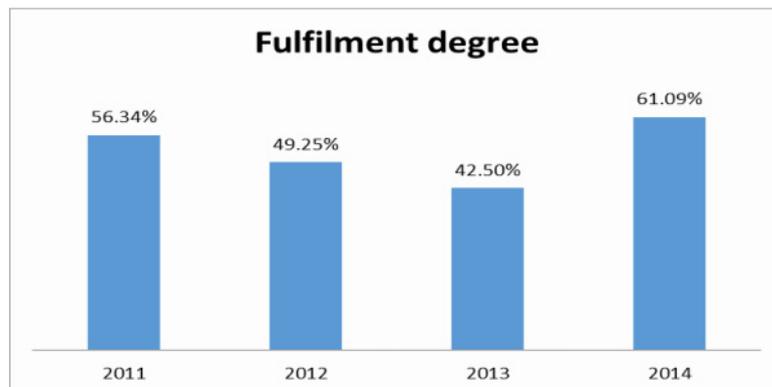


Fig. 4. Fulfilment of the arrears abatement objectives between 2011 and 2014

Source: author's interpretation of official data

From this short expose, only one conclusion can be drawn: despite temporary improvements in arrears abatement, the Romanian state has not yet reached full potential in collecting its overdue taxes from companies. However, the fault lies not alone with the National Agency for Fiscal Administration, but also with the state's poor administration of a part of the companies it owns, and the inefficient way these are being managed.

4. Conclusions

Efficient budgetary processes are vital for the functioning of public institutions. Lessons learned from the economic and financial crisis of 2008-2009 have shown how efficient allocation of financial resources can ensure access to better funding thus contributing to fulfillment of objectives and supporting internal processes for maximum results. Also, the sustainability of activities and development processes in public institutions cannot be guaranteed without proper funding of both investments and projects.

Thus, it is imperative, that the state finds the necessary mechanisms, in order to be able to collect sufficient taxes and financially support public institutions to deliver the public services they are meant to deliver. Good and sound tax collection and tax evaluation mechanisms, as well as reduction of tax evasion and healthy fiscal policies are crucial for economic stability, sustainable social and economic developments, dynamic labour markets and general welfare.

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