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## PROGRAM AND PERFORMANCE BASED BUDGETING – WAY TOWARDS CONSOLIDATING LOCAL FINANCIAL AUTONOMY

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Actuality of the research resides in the application for the first time in the Republic of Moldova of the program and performance based budgeting (PPBB) at the local level. The aim of the article is to evaluate PPBB and its influence on the responsibility of the local authorities and improving the use of public money. The research methodology is based on the calculations of the correlation reports between different local budget indicators. The results present that the level of financial autonomy depends on the financial possibilities of the administrative-territorial entities. Thus, there is required to supplement the revenues by detecting domestic reserves and their use by the local administration.

*Key words: budget classification, budget expenditures, budget revenues, budgeting, financial autonomy, financial decentralization.*

*JEL Codes: G18, H72.*

### 1. Introduction

**Purpose.** Budget is considered to be a privileged policy instrument, both from the perspective of allocated means, as well as of accomplishment of certain social impact policy objectives. Thus, the paper aims at proving that program and performance based budgeting modifies the responsibility of the local public authorities for a more efficient use of public money. The set goals refer to determination of the administrative-territorial entities (ATE) funding possibilities depending on their capacity; measuring the influence of factors contributing to the financial autonomy and conducting the weighted analysis of general revenues of the researched localities.

**Research object.** The budget, and firstly the state budget, refers to the economic activity both as a whole, as well as at the local level, through subsidies and transfers.

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The budget can affect, in practice, the entire economic policy, including: circumstantial regulation policy, monetary and financial policy (through the tax system and loans), balance of current payments and exports policy, price policy, industrial policy, cultural policy, revenues policy, the policy of territorial organization, urbanization and professional development trainings. Thus, the budget is the most important act of public life, representing the state's fundamental strategy of planning and supervision of economic-financial activity, while budget decisions are political acts in their essence.

In the 70's of the 20<sup>th</sup> century a true budgetary revolution broke out in the countries with advanced economy. The new concepts of streamlining options of public finance have accurately highlighted that for the public administration, both central and local, the moment of choice through excellency is the budget – the symbol and the peak of the public decision-making system.

The problem of PPBB was approached by several researchers in their works. Thus, in the opinion of Shah A., performance budgeting is a system of budgeting that presents the purpose and objectives for which funds are required, the costs of proposed programs and associated activities for achieving those objectives, and outputs to be produced or services to be rendered under each program. A comprehensive performance budgeting system quantifies the entire results-based chain as inputs/intermediate inputs, outputs, outcomes, impacts and reach (Shah, 2007).

M. Robinson (2009) mentions that Performance-based budgeting aims to improve the efficiency and effectiveness of public expenditure by linking the funding of public sector organizations to the results they deliver, making systematic use of performance information. There are a number of models of performance-based budgeting that use different mechanisms to link funding to results. Some have very sophisticated features and require the support of correspondingly sophisticated public management systems, while others focus more on the basics. Performance-based budgeting should not be seen as an isolated initiative. It should be viewed, rather, as part of a set of broader reforms – often referred to as managing-for-results – designed to focus public management more on results delivered and less on internal processes. These broader reforms include civil service reforms designed to increase the motivation and incentives of public employees; organizational restructuring to increase the focus on service delivery and improve coordination; and institutional and oversight changes to strengthen public accountability for performance. Action on these and a range of related fronts is necessary if the efficiency and effectiveness of public expenditure is to be substantially improved.

At the same time, according definition of Segal and Summers, performance budgeting comprises three elements:

- the result (final outcome);
- the strategy (different ways to achieve the final outcome);
- activity/outputs (what is actually done to achieve the final outcome).

Segal and Summers point out that within this framework, a connection exists between the rationales for specific activities and the end results and the result is not excluded, while individual activities or outputs are. With this information, it is possible to understand which activities are cost-effective in terms of achieving the desired result (Segal, 2002).

From the point of view of the authors, PBB represents a form of budget that establishes dependence between allocated funds and measurable results.

Taking into account that the main problem in the public sector, especially after the II World War became the efficiency of public expenditure, the way of development of PBB better responds to governmental aspirations. Therefore, many current economists-researchers have directed their researches towards PBB.

B. Trenovski and M. Nikolov (2015) mention that analysis of the implementation processes and practices of a number of countries shows that numerous questions regarding the PBB concept continue to remain open. There is no single agreed standard definition on performance budgeting regarding either the type of information that needs to be part of the performance budgeting or the stage at which performance budgeting should be introduced. There are other open issues as well, especially regarding when and how the performance information should be used in the process of decision-making. There is no unique model for PBB. Even when the countries adopt similar models of this concept, the approach used for its implementation varies depending on the national capacities, culture, and priorities. The analysis of relevant academic literature points out numerous deficiencies or problems that may arise during the implementation of this budget concept, which relate to factors such as the lack of political support and commitment to implementation, the motivation of civil servants, underdeveloped institutional capacity, problems with measuring the performance and quality of information, and the integration of performance information in the budget process. Nevertheless, there are three generally accepted major types of performance budgeting, which are the presentational, performance informed budgeting, and direct performance budgeting. As regards the implementation process, generally the three strategic areas where choices need to be made are the top-down vs bottom-up approach; comprehensive vs partial implementation coverage; and the incremental vs “Big bang” time scale.

Other well-known G. Gungor and M. Altundemir (2017), note that the countries which use this new budgeting method consider quality, efficiency, effectiveness indicators during preparing government budgets. Performance-based budgeting collaborates with federal governmental agencies to point out how treasure grants can be allocated on public services and products, and to ensure how effectively and efficiently this budgeting system works. The reason of Performance-based budgeting is improving and supporting the dialogue of accountability between government agencies and higher education institutions.

All publications support the idea that PBB has its own peculiarities for each country, but the essence is the efficient allocation of public funds and measurement of results with the help of performance indicators set.

## **2. Research methods**

Several methods and calculation techniques have been used to investigate the problem. By using the analysis, sources of local budget revenues were identified and the weighted indicators showed us the fiscal capacity of the researched territories and the role of transfers from the state budget for budget balancing. Using the methods of synthesis, induction and deduction we have concluded that the tax base in the researched territories is very different, from 8% in some, where transfers exceed 80% in the total budget revenues, while in others (very few) the fiscal base is stronger, reaching 50% of total revenues. Therefore, the administrative-territorial units should review the budgetary planning and draw up an action plan to supplement internal resources.

The budget reform which took place mainly during the last decades of the 20<sup>th</sup> century focused on new methods of evaluating budget expenditures. One of these modern methods was the Planning, programming and budgeting system, known as PPBS.

The new budget planning method-system (PPBS), tried by American economists in the Defense Department, yielded very good results. Based on these, the federal administration, in 1965, tried to replicate the method in other departments, requiring them to submit their credit applications to the Budget Office (similar to the Ministry of Finance). The implementation of this method-system promised a better living for every American citizen.

Program and performance based budgeting required that certain elements be respected. These elements were included in a single system and in a unified budget process. According to the purposes of this budgeting, the PPBS consists of three main components: a. the structural aspect, concerning the classification of the budget by functions and structure of the programs by cost elements; b. analytical aspect, with reference to the needs of resources to accomplish objectives, determine costs and yearly benefit from the use of public resources; c. informational aspect, regarding the reporting on the execution of the budget, evaluation of results and measuring of performance. This budgeting system had been taken over by developed European countries.

As mentioned above, the Republic of Moldova has gradually implemented this budgeting system, beginning with 2008.

For the administrative-territorial entities of first tier, the program and performance based budgeting has been implemented beginning with the budget year 2016.

Thus, central public policies, in particular, the budget-fiscal policy, with its specifics, promoted for the local public authorities, basically aim at consolidating the financial autonomy and at deepening the financial decentralization.

### **3. Research results and discussions**

#### *The concept of program and performance based budgeting.*

The concept of program and performance based budgeting in the Republic of Moldova had been implemented in 2008 through the approval by the Ministry of Finance of the Republic of Moldova of the “Regulation on drafting, monitoring and reporting of program budgets” (Official Journal of the Republic of Moldova No. 45-46/107 of 04.03.2008).

The reason for implementing the concept of program and performance based budgeting was that a new budget mechanism, which would make the budget spending more efficient, had been sought.

In the developed countries this concept had been promoted by the USA and the countries of the European Union already since the post-war period, permanently looking for new budget instruments, which would make public spending and in particular the budget spending more efficient.

In the Republic of Moldova, the development of program and performance based budgeting has been done first in relation to the state budget, but this transit is gradual too. It means that the budget for certain ministries was developed in two versions: the first version was developed by chapters and the second, concomitant, version was developed by program and performance. This lasted for several years, until the switch to developing program and performance based budgets was completed, which was then replicated to the local budgets. Making a summary of the implementation of the program and performance based budget in the Republic of Moldova, the following can be highlighted:

- 2014 is characterized by the inclusion of all central program and performance based budgets;
- 2015 is characterized by the implementation of program and performance based budgeting within the administrative-territorial entities of second tier;
- 2016 is characterized by the implementation of the program and performance based budgets within the administrative-territorial entities of first tier.

Thus, local program and performance based budget development happened later. It is noteworthy that program and performance based budgeting at the local level conceptually started in the Republic of Moldova in 2010. This year, the GUIDELINES for the local public administration „PERFORMANCE BASED BUDGETING” have been developed within the framework of the „Performance based budgeting: citizen’s empowerment instrument for the accountability of the local public authorities” initiative of the Integrated Local Development Program of the UNDP (Performance..., 2010).

The GUIDELINES developed by experts of the Republic of Moldova, include the methodology for drafting program and performance based budgets, the essence of such type of budgets, advantages and disadvantages of such budgets, describing, at

the same time, the stage of drafting and step by step implementation of the performance based budgeting at the local level.

I believe that this was a first very necessary and useful step in initiating program and performance based budgeting for the local public authorities. However, this preparation took time, as well as the proper implementation of the program and performance based budgets at the local level took time.

Firstly, the local program and performance based budgets for the second tier (beginning with 2015) were developed, and then followed those of the first tier (2016). The long time was caused by the need to train the responsible staff in drafting program and performance based budgets.

Beginning with the budget year 2016 all municipalities at first tier transferred to drafting program and performance based budgets. We noted from the beginning that the purpose of the new methodology of program and performance based budgeting is to make the use of budget expenditures more efficient, to hold to account the local public administration authorities to spend public money thoroughly, to specify which results were achieved by spending budget money and these results should be measured by performance indicators.

I believe that today, when decentralization and financial autonomy are at the heart of the public finance management reform, program and performance based budget is a standard for measuring the success of the public finance management reform. None of the reforms in either area would have success without the public finance management reform.

#### *The priorities of the program and performance based budgeting*

At the local level, the Republic of Moldova started developing program and performance based budgets in 2015, but at the beginning only for the second tier budgets. Then, in 2016, the program and performance based budgeting was started for the first tier too. Transition from chapter-based/item-based budgets to program and performance based budgets is a challenge for the local public administration development in the Republic of Moldova and for the strengthening of the financial autonomy. Program and performance based budget is essentially different from chapter-based/item-based budget.

The chapter-based/item-based budget is easy to develop, because the administration receives quite detailed information about revenues and expenditures. The more detailed the expenditures are, the more control there is over the departments. Meaning, that this type of budgets is easy to control: what was collected and what has been spent per each item.

However, a big disadvantage is that this type of budget supplies information only on collections, resources used to provide public services, but does not provide information on what has been achieved by using these resources. Therefore, public money is spent by items and there is no responsibility to achieve a certain result, there is no specific goal and no measurable result.

This type of budget is based on an extensive approach (increase in spending).

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Last year's expenses underpin the current ones, with the adjustments which reflect the inflation, increased demand or better level of provided services. The extensive method does not imply the cut in costs, preserving the same level of services, or the extent to which the provided services meet the current needs. The more detailed the budget chapters are, the less flexibility the management has.

The program based budget has many advantages, as follows: the structure of expenses is based, first and foremost, on work programs and secondly on the ratio between expenses and performance; it improves the quality and costs of provided services compared to the costs of acquired resources (chapter-based budget); it includes results-based performance indicators; provides flexibility to the management in achieving objectives, but within the limit of allocated resources.

Program and performance based budget implementation is the main strategy of the public finance management. Program and performance based budgeting (PPBB) brings public authorities more benefits, such as:

- enhanced effectiveness in the use of public money, because we aim at achieving expected results, spending public money, at the same time, we aim at methods, techniques, concrete instruments that we will be used for achieving the goals we strive for and aim at;

- program and performance based budget process becomes more transparent, because there is wide participation of the civil society in its drafting, the relations with the public become closer, the community is more actively engaged in public policy making and in identifying priorities on budget resources allocation;

- program and performance based budgeting at the local level results from the policies and strategic objectives of the Government, aimed at contributing to the economic-social development of the regions, which receive massive support from the central public authorities. Budget-related decisions are underpinned by a fundamental criterion – PERFORMANCE in resource allocation. This criterion is implemented by achieving results which are measured by means of indicators. Performance is the result of the activity of the authorities/budget-funded institutions, following program implementation, expressed as social-economic or other kind of impact, as volume of provided services or as efficiency of the use of budget resources. The program is a coherent and aggregated multitude of activities, implemented by one or several authorities/budget-funded institutions for achieving a goal and accomplishing certain mid-term and long-term strategic objectives (Methodological..., 2015);

- program and performance based budget process is an opportunity for deepening the process of financial decentralization, because it implies a clear delineation of competences between central and local public authorities. The delineation of competences will be also detailed with the staff, with specific functions of stakeholders which participate in the execution of the program and performance based budget, each stakeholder having to draft an action plan for each working week. This plan should also specify all stakeholders in the program or sub-programs, which partici-

pate in the implementation of specific activities, the necessary material, financial and informational resources, expected results and what has been achieved for each day. This means the delineation of competences and identification of specific tasks for each employee.

However, for this type of budget too several disadvantages can be highlighted: the work is more complex, it is directed at analysis and office work; it can lead to conflicts, since if a service is extended, another one must be reduced with the same volume of resources. But the priority of this type of budget is that it includes results-based performance indicators.

From the above mentioned, one can formulate a very simple definition of a program and performance based budget (PPBB): PPBB is a modern method of presenting and substantiating budgets, being underpinned by programs with vision, mission, goals, objectives and performance indicators. PPBB is an efficient budget management instrument, which assures priority-setting and decision-making in allocating resources depending on the performance (results) of the public programs [after 1, chap. XI].

Within the framework of program budgeting the focus is on the results to be achieved following the activities planned/realized by the authorities/budget-funded institutions, so as to assure the connection of budget expenditures with programs and activities, which implement policy measures. Thus, a performant budget is a financial plan which assures the definition of the mission of the public administration, of goals and objectives, as well as the periodic evaluation of their performance as part of the budget process, creating the link between the necessary entries to implement the strategic plan of public administration development and anticipated results.

With all the above mentioned advantages, the performance based budget has limits (disadvantages) too, which are, mainly, typical for all types of budgets:

- performance based budget does not solve the problem of scarcity of funds, because it's purpose is not to raise revenues, and although the enhancement of budget spending efficiency can generate savings, these do not secure sustainability;
- performance based budget cannot eliminate the political components of the budget-drafting process. The budget is, first of all, a political document;
- performance based budget cannot mitigate the impact of interest groups, which have the purpose of getting benefits for their members;
- performance based budget requires the existence of complex information (on the community, planning, indicators' setting, creation of a data base and its updating, etc.) These require intense work, with short timespan for their realization;
- performance based budget does not resolve the problem related to the lack of a direct link between performance and final outcome.

Program and performance based budgeting implemented in the first tier local public administration since 2016 is conducted within the framework of the public finance management (PFM) reform.

This process targets the objectives related to the consolidation of the budget-



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ary-fiscal discipline, which would aim at limiting budget deficit and keeping public debt under strict control. We believe that program and performance based budgeting significantly contribute to financial decentralization.

Public finance management (PFM) reform is a dynamic and complex process. Within the framework of the PFM reform, the mid-term budgetary framework (MTBF for 2016–2018) had been drafted on the basis of a new legal and methodological framework – the Law on public finance and budgetary-fiscal responsibilities no. 181 of 25.07.2014 (The Law..., 2014).

All these provisions, taken by the central public authorities, also reflect on the local public authorities. At the same time, starting with the 2016–2018 budgetary cycle, both the MTBF, as well as the yearly draft budget shall be drafted with the support of the new Financial management informational system (FMIS).

In fact, 2016 was the first year of the FMIS launch, as well as of the implementation of the new budgetary methodologies and classifications.

Within the light of the PFM reform and FMIS implementation, the Government of the Republic of Moldova has set out the objective of achieving budgetary-fiscal sustainability by keeping the national public budget (NPB) deficit at a sustainable level, avoiding risks related to internal and external shocks, as well as the dependence on foreign financial assistance.

Therefore, beginning with 2018 the Government of the Republic of Moldova shall enforce the rules of the budgetary-fiscal policy, according to which the national public budget deficit, excluding grants, shall not exceed 2.5% of the GDP [3, art. 15. Rules of the budgetary-fiscal policy].

Pursuant to the budgetary-fiscal policy of the central government, the local governments shall build local strategies based on the Central Government policy.

As mentioned above, the budgets of the administrative-territorial entities of the first tier have implemented the new rules starting with the budget year 2016. This is why, we have looked into the results achieved by the first tier budgets on the basis of budgets execution for the 2016 budgetary year. Thus, we shall not compare results obtained in the 2016 budgetary year with those of 2015, because the first tier ATEs switched to drafting program and performance based budgets and have used the new budgetary classification from 2016.

*Program and performance based budgetary planning at the local level in the Republic of Moldova*

In this research we shall track the impact of new budgeting on the extent of financial autonomy and financial decentralization at the first tier ATE. For the research, we have picked several administrative-territorial entities of first tier in Călărași district, which executed the budgets for 2016 within the terms of the new budgetary classification.

Researches of the local budgets' executions were conducted in the following villages: Bravicea, Căbăiești, Hârjauca, Petriceni, Nișcani and Săseni. When planning

program and performance based budgets, special attention is paid to planning expenditures in line with the economic and functional classification codes (Budget..., 2015, Classification..., 2015).

This is why we have focused our research on the distribution of expenditures and the efficiency of their use, controlled by performance indicators. Thus, the expenditures are distributed specifically for certain activities, for instance, the expenditures program for the community kindergarten or for the municipality staff, or for the music school, cultural home, etc. In this community the budgetary expenditures are distributed according to the codes set out in the new economic classification. All these provisions have been taken into account when analyzing expenditures in each surveyed ATE. We would like to underline, that each programmed activity has performance indicators: output, outcome and efficiency. As mentioned above, this type of budget enhances responsibility for the use of public money. Each activity plans its performance indicators which need to be achieved when implementing each planned program (Classification..., 2015).

The research conducted in the 6 (six) administrative-territorial entities of first tier gave us the possibility to make a thorough analysis of how budgetary expenditures are distributed, taking into account, at the same time, the amount of allocated financial resources that would be spent for achieving the goal and objectives, set out in the budgetary planning.

All these provisions oblige the local public authorities to spend public money efficiently, helping to obtain planned results. Each stakeholder involved in the implementation of the program or sub-program shall be responsible for its specific and transparent activity. Therefore, the research conducted in these communities, which implemented program and performance based budgeting gave us the possibility to follow, at the same time, the delineations or the competences of each stakeholder, as a core element of financial decentralization.

Our research focused on tracking the goal and determining the role of program and performance based budgetary planning in the enhancement of financial autonomy in the administrative-territorial entities. The goal of our research is to see the role of program and performance based budgetary planning in the enhancement of the financial autonomy in the administrative-territorial entities. Therefore, we propose a new analytical-table template (A) (a new structure), based on which the extent of financial autonomy is calculated (see table 1).

TEMPLATE A.

Table 1. Extent of financial autonomy in some communities of the district of Călărași, for the budgets executed in 2016 according to the NEW BUDGETARY ECONOMIC CLASSIFICATION

TAE, tier I	Area (km <sup>2</sup> )	Population (inhabitants)	LFE <sub>I</sub> (MDL/inhabitant.); For 2016	Amount of total revenues, executed for 2016, (thous. MDL)	Amount of transfers from the State Budget, according to the execution of 2016 (thous. MDL)	Share of RT in the overall revenues (%)	Current transfers received for special purpose, between the SB and LB of tier I for pre-school, primary, secondary, special and complementary education (extra-curricular), thous. MDL	Share of special purpose transfers in the total transfers (%)	Amount of general purpose balancing transfers between the SB and LB of tier I, (thous. MDL)	Share of general purpose transfers (balancing) in the total transfers (%)	Extent of financial autonomy of the ATE or the possibility of funding the TAE from available revenues, expressed for transfers from the SB
1	2	3	4	5	6	7 = (6/5) x100	8	9 = (8/6) x 100	10	11 = (10/6) x100	12 = 100-(col.7)
UAT	km <sup>2</sup>	Com m.	MDL /com m.	Thous. MDL	Thous. MDL	%	Thous. MDL	%	Thous. MDL	%	%
Bravicea	59.80	3206	107.1	4415.7	3225.9	73.05	2566.4	79.56	659.5	20.44	26.95
Căbăiești	11.68	1008	64.6	1429.1	1264.2	88.46	761.4	60.23	502.8	39.77	11.54
Hârjauca	38.06	2633	448.3	4026.0	1552.2	38.55	1330.9	85.74	221.3	14.26	61.45
Petriceni	7.34	1192	135.6	1895.8	1521.1	80.24	1108.8	72.89	412.3	27.11	19.76
Nișcani	18.09	1702	397.4	1566.2	903.2	57.67	771.3	85.40	131.9	14.60	42.33
Săseni	39.51	2280	60.7	2072.5	1510.4	72.88	879.2	58.21	631.2	41.79	27.12

Source: Developed by authors on the basis of the “Report on budget execution according to the economic classification as on 31.12.2016 for the reviewed ATE. Division of finance, district of Călărași

Analysis of table 1. From the research presented in the table above, we can see that the funding possibilities from the revenues available to the analyzed ATE, except for transfers from the state budget, are different depending on the fiscal capacity of each of the structures. Therefore, we see that the highest degree of financial autonomy of 61.45% is of the budget of the mayor's office Hârjauca, whose fiscal capacity per inhabitant ( $LFC_I$ , MDL/inhabitant) for the 2016 budget year equals to 448.3 MDL, compared to the  $LFC_n$  for the 2016 budget year, which equals 295.4 MDL/inhabitant. General purpose balancing transfers in this ATE have a small share of 14.26%.

The mayor's offices Căbăiești and Săseni have almost the same fiscal capacity per inhabitant (64.6 MDL and 60.7 MDL), but the degree of financial autonomy differs much between these two mayor's offices, from 11.54% to 27.12%. This is also explained by the fact that the indicator on the number of the population and the area of the ATE are also significant factors. But the most important factor, still, is the fiscal capacity per inhabitant of the specific ATE.

In the table below we've tried to establish the weight of each source of revenues in the total general revenues. Thus, we've developed a new analytical template (see template B).

#### TEMPLATE B.

Table 2. Weighted analysis of the general revenues of the researched localities (Calarasi district), 2016\*\*\*\*

ATE, tier I	Area (km <sup>2</sup> )	Population (inhabitants)	LFC <sub>I</sub> (MDL/inhabitant), for 2016	Sum of total revenues, executed for 2016, (thous. MDL)	Sum of transfers from the state budget, according to the execution of 2016 (thous. MDL)	Share of total RT in general revenues (%)	Structural share of revenues of the ATE in the total general revenues			
							Sum of total revenues <sup>***</sup> , executed for 2016 (thous. MDL), code 1	Of which:		
								Taxes and fees, thous. MDL (code 11)	Other revenue, thous. MDL (code 14)	Total transfers, thous. MDL (code 19)
1	2	3	4	5	6	7 = (6/5) x 100	8 = 5	9 = (9/8) x 100	10 = (10/8) x 100	11 = (11/8) x 100
ATE	km <sup>2</sup>	Inh.	MDL /inh.	Thous. MDL	Thous. MDL	%	-	-	-	-
Bravicea	59.80	3206	107.1	4415.7	3225.9	73.05	4415.7	Sum:715.0	Sum: 474.8	Sum: 3225.9

ATE, tier I	Area (km <sup>2</sup> )	Population (inhabitants)	LFC <sub>1</sub> (MDL/inhabitant), for 2016	Sum of total revenues, executed for 2016, (thous. MDL)	Sum of transfers from the state budget, according to the execution of 2016 (thous. MDL)	Share of total RT in general revenues (%)	Structural share of revenues of the ATE in the total general revenues			
							Sum of total revenues <sup>****</sup> , executed for 2016 (thous. MDL), code 1	Of which:		
								Taxes and fees, thous. MDL (code 11)	Other revenue, thous. MDL (code 14)	Total transfers, thous. MDL (code 19)
Căbăiești	11.68	1008	64.6	1429.1	1264.2	88.46	1429.1	Sum: 122.7	Sum: 42.2	Sum: 1264.2
							Share = by 100 %	Share in Vt. = by 16.19%	Share in Vt. = by 10.76 %	Share in Vt. = by 73.05 %
Hîrjauca	38.06	2633	448.3	4026.0	1552.2	38.55	4026.0	Sum: 2052.4	Sum: 421.4	Sum: 1552.0
							Share Vt. = by 100%	Share in Vt. = by 50.98 %	Share in Vt. = by 10.47%	Share in Vt. = by 38.55%
Petriceni	7.34	1192	135.6	1895.8	1521.1	80.24	1895.8	Sum: 280.4	Sum: 94.3	Sum: 1521.1
							Share Vt. = by 100%	Share in Vt. = by 14.79 %	Share in Vt. = by 4.98 %	Share in Vt. = by 80.23%
Nișcani	18.09	1702	397.4	1566.2	903.2	57.67	1566.2	Sum: 579.4	Sum: 83.6	Sum: 903.2
							Share V.t. = by 100 %	Share in Vt. = by 36.99 %	Share in Vt. = by 5.34 %	Share in Vt. = by 57.67 %
Săseni	39.51	2280	60.7	2072.5	1510.4	72.88	2072.5	Sum: 476.1	Sum: 85.9	Sum: 1510.4
							Share Vt. = by 100%	Share in Vt. = by 22.97 %	Share in Vt. = by	Share in Vt. = by 72.88%

ATE, tier I	Area (km <sup>2</sup> )	Population (inhabitants)	LFC <sub>i</sub> (MDL/inhabitant), for 2016	Sum of total revenues, executed for 2016, (thous. MDL)	Sum of transfers from the state budget, according to the execution of 2016 (thous. MDL)	Share of total RT in general revenues (%)	Structural share of revenues of the ATE in the total general revenues		
							Sum of total revenues <sup>***</sup> , executed for 2016 (thous. MDL), code 1	Of which:	
								Taxes and fees, thous. MDL (code 11)	Other revenue, thous. MDL (code 14)
								4.15%-	

*Source: Developed by the authors on the basis of the “Report on budget execution according to the economic classification as on 31.12.2016 for the reviewed ATE. Division of finance, district of Călărași*

\*\*\*Note: The sum of general total revenues (code 1) = to the revenues from taxes and fees (code 11) + grants (if any) (code 13) + other revenues (code 14) + Transfers from the state budget to the local budgets at tier 1 (code 19).

\*\*\*\*Note: Weighted analysis of the general revenues according to the structure of the sources which form the budget, in some communities of Călărași district for the budgetary year 2016, executed according to the NEW BUDGETARY ECONOMIC CLASSIFICATION

Analysis of table 2. Pursuant to the obtained results, analyzed in table 2, we see that the administrative-territorial entities (ATE), which had been reviewed, show that the share of sources of general revenues which form the budget are very different. Thus, the highest share is of the total transfers, reaching 88.46% of the general revenues of the budget of the ATE Căbăiești, since the share of taxes and fees in this community is 8.59% in the total revenues (general) for the reviewed period.

The fiscal base in the ATE Căbăiești is very weak, LFC<sub>i</sub> equals to 64.6 MDL/inhabitant, as compared to 295.4 MDL/inhabitant of the LFC<sub>n</sub>.

Therefore, the degree of financial autonomy in this community too is 11.54%, which means that the financial possibilities of this ATE from the available revenues, except for transfers from the state budget, are limited.

The share of taxes and fees (code 11) is also low in the other reviewed communities. Thus, in the ATE Petriceni this share is 14.79%, while the share of total transfers from the state budget is 80.23%. Hence, the smaller the share of taxes and fees (code 11), the bigger the share of transfers from the state budget.

The only solution to improve things is the economic development of the com-

munities, which would be the base for the increase of fiscal revenues in the local budgets.

Another analytical direction of research is planning of expenditures per different activities, organized by programs and sub-programs. The analytical research for each administrative-territorial entity, which was reviewed, gave us the possibility to develop a table which is a synthesis of budgetary expenditures and the share of each expenditure according to the economic purpose in the total of the budgetary expenditures of each ATE (see table 3).

Analysis of table 3. Table 3 has an analytical synthesis of the budgetary expenditures analyzed for the executed 2016 budget year.

Looking at the execution of these budgets for 2016, we see that out of the six (6) budgets of the ATE of first tier which were analyzed, only two have completed the budget with a deficit: Hârjauca and Nișcani. In spite of the fact that these deficits are not so big, they, still, have a negative impact on the planned funding. For the local budgets a budget deficit is not desirable, because they have few solutions to cover the deficit. To avoid deficits, a more rigid and accountable budget planning is needed.

Looking at the directions of budgetary spending we note that the biggest share is the personnel expenditures, in some communities reaching over 80% of the total expenditures. This big expenditure is followed by expenditures for goods and services, but these are two to three times less than those for the remuneration of labor.

Table 3. Analytical synthesis of budgetary expenditures of some local budgets of tier of Călărași district for the 2016 executed budgetary year

ATE	Revenues, thous. MDL	Non-financial expenditures and assets, thous. MDL	Expenditures, thous. MDL	Directions of the use of expenditures: (100% of which:					Non-financial assets, thous. MDL	Budgetary balance* (BB = 1 – (2+3), thous. MDL	Debts, thous. MDL
				Personnel expenditures, thous. MDL	Goods and services, thous. MDL	Social security, thous. MDL	Other expenditures, thous. MDL	Transfers provided within the NPB, thous. MDL			
	Code 1	Code: 2+3	Code 2	Code 21	Code 22	Code 27	Code 28	Code 29	Code 3	x	Code 5
Bravicea	4415.7	4297.2	3297.6	2288.0	958.9	34.0	16.7	0	1000.0	+ 118.4	0
Weighted structure	-	100%	76.74%	69.38%	29.08%	1.03%	0.51%	0	(23.26%)		0
Căbăiești	1429.1	1314.5	1037.4	839.8	143.4	10.0	44.2	0	277.1	+ 114.6	0
Weighted structure	-	100%	78.92%	80.96%	13.82%	0.96%	4.26%	0	21.08%		0
Hârjauca	4026.0	4282.8	2896.4	1544.8	1204.5	47.0	73.9	26.2	1386.5	-256.8	0
Weighted structure	-	100%	67.63%	53.34%	41.59%	1.62%	2.55%	0.90%	32.37%		0
Petriceni	1895.8	1533.0	1347.8	972.9	367.6	3.96	3.4	0	185.2	+362.8	0
Weighted structure	-	100%	87.92%	72.19%	27.27%	0.29%	0.25%	0	12.08%		0
Nișcani	1566.2	1736.0	1458.4	884.8	435.9	16.6	98.6	22.6	277.6	-169.8	0
Weighted structure	-	100%	84.01%	60.67%	29.89%	1.14%	6.76%	1.54%	15.99%		0
Săseni	2072.5	1955.5	1626.9	1307.3	297.8	5.0	16.8	0	328.6	+117.0	0
Weighted structure	-	100%	83.20%	80.35%	18.31%	0.31%	1.03%	0	16.80%		0

*Source: Developed by the authors on the basis of analyses conducted in the researched communities.*

\* Budgetary balance is established depending on the needs and funding possibilities of the national public budget, in line with the budgetary principles and the budgetary-fiscal policy rules, set out in the Law on public finance and the budgetary-fiscal responsibility. The budgetary balance is determined as the difference between the budget revenues and expenditures.

We believe that personnel expenditures are way too high, not because of high wages, but because of the high number of servants and other staff in the public administration.



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Personnel expenditures represent the main economic category of recurrent expenditures with major impact on the economic structure of the budget and need to be subject to a rigorous control on behalf of the central and local public authorities. The volume of personnel expenditures, within the limited framework of resources, influence the structure and volume of other categories of budget expenditures (Methodological..., 2015).

Personnel costs include expenditures for the remuneration of the work of the personnel from the budgetary system, as well as the state social security contributions and mandatory healthcare insurance premiums. The local public administration reform must pay attention to the chapter on personnel costs too.

Social benefits paid from local budgets are insignificant, because they are, in fact, centralized.

#### **4. Conclusions**

1. From the conducted research, presented in the analytical tables, we see that the funding possibilities of the reviewed ATE from their available revenues, except for the transfers from the state budget, are different depending on the fiscal capacity of each structure.

2. At the same time, we can see that some mayor's offices (for instance the mayor's office of Căbăiești and Săseni) have almost the same fiscal capacity per inhabitant (64.6 MDL/inhabitant and 60.7 MDL/inhabitant), but their extent of financial autonomy differs much between these two mayor's offices, from 11.54% to 27.12%. This is explained by the fact that the indicator "number of population" and that of the "area" of the ATE are also a factor of influence. But the most important factor continues to be the fiscal capacity per inhabitant of a specific ATE.

3. Based on the obtained results, analyzed in table 2, we found that the administrative-territorial entities (ATE) which were reviewed, prove that the general revenues obtained as to the share of sources, which form the budget, are very different. Thus, the largest share belongs to total transfers, reaching 88.46% in the general budget revenues of Căbăiești ATE, because the share of taxes and fees in this community is 8.59% in the total (general) revenues for this reviewed period.

4. The fiscal base in Căbăiești ATE is very weak, meaning that the funding possibilities of this ATE from available revenues, except for the transfers from the state budget, are poor. The share of taxes and fees (code 11) is at a limited level also in other communities of those reviewed. Thus, in the Petriceni ATE this share is 14.79%, while the share of total transfers from the state budget is 80.23%. Thus, the smaller the share of taxes and fees (code 11), the bigger the share of transfers from the state budget.

## **Recommendations**

1. The only solution to improve the state of the art is the economic development of the communities, which would be the base of the increase of fiscal revenues in the local budgets.

2. A budget deficit is undesirable for the local budgets, because they have few solutions to cover the deficit. To avoid deficits, a more rigid and accountable budget planning, an enhanced effectiveness of the public money, is needed.

3. Looking at the directions of use of budgetary expenditures, we see that the highest share is the personnel expenditures, in some communities exceeding 80% of the total expenditures. This big expenditure is followed by expenditures for goods and services, but these expenditures are two to three times smaller than those for labor remuneration.

4. We believe that the personnel expenditures are extremely high not because of high wages, but because of the large number of servants and other staff in the public administration. The local public administration reform must pay attention also to this chapter on personnel expenditures.

5. At the same time, although the budgets reviewed above highlight a system of indicators of the financial situation of the specific communities, which describe the reality of the level of economic development, on the one hand, while on the other hand they lead us to the conclusion to see from where the money for these budgets come and how efficiently they are used. In the international practice, for instance, the budget of the municipality of Hague, the Netherlands, which I visited in 1998 with a project from the APA, informed us of their financial autonomy, explaining that in the budget of Hague municipality, 20% of sources come from local taxes and fees, while 80% are sources received from the central budget as transfers. Therefore, financial autonomy is, first of all, accountability in public money spending and financing of quality services, regardless from where the sources come. Financial autonomy is indissolubly linked to financial decentralization.

6. Hence, it is not important from where the money comes to the budgets, from which sources, it is important that the budget money is spent efficiently, that the community feels the improvement of the quality of provided services, which is the fundamental objective of decentralization. In this regard, program and performance based budget raise the accountability for the granted competences through measurable performant results.

7. Reference to the essence of financial autonomy is far from neglecting the analytical importance of financial indicators of the local public authorities. Hence, the financial indicators of the situation of the budgets show to what extent the community takes part in the forming of the budgetary revenues, on the one hand, while on the other hand, it shows to what extent budget money is spent for certain services, which are the sources of funding of these services.

Being taken into account by the local authorities, these provisions will lay the

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grounds for adopting local strategies of economic-social development.

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## **BIUDŽETO SUDARYMAS REMIANTIS PROGRAMOMIS IR PASIEKIMAIS – KELIAS Į VIETOS FINANSINĖS AUTONOMIJOS KONSOLIDACIJĄ**

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### **Santrauka**

Tyrimo aktualumas – pirmą kartą Moldovos Respublikoje biudžeto sudarymas pagrįstas programomis ir rezultatais (BPR) vietos lygiu. Straipsnio tikslas – įvertinti BPR ir jo įtaką vietos valdžios institucijų atsakomybę bei viešųjų pinigų panaudojimo efektyvumą. Tyrimo metodika pagrįsta koreliacinių ataskaitų skaičiavimais tarp skirtingų vietos biudžeto rodiklių. Rezultatai rodo, kad finansinės autonomijos lygis priklauso nuo administracinių-teritorinių vienetų finansinių galimybių. Taigi, reikia papildyti pajamas, nustatant vidinius rezervus ir jų panaudojimą.

*Pagrindiniai žodžiai: biudžeto klasifikacija, biudžeto išlaidos, pajamos iš biudžeto, biudžeto sudarymas, finansinė autonomija, finansinė decentralizacija.*

*JEL kodai: G18, H72.*