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ASPECTS OF DECENTRALIZATION IN THE CONTEXT OF PUBLIC ADMINISTRATION REFORM

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JEL classification

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Abstract

Public administration reform as a response to the requirements of socio-economic environment change, is a process that develops both at central and local level, aiming to an institutional framework achievement, suitable for administrative and financial decentralization, under the European Union standards.

Public administration modernization assumes checking and changing all sides of statal organization this being the result of strengthening its capacity of public policies improvement towards the cohesion of territorial development accomplish.

The study presents some particularities of decentralization in the context of administrative reform, the impulses for decentralization expansion, and, respectively, for development of local government, its impact on locally and nationally economic development.

1. INTRODUCTION

Public administration, as an instrument of governance politics performance brings about a significant contribution in the socio-economic development of a country, in different areas in the world, focusing both on the actual role of the state, and on structures, regulations and procedures of public action.

Public administration reform is not an end in itself, but a support for public institutions, so that, in their mandate, to allow them to ensure a proper management of public assets, to provide quality goods and services, to respect the rule of law and democratic governance.

2. CONCEPTUAL ELEMENTS CONCERNING PUBLIC ADMINISTRATION REFORM

The process of reform in public administration includes all the public sector organization sides, respectively, public administration authorities and institutions, systems, structures, processes and motivations, procedures of monitoring and evaluation, ways of periodically arrangement of the system. This is a response to the increased demand from citizens which requires not only better services but also accountability in the public goods use and a greater participation in decision-making.

Changes should lead to a modernized administration, aiming to the global satisfaction of the users, firstly towards providing a quality public service, the ethics, integrity and professionalism being the rules the assessment of public servants behaviour is based on.

These processes should result in actions with broad implications for human resources management in public activities:

- rethinking criterias of staff selection as well as of the systems and tools of its performance evaluation, taking into account of new competences;

- staff training basing on the new philosophy of an efficient, accountable, competent public function, which keeps to ethic values.

In support of public administrations reforms achievement, the European Commission provides the political, judicial and technical council services, aimed to adapt administrative structures and procedures to the new challenges brought by economic changes and exchange liberalization. The interventions such as decentralization and local governance, mainly include institutional strengthening activities, human resources policy management, wage bill controlling and restructuring, the depoliticization of public function and communication with

citizens, therewith, contributing to transparency and responsibility improvement and corruption reducing.

The Romanian public administration adaptation to the requirements of socio-economic change and to the standards imposed by the status of European Union member state, is one of the key reform priorities. This process takes place both at central and local levels and has the purpose to create appropriate institutional framework to continue carrying out administrative and financial decentralization, for framing and building-up of public politics and national legal acts in accordance with European Union standards and Community acquis.

Public administration reform involves checking all sides of state organization and their change, as appropriate, so that the administrative structure and capacity as well as the management efficiency prove able to obtain good results.

Administrative capacity, as integrant element of public administrative reform, express the potential of public authorities to develop effective and efficient actions, taking into account four sides: human resources, organizational dimension, institutional context and social, political, economic and cultural environment.

This concept is defined in the decentralization framework law no.195/2006, as "the ensemble material, institutional and human resources available to an administrative-territorial unit, as well as the actions it develops to exercise the competences established by law".

The objectives achievement requires the adoption of modern management tools and methods in different areas of public interest (public function, public services and utilities, central and local public administration institutions), and increasing the capacity to manage external financing programmes, in the context of increasing degree of transparency in public relations.

Some of the factors that, generally, can be an obstacle to implement reform are identified in:

- the complexity of decision making;
- bureaucracy;
- limited human and financial resources;

- misunderstanding of the final objectives;
- no individual motivations.

Starting from detailed analysis of the situation existent in major areas of social and economic life at the time of joining to European Union, by government developed programmes, there were concentrated a range of measures grouped on structural priorities, according to guidelines of Lisbon Strategy:

- **Improving administrative capacity** aims to provide the necessary framework for support competitiveness, through specific measures in key areas: public policies, management of EU funds, the ability of public authorities to launch public procurements, judicial system reform.

- **Improving quality and management of government expenditure** - aims to ensure the efficiency of productive investments by implementing a few prudent macro-economic politics.

- **Improving the markets functioning** – particularly refers to energy and communications market.

- **Continuing the business environment improvement** - by increasing the quality of regulation environment and by smoothing the access to capital.

- **Increasing employment level and labor market participation rate** - involves the achievement of a labor market favorable for creating new jobs, employment incentive and the improvement of human resources quality.

The strengthening of local, administrative and financial autonomy, the legal framework improvement and fitting in with EU regulations, is a primary element of changing the relationship between administration and citizen, of establishment a relationship between individual and state, based on responsibility. Upgrading the central and local government may lead to meeting the citizens' expectations regarding the provision improvement of service quality.

Implementing the measures to improve the administrative capacity may have a positive impact on governance, generally, which beneficial effects on the efficiency of government expenditure, on the improvement of business environment and on the increasing of companies competitiveness, leading to jobs increasing.

3. DECENTRALIZATION, AS A COMPONENT OF ADMINISTRATIVE REFORM

3.1. PARTICULARITIES

In the last two decades, there have been substantive changes in the world public sector governance, aiming towards the shift of decision-making, locally, closer to citizen. Decentralization and local governance development which are expanding everywhere in the world, are generated by different reasons from one country to another, the arguments differing in relation to political and economic events, specific to every country. Among the arguments in the professional literature it can highlight the following situations:

- a) **political and economic shifts**, a frequent case, especially in Central and East European countries, some experts (Eaton 2001)¹ considering that decentralization can be a choice of politicians, in the aim to increase the political stability and economic development.

- b) **the interest in adherence to European Union**, countries referred to, pursuing the administrative reforms achievement to meet the conditions imposed by the European Union institutions, in this purpose;

- c) **increasing participation**, referring to the involvement increase and public accountability increase in government decision - making;

- d) decentralization as a consequence of **political crisis** due to **ethnic and regional struggles** in a few countries, because of the regional or ethnic groups that exert pressures for an increase of their participation and their control at local level;

- e) **the need to enhance the public local services delivery** to citizens by the local

¹Stark, Biddle, C; Gadell, Rebecca; Henry. P. Minis quote Eaton (2001) in *Decentralization and Democratic Local Governance Programming Handbook*, Technical Publication Series, Center for Democracy and Governance, Bureau for Global Programs, Washington, 2000;

governments, where the central administration registers a poor performance in this area;

f) **other motivations of decentralization**, such as: prevention from a return to autocracy and to a centralized system, budget deficit decrease, responsibility removal for taking-up some unpopular programs.

The transfer of power by decentralization means to ensure local governance with an increased political authority (for example the local elections call), increased financial resources (by transfers or the empowerment to increase tax), increased administrative accountabilities. In the same time, there are created opportunities for a democratic local governance development, which refers not only to governance mechanism but at collectivity at a whole and its interaction with local authorities.

When in a country it is performing a progress of decentralization which is joined with that of local democratic governance, both governments and the local governed communities are gaining authority, resources, as well as the experience of responsible choices. Effective action by local governments involves the promotion of civil society organizations and of citizens as well as their ability to take responsibility for their communities, to participate in setting local priorities, to pursue the implementation of decisions and to monitor their effectiveness.

The development of a local democratic system presumes the strategical intervention on the one side, **to create a favourable, permissible environment**, which implies that government act efficiently to the enactment and implementation of decentralization initiative, and on the other side, **for the local governance capacity building**. This is expressed by a more increased qualitative level of local governments activity, firstly, based on the improvement of their capacity of public services delivery as well as of their financial status.

The transfer of power to local governors, through the decentralization process, leads to a change in the way that institutions operate, a phenomenon which happens gradually. The decision-making decentralisation needs to ensure an autonomy in fiscal, regulation and administrative problems, for elected local governments, elements that need to develop

simultaneously, so that the decision-making become efficient.

Basically, the decentralisation has three sides, which means the components of power: political, financial and administrative.

Political side (decentralization) implies the transfer of the political authority at local level, by establish the local government elected by the community members, whose legal status is recognized by Constitution, the elective reform, political parties reform.

The administrative side (decentralization) implies the whole or partial transfer of a great number of functional accountabilities at local level, such as: health insurance services, educational actions, public utilities, public safety, environmental protection, human resources management in local administration, the authority of taking over regulations at local level in the areas of local accountabilities, without central authority approval be necessary, autonomy in civil service area.

Financial or fiscal side (decentralisation) designs the financial power change at local level what implies modifying conditions of intergovernmental transfer of resources, as well as a broader autonomy to generate and manage their own income. It has two components:

a) *income autonomy and their proportionality* which means the decentralization of a few responsibilities regarding the taxes and taxes rate settlement and the local authorities access to their own income resources. An important resource of income for local governments is represented by the intergovernmental transfers, intended for correction of the fiscal disparities which arise from the fiscal capacity differences, or the capital grants intended for obtaining a macroeconomic stability in underprivileged regions;

b) *expenditure autonomy*, through a gradually, partial decentralization of the accountabilities regarding the own expenditure.

Decentralization does not mean a guarantee for promoting local democratic governance, but the impact of decentralization reforms may be favorable for democracy, regardless of the way of reforms accomplish.

Local level democracy strengthening can contribute to consolidate this phenomenon for all nations, can help to define the role of government and to clarify the relationship between government and citizens. The approach of fulfilment local authorities changing cannot be generalized, because of the different histories and culture of the countries, everyone shifting on its own conditions.

The efficiency of a local democratic governance is in correlation with two leading elements: on the one side, the capacity to enhance the community living quality, by the social needs perception and the improvement of basic services delivery, and on the other side, the existence of resources necessary to sustain them. The local government possibility to fulfil this mission is restricted when the financial resources are insufficient or when the income are wasted because of the losses and corruption.

The development of local government capacity involve a well trained staff including good professional, loyal to community interests civil servants. The staff stability gives the possibility for local government to undertake a strategic planning, a management and a decision-making for a long term.

3.2. THE IMPACT OF DECENTRALIZATION ON THE LOCAL AND NATIONAL DEVELOPMENT

The decentralization promotes the democracy on multiple areas and produces certain **advantages** for a country prosperity:

- It assures a favourable climate for the local interests development, according to traditions and in accordance with locals real requirements. The individuals availability to pay for services increase if they meet their priorities, especially if they had participated to decision-making regarding its delivery;

- It interrelates the governance with citizens, which allows them an efficient participation to local difficulties and community priorities solving. Local leaders may be accountable for the decisions which affects the citizens life, so that they earn experience in democracy practice;

- The decisions can be matched to local needs, through decentralization, which allow a more efficient use of resources.

- It improves the local governments competitiveness, increases the innovation and, in consequence, the probability to act towards satisfy the citizens interests;

- It can lead to a more economical and more effective redistribution: decisions-making concerning the public expenditure, which have been undertaken at an administrative level more sensitive to the needs of those who are administrated, have more chances to reflect the local services demand, than the decisions-making of a central government, faraway from the actual elements at the local level.

The decentralization advantages contributes to increase local governance performance and can strengthen the democratic system legitimacy.

In the same time, a lot of theoretical and practical aspects pay attention of understanding decentralization as a positive experience, and also of knowing some possible **disadvantages** of it:

- the lack of transparency in transfers can lead to cases when the rich regions may receive more resources than the poor those. Therefore, the allocations must be analysed taking into account the particular context of every area;

- a great local autonomy can allow elites, to dominate the local policies, in some communities;

- in the territorial administrations with a poor financial and administrative capacity, the local service delivery can degrade.

The experience of some countries has shown that some sides of decentralization and the way they can be applied may cause problems at the macroeconomic level by:

- entrusting some competences for tax, without defining the levels that local budgets can benefit from these fiscal income;

- local governments accumulation of excessive debts whom covering is finally done by the central government;

- solving the problems of financial imbalances at the central government level through the decentralization of the availability of doing expenditure, without provide adequate income, lead to failure in some services

performance and, possibly, to an increase of local deficits.

To avoid the possibility of occurrence of some negative effects in the financial intergovernmental relations, it is necessary, firstly, to ensure a correlation between costs and income, for every link, as well as to create some institutional mechanisms able to implement strong budgetary rules at different levels.

In the case of **subnational governments**, the economic policies carried out can have consequences at the central level, for example, a significant increase in spending, even in a balanced budget, or hire loans that can influence stability, as such:

The **subsidies** must be conceived so to satisfy, anticipated to the budget execution, the charged deficit between income and expenditure at local levels. Its future covering would give the possibility of some local level excessive costs arise, the central government being that would finally bear the expense covering.

The local governments loans may have consequences for financial policies of the central government, if it is in position to cover the local deficits had occurred. Countries, mostly, take into account mandatory rules of loans boundedness; in the rules implement it is required using the adequate monitoring means.

The macroeconomic coordination mechanisms, used in different countries, required because of the influence exercised by local economies, are applied on spending and loans plans, on lending conditions for public national and subnational (local) sector, also taking into account the boundedness of the loans level.

In the understanding of the financial intergovernmental relations it should be considered the effects that motivation can have on macro-economic stability. The absence of a satisfactory autonomy at local level reduces the incentive to act responsibly, because a local tax increase to balance the budget cannot be demanded. The solution is to balance costs and income, giving the autonomy to local governments and charging them with the explicit responsibility to enroll in the available means.

3.3. OPTIMUM OF FISCAL DECENTRALIZATION

Research in the latest decades of the last century have paid special attention to the knowledge of the optimal level of government activities, respectively, the fiscal regime that maximizes the aggregate national welfare.

Oates (1993)² considers that the degree of decentralization and economic growth are in a direct correlation, because the decentralization allows a better public policy achievement and the adaptation to local economic conditions.

Other authors (Davoodi and Zou -1998 or Zhong and Zou - 1998)³ believe that the two economic processes are in an inverse relationship.

Brueckner (2006)⁴ points out that decentralization accelerates economic growth, because it stimulates savings.

A landmark of their study is that infrastructure is an essential input in the production of final goods, which vary in different regions, highlighting the regional heterogeneity.

These research pursued the implications of fiscal decentralization on capital accumulation and national welfare, taking into account three different tax regimes, in an economy with two heterogeneous regions, where the government (central, federal, local) decides the tax rate and the public expenditure structure has two categories: infrastructure and education.

1. In the case of a **total fiscal decentralization**, each region sets its parameters: the tax rate and the budget allocations for the two types of expenditure. The goal is to maximize regional welfare. It is applied on a high degree, for regions involved in trade relations.

²Calin Arcalean, Gerhard Glomm, Ioana chiopu, Jens Suedekum quote Oates (1993) in *Public Budget Composition. Fiscal (De)Centralization and Welfare*, CAEPR Working Paper No. 2007-003 IZA Discussion Paper No. 2626, Canadian Journal of Economics/Revue canadienne d'économique, Volume 43, Issue 3, 2007;

³ Idem 2 quote Davoodi and Zou (1998) or Zhang and Zou (1998);

⁴ Idem 2 quote Brueckner (2006).

2. In a case of a **complete centralization**, the central government (federal) is that who sets the same parameters - tax rates and amounts allocation for the two categories of spending - targeting national welfare maximizing.

3. In a **mixed regime**, with a partial centralization, the central government (federal) sets the common share tax, but allows regional governments to decide on the structure of local public budget. It is a realistic regime, which is in line with tax policies, constant on regions, but with different spending policies. This form of fiscality is relevant, especially in the European context, where the regional policies are widespread. For example, in Germany, the land governments have no the liberty of setting tax rates, but they may decide on the structure of regional budgets.

The degree of heterogeneity of the efficiency of spending on infrastructure is the determinant element of the type of fiscal regime (centralized, decentralized, mixed) that maximizes the aggregate national welfare.

Fiscal centralization is the optimal regime which lead to welfare in countries where infrastructure productivity is similar across regions; welfare gains on the regions are symmetrical.

Partial decentralization is the optimal option if productivity differences across regions are moderate. In this case, asymmetries may occur in welfare gains among regions.

Total decentralization is preferable if infrastructure productivity registers large differences among regions. It is the situation which provides a higher stable state output in accordance with the opinion of Oates, but which would be below the centralization situation, in terms of aggregate welfare.

4. CONCLUSIONS

It may mention at least five conditions to be met, for a successfully achievement of a decentralization project:

* the decentralization framework needs relate the authority in the way of local finance with responsibility for the local activities and services providing, so that politicians bear the costs of their decisions and keep their promises;

*the local communitiy should be informed about the cost of services, the different methods of delivery, the level and origin of resources, so that decisions be motivated. One of the means to create those conditions is the budget preparation in a participatory manner;

*embody of certain procedures by which the community can express its preferences in a way that to compel politicians to take them into account, so that individuals have sufficient impulse to participate;

*the requirement of an accountability system being which be based on public information and transparency, allowing community to closely monitor local administration performance and to react to it, in order to incentive the politicians and administrators to be sensitive to its preferences;

A successful decentralization is closely related to certain principles: finances - with a clear assignment of functions; informed decisions-making; adherence to local priorities; accountability.

As country circumstances are different in applying these principles, the policy and institutional instruments associated with this process must be adapted taking into account the reference countries-specific conditions.

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