

# LOCAL SUSTAINABLE DEVELOPMENT – IMPLICATIONS FOR LOCAL PUBLIC FINANCES

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## **Abstract:**

*Local sustainable development implications on local public finances are complex because this phenomenon explained by development strategies mobilizes local resources towards achieving the three dimensions that define the phenomenon. This paper aims to develop these implications in Romania, showing that the local development strategy determines the reorganization of local government finances in identifying resources to cover expenses, which are directed towards achieving the goals.*

**Key words:** *sustainable local development, local government finance, sustainable development strategies, local budget*

**JEL classification:** *Q01, H72*

## **1. Introduction**

Local sustainable development is a necessity, grounded and connected in terms of chances of achieving with local finance subsystem in the context of local democracy and effective implementation of decentralization and local autonomy. The success of implementation of local sustainable development efficient strategies is interrelated with the efficacy of promoting decentralization and subsidiarity (with profound reverberations in financial terms), offering an integrated approach to social, economic and local environmental protection. Therefore, local government finance is the main "engine" of efficient implementation of local sustainable development strategies, and should prove a real contribution to achieve the objectives, policies and actions for to foster welfare and local development.

From such a point of view, our paper proposes a proactive approach of the correlation between local finance and sustainable development, aimed at highlighting the channel and specific bivalent reports, about of these failures and the causes that hinder or defeat the (local) sustainable development policies, namely solutions for improvement and growth, especially in financial terms. The perspective of the paper is an original one, following under empirical context correlations in terms of local finance and sustainable development in both directions (local finances supports sustainable development and sustainable development support sustainable financial autonomy).

The work requires a number of limitations, due to the fact that in our country there is not a detailed and comprehensive database on administrative units on local financial indicators and sustainable development.

## **2. Theoretical approach and international concerns on local sustainable development**

The concept of sustainable development was outlined over several decades, in international scientific debate and acquired some accurate political connotations in the context of globalization. One of the first definitions was shaped by Gro Brundtland in "Our Common Future" Report (World Commission on Environment and Development, 1987), respectively „Sustainable development is development that meets the needs of

the present without compromising the ability of future generations to meet their own needs”.

Later, the issue of sustainable development was discussed at the World Conference on Environment and Sustainable Development in Rio de Janeiro (1992), the UNO General Assembly special session and adopted the Millennium Development Goals (2000), the World Conference on Sustainable Development in Johannesburg (2002) and also have outlined specific programs of action at the global and local level (Local Agenda 21) according to the principle "think globally and act locally".

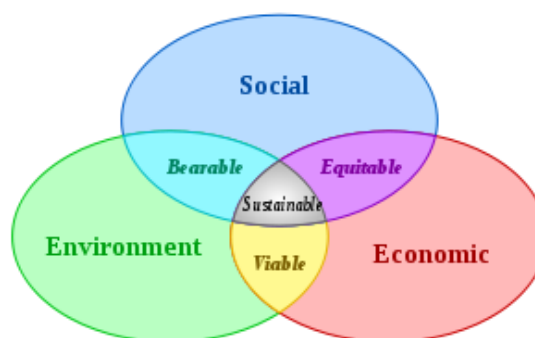
At the EU level, with inclusion in the Maastricht Treaty in 1997, sustainable development has become a political objective. In 2001, the European Council from Göteborg has adopted the Sustainable Development Strategy of the European Union, which was added an external dimension to Barcelona, in 2002. European Commission presented on 13 December 2005, a proposal to revise the 2001 Göteborg Strategy. As a result of this process, the EU Council adopted on 9 June 2006, renewed Sustainable Development Strategy for an enlarged Europe.

The document is designed in a unified and coherent strategic vision, having as objective the continuous improvement of quality of life for present and future generations through the creation of sustainable communities able to manage and use resources efficiently and to exploit the ecological and social innovation potential of economy to ensure prosperity, environmental protection and social cohesion. Thus, the concept of sustainable development is the result of an integrated approach to policy and decision makers, where the environmental protection and long-term economic growth are seen as complementary and interdependent.

### 3. Sustainable development indicators

Literature (Adams, 2006) establishes that the core of mainstream sustainability thinking has become the idea of three dimensions, environmental, social and economic sustainability. In this context, sustainable development is based on three strategic pillars: i) growth, ii) social equity, iii) a healthy environment.

**Figure1: The dimensions of development sustainability in the literature**



Source: Adams (2006)

As a transparent tool for monitoring and evaluation of sustainability of a society, in 2006, the Netherlands, has been developed Sustainable Society Index - SSI. In Romania, this index (United Nations Development Programme Romania-UNDP, 2006) consists of 22 indicators grouped in five categories: i) Personal Development (Life expectancy, Poverty rates, Drinking Enough Water, Sanitation relevant services, Education opportunities, Gender equality), ii) A healthy environment (Air quality, Surface water quality, Soil quality), iii) A society balanced (Good Governance, Employment, Population growth, Income distribution, Public debt), iv) Sustainable Use

of Resources (Waste Recycling, Water Renewable Resources Use, Renewable Energy Consumption), v) A Sustainable World (Forests status, Biodiversity Conservation, Emissions of Greenhouse Gas, The Ecological footprint, International Cooperation). To these indicators are added a number of additional indicators such as GDP, Research and Development, Infrastructure and Transport, Ecological Agriculture. Status of these indicators in our country indicates an inconvenient situation, which must be treated as a warning, requiring reconsideration of financial support involved (for example, to support indicators growth 11, 15, 17, 19, where local authorities have legal leverages for action).

**Table 1: Sustainable Development Index in Romanian regions in 2009**

Indicators	National average	Nord East	South East	South	South West	West	Nord West	Center	Bucharest-Ilfov
1. Healthy life	8.7	8.7	8.7	8.7	8.7	8.6	8.6	8.7	9.0
2. Poverty rate	4.6	2.0	3.4	3.4	2.4	7.2	5.8	4.6	8.2
3. Enough Drinking Water	6.1	5.5	8.0	5.6	4.1	6.6	7.4	6.3	4.9
4. Appropriate sanitation services	6.3	5.3	6.2	4.6	5.0	7.0	6.0	6.7	9.3
5. Education Opportunities	7.6	7.7	7.0	6.7	7.5	7.9	7.8	7.6	8.6
6. Gender equality	7.5	--	7.3	7.2	7.5	7.6	7.5	7.5	8.1
7. Air Quality	7.8	9.8	8.3	6.0	3.0	8.0	9.7	8.3	9.4
8. Surface Water Quality	7.0	7.5	--	6.8	6.0	8.1	6.7	8.4	5.6
9. Soil quality	5.7	5.4	6.2	6.2	6.1	5.4	4.7	4.5	7.3
10. Good Governance	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
11. Employment	4.9	5.5	4.1	3.9	4.9	5.3	5.5	4.1	6.2
12. Population growth	8.9	8.4	8.6	8.9	8.9	9.4	8.9	9.0	8.7
13. Income distribution	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4
14. Public debt	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
15. Waste recycling	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
16. Use of Renewable Water Resources	9.4	9.6	8.4	9.1	9.5	9.3	9.9	9.7	--
17. Renewable energy sources	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
18. Forest State	6.1	5.3	5.3	4.6	4.1	7.6	5.0	10.0	6.6
19. Biodiversity Conservation	3.1	1.6	10.0	2.0	4.8	0.7	3.6	1.1	1.0
20. Emissions of Greenhouse Gases	5.9	8.1	6.7	6.6	0.4	3.5	8.3	5.8	7.8
21. Ecological Footprint	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
22. International Cooperation	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0

Source: UNDP-Romania-2009

The manifestation of sustainable development in the administrative-territorial units, emerging self-reliant local sustainable development, which basically involves an integrated approach (in terms of economic, social, environmental, cultural and institutional) of local development projects. Thus, the sustainable approach of local communities development concerns to maximize the added value of products, services created locally by obtaining synergistic effect of increasing economic competitiveness, social equity, environmental conservation and protection, local cultural identity, institutional development (so called "good governance" which involves building cooperation framework intra and inter sectors / administrative, public - private partnerships, participatory methods for developing and implementing local development policies). In this context, a fundamental role in achieving local sustainable development is held by the local financial mechanisms in local public finance subsystem. Commonly used tool is undoubtedly the local budget, where revenue and expenditure have the quality of impact factors, along with other economic indicators such as unemployment.

#### **4. Corelation between the status of local public finances and sustainable development in Romania**

Ensuring local development desirable path, in sense of sustainability, is closely linked to real possibilities of supporting politics, projects, programs or measures which

will be implemented. On this background, the size of local financial resources and their correlation with expenditures becomes crucial.

In Romania, the resources of local budgets are not satisfactory in accord with the financing needs in most cases, real support of sustainable development being questionable. As can be seen from the data below, local budgets are rather "fragile" and the upward trend is quite satisfactory:

**Table 2: Execution of local budget in Romania between 2006-2009**

Indicators name	Receipts obtained			
	2006	2007	2008	2009
<b>REVENUES – total</b>	<b>27708,6</b>	<b>36805,2</b>	<b>43629,1</b>	<b>43526,1</b>
<b>Current revenues</b>	<b>26172,4</b>	<b>31412,4</b>	<b>38641,3</b>	<b>38074,5</b>
<b>Fiscal revenues</b>	<b>25236,8</b>	<b>30108,9</b>	<b>37346,0</b>	<b>36731,6</b>
Tax on income, profit and capital earnings	7606,4	11620,2	14378,4	15044,6
Taxes and duties on ownership	2515,0	2944,5	3162,5	3323,8
Taxes and duties on goods and services	15015,4	15422,3	19670,0	18247,6
Other fiscal taxes and duties	90,0	121,9	135,1	115,6
<b>Nonfiscal revenues</b>	<b>935,6</b>	<b>1303,5</b>	<b>1295,3</b>	<b>1342,9</b>
<b>Capital revenues</b>	<b>518,8</b>	<b>615,1</b>	<b>639,3</b>	<b>361,1</b>
<b>Financial operations</b>	<b>1,0</b>	<b>0,2</b>	<b>3,4</b>	<b>3,1</b>
<b>Subsidies</b>	<b>1016,4</b>	<b>4777,5</b>	<b>4345,1</b>	<b>4379,2</b>
<b>Subsidies from other levels of general government</b>	<b>1016,4</b>	<b>4777,5</b>	<b>4345,1</b>	<b>4379,2</b>
Subsidies from the state budget of which:	923,4	4661,3	4221,5	4290,5
Retechnologization of thermal and electric heating stations	31,7	-	113,4	55,6
Investments financed partly from external loans	12,6	13,8	-	-
Financing commercial roads stoning program and villages water supply	205,2	95,1	234,3	625,1
Financing disabled persons rights	555,7	1323,1	1683,6	1966,8
Subsidies from Intervention Fund	62,7	31,9	85,3	10,4
Financing land register works	13,6	9,6	8,0	10,6
Subsidies from other administration	93,0	116,2	123,6	88,7
<b>Amounts recived from EU / other donors in the payments made prefinancing account</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>708,2</b>
<b>EXPENDITURE – total (Economics classification)</b>	<b>25392,8</b>	<b>33982,3</b>	<b>42210,2</b>	<b>42074,5</b>
<b>Current expenditure</b>	<b>21606,3</b>	<b>26868,5</b>	<b>34824,5</b>	<b>35627,4</b>
Staff expenditure	9866,5	11116,4	15310,5	16361,6
Goods and services	6356,2	7609,7	9511,4	8337,6
Interests	208,4	296,1	635,6	907,1
Subsidies	1755,7	1872,5	2084,8	2247,6
Transfers among general government units	1331,6	1890,3	2369,0	2679,2
Other transfers	650,7	1085,2	1178,2	1334,5
Projects financed from post-accession grants	-	-	-	329,5
Social assistance	1189,3	2660,4	3227,1	2951,6
Other expenditure	247,9	337,9	507,9	478,7
<b>Capital expenditure</b>	<b>3620,7</b>	<b>6943,3</b>	<b>7210,7</b>	<b>6323,5</b>
Non-fiscal assets	3556,0	6871,5	7144,1	6233,5
Financial assets	64,7	64,6	59,3	90,0
National fund for development	-	7,2	7,3	-
<b>Financial operations</b>	<b>165,8</b>	<b>170,5</b>	<b>254,8</b>	<b>349,9</b>
<b>Payments in previous years and received in current year</b>	<b>-</b>	<b>-</b>	<b>-79,8</b>	<b>-226,3</b>
<b>EXPENDITURE – total (Functional classification)</b>	<b>25392,8</b>	<b>33982,3</b>	<b>42210,2</b>	<b>42074,5</b>
<b>General public services</b>	<b>3045,7</b>	<b>4257,6</b>	<b>5668,9</b>	<b>5821,5</b>
Public authorities and external actions	2650,6	3669,5	4541,3	4530,8
Other general public services	154,7	229,8	445,8	331,9
Transactions on public debt and loans	208,3	307,4	643,6	925,4
General transfers among various public administration levels	32,1	50,9	38,2	33,4
<b>Defence, public order and national security</b>	<b>237,2</b>	<b>385,8</b>	<b>609,0</b>	<b>655,8</b>
<b>Social-cultural expenditure</b>	<b>13574,7</b>	<b>17847,9</b>	<b>22272,3</b>	<b>22519,9</b>
Education	8683,8	10211,2	12646,5	12622,0
Health	133,9	163,6	244,3	452,7
Culture, recreation and religion	1552,0	2196,2	3056,6	3076,8
Insurance and social assistance	3205,0	5276,9	6324,9	6368,4
<b>Services and public development, dwellings,</b>	<b>2999,7</b>	<b>3778,4</b>	<b>4815,4</b>	<b>5357,1</b>

<b>environment and waters</b>				
Dwellings, services and public development	2281,6	2775,8	3296,7	3643,8
Environment protection	718,1	1002,6	1518,7	1713,3
<b>Economic activities</b>	<b>5535,5</b>	<b>7712,6</b>	<b>8844,6</b>	<b>7720,2</b>
General economic, commercial and labour activities	66,0	58,1	104,8	107,6
Fuel and energy	1735,0	1902,1	1634,5	1968,2
Agriculture, forestry, pisciculture and hunting	32,6	16,7	18,3	23,2
Transport	3661,6	5670,7	6975,5	5422,7
<b>SURPLUS (+), DEFICIT (-)</b>	<b>2315,8</b>	<b>2822,9</b>	<b>1418,9</b>	<b>1451,6</b>

Source: developed by authors based on data provided by Statistical Yearbook of Romania, 2009

These data should be linked to strategic preoccupation for sustainable development of Romanian authorities, which should provide support. In Romania, the first version of the National Strategy for Sustainable Development was developed in 1997 by civil society under the coordination of National Centre for Sustainable Development (NCSD), with the support of the United Nations Development Programme (UNDP) and the British Government. Since 2000, NCSD, as executive agency of UNDP, Capacity 21 and with the support of the Governments of Great Britain and Canada, has implemented the Local Agenda 21 for nine cities in Romania (Baia Mare, Galati, Giurgiu, Iasi, Ciuc, Oradea, Ploiești, Râmnicu Valcea and Târgu Mureș), called in this process "pilot cities".

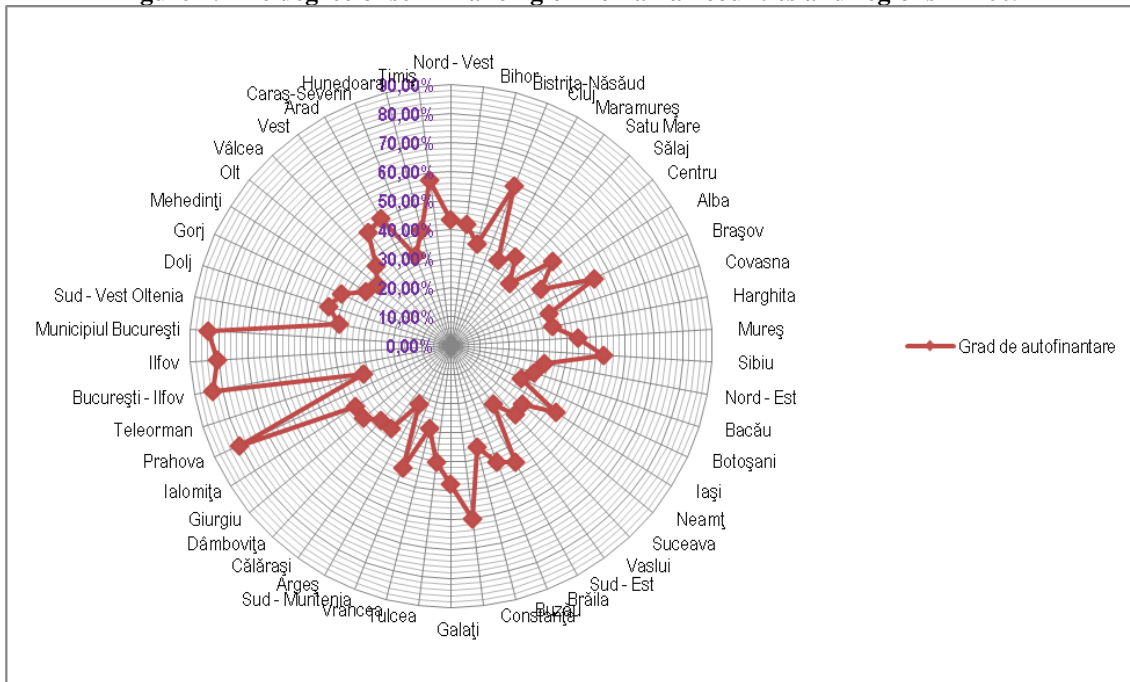
At the end of 2008, the final document of the National Strategy for Sustainable Development was launched, marking the end of a review cycle of the 1999 version and with new planning horizons: 2013 - 2020 - 2030. Proposed amendment project of the National Strategy for Sustainable Development was coordinated by the Romanian Government, Ministry of Environment and Sustainable Development and traditionally by the National Center for Sustainable Development with the support of United Nations Development Programme.

Implementation of the National Strategy for Sustainable Development and calculation of sustainable society index for Romanian regions indicate that regions of Romania have a number of indicators still below the maximum level of sustainability (see Table 1). We find, therefore, that it is necessary to improve the status of these indicators.

In this sense, there is a constant preoccupation of the local government to increase local government revenues, attracting development resources, inclusive projects financed from EU funds. Revenues are insufficient because from the central government level there is a delegation of responsibility without adequate allocation of resources needed to achieve them. Thus, local resources can be allocated to development are minimal. An illustration of these difficulties is shown in detailed local budgets (Table 2), taking into account the last two years before the onset of economic crisis (2006-2007) and the first two years of global financial crisis (2008-2009).

According to data (tables 1 and 2), we find a correlation between the results of the calculation of the Index of sustainable development and utilization of local budgets in 2009 aimed at achieving sustainable development goals. A picture of the financial situation of administrative-territorial units relevant to our study is offered by the degree of self-financing for 2009, the peak year for global financial crisis.

**Figure 1: The degree of self-financing of Romanian counties and regions in 2009**



Source: developed by authors based on data provided by Reports of the Court of Accounts of Romania

According to Figure 1, we notice that the indicator on the degree of self-financing counties and the eight development regions in Romania fits, mainly between 30% -50%, except for the Bucharest-Ilfov, where both administrative-territorial units components (Ilfov, Bucharest), recorded a high of over 75% self-financing.

In these conditions, it is necessary to identify realistic solutions to increase capacity of local budgets to support actions aimed at sustainable development. A first course of action, at least reasonable for the current state of Romania, should be attracting the non-reimbursable financial assistance (grants).

It is important to note in this context that loans contracted or guaranteed by local authorities for financing local projects which benefit by non-reimbursable financial assistance are not taken into account in assessing the indebtedness, encouraging local authorities to access such resources. What is often invoked in the context of a very low degree of absorption of European funds is the lack of co-financing capacity which can hide the lack of interest or effective ability to attract these funds.

In these conditions, is reasonable for public budgets to have established a distinct limit amount (e.g. 10% of budget revenues) for co-financing the projects which are receiving non-reimbursable financial assistance, thus the established budgetary credits can not be transferred to other destinations. Correlatively, attracting non-reimbursable financial assistance should be considered as a performance indicator included in an aggregate index for correction of the allocation amounts for balance. Thus, it can be possible a penalty system (reducing the amounts transferred for balancing) and rewards (allocation of conditioned budgetary credit for being accumulate in the co-financing fund created at the level of budget of external non-reimbursable grants) requiring grant amounts, being real support of the sustainable development. Even if the size of financial assistance grants will not be at the expected level for all territorial-administrative units, the positive effect will be on local elected officials or technocrats, who can be more appreciated by local community members.

Another proposal can be public budgets authorizing of a fund for financing projects which are receiving non-reimbursable financial assistance (in external grants budget) initially supplied, where will be the case or overall, based on "subsidies to attract non-reimbursable financial assistance" (or "subsidies for co-financing") granted

by the state budget based on reduction of a few percent of the amounts allocated for balancing, or by making the direction to the Fund for certain percent deducted from the income tax rates as they are currently established. These amounts would be used in only with such purpose (co-financing of projects which are receiving financial assistance grants), not able to make charges for preparation of grant applications, a possibility which can easily lead to exaggerated costs of competing projects. At most, to recognize the possibility of performing a minimum of expenditure in this respect, the operations for which costs can be controlled (e.g., costs to obtain tax certificate or other administrative tasks, avoiding feasibility studies, analysis of general services , consulting, etc.. which often lead to exorbitant prices). In general, we think it should be established cost standards (imposing limits) for all services contracted by public beneficiaries for various activities, differences in costs incurred in the payment of public financial resources of practice from a public budget to another (from one officer to another) is often unexplained.

Following the above proposal, " subsidies for co-financing " should be accompanied by an incentive mechanism to attract grants, for which purpose we propose using type matching-grant transfers, whose transfers volume is determined by a participation rate between the budgets involved (for example, for each monetary unit drawn by the officers of local public budgets, state allocates another 0.2 units as transfer). Establishing participation rates might be in a system based on local progression and performance, starting, for example, from 1:20 (State allocates 0.05 RON to every 1RON attracted from non-reimbursable grants), the ratio being differentiated on amounts attracted which enhance the local performance measure. Although it may be objected that such a proposal is not viable due to lack of funds to be allocated, specify the size of rigorous public spending budgets, and balance transfers for special purpose revenue, tariff re-establishment of public services or their where this has not yet made (e.g. car parks managed by local authorities without charge affected this purpose) or, if necessary, additional charging rates, some charge to tax (not more than 1-2 percent ) for this purpose, would be consistent sources to support this approach.

Leading efforts to attract financial non-reimbursable grants were made some progress, last legislative amendment providing local public finance matters that subsidies from the state budget to local budgets needed to support implementation of projects financed by external grants post-accession, unused to year end are reflected in local government surplus and used next year for the same purpose for which these funds were granted, in the development section, until the end of that projects. Same legal regime is established for pre-financing amounts for beneficiaries that are also authorizing officers of the local budget, unused at end year or in the case of advance for promoters of projects financed from external non-reimbursable grants that are officers of the local budget. In personal opinion, we think it still requires a correction of this mechanism in the sense that such amounts would be allowable carryover in subsequent years only if there is solid evidence that local public investment project is under way and within, and in cases it has not even started within (as often happens), the corresponding budget appropriations are subject to reconsideration.

We also believe that sustainable development is the result of administrative-territorial application of public finance management strategies aimed at improving the local effective and efficient management of local budgets by the local government measures, such as: a) Developing and updating public policies in all areas of activity of local authorities to improve the programming budget; b) Involvement with the responsibility of all staff; c) Evaluation and substantiation realistic, fair, public expenditure and their continuous monitoring in terms of regularity and legality of employment and their performance and effectiveness and efficiency of using public funds for their financing; d) Improve the efficiency of internal control and audit

structures, by their responsibility to fulfill the duties prescribed by law, Always encouraging and monitoring their activities; e) Strengthening the executive management responsibility of local authorities on how to inventory tracking, management and use of all goods and property items; f) Implementation of all measures necessary to mastering the permanent employees of the institution of all legal acts, the clarification of the interpretation and accountability of personnel involved in hiring, validation, authorization and payment of expenditures; g) Strong responsibility of local councilors on budget execution, budget resources and the public and private management at the local level.

## Conclusions

Local sustainable development must be understood not only as a goal that can support local finances, but also as an essential condition for their recovery. However, the current situation in Romania, it is obvious that the "onset" access should be on strengthening the financing of local costs, as mutual support mechanism involving local finance-sustainable development is primarily the duty of local authorities. To invoke the need for growth while asking for support from the central budget is less convincing if are not own efforts involved. The main conclusion highlighted of the present study is that local finances in our country are not yet able to support the real needs of growth and sustainable development, requiring serious incentives for their strengthening. Thus, setting mechanism "subsidies to attract non-repayable financial assistance" proposed by us can strengthen the local finance, creating realistic assumptions supporting policies aimed at sustainable development. Also, it is necessary to achieve an improvement in how effective and efficient management of local budgets by measures.

Looking globally, we appreciate that proper development of correlations between local government finance and sustainable development of local communities and placing them on a rational base depend crucially by awareness of their by the stakeholders, a situation that the reality of Romania may not confirm.

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