



Center for Economic Analyses

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LGU Borrowing in Romania, Bulgaria and Macedonia

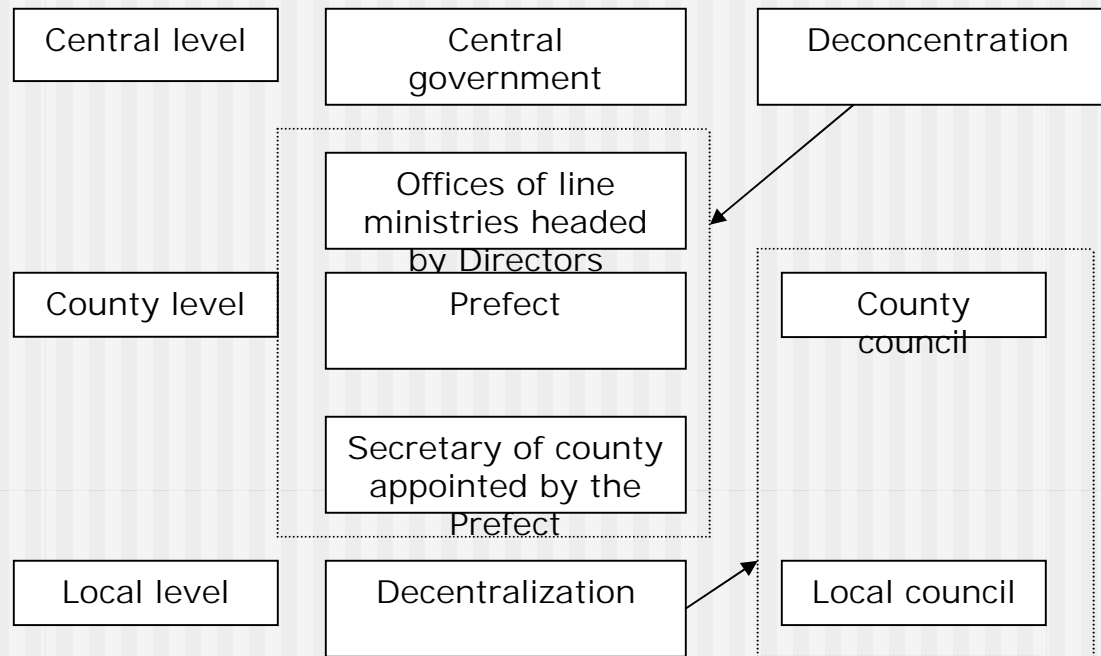
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Case study on Romania

Case of Romania

- Scope of the government
- Expenditure assignments
- Revenues
- Insolvency

Scope of the government



Expenditure assignments

- Competence - the right of a local government unit to make decisions in a certain field or regarding a certain issue, as well as the responsibility associated to this right;
- Delegated competences - competences assigned by the central government to the local governments, by law or contract, together with the adequate financial resources, in order to be exercised in the name and within the limits established by the former;
- Exclusive competences - competences assigned by law to the local governments, which are fully responsible for their accomplishment. Local governments have the decision-making rights and the necessary resources and means to fulfill them, in compliance with the norms, criteria, and standards established by the law;
- Shared competences - the competences exercised by the local governments together with other levels of the public administration (county or central) with a clear separation of the financing and decision making powers."

Expenditure assignments

Table 1. Municipal services in Romania in terms of self sustainability from user fees

Self-sustaining basis from user fees (no budget support)	Subsidized	100 % from the local budget
<ul style="list-style-type: none">▪ water,▪ wastewater,▪ solid waste	<ul style="list-style-type: none">▪ district heating▪ local public transport receive	<ul style="list-style-type: none">▪ local roads▪ parks

Revenues

- Own revenues
- Shared revenues
- Capital revenues

Revenues

- The 82 % PIT is distributed as:
- 47 % to the local level where the tax is collected;
- 13 % to the county level where the LGU is located;
- 22 % to the county authorities for equalizing the local budgets of the communes, towns, municipal towns and county (county 25 % of those 22 % points) and for further distribution to local level (75 % of those 22 % points).

Insolvency

Financial crises	Insolvency is a situation in which a debtor finds himself when his own goods have a lower value than the totality of his obligations that should be satisfied with those goods
Conditions	
<ul style="list-style-type: none">▪ non-payment of liquid and matured debts, elder than 90 days, registered at the end of a quarter of the financial year, which exceed 30% of the budget provided for that quarter;▪ non-payment of salaries, foreseen in the budget of income and expenditure for a period longer than 90 days from maturity.	<ul style="list-style-type: none">▪ If it is unable to pay the matured debts exceeding 50% of its budget for a period of 120 consecutive days▪ salary payments as planned in the budget are more than 120 days in arrear

Insolvency

Initiation

Declared by the deliberative authority

Any creditor or group of creditors having one or more true, liquid and matured debts to be claimed from an administrative-territorial unit, with a value over 50% from its budget, for a period of 120 consecutive days, can file with the Court of Law in the territory the unit is located, an application for opening the proceedings of insolvency of that administrative-territorial unit.

Insolvency

Plan

The main credit release authority to draw up the Plan of Financial Recovery. The control of executing and fulfilling the measures comprised in the Plan of Financial Recovery pertains to the territorial structures of the Audit Court. The Plan includes:

- economic-financial analysis of the administrative-territorial unit
- measures for maintaining the essential public services by the local public administration's authorities throughout the period the Plan of Financial Recovery is applied;
- measures for increasing the degree of the own income's cashing in, as well as for attracting other income;
- measures for decreasing the expenditure;
- economic-financial and budgetary planning until recovery;
- establishing the tasks for fulfilling the provisions within the Plan of Financial Recovery on objectives, responsible persons and terms

The administrator will administrate the insolvency recovering procedure of the administrative-territorial unit. The Plan includes:

- measures for re-establishing the financial viability of the administrative- territorial unit;
- measures for further fulfilling the essential services of the administrative-territorial unit throughout its insolvency;
- negotiated measures and the schedule for paying the debts to the creditors in order of the debt seniority.

Success is a journey – not a destination!

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