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Case Report

FINANCIAL ASPECTS OF THE ACTIVITIES IN MUNICIPALITIES DURING THE PERIOD OF DECENTRALIZATION AND EUROINTEGRATION

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ABSTRACT

The process of decentralization and eurointegration in Bulgarian municipalities is regarded to engagements in supply of local public goods under the circumstances of a permanent financial insufficiency. This imposes strict precision of the financial aspects of their activities in the account of their specific social-economic and demographic conditions and a creation of perspective financial strategy.

Key words: Local authorities for self-government, Financial decentralization, Eurointegration

INTRODUCTION

The processes of democratization in social-economic and political aspect, which started in Bulgaria in the 90s of the 20th century, pose the question of decentralization in national government. Referring to Municipalities decentralization involves guarantees for local self-government. The Constitution of Republic of Bulgaria settles this question in its very first clause, 2nd paragraph: "Republic of Bulgaria is an unified country with local self-government" and chapter 7, clause 136, 1st paragraph defines the Municipality as the basic administrative and territorial unit in which local self-government is accomplished.

In the spirit of the indicated provisions of the Constitution are The Self-government and Local Administration Law[1], which settles the legal state of the Municipality itself and the municipal institutions. Clause 11 of the Law /1995/ reads that local self-government means the right of citizens or the chosen by them institutions within the framework of their consigned competence to solve problems regarding to municipal property, education, health care, culture, urbanization, social assistance, environmental issues and etc. The possibility for Municipality to fulfill its duties as a self-governed community results from the clause that it is a juridical person[2]. This includes possession of municipal property, personal property and real estate. The possibility the Municipality to be independent in its actions and solutions is regulated by The Municipal Budgets Law[3] and The Municipal Property Law[4]. When developing the local self-government legislation since 1991 the international requirements Bulgaria accepted ratifying The European Charter for local self-government on 17.03.1995[5] have ever been taken into account. The Constitution of Republic of Bulgaria also concedes an advantage of the international contracts, which Bulgaria has ratified over the regulations of internal legislation[6]. This is a possibility for Municipalities to work both indirectly - within the framework of the general national integration policy and directly - by associating Municipalities and regions into a Plan for integration with EU.

RESULTS AND DISCUSSION

One of the questions that have given rise to much controversy in the diverse activities in Bulgarian Municipalities is the one about their financing. The municipal policy and strategy cannot be carried out if there is a lack of financial adequacy in the local self-government, accomplished by providing sufficient and fixed financial resources. Simultaneously, the drawing up of municipal budgets is aimed at accomplishment of both state and local duties on supplying public goods on a specific territory and this brought to a change in the budget framework.

Table 1. Budget 2002 and Plan Budget 2003 for the revenues and expenditures of Municipality of Stara Zagora

Revenues	Budget 2002	Project 2003	Growth	Expenditures by functions*	Budget 2002	Project 2003	Growth
I. Revenues by delegated state activities				I Expenditures for state activities.			
1. Disposed state taxes	16915630	17793194	105,2%	1. Total state activities	1432410	1291056	90,1%
2. Interrelations with the Central Bank	7653514	258700	3,4%	2. Education	13053244	12288237	94,1%
3. Transfers between budget and out of budget accounts	1176253	0		3. Health-care	3394006	1736749	51,2%
				4. Social services	8983564	2290894	25,5%
4. Loans bearing no interest	242900	0		5. Recreation, culture and religious activities	708247	444958	62,8%
				6. Economic activities and services	83675	0	
Total revenues for state activities	25988297	18051894	69,5%	Total expenditures for state activities	27655146	18051894	65,3%
II. Municipal revenues				II. Expenditures for municipal activities			
1. Municipal revenues by taxes	4025253	3976950	98,8%	1. Total state activities	1587554	1620297	102,1%
2. Non tax revenues	7106204	8080000	113,7%	2. Education	2116638	1973330	93,2%
3. Interrelations with the Central Bank	3356415	899300	26,8%	3. Health-care	682651	653721	95,8%
4. Transfers between budget and out of budget accounts	225623	-134783	-59,7%	4. Social services	91125	245482	269,4%
				5. Public utilities	3719682	5156847	138,6%
5. Financing of the deficit	1634656	525828	32,2%	6. Recreation, culture and religious activities	2048735	1919232	93,7%
				7. Economic activities	4434917	1778386	40,1%
Total revenues for municipal activities	16348151	13347295	81,6%	Total expenditures for municipal activities	14681302	13347295	90,9%
Total budget revenues	**42336448**	**31399189**	**74,2%**	**Total expenditures from the budget**	**42336448**	**31399189**	**74,2%**

*Note: The classification of budget expenditures is made on basis functions and state and municipal activities
Resource: Municipality of Stara Zagora

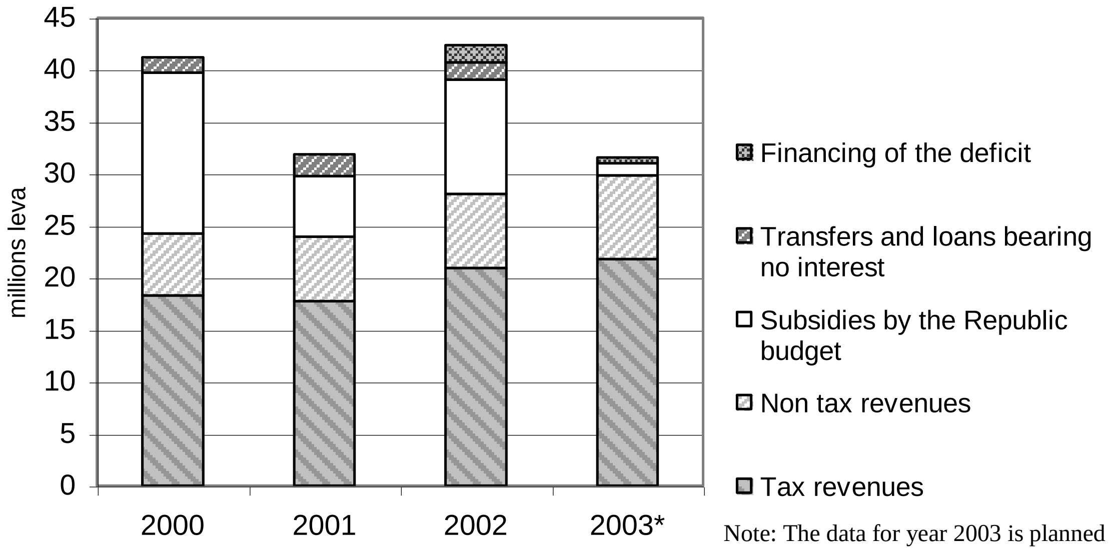
The change in the budget framework and the mechanism for municipal granting agreed with The National Association of the Municipalities in Bulgaria[7] define Budget 2003 as the beginning of the financial decentralization[8].

Financial decentralization is the right of local authorities to accomplish taxation, expenditure and regulation functions[9]. Wide spread is the definition of decentralization by a comparison with the opposite one – centralization[10]. The term devolution[11], self-government is been used, too. The Conception of Financial Decentralization and The Plan for its realization, sanctioned by The Council of Ministers with Solution №399/13.06.2002, define the financial decentralization as: "supply of public goods, responding in quantity, quality and cost to the needs of citizens and reckoning to their possibilities, on the basis of stable and long-term balance between municipal responsibilities in expenditure, stable resources for revenues and effective control by citizens".

The drawing up of Municipalities' revenue and expenditure budgets is done in accordance with The Municipal Budget Law requirements and its corresponding provisions[12]. Solution №621/12.09.2002 by the Council of Ministers reads: "it is endorsed a division of the activities, regarding to organization and supply of public services, financed by Municipalities' budgets into national and local ones. The division of the activities into state and local is connected with a definition of standards for staff's number and standards for allowance; they are the basis on which the expenditures for the next fiscal year are being planned. It is envisaged the delegated revenues to cover expenditures for the corresponding disposed state activities. For example the amount for Municipality of Stara Zagora is 18,051,894 lv. /look at table 1/

By a comparison with functions of the expected expenditures for year 2003 it shows a significant reduction in state allowance and increase of the role of the Municipality in its own financing. It is expected 269% growth of municipal expenditures for allowance of social insurance and social cares and at the same time the amount for financing of the delegated state activities is reducing.

It is a practice the standards to be defined not on a previous current fiscal year /for example 2002/ taken as a basis but on a fiscal year in which the budget process is completely concluded. This raises extra financial problems. This trend in the similar budgets for year 2003 and 2001 /grants not included/ may be seen at Figure 1:



Note: The data for year 2003 is planned
Resource: Municipality of Stara Zagora

Figure 1. Revenues in the Budget of Minicipality of Stara Zagora

An important condition for providing the needed public goods is to be established a relation between the requisite for them and the possibilities of Municipalities to accumulate the necessary resources. The accent in the process of decentralization and eurointegration should be put on the budget process. The effective budgeting requires forming of a financial resource, which amount is in conformity with the needs of a specific Municipality and with the specific expedience of municipal expenditures. Municipalities should be given the opportunity to play a greater role in approving and assimilating investment resources instead of making excessive current expenditures as it is done at their present system of financing[13].

CONCLUSIONS AND RECOMMENDATIONS

- The legislation referring to self-government in Municipalities concedes an opportunity for them to run its own policy in local public goods supply. Their amount should respond to their specific needs and the municipal expenditures should be completely effective and completely enough.
- Municipality as an instrument of local self-government is financially independent for its own revenues and what comes after is revealing of new ways for their increase - increase in collecting rates and taxes, the revenues by rents, effective management of municipal enterprises and etc.
- The requirement Municipality to accomplish the disposed state activities imposes responding financing by the state over adequate definition of standards for allowance and number of staff. The granting of Municipality should be bound in with the specific social-economic and demographic characteristics.
- The forming of municipal budget should take account on needs of the people from the specific Municipality regarding to supply of services and infrastructure in responding amount and quality.
- The stable social-economic development of Municipality involves effective management of budget revenues and expenditures not only in short-term but in long-term periods.

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