

COMPARATIVE STUDY ON FINANCIAL AND ADMINISTRATIVE DECENTRALIZATION IN EUROPEAN COUNTRIES

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Abstract

Our paper proposes a comparative analysis of the degree of administrative and financial decentralization in the European countries. Decoupling local government from a centralized system to a decentralized one involved with their investment decision-making powers backed by important financial resources. Increased local government capacity and accountability meant the effective and efficient management and administration of local public funds. However, most times their own financial resources proved insufficient leading to completion of the budget amounts. Our research shows that, although legally the local authorities were entrusted with decision-making powers in managing local public funds, lack of financial resources makes their dependence on central authority are still extremely strong.

Keywords: financial decentralization, local autonomy, public administration, administrative capacity, local budget

JEL Classification: H 72, H 83

1. INTRODUCTION

More decentralization means more democracy and more effective government since the decision is taken closer to the citizen in his double quality, of client that has access to medical services of the local hospital or send their children to school have service education, and for that shareholder is also public property of the state and the citizen who, through his contributions, provide functionality.

Administrative decentralization involves the redistribution of authority, responsibility and financial resources to provide public services between different levels of government. It is the transfer of responsibility for planning, financing and managing certain public functions from central government and its agencies at local levels of government, autonomous public authorities or corporations, as well as at regional or functional authorities. Administrative decentralization is an effective means for decision makers to address local needs in terms of strategy. Fundamental mission aimed at administrative decentralization strategy is to increase public confidence in the act of governance, promoting transparency and accountability of decision, and not least, providing quality public services. In this framework, include the issue of financial decentralization defined in the literature (Voinea, Gh., 2008) as local authorities the right to have money and resources to use them to perform the duties prescribed by law, to develop and monitor implementation of the budget.

Local development depends largely on the ability of government to administer and manage financial resources to cover local costs, the most effective use of own funds, but also those received from the state budget as transfers and subsidies, allowances and amounts broken. Comparative study aims to address administrative and financial decentralization in European countries and identify factors that influence it, identifying features and ways of managing and administering the financial resources at local level, the risks incurred and benefits obtained. Examples are highlighted through relevant analysis of financial indicators for each state analyzed, but also through a critical approach to the administrative and financial decentralization in our country.

2. FINANCIAL AND ADMINISTRATIVE DECENTRALIZATION IN HUNGARY

Hungary decided in 1990 a territorial division into eight administrative regions. This division was abandoned in 1994. Powers regions were taken at provincial public administrative office of the province and the law in 1996 increased the role of local authorities in regional development, which corresponds to the fact of decentralization.

Local governance is exercised through elected authorities, mayor and council. A unique element of Hungarian local government is the existence of the institution's *city manager*, which can usually be a senior civil servant and dealing exclusively technical and professional aspects of the administrative act. While the mayor has the role of political factors and representation, *city manager* is appointed and one elected body whose primary function is the implementation in daily work strategies and general directions set by the mayor and by the decisions of local council.

Hungary was one of the first countries in transition, along with Poland, which reformed local government. The 1523 local councils have worked as agents for implementing the government decision through a system of 19 county councils were abolished. Law on Local Self reinforced responsibilities of the 19 regional bodies (*megye*, counties). To replace local councils, citizens were granted the right to create local government (*önkormány*). This process was driven largely by a political imperative understandable - the abolition of the old system, but led to excessive fragmentation of the territory and therefore led to the creation of many local governments (currently there are 3,200 local governments in which nearly 1670 fewer than 1,000 inhabitants).

Local Autonomy Law was the first of a package of eight laws that now creates the Hungarian system of autonomy for local governments. This legal framework establishes that the governments are not local central government agencies.

Local governments are obliged to provide basic education, health, social security, waste disposal, drinking water, public lighting and maintenance of public roads and cemeteries. They are also obliged to ensure respect for national and ethnic minorities. Other tasks relate to the provision of local transport, snow removal, fire protection, public safety and providing cultural and sporting services.

Table no. 1. Distribution of Local Government Revenues in Hungary

Total	100.0%
Own Source Revenues	22.6%
Grants	31.7%
Shared Revenues	14.6%
Capital Investment Financing	10.3%
Transfers from Social Security Fund	17.5%
Others	3.3%

Source: Stephen Temes - "Local Government in Hungary", Local Government in Central and Eastern Europe, http://lgi.osi.hu/publications/2000/25/Chapter_8.PDF , p.370

Table no. 2. Distribution of Local Government Expenditures by Categories in Hungary

Total	100.0%
Personnel Expenses	28.6
Employer's Contributions	13.4
Material Expenses	26.4
Expenses of Accumulation and Revival	31.6

Source: Stephen Temes - "Local Government in Hungary", Local Government in Central and Eastern Europe, http://lgi.osi.hu/publications/2000/25/Chapter_8.PDF , p.373

Data presented in Table. No. 1 and Table. No. 2 show that Hungary local expenditures accounted for approximately 20% of public sector expenditure and 35% of public sector investment (Dethier, JJ, 2000). Taxes collected locally are only 22% of total revenues, or about 3% of GDP.

Local governments also receive a share of personal income tax based on the amount collected in their jurisdiction, and 50% of tax on transport, but these two sources of income are only 14% of total local revenues. As a result, local authorities depend heavily on transfers from central budget to finance their spending.

Before 1996, transfers and own revenues, including loans, were insufficient to cover total costs. They have led to shortages, which were eventually covered by central government. At that time, some local governments have called for additional resources from central government. These has derived in part from an imbalance between irresponsible spending of public money and establish a fair income, but also the lack of transparency in the use of public money, and that central government is ultimately court responsible for many financial obligations of local governments.

In 1995, Hungary has experienced a major economic crisis and has implemented a stabilization program. It included three elements which introduce greater discipline in managing local public finances. First, incentive schemes were used to force municipalities to reduce costs. Transfers from the central budget were reduced by about 3% of GDP, and efforts were made to improve and simplify the transfer system. However, it is unclear whether this led to results. Secondly, local government's annual borrowing has been subject to a limit (equal to 70% of their revenues minus cost of public debt). Thirdly, Parliament enacted a bankruptcy law that prevents local rescue plans by central government, local government prohibits the use of assets as collateral, to local authorities to negotiate with their creditors and allow the central government to appoint a commissioner for the control of local finances during bankruptcy proceedings. This led to a substantial reduction in capital expenditures and the current, but reduced and local government deficits. Although local governments were able to meet fiscal targets in recent years, there is evidence showing lack of effectiveness in delivering public services by local authorities (Dethier, JJ, 2000). First, there is still a systemic imbalance in the structure of intergovernmental finance. Costs and revenues are not properly grounded and equalized. Transfer system creates inappropriate incentives, which often lead to additional grant application to manage budget deficits. Although the amount of subsidy deficit remained around 7 billion HUF in 1996 and 1997 (around 0.1% of GDP), the number of local governments seeking such a grant has increased by almost 25% (Dethier, JJ 2000).

Second, fragmentation in service delivery implies that economies of scale are not properly exploited, leading to high costs and poor service in many areas. Efforts have been made to promote low-cost services, creating functional associations and regional development units. Such associations are, however, constrained by limited legal status and their inability to collect or own income or receive state subsidies as a single entity. Roles and responsibilities of different levels of regional development are still unclear. This creates problems of coordination and undermines efficiency in service delivery.

Thirdly, although local costs have declined as a share of GDP, in response to lower shipments and impose new constraints loans accessed by local governments, all expenses will not be possible to maintain the required level. This is due that local asset depreciation has not been properly incorporated into the decisions to spend public money for that renewal of assets has been delayed repeatedly, and for the continued need for substantial additional investment. By way of example, the health sector, where most hospitals are owned by local governments, the buildings need renovation or replacement requires almost HUF 140 billion (or 1.7% of GDP) in late 1997 (Dethier, JJ, 2000, data analyzed according to World Bank Report 1999).

3. FINANCIAL AND ADMINISTRATIVE DECENTRALIZATION IN POLAND

Produced in local government reform has not only changed Poland, essentially, but it has also strengthened democratic processes. Unit of local government stated in the Constitution of Poland is common. The Constitution also gives the possibility of creating other local government units whose functions are stipulated in various organic laws.

As a result, there was the next stage of decentralization of public power, which has generated a new territorial reform of the country. Were created 16 voivodeship, 307 county and 65 cities with county status.

Autonomy is an important element of the operation of local government in Poland. Municipalities and counties are not subject voivodates. The only dependency that may occur take the delegation of powers, as required by law. It largely provides transmission executive powers to local government units. Stipulations on this matter are reflected in dozens of organic laws, established local government, and hundreds of acts in which we find references related to local government.

Delegation of powers from central to local government is based on the principle of subsidiarity of the state. In other words, the basic position of the village belongs; because it is closest to the people it works for them and under their direct control. Public affairs are managed by the county general (and inspection services, police, firefighters, hospitals, environmental education, cultural institutions, etc.). Regional government (the prince) has assumed jurisdiction under the policy on balanced development voivodates. In cities with county status, the skills are performed by municipal and county municipal government. Moreover, the State Administration (central and territorial) engaged on domestic and foreign policy of the state administration of public affairs and national character (Marchlewski W. L. Chiriac, P. Tomczak, 2007).

As regards local government revenues, financial activities of municipalities, counties and voivodates is performed according to the law on public finance and revenue law on local government units.

Table no. 3. Municipal Revenue Structure in Poland

Total	100.0%
State Grants (general and specific)	38.3%
Shared Revenues	24.2%
Independent Revenues	35.2%
Credit, Bonds ^a	-
Other	2.3%

Source: Andrzej Kowalczyk - "Local Government in Poland", Local Government in Central and Eastern Europe, http://lgi.osi.hu/publications/2000/25/Chapter_5.PDF, p. 235

^aAccording to Polish law, loans and revenue bonds are not part of local authorities

In Table 3, local government revenue structure is observed. Share the most important source of income for local budgets, is represented by transfers from the state budget (38.3%). Another important category is represented by the composition of those revenues while revenue flows from the state budget, local government charges that they receive a certain percentage of (percentage prescribed in local government law) which becomes income to local budgets. Own local government revenues as a percentage neglected, 35.2% of total revenues of local government.

Distribution costs in local government budgets as economic structure have an identical situation in most states, namely, a percentage above 70% for current expenditure (76.3%) and the rest for capital expenditure (23.7 %) (Table no. 4).

Table no. 4. Distribution of Municipal Expenditures in Poland

Total expenditure	100.0%
Current expenditure	76.3%
Capital expenditure	23.7%

Source: Andrzej Kowalczyk - "Local Government in Poland", Local Government in Central and Eastern Europe, http://lgi.osi.hu/publications/2000/25/Chapter_5.PDF, p. 237

On the functional structure of public spending (Table no. 5) component that stands out in terms of high percentage allocated is education (37.6% of total expenditure of administration). Other areas have lower rates, below 10%, except for social assistance and administrative expenses were allocated 11% percent.

Table no. 5. Expenditure Assignment by Municipalities in Poland

Total	100.0%
Education	37.6%
Health Care	7.2%
Social Care	11.0%
Sport, Culture	5.0%
Administration	11.6%
Housing, Municipal Economy	27.3%
Other	0.3%

Source: Andrzej Kowalczyk - "Local Government in Poland", Local Government in Central and Eastern Europe, http://lgi.osi.hu/publications/2000/25/Chapter_5.PDF, p. 238

Given the administrative-territorial division of Poland, we detail the types of income to the level at which administrative analyst. Thus, a joint income of Poland consists of: income taxes, revenue; Shares of some taxes that are part of state budget; General subsidy; revenue budget units of the communes (municipal and subsidiary of village households); transfers from the state budget for realization of delegated powers by municipalities or state government of delegated powers under other laws; revenues from municipal property management.

Municipal revenue (Marchlewski W. L. Chiriak, P. Tomczak, 2007) can be further detailed: a) own income from that: the rate of participation of municipal income tax of individuals, PIT (39.4% of income tax of individuals); participation rate in municipal income tax of legal persons, CIT (6.71% of total revenues from income taxation of legal persons); revenue from property taxes, agriculture, forestry, from bequests and donations; income from state tax, administrative and operational; 5% of income from realization of delegated powers from central state administration, b) general subsidy consists of: the rate equivalent; common equivalent share for the population whose average is lower than national average; share for education and general education; c) donations to carry out the delegated powers to finance their own powers of municipalities.

Income of a county under the administrative-territorial division of Poland consists of: 1% its stake in the revenue part of state budget revenues from taxes on income county residents, PIT; revenue units in the county budget, county payments to households and county subsidiary; transfers from state budget to undertake the task by guards and inspections provided for in the law on local government district; transfers from state budget to carry out the delegated powers of state government, the county made under other laws; transfers from state budget to achieve the county's own skills, interest rates of financial resources allocated to bank accounts; income from county property management (Marchlewski W. L. Chiriak, P. Tomczak, 2007).

Detailing the income of a county in Poland we find: a) owns revenues of which: share of county participation in personal income tax, PIT (percentage of 10.25% of personal income tax); rate of participation in income tax legal persons, CIT (1.4% tax rate on income of legal persons); 5% of income derived from carrying out the delegated powers of central state administration, b) general grant of that: share equivalent; listing the counties in which the equivalent Unemployment is 110% higher than the national average; the share for education and environmental education and training c) donations to carry out the delegated powers transferred to state government and counties to finance their own skills.

Last administrative-territorial unit and the largest is Voivodeship. Thus, revenues are comprised of voivodship: participation rates in taxes as part of budget; general grant; proceeds from the voivodship budgetary units, subsidiary payments to households Voivodeship; transfers from state budget to carry out the delegated powers of state government; transfers from state budget to

achieve its own powers of voivodship; interest rates of financial resources allocated to bank accounts; Income from property management voivodship (Marchlewski W. L. Chiriac, P. Tomczak, 2007).

Detailing the income of a voivodship in Poland, we find: a) owns revenues which: its stake in PIT (1.6% of taxes collected from personal income); its stake in CIT (15.9% of earned income taxes of legal persons); 5% of income from realization of delegated powers by state governments; b) general grant of which: share equivalent; equivalent rate for the smaller principalities of 3 million inhabitants; the regional share for: voivodates an unemployment averaged 110% higher than national average; principalities whose road network density is higher than national average; principalities whose GDP is below 75% than the national average, c) donations to carry out the delegated powers ceded by the State Administration for funding the county's own powers.

4. FINANCIAL AND ADMINISTRATIVE DECENTRALIZATION IN BULGARIA

Bulgaria is divided into 28 regions and 265 municipalities. *Region [oblast]* is an administrative territorial unit representative for Bulgaria. The Governor is the official representative of government and is appointed directly by the Council of Ministers. The Governor is assisted by a regional administration, including a department for regional development. *Municipality [obshtina]* is an autonomous administrative unit. Management authorities are the Council and the Mayor. Council and Mayor are elected separately by the public authority for a term of four years by direct universal suffrage. Those may be part of the composition of people from different political parties.

In 2000, six regions were established, not as territorial-administrative units with legal personality and not only *for planning purposes*. They are just larger geographical areas, corresponding to 28 regions, which can develop strategies local development.

Establishing the regulatory framework of territorial decentralization in Bulgaria started with the adoption of the Constitution and laws of local government and self-governance. Developing the legal framework of local autonomy and expand its functions, including the financial independence of municipalities, have been accepted as a good prospect for development of local self-government. Despite positive changes made in the years after the centralized economy, local financial system has remained almost unchanged. Like most countries in transition, one of the most serious problems that local Bulgarian administration has faced was to face the gap between the responsibilities, powers and resources of the municipality. They were too financially dependent on the willingness of central government and local government powers to influence local revenue and expenditure were limited. They could not determine local taxes on their own, so there is fiscal decentralization. Local taxes were established by law and to establish local taxes by municipalities were established constraints. According to data reported for 1999 by the World Bank, Bulgarian municipalities could affect only 18% of their total revenue base. There were a number of conditions for the initiation of financial decentralization in Bulgaria:

- the will of the political class to implement administrative decentralization;
- decentralization needs to be recognized by most of the platforms of political parties during election program;
- after the elections, financial objectives for decentralization to be taken by the Government. Constitutional amendment was introduced by local authorities' powers to provide power to impose and establish local taxes (fiscal decentralization).

To join the European Union in 1995 the Bulgarian Parliament adopted the European Charter of Local Self-Government, thus strengthening the administrative and financial decentralization.

On March 11, 2002, the Bulgarian Council of Ministers established a working group to carry out a national action program on financial decentralization, with the following members: Deputy Prime Minister, representatives of ministries (finance, education and science, labor employment and social policy, health care), Audit Bureau, National Association of Municipalities

of the Republic of Bulgaria, the Foundation for Local Government Reform. In June 2002, the Working Group has developed and the Council of Ministers adopted a concept and a program of decentralization became a financial benchmark for the introduction of financial decentralization in Bulgaria. Basic long-term objective was *to provide quality public services and affordable people to meet needs in order to balance the long-term municipal expenditure stable revenue sources, and citizens can control this process*. This ambitious target was accompanied by the following principles:

- a. a system of incentives aimed at increasing local revenues and the potential for financial management;
- b. the adoption of simple financial structure;
- c. financial discipline;
- d. monitoring and evaluation of decentralization by the government;
- e. having regard to differences between different local authorities in terms of financial resources and management skills, enabling them to develop according to their characteristics;
- f. generating adequate conditions for effective control of citizens.

These changes are intended to delineate the powers of the central public administration authorities to the local authorities. Thus, the powers delegated to local government are in education, health, culture, health and social protection. Operating costs of these public services are covered by local taxes, sometimes supplemented by subsidies from the state budget. By law, local authorities did not receive amounts deducted from income tax of the autonomous and state-owned companies; they were replaced by receipt of earnings and allowances deducted from personal income tax. Also, the powers of local authorities represent many domains as public services, road maintenance, construction of kindergartens and nurseries, and most activities in the cultural sector. Local authorities may make expenditures for these services within available revenue. Revenues consist of local taxes and other non-tax revenue (property management authorities, fines, fees, donations, sponsorships, loans). Local authorities with low capacity to generate revenue adjustment may receive grants. To increase financial decentralization has been incorporated into Bulgarian law a series of fiscal measures. However, local authorities are still quite dependent on transfers from the central budget and subsidies (higher percentage of 50%).

According to data from Table. 6, it is noted that a percentage is still significant subsidies from the state budget - 32.4%.

Table no. 6. Revenues by Different Types of Local Government in Bulgaria

TOTAL	100%
Income tax	10.0%
Non-tax revenue, including	15.8%
Fees municipal court	25.8%
Fines and penalties	19.5%
Other non-tax revenue	9.3%
Income yield from state and municipal property	46.1%
Subsidies from state budget	32.4%

Source: Emilia Drumeva - "Local Government in Bulgaria", Local Government in Central and Eastern Europe, <http://lgi.osi.hu/publications/2001/81/Stab-Bulgaria.pdf>, p.165

5. FINANCIAL AND ADMINISTRATIVE DECENTRALIZATION IN ROMANIA

Romanian legal framework on decentralization is given by the Romanian Constitution in Art. 120 stipulates that "government of territorial-administrative units is based on principles of decentralization, deconcentration and autonomy of public services" and Law no. 195 of May 22, 2006, the framework law on decentralization, which in Art. 2 it defines decentralization as "the transfer of administrative and financial powers from the central government to local government level or private sector".

It is known that local budgets are highly dependent on financial resources from central level to supplement their income in the form of transfers, subsidies and allowances of the amounts deducted from certain income of the state budget. Even if the state still allocates significant financial resources, most of them have special purpose, which does not allow local authorities have wide discretion in managing funds.

Meanwhile, responsibility for ensuring sufficient local revenues should accrue to local government authorities, which is primarily concerned with finding solutions to complement local revenues and then to seek funds from central level.

How to achieve balance local budgets each year sparks wave of discontent so far not finding a formula for optimal allocation of financial resources from central to local governments. The distrust of accuracy criteria persists under the question about how the budgetary funds are allocated to county governments; the foundation is often political and not economical.

Table no. 7. Receipts made to local public budgets

	2005		2004		2003	
	Mil. Lei	%	Mil. Lei	%	Mil. Lei	%
Revenue - total	19480.9	100%	15955.8	100%	13078.1	100%
Current revenue	3149.5	16.16%	2747.2	17.21	2285.9	17.47
Capital revenue	397.5	2.04%	328.8	2.06	123.9	0.95
Revenues with special destination	-	-	-	-	319.4	2.45
Samplings from state budget	14667.1	75.28%	11909.8	74.64	9374.3	71.68
Subsidies	1218.1	6.25%	920.2	5.76	734.9	5.62
Receipts from reimbursement granted	2.0	0.01%	1.1	0.03	0.5	0.01
Donations and sponsors	23.5	0.14%	19.3	0.12	-	-
Loans	23.2	0.12%	-	-	239.2	1.82
Amounts from trading capital to cover temporary gap cash	-	-	29.4	0.18	-	-

Source: own calculations after Statistical Yearbook of Romania 2008

For Romania, the year 2005 is apparent in the overwhelming percentage of the revenue, over 75% of shipments (samples) from the state budget. This high percentage, 70%, is found in the other two years analyzed, 2004 and 2003. This shows the high dependence of local authorities' revenue from the state budget. We can remark that the current income levels remained almost constant 16-17%. For year 2003 we find an income category which represents a small percentage, revenues with special destination.

Table no. 8. The economic structure of local budget expenditures in Romania - 2005

	Million lei	%
Expenditure - total	33982.3	100
Current expenditure	26868.5	79.06
Capital expenditure	6943.3	20.43
Financial Operations	170.5	0.51

Source: own calculations after Statistical Yearbook of Romania 2008

Analyzing the structure of local expenditure is observed for the same high percentage of current expenditures of 79.06%, similar to that of Poland by 76.3% and the remaining amounts for capital expenditures. The percentage of expenditure on financial operations is almost insignificant to the other two, only 0.51%. From the analysis results can shed the idea that the total expenditure incurred by the local government share of investment expenditure is very small. A sociological study showed that investments in municipal and urban services are performed in a higher percentage than for education and local investment. Implementation of the decentralization process

has proved extremely costly for local authorities and sinuous both in terms of material and human. Effectiveness and quality of decentralized public services are determined to a large extent a matter of public servants and specialization (Bercu, AM, Onofrei, M., 2007).

CONCLUSIONS

Of study can highlight some key ideas in interpreting, understanding and analysis of financial and administrative decentralization. First, administrative decentralization is the basic principle of organization and functioning of local government. Hungary, Poland, Bulgaria and Romania are countries in wide release process from a centralized decision system to one based on the discretion of local authorities. Imperative financial decentralization, to support local public expenditures through own revenues, rational and efficient management of local financial revenues are some underlying principles of local development. On the other hand, we should consider the limits of the decentralization process:

- a. division of powers can lead to confusion and therefore inefficient;
- b. abuse on decentralization may lead to an escalation of the specifics that may endanger the unity of the state;
- c. The decision to create syncope (local officials do not have the specialization of the central level);
- d. an inequitable dispersal of public resources between local authorities can lead a process of dissolution of social solidarity.

We can say in this regard that the transition of responsibilities of government in charge of local government task without building a unified strategy for national implementation of the decentralization process, clear and transparent without specifying the tasks and goals are not simply maintain a state fact: the spending of public money in a flawed and inefficient, which means the accumulation of long-term shortfall in local budgets.

Need rationalizing expenditures from local budgets performance becomes an imperative for local authorities, while the share taken from the state budget tends to become smaller, so noted in the study undertaken.

It is noteworthy that successful implementation of the decentralization process depends largely on the strategies adopted by government in this direction, planning, organization and control of decentralized services. Allocation of financial resources to support the decentralization process, implementation of logistics unit, adequate human resources and working standards are objective criteria to achieve efficiency and quality of public services.

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