



**FACULTY OF FINANCE - ACCOUNTING**

---

**THE JOURNAL  
CONTEMPORARY ECONOMY**

**Volume 5, Issue 4/2020**

---

**REVISTA ECONOMIA  
CONTEMPORANĂ**

**Vol. 5, Nr. 4/2020**

---

**”Independența Economică” Publishing  
2020**

**SCIENTIFIC BOARD:**

*Professor PhD Ovidiu PUIU*, “Constantin Brâncoveanu” University of Pitești, Romania  
*Professor PhD Alexandru PUIU*, “Constantin Brâncoveanu” University of Pitești, Romania  
*Professor PhD Manuel Salvador Gomes ARAÚJO*, Instituto Politécnico do Porto, Portugal  
*Professor PhD Iuliana CIOCHINĂ*, “Constantin Brâncoveanu” University of Pitești, Romania  
*Professor PhD Emil DINGA*, Senior Researcher, ”Victor Slăvescu” Financial and Monetary Research Center, Romanian Academy, Romania  
*Professor PhD Emilian M. DOBRESCU*, Senior Researcher, Institute of National Economy, Romanian Academy, Romania  
*Professor PhD Mădălina DUMITRU*, Academy of Economic Studies of Bucharest, Romania  
*Professor PhD Marius GUST*, “Constantin Brâncoveanu” University of Pitești, Romania  
*Senior Researcher PhD Mărioara IORDAN*, Institute for Economic Forecasting, Romanian Academy, Romania  
*Professor PhD Dumitru MARIN*, Academy of Economic Studies of Bucharest, Romania  
*Professor PhD Ion MIHĂILESCU*, “Constantin Brâncoveanu” University of Pitești, Romania  
*Professor PhD Doina MUREȘANU*, Université de Québec in Abitibi-Temiscamingue, Canada  
*Associate Professor PhD Rodica PERCIUN*, Senior Researcher, National Institute for Economic Research of the Academy of Sciences of Moldova and Ministry of Economy, Republic of Moldova  
*Professor PhD Vasile RĂILEANU*, Academy of Economic Studies of Bucharest, Romania  
*Professor PhD Ion STEGĂROIU*, Valahia University of Târgoviște, Romania  
*Professor PhD Alexandru STRATAN*, National Institute for Economic Research, The Academy of Sciences of Moldova, The Ministry of Education, Culture and Research, Republic of Moldova  
*Professor PhD Dumitru VIȘAN*, Academy of Economic Studies of Bucharest, Romania  
*Associate Professor PhD Mihaela ASANDEI*, “Constantin Brâncoveanu” University of Pitești, Romania  
*Associate Professor PhD Elena CIGU*, “Al. I. Cuza” University of Iași, Romania  
*Associate Professor PhD Florin DIMA*, “Constantin Brâncoveanu” University of Pitești, Romania  
*Scientific Researcher PhD Mihail DIMITRIU*, ”Victor Slăvescu” Financial and Monetary Research Center, Romanian Academy, Romania  
*Scientific Researcher PhD Edith DOBRESCU*, Institute of World Economy, Romanian Academy, Romania  
*Associate Professor PhD Sebastian ENE*, “Constantin Brâncoveanu” University of Pitești, Romania  
*Associate Professor PhD Mihaela GÖNDÖR*, ”George Emil Palade” University of Medicine, Pharmacy, Sciences and Technology of Târgu-Mureș, Romania  
*Associate Professor PhD Oana-Ramona LOBONȚ*, West University of Timișoara, Romania  
*Associate Professor PhD Camelia-Cătălina MIHALCIUC*, “Ștefan cel Mare” University of Suceava, Romania  
*Associate Professor PhD Mircea DUICĂ*, Valahia University of Târgoviște, Romania  
*Associate Professor PhD Mihaela-Roberta STANEF-PUICĂ*, Academy of Economic Studies of Bucharest, Romania  
*Associate Professor PhD Daniela ȘTEFĂNESCU*, ”George Emil Palade” University of Medicine, Pharmacy, Sciences and Technology of Târgu-Mureș, Romania  
*Lecturer PhD Andreea GANGONE*, “Constantin Brâncoveanu” University of Pitești, Romania

**EDITOR-IN-CHIEF:**

*Associate Professor Ph.D. CRISTINA GĂNESCU*

**EDITORS:**

*Lecturer Ph.D. ANDREEA GANGONE*  
*Associate Professor Ph.D. MIHAELA SAVU*  
*Lecturer Ph.D. CORINA DUCU*  
*Lecturer Ph.D. NICULINA STĂNESCU*

**EDITORIAL SECRETARY:**

*Lecturer Ph.D. IULIANA TALMACIU*

**LANGUAGE REVIEWERS:**

*Lecturer Ph.D. GEORGIANA MÎNDRECI, Lecturer Ph.D. CAMELIA RIZEA*

The Journal is printed under the patronage of  
”Constantin Brâncoveanu” University, Faculty of Finance-Accounting.  
© ”Independența Economică” Publishing, 2020 - Recognized by C.N.C.S.  
Pitești, Calea Bascovului no. 2A, Argeș County, Romania, Phone/Fax: +00248-216427.

The Journal is currently indexing in the following international databases:  
**EconPapers (RePEc), IDEAS, BASE, SCPIO, OAJI, ResearchBib,**  
**CEEOL (Central and Eastern European Online Library),**  
**Index Copernicus International – ICI Journals Master List.**

*The views expressed in these articles are the sole responsibility of the authors.*

ISSN 2537 – 4222, ISSN-L 2537 – 4222

## CONTENT

<b>Isabela-Raluca BOGASIU (ANTON), Nicoleta ARDELEANU (TRIFU)</b>	THE ROLE OF INTERNAL AUDIT IN EMERGENT RISKS MANAGEMENT	<b>6-11</b>
<b>Viorica IDU (DINDAREANU)</b>	MODELLING THE INCOME AND REFLECTING THE PERFORMANCE OF AN ENTITY	<b>12-23</b>
<b>Alina Georgeta AILINĂ</b>	FISCAL INTEGRATION OR DISASSEGRATION IN THE EUROPEAN UNION IN THE COVID-19 CONTEXT?	<b>24-31</b>
<b>Monica-Ionelia MĂRGĂRIT</b>	THE MONETARY POLICY INSTRUMENTS OF NATIONAL BANK OF ROMANIA AND THEIR EVOLUTION IN TIME	<b>32-38</b>
<b>Nicoleta ARDELEANU (TRIFU), Isabela-Raluca BOGASIU (ANTON)</b>	AUDIT OF THE IMPLEMENTATION OF THE NATIONAL ANTI-CORRUPTION STRATEGY AT THE LEVEL OF LOCAL PUBLIC ADMINISTRATION	<b>39-44</b>
<b>Mihail CIOBANU</b>	ASPECTS OF THE PUBLIC SPENDING POLICY ON THE SOCIAL PROTECTION OF CHILDREN IN DIFFICULTY IN THE REPUBLIC OF MOLDOVA	<b>45-53</b>
<b>Otilia MANTA</b>	THE STATE AID INSTRUMENT FOR SUSTAINING COMPETITIVENESS IN THE CONTEXT OF CURRENT CRISES	<b>54-68</b>
<b>Sergiu – Dan IURIAN</b>	MIGRATION AND ITS FUTURE – A LOOK OVER THE CURRENT MIGRANT FLOWS (LEGAL AND ILLEGAL) AND THEIR EFFECT OVER ECONOMIES, AND THE WAYS PUBLIC MANAGEMENT ADAPTS TO PANDEMIC CRISIS	<b>69-74</b>
<b>Ionel LEONIDA</b>	AN EMPIRICAL ANALYSIS OF THE POTENTIAL EFFECTS INDUCED BY THE IMPLEMENTATION OF THE MEDIUM-TERM BUDGETARY OBJECTIVE IN THE COUNTRIES OF THE EUROPEAN UNION	<b>75-85</b>
<b>Loredana Maria PĂUNESCU</b>	SYSTEMS SIMULATION MODELS TO BALANCE SOCIO-PROFESSIONAL YOUTH LABOR MARKET	<b>86-90</b>
<b>Georgiana-Gabriela IACOBUȚĂ</b>	DEFINING THE CONCEPT OF “CORE COMPETENCIES” IN RELATION TO STRATEGIC MANAGEMENT AND INNOVATION MANAGEMENT	<b>91-95</b>
<b>Mădălina ALBU</b>	INNOVATIVE TECHNOLOGIES USED IN THE SUSTAINABLE DEVELOPMENT OF NATURAL GAS DISTRIBUTION SYSTEMS	<b>96-102</b>

<b>Galina SAVELIEVA, Svetlana ZAHAROV</b>	PARTICULARITIES OF THE FORMATION AND DEVELOPMENT OF REGIONAL MARKETS OF LABOUR FORCE IN THE REPUBLIC OF MOLDOVA	<b>103-121</b>
<b>Simon OGAGA</b>	TIME FRAME OF BUDGET PASSAGE: EVIDENCE FROM NIGERIAN DATA	<b>122-131</b>
<b>Iuliana SCĂRLĂTESCU (TALMACIU)</b>	INNOVATION AND CHANGE – CURRENT CHALLENGES FOR THE COMPANIES IN THE CONSTRUCTION INDUSTRY	<b>132-139</b>
<b>Tatiana MANOLE</b>	FINANCING PUBLIC EDUCATION IN THE REPUBLIC OF MOLDOVA	<b>140-145</b>
<b>Gica Gherghina CULIȚĂ</b>	FISCAL POLICY OF THE EUROPEAN UNION. THE ROLE OF THE EUROPEAN FISCAL BOARD	<b>146-152</b>
<b>Cristina – Cora PÎRVU, Maria – Carmen IORDACHE</b>	SOCIAL INCLUSION-A FORM OF ERADICATION OF POVERTY AND SOCIAL EXCLUSION. SOCIAL INDICATORS FOR MEASURING SOCIAL EXCLUSION	<b>153-163</b>
<b>Carmen RĂDUȚ</b>	CLOUD COMPUTING	<b>164-169</b>
<b>Maria – Carmen IORDACHE</b>	RELIGIOUS TOURISM - BETWEEN CONTENT ANI DESIRE IN ECONOMIC AND SOCIAL DEVELOPMENT	<b>170-179</b>
<b>Sorin GRIGORESCU</b>	HEALTH CRISIS IMPACT OF THE CORONAVIRUS ON ROMANIAN ECONOMY	<b>180-186</b>
<b>Niculina STĂNESCU</b>	THE ASSESSMENT OF THE COVID-19 IMPACT UPON THE FIRMS FROM THE FINANCIAL AUDITORS' PERSPECTIVE	<b>187-191</b>

## THE JOURNAL CONTEMPORARY ECONOMY

<http://www.revec.ro>

- Peer Review -

The peer review process has a vital role in achieving both the goal and the objectives of the journal, evaluating originality and quality of articles submitted for publication. Within this process, reviewers may suggest improvements of form and content of the articles reviewed.

After receiving the article, the editorial board will verify the eligibility, depending on the respect of the editing requirements. Authors will be notified by email of the result of the eligibility verification within 15 days.

The Journal CONTEMPORARY ECONOMY uses the double-blind peer review system for the articles submitted for publication. Thus, the identity of the author(s) of the article and the reviewer (reviewers) is not known to any party, the editor being the one who assigns the reviewer for a certain article and the only one who knows the identity of both the author(s) and of the reviewer.

Authors will be informed by email about the outcome of the review.

The criteria that guide the peer review process of the manuscripts are divided into four main categories:

1. Originality and importance of the topic addressed in relation to the current stage of the research, to the purpose and objectives of the journal
2. Presentation in a highly coherent and comprehensive manner of the current stage of the research, plus the accuracy and quality of references
3. The structure of the manuscript must comply with the drafting recommendations presented in the **Redaction** section. Articulation must be clear, coherent and logical. Special attention is given to the translation into English which must be done in a scientific and academic language specific to the related field of research, avoiding the possible errors of speech, grammatical errors, errors of sentence syntax and colloquial expressions specific to common English. The journal accepts as standards of English both the British and the American speech.
4. Ethics emphasizes three categories of practices considered unethical and improper to the research activity:
  - a. Plagiarism, as defined in the literature
  - b. Fraud, as defined in the literature
  - c. Other ethical reasons (confidentiality of data used, obtaining permissions for quoted material, etc.).

The above-mentioned criteria are communicated and detailed to the reviewers with whom the journal works. Based on these recommendations they express their final recommendation on the publication or non-publication of the manuscript submitted to review in a *Peer Review Report* whose form is provided by the journal editorial office.

The Journal is indexed in:

*EconPapers (RePEc), IDEAS, BASE, SCIPPIO, OAJI, ResearchBib, CEEOL (Central and Eastern European Online Library), Index Copernicus International – ICI Journals Master List.*

The article will be sent to:

”Constantin Brâncoveanu” University of Pitești  
Faculty of Finance-Accounting  
Pitești, Calea Bascovului no. 2A, Argeș County, Romania  
Phone +400248-212627, int. 1019, fax +400248-221098  
Email: revec@univcb.ro, cristina\_ganescu@yahoo.com

Contact person:

Associate Professor Ph.D. CRISTINA GĂNESCU  
Phone +400744420742  
Email: cristina\_ganescu@yahoo.com

## THE ROLE OF INTERNAL AUDIT IN EMERGENT RISKS MANAGEMENT

**Ph.D. Isabela-Raluca BOGASIU (ANTON)**

"Valahia" University of Târgoviște, Romania  
E-mail: isabogasiu@gmail.com

**Ph.D. Nicoleta ARDELEANU (TRIFU)**

"Valahia" University of Târgoviște, Romania  
E-mail: nico75ard@yahoo.com

***Abstract:** The actual economic environment is in a continuous movement, being influenced by the phenomenon of globalization, by government policies, by technological evolution, etc. This dynamic also implies new challenges for both the business environment, as well as for accounting specialists and auditors, who are constantly required to identify new solutions. It is known that any business involves risks. Studies in the field have identified with success certain risks that can be foreseen and through an efficient risk management process, their negative impact on the entity could be limited. However, in the past few years the business environment has experienced another category of risks, such as emergent risks, having as a defining characteristic, the fact that they are unknown, unexpected, and their impact cannot be evaluated according to the classical models. As a result, the role of internal auditors to contribute to the improvement of the governance process, risk management and control of the entity, offers now new perspectives, which take into account the future impact, becomes more important and vital in the organization's activity.*

***Keywords:** internal audit, emergent risk, risk management.*

***JEL Classification:** M42, D81, G32.*

### 1. Introduction

Given that risk is an inherent component of the business process, its analysis and its impact on the entity, is vital to be able to appreciate its size and how it affects the business performance. Under these conditions, the implementation of an efficient risk management system brings significant benefits for the entity, because it will increase possibilities to reach its objectives, will improve the decision-making process by integrating the risks, will increase the confidence of the investors, will obtain lower cost of financing through efficient risk management, and also it will have more informed final decisions (Păunescu, 2019). If in the case of non-emerging risks, organizations like The Treadway Commission's Organizing Sponsorship Committee (COSO) or The Risk Management Institute (MRI) have made good practice guides, usefull for the entities in their management process, in the case of emerging risks, things are more complicated, due to the complexity of the threats generated by this category of risks.

### 2. Research methodology

The research we have developed within this article is a qualitative type. This involved the study of national and international specialized literature, as well as the analysis of studies conducted by international organizations on emerging risks. This paper aims to conceptually delineate the term of "emerging risk", to identify what are the possibilities of the entity to respond to the threats generated by them, but also what is the role of internal audit in managing these risks. Also, the article proposes a model for identifying and managing these emerging risks.

### 3. Emerging risk

The concept of emerging risk has gained increasing importance in recent years, especially because of its novelty character. Taking a look on the Global Risk Report in 2020, conducted by the World Economic Forum, there could be identified, various risks of major importance. Over 70% of respondents consider that risks such as economic

problems, cyber attacks, economic recession, climate change or internal political polarization are just some of the emerging risks that can contribute to major imbalances in the current economic environment (World Economic Forum, 2020).

Regarding the concept of risk, according to the Institute of Internal Auditors, the risk refers to "the possibility of producing an event that has an impact on the achievement of the objectives. Risk is measured in terms of impact and probability." (The Institute of Internal Auditors, 2017).

According to The Treadway Commission's Organization Sponsorship Committee (COSO), risk represents the possibility that an event may occur and affects in a negative way the process of achieving the organization's objectives (COSO, 2004).

Regarding the concept of emerging risk, at this moment, there is no agreed definition in the scientific community. The concept consists of two separate terms: "emergent" and "risk". Thus, possible understandings of the concept of emerging risk may refer to:

- a) newly created risk;
- b) newly identified/noticed risk;
- c) increasing risk;
- d) risk becoming widely known or established (Flage și Aven, 2015).

According to The Risk Management Institute, emerging risks are those risks that have not yet occurred, but they are in an early stage of becoming known and / or have been born and are expected to have an important significance. Emerging risks do not have a "record book", as in the case of known, non-emergent risks and usually occur in the long term. (Richardson and Gerzon)

#### **4. Emerging risk management**

It is known that risks are inherent in a business. An economic decision can lead to positive results, or not, depending on the course of events that cannot be predicted with certainty. The concept that risks must be avoided at any price has been replaced, in the last period, by a modern approach, which requires the most complete identification and obvious management of them, so as to maximize the results of a given risk. Under these conditions, the risk management process aims to reduce the possibility of the occurrence of negative consequences, by reducing either the likelihood of an event occurring, or its impact and take advantages from the opportunities (identified risks) (Paunescu, 2019). For a more effective risk approach, entities can implement a risk management process that identifies, evaluates, manages and controls potential events or situations. Among other things, the goal of efficient risk management is to ensure that each risk is identified, documented, prioritized and mitigated whenever is possible. Because all the entities face risks, whether they are positive (opportunities) or negative (events that affect the normal course of the business), the challenge for the auditors, when we talk about non-emerging risks, is to know when the risk will appear and what is the impact it will have on the entity (Edmead, 2007). But what happens in the case of emerging risks? How can auditors prevent the negative implications they may have on business activity?

#### **5. The role of internal audit in emerging risk management**

If in the case of non-emergent risks, up to this moment, standard steps have been developed that can help organizations and internal audit departments in identifying and managing them, if we refer to emerging risks, the specialized literature does not offer a model to follow, in this sense. The complexity of managing emerging risks lies in the fact that their recognition cannot be delimited as a precise process, there are no limits, as in the case of the other risks, they cannot be easily identified or anticipated, the impact that they will have on the entity cannot be approximated in a timely manner (Richardson and

Gerzon). These are risks that we cannot see, because they are outside of our experience or our mind, so we do not know that we should look for them. For example, previous globally emerging risks (both positive and negative) include the development of the Internet in 1982, the importance gained in recent years by using social media, the fall of the Berlin Wall in 1989 and the collapse of communism. The terrorist attack of 9/11 2001 in New York, for example, led to increased aviation security, and, as a result of the 2008 global financial crisis, stricter regulations were implemented (Hillson, 2014). Given the current environment, we can say that global warming or the emergence and spread of the SARS-CoV-2 virus are other current examples of emerging risks.

Under these conditions, the role of the internal auditor within the organization increases significantly. The Internal Auditing Standards specify the attributions of the internal auditors in the risk management issues, as follows:

Standard 1220.A3 provides that: the internal auditor must pay significant attention to the significant risks that could affect the objectives, operations or resources. However, the standard specifies that only insurance procedures, even if performed with professional conscientiousness, do not guarantee the identification of all significant risks.

Standard 2100 emphasizes that the internal audit activity must evaluate and contribute to the improvement of the governance processes, risk management and control of the organization, using a systematic and methodical approach based on risk. If internal audit assessments offer new perspectives and are considering the future impact, then the credibility and the value of the audit will be increased.

Last but not least, the Standard 2120 shows that the internal auditor must evaluate the effectiveness and contribute to the improvement of risk management processes (The Institute of Internal Auditors, 2017).

Thus, we notice that anticipating risks, understanding them and realizing in advance responses that can counteract the negative effects, transforms the internal audit, from a predominantly retrospective function, that reports what did not go well, into a dynamic, proactive function, which due to the skills and aptitudes of its specialists, can develop hypotheses in perspective, regarding the emergence of future risks for the organization. In this way, having the role of adviser, the internal auditor can help management to intervene, before the moment of risk materialization (Deloitte, 2018).

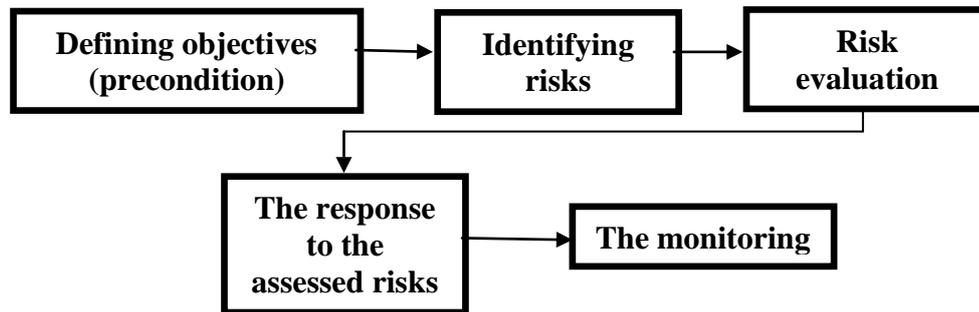
In order to have a complete and useful analysis, it is important to delimit the responsibilities of internal auditors within the entity, regarding risk management. Thus, their main duties are:

- Management advice and providing guidance upon request
- Involvement in actions of awareness of the employees of the entity regarding corporate governance, risk management and how to implement the internal control system
- Assisting the entity's departments in preparing and developing the Risk Register
- Supporting the activities of prioritizing and empowering employees in risk management based on action plans

Orientation on the appearance of the performance elements, respectively reaching a level of prevention of the adverse consequences in the risk management process (Ghiță, 2008).

As a result, the role of internal audit within the organization in case of emerging risks needs to be proactive, since its involvement can ultimately prevent the company from collapse in crisis situations. It is known that the risk management process has several stages (Păunescu, 2019):

**Figure no. 1. Stages of the risk management process**



We note that the risk management process involves five stages: defining objectives, identifying risks, risk evaluation, formulating responses to assessed risks and monitoring. We believe that this model is also useful in the case of emerging risks, if it is realized within the organization, with certain characteristics. Thus, we propose a model for managing emerging risks, based on the model presented above.

**Stage no. 1:**

In the case of emerging risks, the internal auditor should have as main objectives to ensure the continuity of the activity of the entity or to significantly reduce the impact that a certain emerging risk could have on its activity. Following these goals, the internal auditor should be alert to all existing global signals and warnings, which in a certain period of time could adversely affect the organization's activity.

**Stage no. 2:**

Following the analysis of these signals and warnings, the internal auditor must identify the emerging risk that may affect the company's activity in the short, medium or long term.

**Stage no. 3:**

Given its advisory function within the entity, the internal auditor should inform management of the identified emerging risk, since, at this point, the risk does not affect the company's activity, but precisely because of its emergent character, explained in the previous paragraphs, the risk is not widely known, is not aware, but it has been born and is expected to have a significant impact on the company.

**Stage no. 4:**

After informing the management, the internal auditor has to carry out a real and complex assessment of the emerging risk and how it may affect the company's activity in the future. This evaluation should include possible scenarios, delimited within the limits of possibilities over time.

**Stage no. 5:**

Following the evaluation, the internal auditor can propose solutions / answers to the emerging risk assessed. This answer may include the following:

- Identification of alternative possibilities of selling the products, in case the current options used will could no longer be implemented

- Ensuring that the organization has the ability to respond in a timely manner to new drastic legal regulations if required
- Verifying and identifying the value of the cash that the entity has, so that it has the capacity to support for a period of time the remuneration of the employees in case of a decrease of production and sales
- Proposals for reorganizing the way employees work, so that it is not necessary to stop the activity when the emerging risk will directly affect the organization
- Involvement in information activities of employees, shareholders, investors regarding the emerging risk and the possible consequences that can be generated by it

#### **Stage no. 6:**

The final stage refers to monitoring, but requires a much broader monitoring process, in which the internal auditor must follow how emerging risk evolves and identify the real chances that it will affect the entity and to what extent. If the internal auditor correctly identified the threat and the respective risk negatively influences the activity of the company, it must monitor the process of formulating the responses to the emerging risk.

#### **6. Conclusions**

In conclusion, we observed that in the current economic environment, the risks that can affect the performance of an entity's activity are complex and sometimes difficult to manage. In order to limit the impact of emerging risks on the business, the role of internal audit is becoming more important. In our opinion, the internal auditor is the person who can avoid a disastrous impact on the company, in terms of emerging risks, if he is alert to the existing international signals and warnings. The past few years have shown us that a certain event on another continent does not mean that we are unaware of the impact it can generate. The function of the internal audit to ensure the efficiency of the risk management process also gives the professional in internal audit the responsibility to pay attention to these international warnings. The internal auditor must have the ability to understand them and to try to anticipate the possibilities in which the organization might be affected. Thus, he must notify management and together identify solutions to adapt to new threats, in order to limit the negative consequences that may have on the organization's activity.

#### **References:**

1. Comitetul de Sponsorizare a Organizației Comisiei Treadway, 2020. *Enterprise Risk Management - Integrated Framework*, p. 2. [pdf] Available at: <<https://www.coso.org/Documents/COSO-ERM-Executive-Summary.pdf>> [Accessed 14 April 2020].
2. Deloitte, 2018. *Internal Audit 3.0. The future of internal audit is now*, p. 4. [pdf] Available at: <<https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Audit/gx-internal-audit-3.0-the-future-of-internal-audit-is-now.pdf>> [Accessed 17 April 2020].
3. Edmead, M., 2007. Understanding the Risk Management Process. *Internal Auditor*. [online] Available at: <<https://iaonline.theiia.org/understanding-the-risk-management-process>> [Accessed 17 April 2020].
4. Flage, R. and Aven, T., 2015. Emerging risk – Conceptual definition and a relation to black swan type of events. *Reliability Engineering & System Safety*, 144(61-67). [online] Available at: <ry

- <https://www.sciencedirect.com/science/article/pii/S0951832015001982#!>>  
[Accessed 17 April 2020].
5. Ghiță, M., 2008. *Guvernanța corporativă*. Bucharest: Editura Economică.
  6. Hillson, D., 2014. How to manage the risks you didn't know you were taking. *PMI® Global Congress 2014*, North America. [online] Available at: <<https://www.pmi.org/learning/library/manage-risks-didnt-know-were-taking-9275>> [Accessed 17 April 2020].
  7. Paunescu, M., 2019. *Guvernanța corporativă, managementul riscurilor și controlul intern*. Bucharest: Editura CECCAR.
  8. Richardson, B. and Gerzon, P., Emergent risks. *Research paper for The Institute of Risk Management*. [pdf] Available at: <[https://www.ii.org.uk/media/91711/emergent\\_risks.pdf](https://www.ii.org.uk/media/91711/emergent_risks.pdf)> [Accessed 17 April 2020].
  9. The Institute of Internal Auditors, 2017. *Internal Auditing Standards*. [pdf] Available at: <<https://na.theiia.org/standards-guidance/Public%20Documents/IPPF-Standards-2017.pdf>> [Accessed 17 April 2020].
  10. The Institute of Internal Auditors, 2020. *Standards Glossary*. [online] Available at: <<https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards-Glossary.aspx>> [Accessed 14 April 2020].
  11. World Economic Forum, 2020. *The Global Risks Report 2020*, p. 11. [pdf] Available at: <[http://www3.weforum.org/docs/WEF\\_Global\\_Risk\\_Report\\_2020.pdf](http://www3.weforum.org/docs/WEF_Global_Risk_Report_2020.pdf)> [Accessed 14 April 2020].

## MODELLING THE INCOME AND REFLECTING THE PERFORMANCE OF AN ENTITY

Ph.D. Student Viorica IDU (DINDAREANU)

“Valahia” University of Targoviste

E-mail: vicavica50@yahoo.com

**Abstract:** *The result of an entity is presented by means of some patterns that highlight the evolution in time of this concept. The new vision of the comprehensive income is shaped by the pyramid approach carried out by J.F.Casta and O. Ramond. The pyramid approach points out the difference between the operating income and the comprehensive one, by including the OCI component- a consequence of the use of the fair value measurements of some asset and debt items. There are also mentioned various patterns of the contents of the profit and loss account, according to the structure of the expenses, as a result of the nature criterion or the entity's functions one. There can be found as well patterns of the result's analysis by means of the direct costs and of the break-even point. The aim of the study follows the good knowledge of the advantages and the limits of the different ways of underlying the results.*

**Key words:** *result, performance, profit and loss account, comprehensive income, fair value, direct expenses, break-even point.*

**JEL Classification:** *M41.*

### 1. Introduction

The study conducted shows that determining the income of the entity can be considered an endeavor influenced by a large number of domestic and external factors of the company, its size depending on the tax and accounting policies. The subjectivism over the choice of policy, accounting practices, assessment or adjustment determines a certain size of the result. The latter's size can vary between certain limits without considering faulty any of these values.

The process IASB of capturing the performance of an organization by means of a single financial statement, has led to the expansion of the concept of the outcome. The expansion of the aim of the fair value application to the outcome and adding new elements to it (the component called Other components of the comprehensive income) has contributed to an increase of the volatility of the result by including some virtual elements which arise from the market developments. Thus, the income contains some value adjustments of the assets and liabilities according to the market value.

The presence of the options in accounting raises the question of the choice criterion of some fiscal policies. One can notice there is no objective result within the context of the international accounting standards that can offer a diversity of options for reflecting the same transaction. Choosing an option over the other can draw out a certain impact on the financial and accounting incomes. Beyond the impartial relationship of determining the income as a difference between the revenue obtained and the expenses incurred, the freedom to choose the fiscal policies determines either a decrease or an increase of the income according to targets previously assumed by the organization's management. In this respect, one can say that there is no accounting truth in determining the result.

### 2. Literature review

The normalization of a summary situation (financial reports) over the comprehensive result which is to replace or complete the traditional format of the results account has become a permanent concern within the joint project initiated by IASB and FASB with the view to achieving the convergence between the IFRS and US GAAP standards.

Most of the views related to the use of the presentation of the comprehensive income were delivered following the issue published by FASB of SFA S130 – The report

of the comprehensive result, standard which has been made compulsory beginning with the subsequent reports dated December 15<sup>th</sup>, 1997.

The authors O.Hanlon and Pope and Dhaliwal point out the fact that, regarding the assessment of stock yields, the comprehensive income, once compared with that shown in the net accounting income can rarely provide further information.

Quite by the contrary, Hirst and Hopkins, Maines and Mc Daniel, Biddle and Choi empirically claim the decision- making relevance of the comprehensive income. At the same time, one cannot rule out the fear that some elements, which at present do not belong to the result account, by being included in the comprehensive income, might be provided with an informational value far above their real level of meaning.

Once SFAS 130 has been issued, both at the IASB and FASB levels, the problem of the comprehensive income has evolved, being closely related to the treatment of the differences from the fair value measurement (for example the result of the re-evaluation of the fixed assets IAS 16, of accounting the gains and losses from investing in overseas entities – SFAS 52, IAS 21, of the unrealized gains and losses related to the financial tools available for selling- SFAS 115, IAS 39).

Therefore, the fair value becomes a fundamental tool of evaluation of the financial performance, taking into account the fact that by its use some accountancy flaws can be corrected into historical costs, being often incriminated for the differences between the reported values and the economic reality. In this case, an asset can generate incomes by increasing its fair values since the decision of holding an asset draws out economic consequences that the financial circumstances can undergo, thus the outcoming generated income should be relevant in assessing the resources management.

From this point of view, the new concerns about the performance presentation and the comprehensive result reflects the difficulty of disassociating the resulting income flows from the operational activity, from the income streams resulting from the changes in balance sheet values.

### **3. The research methodology**

Finding out the answers to the study's aims has been carried out through a theoretical research, by means of which it has been accomplished the analysis of the process of implementation of the international standards of financial reporting in compliance with the European accounting directives, being filled in through an application form in which there have been stressed out examples and schemes that are related to the problem addressed.

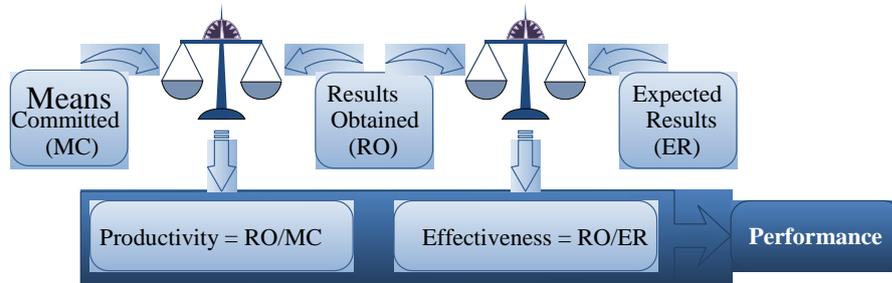
The starting point of the research was the theoretical documentation by covering the literature particular to the field and the evolution of the accounting regulations. This fact has actually led to making statements and to a clear structure of the elements regarding the income of the entity and its relation. It comes out that this thing was able to be achieved in the context of the various accounting differences: international, European and national. Such an approach has meant to highlight the understanding the conceptual set of reporting the company's results by means of the financial situation.

The bibliographic documentation has been achieved by using sources such as: research work carried out on the topic discussed both from the national literature and the international one, regulatory requirements of national and international accounting regulatory institutions.

The study focused also in producing bibliographic handouts for summing up the information, literature translations, and data processing. There have been consulted databases for indexing the research work in the field.

**4. The income and the performance of the organization**

According to a first approach (figure no.1) , “an organization is successful if it is at the same time productive and efficient” (Niculescu, 1997), its productivity representing the ratio between the results obtained and the means committed to achieving the results and the efficiency representing the balance between the results achieved and the expected results.

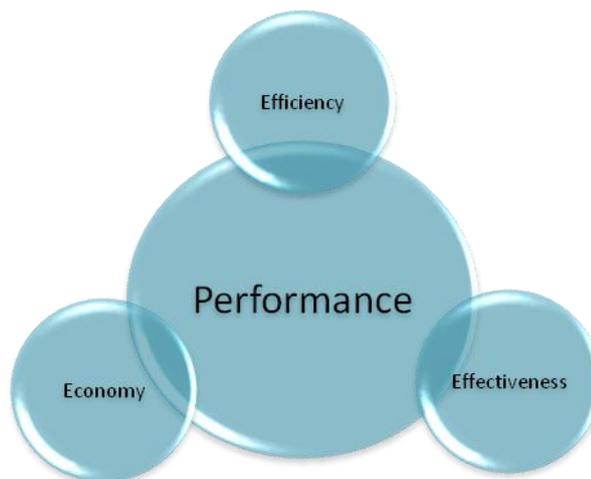


**Figure no. 1. The performance – the first approach**

Source: author’s design

The increase in the labour productivity is not enough for assuring an organization’s performance. The productivity must be analyzed in a strong connection with its efficiency. “If the industrial system continues to hold a single objective – the productivity , it will be heading to disaster” (Niculescu, 2003). Therefore, it turns out that an organization is theoretically performant when it is at the same time productive and efficient. For achieving its goals, the organization spends more resources most of which have been obtained through debts. The efficiency of using such resources plays a significant part for the result obtained by the organization.

From another point of view, three notions can be associated to the basic concept (figure no. 2): the economical aspect( getting the necessary resources at their lowest price), the efficiency (maximizing the results achieved, starting from a specified amount of resources, either minimizing the amount of resources for a predetermined income) and efficiency (the results obtained should reach the expected results) (Ristea, 2001).



**Figure no. 2. Performance – the second approach**

Source: Author’s approach

In this respect, according to N. Feleaga, L. Feleaga and S. Bunea, a significant indicator related to performance should offer the possibility of comparing the effect obtained with the effort made for its accomplishment (Feleaga, Malciu and Bunea, 2002).

Over the years, the assessment criteria of the performances of an organization have been in a constant movement. G. Lavalette, M. Niculescu define the performance *as an unstable level of potentiality, being accomplished by everything that has been optimized by the worth- cost association and it has made the organization competitive in its strategic segments* (Lavalette and Niculescu, 1999). From this point of view, performance is synonymous with competitiveness. An organization is competitive, that is, well-functioning, when the levels of effectiveness and efficiency obtained ensures it a sustainable presence on the market.

The measurement of enriching the shareholders (value creation) can be fulfilled as well by means of the notion of economic value added. (EVA- Economic Value Added). Through this notion one ensures the domestic performance measurement of the organization) (Hoarau, 2008). The value added takes into account the whole cost of the capital used. The value of this indicator is influenced both by the costs of the equity ratio and by those of the borrowed one). Taxation has a direct impact on the equity ratio and the borrowed capital. The way of calculating EVA was initiated by Stern- Stewart cabinet, and it is the following one:

Economic Value Added (EVA) = Operating Net Income – Cost of the employed capital

$$\text{Economic Value Added (EVA)} = \text{RE} \cdot (1 - \text{T}) - \text{K} \cdot \text{CE}$$

RE = Operating profit

T – Corporate Tax Rate

K – The average cost of financial resources (equity capital and debts)

CE – Economic capital

### Figure no. 3. Determination of EVA, after Bernard Colasse

The calculation of EVA as measuring the difference between the operating income after taxation and the remuneration of the economic capital used by the organization can also be found in the works of B.Colasse, the formula used is that shown in the figure no. 3 (Colasse, 2008).

If EVA registers a positive value, one can state that there has been created a well-offness state for the shareholders of the organization. If EVA has a negative value, it means that the operating result does not cover the cost of the capital invested.

For determining the economic value added, one must explain the notions of the invested capital and the net operating profit after taxation. The result of the operation is a concept that needs to be explained since it has different variants nowadays. The net operating profit is what in the French literature is called “resultat d’exploitation après impôt”, respectively “Net Operating Profit after Taxes- NOPAT”, in the English literature. The operating profit after tax is determined on the basis of the calculus:

$$\text{The operating profit after taxation} = \text{The operating profit} \cdot 1 - \text{Corporate tax rate}$$

The notion of operating income after taxation considers that the organization is financed from its funds only, and it lacks financial expenses by paying a tax only on the operating profit, without benefitting from the tax reduction corresponding with the interest

charges. An organization will hold the same operating profit after taxation, regardless of its financial structure. The economic value added can be obtained by minimizing the operating profit after taxation with the costs of the invested capital, which is determined on the basis of the following calculus:

**Expenses related to the invested capital = Invested capital \* The average capital cost**

C. Hoarau defines the *cost of the invested capital as the weighted average cost of the resources made available to the organization by its financiers: the shareholders and creditors* (Hoarau, 2008). The invested capital comes out from the equity capital and from the financial debts the economic asset is financed from (borrowed capital). From the creditors' point of view, the cost of the capital (figure no.4) is an opportunity cost which represents a revenue loss that results from a specific allocation of the available resources.

<b>DF * D * (1-T)    The borrowed capital cost</b>
DF – financial debts
D – interest rate
T – income tax rate

**Figure no. 4. The cost of the borrowed capital; source: author's conception**

The cost of the equity capital is not reflected in the results account, the accounting result being affected only by the cost of the borrowed capital. The equity capital does not represent a free source of financing, the shareholders claiming remuneration on the basis of the risk assumed. The determination of the cost of the equity capital is carried out starting with the model CAPM (Capital Asset Pricing Model) which was developed by Markowitz, Sharpe.

$$R = R_f + \beta \times (R_m - R_f)$$

Where:

R- return on equity

R<sub>f</sub>= the risk-free financial rate

β - volatility coefficient of the securities compared to the average of the stock market

R<sub>m</sub>= the average return on equity of the stock market

The difference (R<sub>m</sub> and R<sub>f</sub>) stands for the stock market risk premium. By replacement in the model equation CAPM, it results:

$$R = R_f + \beta \times \text{the risk premium}$$

For determining the equity cost in currency units in the previous formula, each term is multiplied by equity (expressed in cash terms), leading to the following formula for determining the cost of the equity capital:

*The average cost of capital* shall be determined according to the following calculation formula:

$$\text{Equity capital} \times (R_f + \beta \times \text{Risk premium}) \quad \text{The equity capital cost}$$

$$CM_K = \frac{(C_{Kp} + C_{Ki})}{(K_p + K_i)}$$

Where:

CM<sub>k</sub>= the average cost of capital

C<sub>kp</sub>= the equity cost

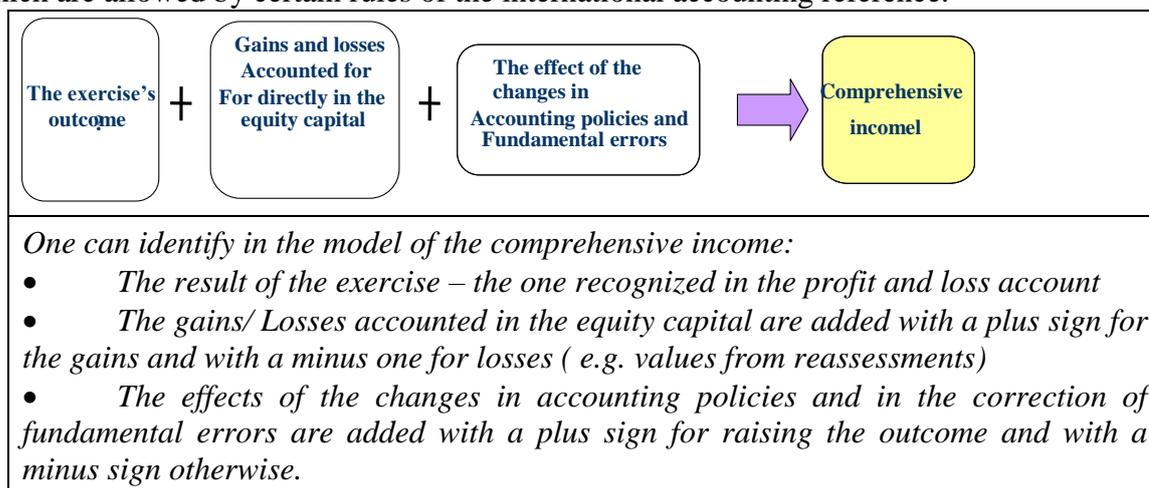
C<sub>ki</sub> = the cost of borrowed capital

K<sub>p</sub>= equity capital

K<sub>i</sub>= borrowed capital

## 5. The concept of output in IASB's vision

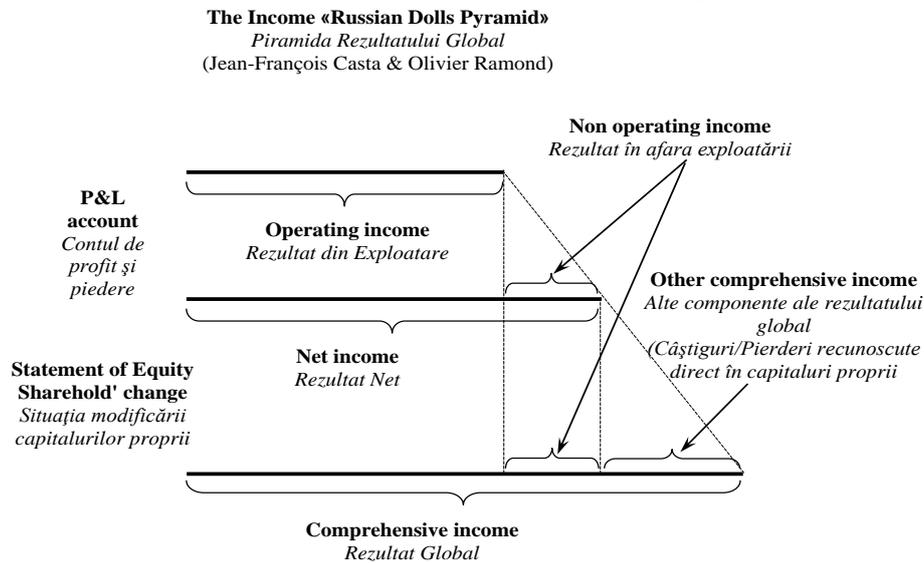
In 2003, IASB and FASB initiated a joint project regarding the financial situation which brought out the concept of result back to the debate. The first stage of the project resulted in revising the rule IAS 1 *Presentation of the Financial Statements*. There were introduced new concepts regarding the output. In the new vision, the outcome (figure no. 5) was extended by adding to its classic elements (profit or loss) a new component called Other components of the comprehensive result. (“*Other comprehensive income- OCI*”). This new component includes income or expenses which do not belong to the income, but which are allowed by certain rules of the international accounting reference.



**Figure no. 5. The comprehensive income according to IASB, source: author's conception**

In the pattern of the comprehensive income, one can identify both the gains and the losses coming out of the course of the organization's activities. Even if these elements meet the definition of gains and expenses elements, the international standards of financial reporting consider its presentation in the Statements of equity as being appropriate, and not directly within the Gains and losses account. This way of approaching the income of the organization has entirely changed its former concept. The OCI component of the comprehensive income can be regarded as a consequence of using some asset and debt items at fair value. The concept of the comprehensive income appeared within the IASB's wish to capture the organization's performance through a single financial circumstance. Such an approach of IASB represented also a step of getting near the FASB standards which held a previous tradition in appreciating the performance by means of the comprehensive income. Under the circumstances, IASB together with FASB represent a partnership which was aimed to identify the best solution of including the comprehensive income in the financial statements. J.F.Casta and O.Ramond , getting inspiration from US

GAAP – SFAS 130 *Reporting of the Comprehensive Income* represents a pyramid approach of the comprehensive income (figure no. 6). The consequences of the operational activities from the period are covered in the gains and losses account too. Under the circumstances of changing the equity capital one includes the gains and losses from reevaluating the property investments, the gains and losses from the evaluation of the the financial tools available for selling , the gains and losses from covering the risks associated with the cash flow and the investments from an external entity, a.s.o. ( OCI).



**Figure no. 6. The comprehensive income versus the operating income**

The presence of choices in accountancy raises the problem of the choice criterion of a certain accountancy policy. One can state that there is no objective income in the context of the international accountancy standards which can offer various possibilities for underlying the same transaction. Choosing an option over the other has a definite impact on the financial circumstances and on the accountancy result too. Beyond the impartial relationship of determining the income as a difference between the revenues and expenses carried, the freedom of choosing the accountancy policies causes either a reduction or an increase in the outcome in keeping with the goals undertaken by the management of the organization.

## 6. Modelling the comprehensive income

The comprehensive income represents a complex notion, closely related to notions such as: gains, capital, expenses, revenues, cash flow, a.s.o. Nowadays ,one can identify two great approaches of the income: the economic and the accounting one. According to the accounting approach, the comprehensive income of the organization is given by the difference between the incomes derived and the costs incurred for achieving the income. From the economic point of view, the result can be seen as a growth of the organization's well-offness within two periods of time. Fisher (1930) analyzed the individual income, being one of the first economists who made a difference between the concept of capital and the notion of gaining (benefit). The income (seen as benefit, gain) was defined by referring to the individual consumption and was not considered as a measure of the capital growth. Later-the year 1939 and later 1946- Hicks, in the work entitled *Value and capital* (former edition in 1939 and the latter in 1946), suggests a definition of the concept of income as being the maximum amount an individual can spend during a period of time, without

altering his financial position ( Feleaga ( Malciu); Feleaga 2005). According to Hicks' theory, transposed at the organizational level, the earnings of a commercial agent is what it can consume during a period of time without diminishing its well-offness and it can be calculated by means of the following pattern (figure no. 7) ( Le Manh- Bena, 2009, p. 121):

$$Y_e = C + K_t - K_{t-1}$$

Ye = income (the period earning)  
Kt = capital held at the end of the period t  
Kt-1 = capital at the beginning of the period t

**Figure no. 7. Hicks pattern for determining the earnings of an entity**

Contrary to accounting, where the measurement of the result is accomplished after carrying out the economic events (ex-post), the economic gains, defined by Hicks matches a measurement based on the present value of future cash-flows, provided at that date, a thing hard to accomplish, because of the uncertainty in which an organization evolves. Therefore, the main limitations of Hicks 'pattern are caused by: the necessity of the strict foresight of the transactions that are to be carried out by the organization and the dependence of the result on individual expectations. Even if Hicks 'pattern cannot be applied to the organizational context, it represents a reference model for the theoretical models in determining the income of the organization further developed. In this respect, the benefit definition given by Hicks suggests that, this one can be determined by the deduction of the net income (total assets minus debts) from the beginning of the exercise , form the net assets, at the end of the exercise, the difference going to be adjusted later with the capital injections and withdrawals carried out within the period (Feleaga ( Malciu); Feleaga, 2005). This approach of the beneficiary represents the start of the current balance sheet method, underlying the international accounting reference.

After the first attempts of shaping ,initiated by Fisher and Hicks, the theorists in the field developed sustainable patterns of determining the income of an organization. These ones appeared mainly in the second half of the XX century.

The transposition of the pattern of the defined income by Hicks at the organization triggered later the concept of accounting income initiated by Edwards and Bell (1961, pages 24-25). By means of an on-balance sheet approach, they give the following definition to the accounting income: *in the absence of dividend payments and of new shareholders contributions, the income is measured at the end of the period by summing up the updated values of all net receipts the managers look forward to earning from the net assets, from which the value at the beginning of the period shall be deducted.*

Solomons – professor at the University of Pennsylvania – starting from Hicks achievements proposes to differentiate the outcome into an economic and accounting one. (Solomons, 1961, pp. 374-384). The economic outcome is defined as a growth in wealth that comes out in a period without taking into account the shareholders' capital contributions or withdrawals. Solomons proposed a pattern of reconciliation between the accounting outcome and the economical one (Le Manh-Bena, 2009, pp. 123-124), shown in the figure no. 8. The model boundary is related to the establishment of the variations of value, unaccomplished during the period especially regarding the goodwill.

<p><b>Accounting outcome</b></p> <p>+ Changes in the value of the tangible and intangible assets unaccomplished during the period (latent earnings)</p> <p>- Value variations of tangible and intangible assets (including the goodwill) accomplished during the period, but incurred during an earlier period (losses or gains actually achieved)</p> <p><b>Economic income</b></p>
--

**Figure no. 8. Solomons pattern of reconciliation between the accounting income and the economic one**

Debates over the accounting income, initiated by Hicks pattern will keep on coming out. FASB gave a significant importance to an organization better-offness, suggesting to determine the income of an organization in close relationship to it. The proposition met the opposition from most accounting professionals who considered it a real threat to the basic principles of the commitment accounts. The result of this opposition was giving up the introduction of the concept of better-offness within a conceptual framework. The main objective of the financial statements is that of providing information regarding the performance of the organization, obtained by measuring the income and its components. According to Hicks pattern, the income at the organizational level is established by referring to the method of preserving its assets, also called the method of the net asset variation. This approach is being currently taken over by all the conceptual framework of FASB and IASB. Quoting Menard and Chlala, Feleaga present a calculus model of the income by using the method of preserving the assets (figure no. 9) (Feleaga (Malciu); Feleaga, 2005):

<p><b>Net asset at the end of the exercise</b></p> <p>- Net asset at the beginning of exercise</p> <p><b>The variation of the net asset</b></p> <p>+ Dividends reported during the exercise - The owners contributions during the exercise</p> <p><b>The net benefit of the exercise</b></p>
--

**Figure no. 9. Calculation pattern based on the method of preserving the assets**

This pattern has as limitation the lack of the necessary information regarding the structure and the size of expenses and incomes. The correct identification of the income is conditioned by the correct selection of the evaluation method.

The Alexander pattern- the pattern of variable income

To eliminate the effects of the unexpected losses or earnings, Alexander (1977), defines the concept of the variable income. The pattern is introduced by the relationship:

$$\text{Economic Income} = \text{Variabil Income} + \text{Unexpected Earnings/losses}$$

The variable income matches the revenue received during the financial exercise to which is added the capital growth expected from the very beginning of the period. The Alexander method could be successfully used for the real estates. Using it at the context of organization was meant to be a complex one, as it is difficult to state whether the expected growth of the capital reflected by the growth of the value of the asset represents a consequence of a good management of the organization or whether it is due to favorable events, being considered a chance circumstance.

***The pattern of the comprehensive income based on a substitution cost***

Summarizing the two approaches of the income, the financial and accounting, Edward and Bell (1961) present a pattern which should take into account the establishment of the accounting income theoretically and practically as well. They introduce the concept of economic income which they consider inadequate to the accounting practice. Their pattern represents a tool intended to the management of the organization and has as purpose for assuring a better support in decision making. The application of the traditional principles of the accounting: of prudence and historical cost are considered as being the factors that distort the income of the organization. According to the prudence principle, only the operations actually carried out are accounted. An assessment on the basis of the principle of the historical price, of the non-monetary assets whose value grow over time, can cause the existence of some holding gains which are not accounted for- the assets are registered at a lower cost. Thus, it becomes necessary the substitution of the historical income. The pattern suggested introduces a new concept, that of the replacement cost, which is used as a new basis in evaluating the assets.

The replacement cost represents what an organization should spend in order to purchase an identic good or the equivalent to the good under consideration (Feleaga (Malciu); Feleaga, 2005). This new concept represents the basis of the comprehensive income pattern. In this new approach, the income (figure no.10) is split into: current operating income, gains/ losses achieved as a result of holding gains or losses, and latent gains/ losses during the period.

**The comprehensive income = ROC + PVR + PVL**

ROC = current operating income evaluated on the basis of the substitution cost  
PVR = capital gains carried out; gains/losses carried out during the period as a result of holding gains  
PVL = latent capital gains; latent gains/losses during the period

**Figure no. 10. The pattern of the comprehensive income, according to Edwards and Bell**

Source: adapted from Le Manh- Bena, 2009, p. 129

Edwards and Bell's pattern regarding theorizing the accounting income approaches two essential elements:

- using the replacement cost as an assessment basis
- the distinction between the operating income and other gains or losses

The current operating income represents the period revenues from which are decreased the replacement cost of the assets, goods and services consumed for obtaining the gains. The gains and losses carried out represent the added values achieved precisely during the period to which the latent values are added, resulting from the variation of the replacement costs of the resources used. As a measure of reconciling the assessed income in historical cost with the assessed income in replacement cost, Edward and Bell suggest an alternative for their pattern, pattern that was shown in figure no. 11.

**The comprehensive income = RCI + PVL – PVR n-1**

RCI = contabil results in historical gains  
PVL = latent capital gains; latent gains/losses during the period  
PVRn-1 = value pluses or minuses carried out during the present period, but which came out during the previous periods  
(previously recognized in the income)

**Figure no. 11. Alternative to pattern of the comprehensive income, according to Edwards and Bell)**

Source: adapted from Le Manh- Bena, 2009, p. 130

The two American theoreticians, Edwards and Bell took an interest especially in the measurement of the accounting income, in order to make the same assessment acceptable to all users. They seek to apply the accounting rules by using the current values departing from the economic notions of profit and better- offness, which they integrate into the accounting context ( Feleaga ( Malciu); Feleaga, 2005).

*The pattern of the comprehensive income based on the exit price*

Anne Le Mahn- Bena ( 2009, pages 132- 137) introduces the pattern suggested by Chambers which uses the exit price as an assessment basis. Chambers replaces the exit cost as assessment basis with the exit price. This new assessment basis represents the forerunner of the assessment at the fair value applied by the actual international accounting standards. The pattern suggested by Chambers (figure no. 12), is based on the achievable income which represents the measure of a change in the capital of an organization over a certain period evaluated on the basis of the sales value.

**The comprehensive income = RR + PVL**

RP = Achievable income, the income of the period from which the income corresponding costs are decreased (the assessment id made on the basis of the output value)  
PVL = = latent added values; latent gains/losses during the period as a result of holding the assets evaluated in output values

**Figure no.12- The pattern of the comprehensive income, according to Chambers**

Source: adapted from Le Manh- Bena, 2009, p. 137

The assessment in exit prices provides a fair appreciation of the opportunity cost. The sales value of an asset represents the economical sacrifice carried by the organization in respect with the decision to retain the asset. The exit prices hold an objective nature in comparison with the cost of replacement which is a subjective one, being established by the organization.

**References:**

1. Biddle, G. and Choi, J., 2001. *Is comprehensive income irrelevant?* Working Paper, Hong Kong University of Science and Tehnology.
2. CECCAR, 2015. *Standarde internaționale de raportare financiară, 2015.* Bucharest: Editura CECCAR.

3. Dhaliwal, D., Subramanyam, K.R. and Trezevant, R., 1999. Is comprehensive income superior to net income as a measure of firm performance? *Journal of Accounting and Economics*, 26(1).
4. Edwards, E.O. and Bell, P.W., 1961. *The Theory and Measurement of Business Income*. University of California Press.
5. Feleagă, N., Malciu, L. and Bunea, S., 2002. *Bazele contabilității – o abordare europeană și internațională*. Bucharest: Editura Economică.
6. Feleagă (Malciu), L. and Feleagă, N., 2005. *Contabilitate financiară o abordare europeană și internațională volumul 1: Contabilitate financiară fundamentală - Contabilitatea ca joc social*. Bucharest: Editura InfoMega.
7. Hanlon, J. and Pope P., 1999. The value –relevance of U.K. dirty surplus accounting flow. *British Accounting Review*, 31.
8. Hirst, D.E. and Hopkins, P.E., 1998. Comprehensive income reporting and analysts – valuation judgements. *Jurnal of Accounting Research*, 36: supplement.
9. Hoarau, C., 2008. *Maîtriser le diagnostic financier*, 3ème Édition. Paris: Groupe Revue Fiduciaire.
10. Le Manh-Bena, A., 2009. *Le processus de normalisation comptable par l'IASB: Le cas du resultat*, these de doctorat en sciences de gestion, Conservatoire National des Arts et Metiers, Paris.
11. Maines, L.A. and McDaniel, L.S., 2000. Effects of comprehensive-income characteristics on nonprofessional investors judgements: The role of financial statements presentation format. *The Accounting Review*, 75(2).
12. Niculescu, M. and Lavette, G., 1999. *Strategii de creștere*. Bucharest: Editura Economică.
13. Pratt, J., 2011. *Financial Accounting in an Economic Context*. John Wiley & Sons Publishing.
14. Ristea, M., 2001. *Contabilitatea rezultatului întreprinderii*. Bucharest: Editura Tribuna Economică.

## FISCAL INTEGRATION OR DISASSEGATION IN THE EUROPEAN UNION IN THE COVID-19 CONTEXT?

**Scientific researcher, 3<sup>rd</sup> degree, Alina Georgeta AILINĂ**  
Center for Financial and Monetary Research "Victor Slăvescu", NIER,  
Romanian Academy, Romania  
E-mail: alina.glod@gmail.com

**Abstract:** *Recent events seem like a level 5 storm unleashed all over the face of the earth, more precisely a virus called COVID-19 has triggered a pandemic of gigantic proportions. Thus, in addition to the immediate medical and social implications, economic and fiscal-budgetary implications at the global level, but also at the European level, are likely to be much more serious than the illness itself. Therefore, the article mainly aims to articulate a series of questions and possible answers regarding the issue of fiscal integration in the European Union. The argumentation is mainly theoretical, and where possible and necessary figures will be provided to support the theoretical framework.*

**Keywords:** *Fiscal integration, European Commission, coordination, disintegration, European Union*  
**JEL Classification:** *H, H12, N10.*

### 1. Introduction

In response to the Covid-19 crisis, the European Council recently adopted (14 April 2020) a series of proposals to amend the EU budget for 2020. These amendments provide for almost all remaining amounts from this year's budget (€ 3.1 billion) to be made available to Member States to combat the pandemic. If the proposals are approved by the European Parliament, then the EU budget will have overall commitments increased by € 3.57 billion, to € 172.2 billion and payments will be increased by € 1.6 billion, reaching a total of € 155.2 billion<sup>1</sup>. At the same time, to combat the effects of the coronavirus, EU finance ministers have set aside half a trillion euros for a financial support package. It includes € 200 billion, which the European Investment Bank will provide to companies in the form of credit facilities and € 240 billion, which the European Stability Mechanism will make available for the governments.<sup>2</sup> Beyond direct medical measures to combat COVID-19, the European Commission has announced that the size of the Corona Response investment initiative will amount to € 37 billion, to support public investment in hospitals, labor markets and affected regions. The Commission has proposed extending the scope of the EU Solidarity Fund, including a public health crisis in its scope, to mobilize it for the most affected EU Member States, with funds up to 0, 8 billion euros.<sup>3</sup>

In this context, the sanitary, economic and fiscal measures to combat the coronavirus COVID-19 have led, in addition to concrete funding measures from the EU as a whole and EU Member States, to serious discussions on European integration and especially on fiscal integration.

But first, in order to be able to understand the concept of fiscal integration, we must first clarify the concept of integration and that of economic integration. Thus, integration involves the inclusion, but also the merging of elements, their reunion or incorporation in the same process to obtain a whole, so as to serve to a well-defined purpose (e.g. integration of production).

Therefore, integration involves: a) defining a goal, for example from a political point of view, building a federalist system of government, b) establishing the optimal level of integration or more precisely, how much "integration" is needed to achieve the goal,

<sup>1</sup> Source: <https://www.consilium.europa.eu/ro/policies/eu-budgetary-system/eu-annual-budget/2020-budget/>.

<sup>2</sup> Source: [1.https://www.weforum.org/agenda/2020/04/european-union-finance-fiscal-money-support-covid-coronavirus/](https://www.weforum.org/agenda/2020/04/european-union-finance-fiscal-money-support-covid-coronavirus/).

<sup>3</sup> Source: International Monetary Fund, Fiscal Monitor, April 2020, pp.30.

because otherwise, exceeding the necessary and sufficient limit, the effect is adverse, c) the choice of the components necessary and sufficient to achieve the purpose and proper functioning of the system created over time (system sustainability) (eg Member States capable of achieving the purpose pursued - federalism), d) the choice of integration methods (eg monetary integration, fiscal integration, economic integration, trade integration, etc.), e) defining the integration order, the quantity and quality of components, the opportune moment of integration, thus so that the integration process is effective, f) dividing the integration process into phases, easily monitored, each with its time of implementation, so that the components and methods are perfectly calibrated with the desired integration phase to be achieved and in accordance with the following stages or phases (if they exist and is not the final integration phase) and with the aim of final phase to be achieved (in the case of the final integration phase).

According to economic theory, economic integration describes a complex process of intensifying economic interdependencies between different states of the world, so as to lead to a development of the interstate economy. In this sense, we can consider that the integration process, especially economic (including fiscal), can be in the following situations, which can be formulated according to the political decision and as phases of integration:

1) **Disintegration or segregation/dissegregation** - in which the decision-makers' option is to reject integration, more precisely there is a vision of complete separation between the national and supranational levels,

2) **Integration** - in which the option of national decision makers is one of probing, experimenting with various and mixed forms of decision-making coexistence, e.g. mutual adaptation, assuming a horizontal integration (between components), but also a vertical one (between the national level and the supranational, optimally necessary in both directions: national - supranational, supranational-national),

3) **Assimilation** - in which the option of national decision makers is to give up their own goals and objectives and adapt to the level where national elements can no longer be distinguished from supranational ones, internal objectives being one and the same with supranational ones, without containing more additional particular elements.

In this context, this article emphasizes the need to understand the phase or situation of integration we are in, the need to clarify key questions related to the direction of the European Union as a whole and EMU in particular, offering a number of proposals or theoretical solutions.

## 2. Literature review

Stopping or preventing wars was the starting point in the discussion about the need for the existence and cultivation of nation-states and especially of supranational states. Federalism (fiscal federalism - Samuelson, 1954; Oates, 1972; Bureau and Champsaur, 1992), functionalism and neofunctionalism (Lindberg, 1963; Haas, 1960 and Niemann and Schmitter, 2009) and intergovernmentalism (Hoffmann, 1966, 1974; Moravcsik, 1998) led to the articulation of theories of European integration, with its advantages and disadvantages. Multilevel governance (MLG) formulates, in a new approach, that the functioning and development of the European Union, and institutional incompleteness or fragmented reform is the cause of the failure of reforms. This failure in turn leads to the need to formulate a new common denominator established between the Member States, a denominator that will lead over time to a stronger, deeper integration.

In the context of the Covid-19 pandemic, the issue of their fiscal resources, pumped from the federal level to the Member States, amplifies the previous and repetitive demands of some theorists (e.g. Marzinotto, Sapir and Guntram Wolff, 2011) and practitioners on

the involvement of supranational structures. However, it is unclear whether crises lead to a deepening of further integration or to a weakening of integration and certainly implies a different vision of the of states regarding the type of integration (Nicoli, 2018).

In this context, integration and fiscal integration permanently opens up areas of debate, requiring, in addition to the formulation of new theories, especially solutions, fast, urgent and practical for solving the problems that have arisen.

### 3. Methodology

Although abundant in theoretical debates and concrete information, the literature on the effects of COVID-19 in the economy and in the fiscal-budgetary sphere is still in its infancy. Thus, in the absence of a well-knit literature on this subject, but especially of the medical, economic, social and political developments in continuous motion, the article points out the need to formulate some questions, to systematize the problems regarding the fiscal integration in the EU. The approach is logical, theoretical and argumentative, with relatively limited statistical information, so that the theoretical approach is not overshadowed or obscured by constant motion reality.

### 4. Results

Theoretically, if we refer to taxation, we could talk about fiscal disintegration, fiscal integration or fiscal assimilation. For example, at EU level, the concept of fiscal union can be framed at the upper limit of fiscal integration towards fiscal assimilation. If we consider that both assimilation and disintegration are extreme phenomena, undesirable at European level, then the study on integration at EU level can only refer to integration or integration on several levels. We can thus analyze the phenomenon of decentralization - the removal of tasks from the regional level to the state level, but also the inverse phenomenon, of centralization, taking over tasks from the national level to the central level. Thus, we can speak of fiscal decentralization or fiscal centralization, between the Member State and the EU.

We can also talk about an integration between components, between countries, horizontally, but also about an integration between each component, each Member State and the central, supra-state level. The national component is not to be neglected, which in the context of fiscal integration can be divided between the territorial level, national regions or counties and the national central level. Transfers of the central national level and national territorial level can outline at the level of each state a certain fiscal integration, and by aggregation, these transfers can establish an average global level of all EU countries. However, this aggregation cannot outline the EU's capacity in this regard, as the EU budget is completely different from the amount of national budgets.

Another more efficient and relatively simpler way starts from the need to outline some characteristic features that are measurable or only qualitatively evaluable in order to be able to determine if we can talk about integration, and in our case, about fiscal integration.

Thus, fiscal integration involves:

1. *The existence of common institutions*, managed by the participating governments with clear attributions regarding the collection of taxes and their expenditure, practically the centralization of the decisions regarding the sharing of risks through transfers between states or from central regional level to national central level. In the event of a fiscal union at EU level, the European Council could have clear responsibilities for setting national spending and systematizing tax bases and rates, and even setting up a European Union finance ministry to develop and coordinate the common a fiscal policy.

2. *The existence of common regulations, laws, practices and policies* that clearly establish the functioning of fiscal integration. Although there is a Stability and Growth Pact (SGP) between euro area members designed to coordinate Member States' fiscal policies, its functioning mechanism leaves much to be desired, and the lack of sanctions for non-compliance with medium-term budgetary targets especially for strong EMU states, rather, it paints a dysfunctional reality of fiscal integration, exclusively based on the norms. At the same time, the Treaty on Stability, Coordination and Governance in Economic and Monetary Union (TSCG) (ratified and entered into force for 16 states since January 2013 and for the rest of the EU member states in April 2019) is an intergovernmental treaty introduced as a more strict version, with a set of common principles, of the Stability and Growth Pact. It should be noted that on April 1, 2014, the European Fiscal Pact (Compact) (EFP) was ratified by most EU member states. EFP has imposed stricter rules on government spending and borrowing, including automatic sanctions for breaking the rules. The Fiscal Compact imposes a balance or surplus for the Member States, the general national budget deficit requiring not exceeding the threshold of 3% of GDP and a structural deficit to be hold within the medium-term budgetary objective (MTO) of each country, which can vary between 1% of GDP and respectively not more than 0.5% of GDP, depending on not exceeding or respectively exceeding the 60% of GDP threshold for the public debt / GDP ratio. As defined in it, the Fiscal Compact aims to "strengthen the economic pillar of economic and monetary union", being binding on all euro area countries. It is true that the Fiscal Compact stipulates that in the event that a Member State goes through a period of significant recession, that State will no longer have the obligation of a fiscal correction during the recession, and will then gradually join the MTO provisions assumed. At the same time, the Fiscal Compact presents an institutional link with the European Stability Mechanism (ESM) in the sense that European support through the ESM is conditional on the prior implementation of the Fiscal Compact.
3. *Existence of common instruments* such as a transfer system, supranational taxation, debt management or a at least a part of them at supranational level (through common bonds, for example at EU level Eurobonds), a common health protection system, a common social protection system, therefore, the effect at the level of national states would be translated through the reduction/dispersion of asymmetric shocks and common constraints on loans under similar conditions. In the context of COVID-19, negotiations are extremely advanced towards such issues at EU level. It should be noted that there are already a number of tasks at EU level on setting consumption taxes (VAT) and tariffs on foreign trade, but the direct taxation system does not yet have a supra-national component.
4. *The delimitation of the attributions and the cooperation between the monetary and the fiscal-budgetary elements*, more precisely at the EU level between the Economic and Monetary Union (EMU) and the fiscal union, or its attenuated or advanced form of fiscal integration.
5. *The existence of a common budget, beyond or within the EU budget, especially for emergencies, which requires transfers from the EU level to the level of nation states*, with clear principles and mechanisms, simple and easy to implement, with automatic mechanisms or semi-automatic, so that, when the trigger conditions are met, the federal transfers take action quickly. Germany, through its Chancellor, supports the idea of using the existing emergency instruments, but so far it is unclear how they work and especially the existence of a common vision in terms

of accessing these instruments (who, what, where, how can benefit from these pre-existing tools).

The features listed above can help us understand what steps might be taken. Thus, better fiscal integration in the EU would require stronger European institutions to properly manage the EU economy, and in the context of the COVID-19 pandemic, it could have been life-saving, with risks shared between Member States and the EU. In addition, fiscal-budgetary instruments, in the context of more accelerated fiscal integration, would require their diversification and refinement, above the level of the instruments provided by the nation-states and certainly well above the current, available level of EU instruments. Better sharing of fiscal responsibilities by shifting some of them to the federal center system could improve stabilization capacity nationwide. However, it is interesting, in analyzing here the disproportionate, asymmetrical vision between the implications (contributions) of the national state at federal / confederal level and the expectations (receipts) or benefits that the national state can receive from the federal one. Once the Member States openly discuss the mutual limits of this social contract, the criticisms of the institutional incapacity of the EU as a whole and of the Member States will no longer be the subject.

Thus, the COVID-19 crisis showed systematic shortcomings and political misunderstandings regarding the system of fiscal-budgetary solidarity at EU level, emphasizing that the only economic stronghold, and implicitly fiscal-budgetary, was established at the level of nation states, the EU lacking the necessary speed, strength and understanding in order to act quickly and in a coordinated manner. From this point of view, with or without the establishment of a fiscal union, the Member States, but also the EU, through its institutions, must understand that the fastest and most effective reaction force is "on the grass" or "at the bottom", then and where the unwanted event it is produced, whether it is a pandemic, a natural disaster or a war. Moreover, the EU as a whole will not know and will never be able to understand all or at least most of the individual needs of the Member States, nor will it ever be able to cover them fairly for everyone. Simplified, imagine a parent with 27 children, each with his own particular needs of health, education, growth and development etc. Will he be able to offer everyone, simultaneously, the same treatment, except love? Of course, this presupposes a clear understanding of solidarity and "team" cooperation with involvement not only from the EU level at Member State level, but especially between them (the states). Also, the opposite effect, the support from Member States, implicitly financial and fiscal for EU, at least for certain non-negotiable projects, must also be unconditional.

In addition, we must understand and manage the aspect of particularities and rivalries, economical, political, social and historical between EU nations, namely rebalancing and repositioning the vision between southern Europe - lazy and disinterested and northern and central Europe - hardworking and permissive, East - primitive and easily dispensable and the West - prosperous and emancipatory. This translates into periodic variations, north-south and west-east, of economic and political conflicts that are inflamed by obvious oppositions, especially between the group of states Germany, Austria, the Netherlands and Finland and the southern flank: Italy, Spain, Greece and France. The solution is of course, to a warm response, an EU with institutions under a non-identity leadership within the member countries, but will a leadership outside the EU space be without non-identity and more seriously non-conflictual, non-divergent from the states EU members? Can the lack of identity of the EU leadership provide answers for the functioning or structure of the EU? But for the establishment of the Fiscal Union? Of course not! Therefore, the capital, labor, land, resources and economy of each EU Member State must be assessed similarly, without favoritism, without discrimination between weak

and poor countries and strong, rich and credible countries. Only the past, the memory and the lack of partisanship can make it, more precisely, "a spiritually old generation", with a history of Christian solidarity, with a real, living history of the EU. In the absence of a "previous generation" (of a parent), a family consisting only of "children" or in our case of Member States, need the establishment of a hierarchy, with rights, but especially with responsibilities, crucial to the proper functioning of the EU. ***The true leader (or their group) is thus established mainly in terms of the ability to take almost full responsibility for everyone else.*** Only in this way can the EU's economic and fiscal-budgetary system have a chance to function properly. Only in this way, based on equal and fair principles for the distribution of intra- and inter-community loan and aid instruments, the EU could have a chance for survival in the near future.

The problem of fiscal integration and even European integration in general can also be raised from the perspective of the existence of a new Marshall Plan for economic recovery. If in the period 1947-1951 only the placement of approximately 2% of GDP managed to moderate the exposure to creditors and it founded the network of free international trade, but also a better economic and political coordination of the beneficiary European countries (Spagnolo, 2020), we can only imagine what could be the benefits of similar economic and political measures well coordinated at this time.

However, resources at EU budget are insufficient for a recent equivalent of this plan, amounting to 240-280 billion euros (Spagnolo, 2020), but in the context of the dramatic collapse of GDP, the plan should contain, in the opinion of experts, a couple of trillion of euros to save Europe from recession.

At the same time, in this context, we can discuss the plan of Mario Draghi, the former president of the European Central Bank. This plan aims to prevent the collapse of companies in the short term and save the market from long-term depression. The question is, however, whether this plan can, in the absence of a paradigm shift, in the absence of the definition and redefinition of European values, really bring economic salvation.

Here we can outline a number of key questions. Is the problem of supporting European economies in the competence of Member States or the EU? If the problem lies exclusively with the Member States, then many countries will not be able to bear this burden, dragging the whole world into their deadlock. If the problem is the responsibility of EU, then the European budget, long-term international financing with the European Central Bank (ECB) guarantee, the ECB's acquisition of coronavirus-induced government debt, a common mechanism for the coverage of extraordinary expenditures caused by pandemics, Eurobonds and many other solutions, can greatly alleviate losses and provide a speedy recovery of the EU. At the same time, the fiscal rules of the Stability and Growth Pact will have to be suspended until a robust recovery of EU economies, with extensions and tolerances for about 15 years.

At the same time, if this new coronavirus is a form of war, is it not necessary, as in the case of the Marshall Plan, to relieve mankind of excessive public debt?

Is it not necessary to formulate "war reparations" between capitalist countries, former empires, against those exploited in the old historical colonies? In this context, wouldn't fiscal integration, especially at EU level, mean a more or less (federalist) transfer of public financial capital to those who really need it?

Is there a need for greater fiscal integration at EU and at the world level or for disintegration? Disintegration seems to be the answer at the moment, but is it really the solution in the medium and long term?

In the context of an influx of health and environmental disasters, which occur more and more frequently in humanity, without discriminating against the place of apathy (a well-developed economy or a poor/ emerging one), the isolated, nationalist response is the

correct answer to this kind of disaster? If the correct answer is yes, at the moment, in the short term and on a well-defined territorial area, the same is true for the spread? The answer to this question, at least until now, despite the closure of national borders, has proved to be no, or, at least, not enough. Globalization as a whole and especially the international migration of people and goods frequently demonstrate the inability of the world to maintain national "microcosms".

Can the closure of economic activities, the isolation, quarantine and almost exclusively statist management of the problems combat the medical, social, institutional and especially economic effects of crises (including pandemics)? Answer may be mixed, but the effects over time will clearly answer no. Certainly, the economic and fiscal-budgetary effects would be much more dramatic than the cause itself - the disease. Therefore today is much more difficult to manage the situation than if the isolation would have meant only a stricter control of personal hygiene in different social circumstances, especially at work and of course with the prohibition of unnecessary, risky activities as well.

Will the solutions have to be purely political, economic or fiscal-budgetary, requiring a deeper integration or disintegration, or will they require a dramatic change of mentality at all levels? The answer is, in my view, yes, there will be a need for a paradigm shift, mentality, lifestyle, business, state, economy, politics, culture, sports, environment, solidarity, cooperation... everything. A each new day on earth very different from what we have been experience before. Thus, pumping money, through the European institutions and especially through the ECB, through various European funds and instruments can alleviate the current situation, but the real solution is to change the mentality and not to pass the money from one pocket to another.

## **5. Conclusions**

The solution is structural in nature, and especially arises from a change of mentality in which we have to give up to the consumerist, expansive, Western model of high consumption, increased productivity, massive injections of liquidity from central banks, as well as the existence of some high salaries etc. This model should focus on a sustainable social and environmental model, supporting the well-being and happiness (yes, happiness!) of the planet's citizens, in which the key word is moderation/normality. Thus, the salaries of civil servants and incomes should be designed to be sufficient for a decent living, covering the minimum or average consumption basket (providing in addition to the minimum basket the coveridge of some cultural and spiritual goods), and for private employment a legal framework at national or supranational level of normalcy, by imposing an upper limit.

Also, in crisis situations, the national or supranational state should intervene in subsidizing salaries, protecting jobs, business, and entrepreneurship should be viewed from the perspective of a real partnership with the state. Social entrepreneurship should be supported by laws and new fiscal visions. Investment should be rethought as a "non-negotiable cutting place ", especially in terms of massive domestic public investment in the health system, the education system, agriculture, transport infrastructure and trade cooperation and support.

At the same time, the nation-state must not be disregarded, but on the contrary, re-strengthened and redesigned, so as to serve not only itself, but also the region from which it comes, in our case, the European Union. In the absence of such vision redesigns, any type of economic, political and especially fiscal integration, remaining disarticulated discussions, without solutions for the future and especially without the capacity to prevent and mitigate a future crisis. Fiscal integration, in my view, will certainly involve an EU

budget for 2021-2027 for growth and development between European member states, with the medical, environmental, agricultural and military areas adequately covered. But only Member States and EU bodies will be able to decide whether the future budget will be one of the past, of rigid fiscal rules, compacts and laws or a budget of long-term vision and development.

### References:

1. Bureau, D. and Champsaur, P., 1992. Fiscal Federalism and European Economic Unification. *American Economic Review Papers and Proceedings*, 82, pp. 88–92.
2. European Council, 2020. *Tackling Covid-19: Council adopts amended EU budget for 2020*. [online] Available at: <<https://www.consilium.europa.eu/ro/press/press-releases/2020/04/14/tackling-covid-19-council-adopts-amended-eu-budget-for-2020/>>.
3. European Council, 2020. EU budget for 2020. [online] Available at: <<https://www.consilium.europa.eu/ro/policies/eu-budgetary-system/eu-annual-budget/2020-budget/>>.
4. Haas, E., 1960. *Consensus formation in the Council of Europe*. Berkley: University of California Press.
5. Hoffmann, S., 1966. *Obstinate or obsolete? The fate of the nation-state and the case of Western Europe*, *Daedalus* 95 (3): 862–15.
6. Hoffmann, S., 1994. Europe's identity crisis revisited. *Daedalus*, 123(2), pp. 1–23.
7. International Monetary Fund, 2020. *Fiscal Monitor*, April.
8. Lindberg, L., 1963. *The Political Dynamics of European Economic Integration*. Stanford: Stanford University Press.
9. MacRae, H., 2015. *Neo-functionalism – spilling over to gender studies*. [pdf] Available at: <<https://ecpr.eu/Filestore/PaperProposal/3a69e639-05fd-4a2a-b2e1-9172cdf75c80.pdf>>.
10. Marzinotto, B., Sapir, A. and Wolff, G.B., 2011. What kind of fiscal union? *Policy Briefs*, 646, Bruegel.
11. Moravcsik, A., 1998. *The Choice for Europe: Social Purpose and State Power from Messinam to Maastricht*. London: Routledge.
12. Nicoli, F., 2018. Integration through crises? A quantitative assessment of the effect of the Eurocrisis on preferences for fiscal integration'. *Comparative European Politics*, 17, pp. 397-425.
13. Niemann, A. and Schmitter, P. 2009. *Neo-functionalism*. In: Wiener, A. and Diez, T. (eds.) *European Integration Theories*, 2nd edition, Oxford: Oxford University Press, pp. 45-66.
14. Oates, W.E., 1972. *Fiscal Federalism*. New York: Harcourt Brace Jovanovich.
15. Samuelson, P., 1954. The Pure Theory of Public Expenditures, *Review of Economics and Statistics*, XXXVI(4), pp. 387–389.
16. Spagnolo, C., 2020. A Marshall plan for Europe—or a Draghi plan? *Social Europe*. [online] Available at: <<https://www.socialeurope.eu/a-marshall-plan-for-europe-or-a-draghi-plan>>.
17. World Economic Forum, 2020. *The EU has agreed a coronavirus rescue plan worth half a trillion euros*. [online] Available at: <<https://www.weforum.org/agenda/2020/04/european-union-finance-fiscal-money-support-covid-coronavirus/>>.

# THE MONETARY POLICY INSTRUMENTS OF NATIONAL BANK OF ROMANIA AND THEIR EVOLUTION IN TIME

**Ph.D. Student Monica-Ionelia MĂRGĂRIT**

University of Craiova, Doctoral School of Economic Science, Romania  
E-mail: margaritmonicaionelia@gmail.com

**Abstract:** *This paper attempts to create and overview image of the main monetary policy instruments used by the National Bank of Romania, starting from 2000 until present, as well as the evolution and the changes that these instruments have undergone in terms of value. The first part of this paper tries to present the main monetary policy instruments used by the central bank, while the second part analyzes the evolutions they have encountered during the considered period. According to the National Bank of Romania, currently, three such instruments are used, namely, open market operations, permanent facilities and minimum reserves required. Following the analysis we have made, we can say that, overall, the evolution of the three monetary policy instrument can be characterized as a descending one and the effects that the changes made in terms of their values had on the economy were, most of the time, the ones that the central bank has anticipated.*

**Key words:** *monetary policy instruments, central bank, monetary policy, price stability.*

**JEL Classification:** *E52, E58.*

## 1. Introduction

In order to achieve their objectives, central banks use a series of operational tools and procedures. „There is a wide variety in the choice of instruments, operating procedures and strategies of monetary policy by central banks” (Borio, 1996). This statement raises the question of whether there is a relationship between these aspects of monetary policy and whether the specific choice of instruments and procedures affects the ability of central bank to achieve its operational objective.

Prudential instruments which are involving the banking system are essential in terms of instruments used in order to create the monetary policies which aimed to ensure economic stability. These are the most common used instruments for implementing micro and macroprudential policies. „Microprudential policies aim to minimize the risk of failure of individual financial institutions, while macroprudential policies aim to limit the risks and cost of systemic crises by addressing interconnectedness among financial institutions” (Cerutti et. al., 2016).

The monetary policy instruments which are used by a central bank in order to achieve its objectives can be grouped into two broad categories, as it follows:

- a) indirect monetary policy instruments (with action on the market) – „used by the central bank in its relations with non-financial agents and other market-oriented banks” (Eijffinger and Haan, 2000). These instruments make possible to control the cost and quantity of currency;
- b) direct monetary policy instruments (as a result of the measures taken by the monetary authorities) – „used in order to influence financial agents (the users and owners of money): credit rating, administrative interest rates fixing, control of exchange rate” (Dardac and Vascu, 2002).

The requirements that the monetary policy instruments must meet are the following:

- a) to ensure the existence of coordination between the exchange rate policy and the interest rates applied internally by the central bank. This is necessary in order to neutralize the effects that the evolution of the exchange rate has on the quantity of money existing in the economy;
- b) to ensure the possibility of central banks to permanently feed the economy with primary currency, in order to satisfy the need for currency that the clients may have;

c) to create a state of dependence for commercial banks against the central bank, reason which underly the minimum reserve required as a result of technological development.

Regarding the main types of monetary policy instruments used by central banks, we can identify five such instruments:

- a) repurchase agreement (repo) open market operations;
- b) reverse repurchase agreement (reverse repo) open market operations;
- c) permanent facilities granted to credit institutions;
- d) requested reserve ratio;
- e) the permanent absorption mechanism.

The main monetary policy instrument used by the National Bank of Romania will be presented in the followings, together with the evolutions that these instruments have recorded in time.

## **2. Analysis of the main monetary policy instruments used in Romania**

According to the National Bank of Romania (2020), its fundamental objective is to ensure and maintain price stability and, starting with August 2005, the monetary policy is implemented in the context of the indirect inflation targeting strategy.

In order to ensure the transmission of monetary policy, the National Bank of Romania uses a series of instruments which are meant to influence the dynamics of aggregate demand and the price level.

As for the main monetary instruments which are currently used by the National Bank of Romania (NBR), they are three, as it follows:

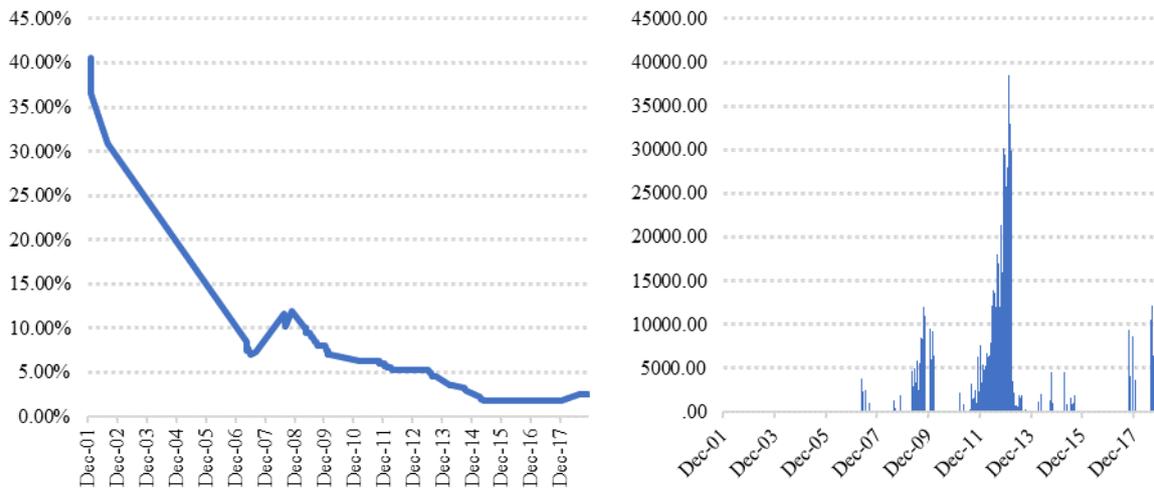
- a) open market operation (money market operations) – it is the most flexible and frequent monetary policy instrument used by central banks for monetary policy strategy implementation and control. The main open market operations used by NBR are repo operations, reverse repo operations, deposit certificates issue, attracting deposits, granting collateralized loans, purchase/sale of eligible assets for trading and currency swap;
- b) permanent facilities – through which the central bank ensures the absorption of liquidities in the very short term in order to fulfill the monetary policy strategies. The main facilities granted by the National Bank of Romania are the lending facility and the deposit facility;
- c) required reserve ratio – represents one of the traditional tools used and it aims to ensure the achievement of the monetary policy objectives by ensuring structural liquidity, stabilizing interest rates and ensuring a certain degree of control over the monetary expansion.

Below, will be presented the main developments that these monetary policy instruments have recorded in time.

The evolution of the average repo interest rate has registered a significant decrease. As we can see (Figure no. 1), the highest level registered by this rate was recorded in January 2002, 40.62%, while its lowest level was recorded between May 2015 and December 2017, when the National Bank decided to inject currency into the economy, in several tranches, at an interest rate of 1.75%. Regarding the volume of the money injected by the bank through the repo operations, we can observe (Figure no. 1) that during the analyzed period there were four periods in which the NBR decided to inject a significant amount of currency into the economy, as it follows:

- between April 2009 and February 2010, the National Bank of Romania, in the position of lender of the banking system, has injected 162,579.1 mil. RON into the economy by using repo operations. This liquidity injection intended to accommodate the liquidity deficit which existed during that time in the interbank money market;

- between December 2011 and March 2013, the largest liquidity injection took place, the NBR introducing into the economy 890,035.1 mil. RON. The highest liquidity injection took place on February 4<sup>th</sup>, 2013, when 38,496.7 mil. RON were injected into economy at an interest rate of 5.25%. As in the previous case, these measures were taken as a result of the National Bank’s attempt to accommodate the reserve demand of the credit institutions;
- between October 2017 and December 2017, through repo operations, an amount of 43,700.1 mil. RON was injected into the Romanian economy, at an interest rate of 1.75%;
- between August 2018 and November 2018, the National Bank of Romania proceeded to carry out repo operations for a total amount of 98,003 mil. RON, at an interest rate of 2.50%.



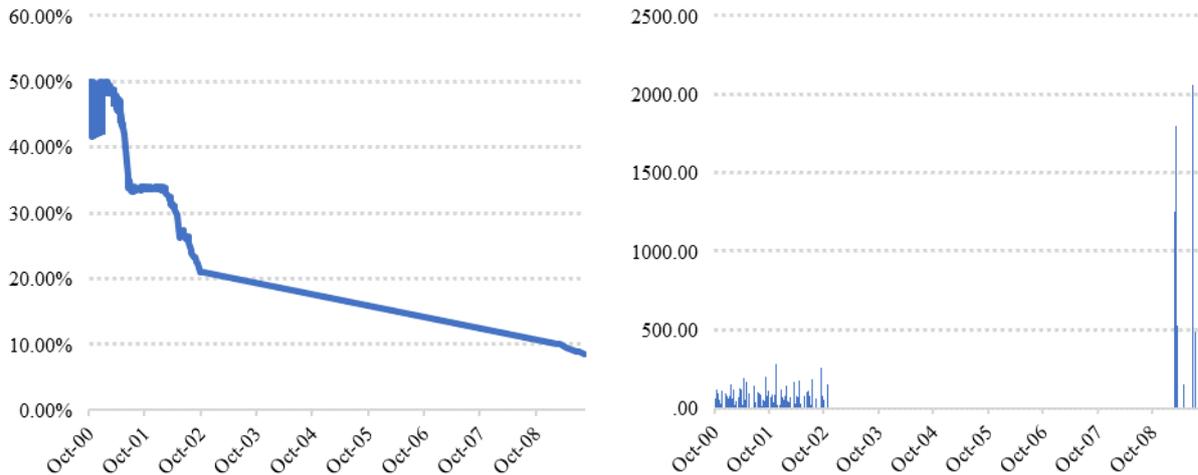
**Figure no. 1. The evolution of the average repo interest rate and the amount of money offered by the NBR (January 2000 – December 2019)**

Source: processing after <https://www.bnr.ro/Seturi-de-date-628.aspx>

Reverse repo operations are similar to repo operations, with the mention that reverse repo operations are intended for the absorption of currency. The liquidity absorption is done by selling securities eligible for trading, made by central bank, with the commitment to redeem them at a later date at a price established when the transaction is made.

During the analyzed period (2000 – 2019), and as it can be seen (Fig. no. 2), the National Bank of Romania has used this instrument over four years:

- between October 2000 and December 2000, the NBR offered securities worth 1,138.6 mil. RON, at an interest rate ranging from 42% to 50%;
- between January 2001 and December 2001, the value of the securities offered by the National Bank accumulated 7,659.6 mil. RON, while the accepted interest rate ranged between 33.21% and 50%;
- the securities offered by NBR between January 2002 and November 2002 amounted 5,153.8 mil. RON, the interest rate varying between 20.99% and 34%;
- between March 2009 and September 2009, 8,909.6 mil. RON were absorbed, at an interest rate which ranged between 8.50% to 10%.



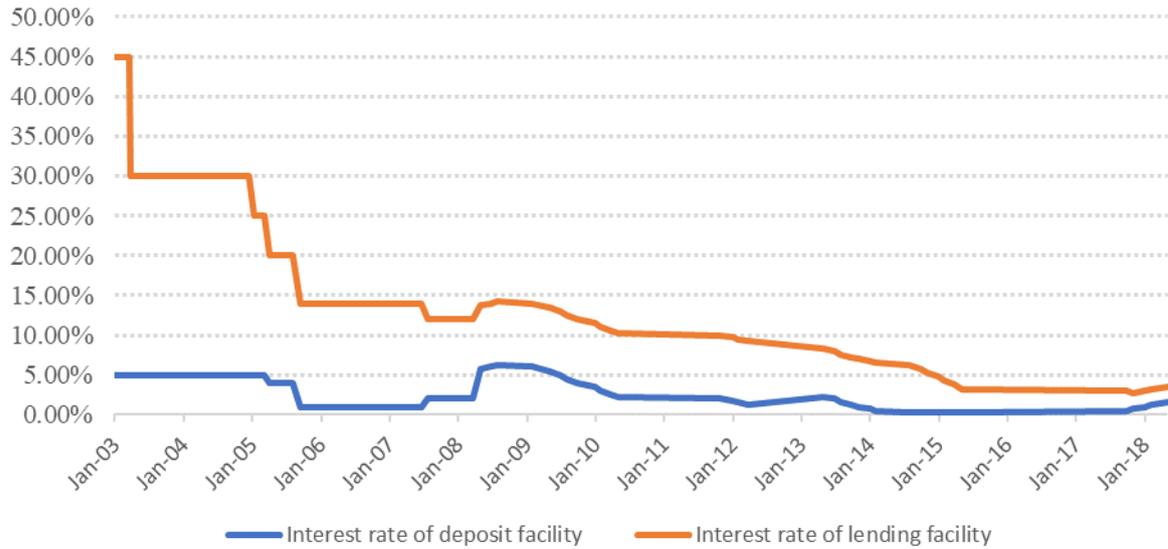
**Figure no. 2. The evolution of the average reverse repo interest rate and the amount of money offered by the NBR (January 2000 – December 2019)**

Source: processing after <https://www.bnr.ro/Seturi-de-date-628.aspx>

In Romania, in order for a credit institution to benefit from the lending facilities provided by the National Bank, they have to be registered as participants in the SaFIR settlement and deposit system. According to art. 29 paragraph 2, letter b of Law no. 312/2014 (2014), „ the National Bank of Romania operates the financial instruments depository and settlement system SaFIR, acting as Central Securities Depository for the government securities issued on the interbank market, the certificates of deposit issued by the National Bank of Romania and other fixed income financial instruments set by National Bank of Romania's Board”.

As we mentioned above, the permanent facilities granted to credit institutions ensure the absorption of liquidity in the very short term in order to fulfill the monetary policy strategies, as well as the limitation of the interest rates in the very short term.

As we can see (Fig. no. 3), both the interest rates for the lending facility and for the deposit facility had a downward trend, except in the period immediately following the global financial crisis, when both rates experienced an appreciation. According to NBR (2008), „their evolution was marked by the fluctuations of the autonomous liquidity factors, whose impact was amplified in the context of the gradual reduction of the liquidity surplus”. The lowest level of the deposit facility rate was recorded during August 2014 and May 2015 (0.25%) because the annual rate of inflation was below the forecast level, due to the aggregate demand deficit, as well as against the persistence of low inflation in the euro area. The lowest level of the lending facility rate was recorded in November 2017, when its level reached 2.75%. According to NBR (2017), „Given the features of the updated path in the projected annual inflation rate and its determinants, as well as the risks thereto, stemming mainly from the fiscal and income policy conduct and the uncertainties associated with economic growth in the euro area and worldwide, the Board of the National Bank of Romania decided to continue the adjustment of the monetary policy stance by narrowing the symmetrical corridor of interest rates on the NBR’s standing facilities around the policy rate to  $\pm 1.00$  percentage points from  $\pm 1.25$  percentage points and by ensuring firm liquidity management in the banking system”. As a result of this decision, together with the National Bank's decision to keep the monetary policy interest rate at 1.75% , the credit facility interest rate decreased at 2.75%, and the deposit facility interest rate increased at 0.75%.



**Figure no. 3. The evolution of the permanent facility interest rates in Romania (January 2003 – December 2019)**

Source: processed according to the data of the National Bank of Romania

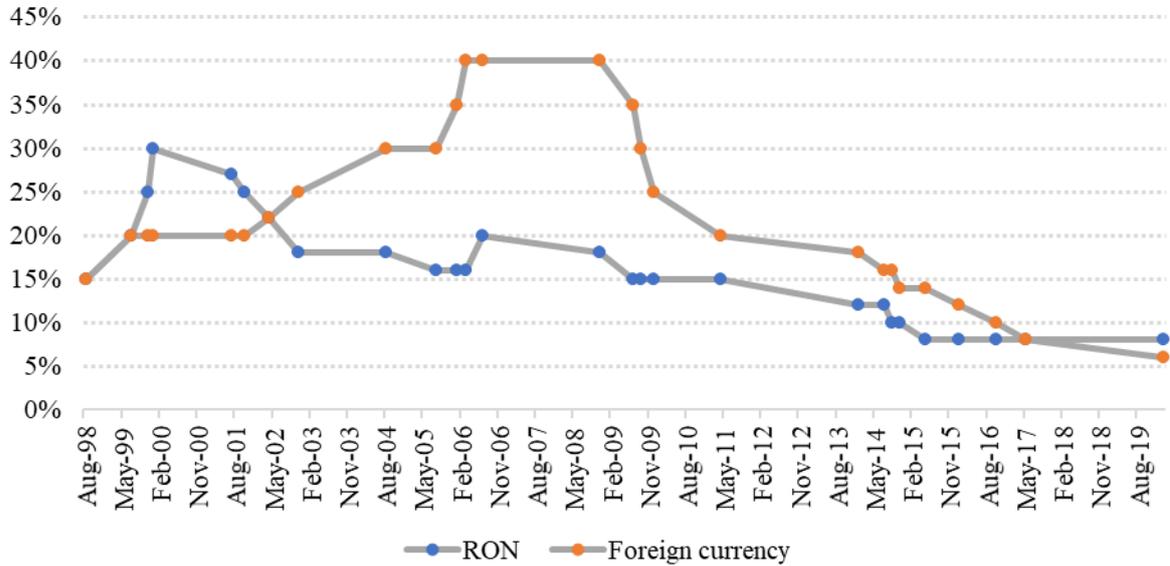
On March 23<sup>rd</sup>, 2020, the National Bank of Romania decided to reduce its monetary policy rate by 0.5%, reaching 2%. With this measure, the central bank also decided to decrease by one percentage point the lending facility interest rate (Lombard), which fall to 2.5%. These measures have been taken as a result of the decision to ensure a greater exchange rate stability and an interest rate stability, in order to prevent an economic crisis which could arise as a result of the protection measures taken by the governments worldwide to diminish the spread of the COVID-19 virus.

Introduced in 1992, the required reserve ratio is one of the traditional monetary policy instruments and it aims to ensure structural liquidity, stabilizing interest rates and ensuring some degree of control over monetary expansion. Even though the importance of this instrument has diminished considerably in the recent years, it remains one of the basic monetary policy instruments.

In Romania, the evolution the required reserve ratio, both for the liabilities expressed in RON and for the liabilities expressed in foreign currencies, cannot be considered a linear one. During the analyzed period, the rates experienced a series of ups and downs. At the beginning of the period, more precisely, in August 1998, both of these rates were at the same level, namely 15%. Subsequently, they increased in July 1999, when they reached the level of 20%.

As we can see (Fig. no. 4), in the first part of the analyzed period, the required reserve ratio for the RON liabilities was at a higher level than the one for the liabilities expressed in foreign currencies. However, starting with November 2002, the required reserve ratio for the liabilities expressed in RON has undergone a significant decrease, as a result of the decision of the National Bank of Romania to increase the transparency of the monetary policy, in order to align it with the practices of the European Central Bank, by decreasing the importance of the administrative instruments and move it over the market instruments. Likewise, according to NBR (2002), „what the central bank envisaged by the aforesaid move was to bolster restoration of credit and interest rate channels and to make foreign exchange borrowings less attractive, by influencing their relative costs.” This trend ended in July 2006, when it was decided to increase the required reserve ratio for RON to 20%, as a result of the tightening of the monetary policy promoted by the National Bank.

According to the central bank, due to the excess of liquidity existing at that moment in the banking system, it was assumed that the change of this ratio could act as an stimulus for compensatory movements to the interest rates related to deposits and loans, given the possibility of perceiving it as an increase in intermediation costs.



**Figure no. 4. The evolution of the minimum reserve ratios applied by the NBR (August 1998 – February 2020)**

Source: processed according to the inflation reports published periodically by the NBR

The same situation was encountered for the required reserve ratio for the liabilities expressed in foreign currency, which between March 2006 and November 2008 remained at 40%. Starting with the middle of 2009, both these ratios have experienced a significant decrease, reaching, by the middle of 2017, 8%. According to BNR (2015), these changes „aimed at further adjusting the monetary policy strategy from the perspective of ensuring that medium-term inflationary expectations are anchored in line with the stationary target, at the same time as the sustainable revival of the lending process, as well as improving the functioning of the monetary transmission mechanism.” As a result of the evolution of the lending in foreign currency, as well as following the National Bank of Romania's attempt to continue the process of harmonizing the minimum reserves with the European Central Bank' practices and standards, in February 2020, the central bank decided to reduce it required reserve ratio for the liabilities expressed in foreign currencies up to 6%.

### 3. Conclusion

As mentioned above, central banks are using a series of monetary policy instruments in order to achieve their objectives. The actions of these instruments can be indirect (market-oriented), by controlling the amount of money, or direct, used to influence economic agents (control over the exchange rate, changes made in terms of interest rates, etc.). The National Bank of Romania uses three such monetary instruments, namely, open market operations, permanent facilities and required reserves ratio.

In this paper we tried to analyze the evolution of these instruments in time, more precisely, over the last twenty years, starting with the year of 2000 and up to present. Following the analyzes we have made, we could see that all the identified rates (repo interest rate, reverse repo interest rate, permanent facilities interest rates and the required reserve ratio) had a downward trajectory. The only period of time when these rates have experienced an appreciation was the period immediately after the global financial crisis,

but this appreciation did not last very long. The paper also tried to highlight the reasons that were behind making these decisions, as well as the extent to which the decrease/increase of these rates had the expected effects on the economy.

### References

1. Borio, C.E.V., 1996. *Monetary policy operating procedures in international countries*. Basel: Bank for International Settlements.
2. Cerutti, M.E.M., Correa, M.R., Fiorentino, E. and Segalla E., 2016. Changes in prudential policy instruments – A new cross-country database. *International Monetary Fund – IMF Working Papers*, no. 16/110.
3. Dardac, N. and Vascu, T., 2002. *Monedă și credit – Modul 1*. [online] Available at: <<http://www.biblioteca-digitala.ase.ro/biblioteca/carte2.asp?id=98&idb=>> [Accessed 8 April 2020].
4. Eijffinger, S. and Haan, J., 2000. *European Monetary and Fiscal Policy*. Oxford: Oxford University Press, OUP Catalogue.
5. Legea nr. 312/2004 privind statutul Băncii Naționale a României, Pub. L. No. 312/2014, Bucharest: Monitorul Oficial al României.
6. National Bank of Romania, 2002. *Raport asupra inflației 1/2002*, Bucharest: National Bank of Romania.
7. National Bank of Romania, 2008. *Raport asupra inflației – Noiembrie 2008*. Bucharest: National Bank of Romania.
8. National Bank of Romania, 2015. *Raport asupra inflației – Mai 2015*. Bucharest: National Bank of Romania.
9. National Bank of Romania, 2017. *Raport asupra inflației – Noiembrie 2017*. Bucharest: National Bank of Romania.
10. National Bank of Romania, 2020. *Raport asupra inflației – Februarie 2020*. Bucharest: National Bank of Romania.
11. Spulbăr, C. and Nițoi, M., 2012. *Sisteme Bancare Comparate*. Craiova: Editura Sitech.

## AUDIT OF THE IMPLEMENTATION OF THE NATIONAL ANTI-CORRUPTION STRATEGY AT THE LEVEL OF LOCAL PUBLIC ADMINISTRATION

**Ph.D. Nicoleta ARDELEANU (TRIFU)**

“Valahia” University of Târgoviște, Romania

E-mail: nico75ard@yahoo.com

**Ph.D. Isabela-Raluca BOGASIU (ANTON)**

“Valahia” University of Târgoviște, Romania

E-mail: isabogasiu@gmail.com

***Abstract:** In Romania, the impact of the National Anti-Corruption Strategy SNA approved by Government Decision No. 583/2016 was lower than expected, but positive, according to the Progress Report of the Ministry of Justice and subordinate institutions on the implementation of the National Anti-Corruption Strategy 2016 – 2020. Thus, major measures are needed to develop and implement public anti-corruption politics and means of promoting the perception of the corruption process. At the level of the administrative-territorial unit of Prahova County, the processes of implementation of the National Anti-Corruption Strategy were audited with the identification and analysis of vulnerabilities associated with general and specific objectives, the evaluation of measures of institutional transparency and prevention of corruption, evaluation indicators, and standards for the publication of information of public interest.*

***Keywords:** internal audit, anti-corruption public policies.*

***JEL Classification:** M42, H83.*

### 1. Introduction

According to the Decision of the Romanian Government No. 583/2016 approved the National Anti-Corruption Strategy (NAS) for the period 2016 – 2020 in which the sets of performance indicators, the risks associated with the objectives and measures of the strategy, the sources of verification, the inventory of institutional transparency and corruption prevention measures, the evaluation indicators, as well as the standards for the publication of information of public interest.

At the level of the administrative-territorial unit of Prahova County, the processes of implementation of the National Anti-Corruption Strategy were audited with the identification and analysis of vulnerabilities associated with general and specific objectives, the evaluation of measures of institutional transparency and prevention of corruption, evaluation indicators, and standards for the publication of information of public interest. In the following I will present the methodology of the research and the results of an internal public audit mission carried out in 2019, in which I participated as an internal auditor.

### 2. Research methodology

In the context of the achievement of Reference Objective No 1 of the European Parliament and of the Council, the European Parliament and the Council has 4: Combating corruption at all levels, according to Recommendation No. 11 formulated in the European Commission's Progress Report in Romania under the CVM Cooperation and Verification Mechanism – "Continue the implementation of the National Anti-Corruption Strategy, in compliance with the deadlines set by the government in August 2016. The Minister of Justice should establish a reporting system on the implementation of the National Anti-Corruption Strategy (including statistics on integrity incidents in public administration, details of disciplinary procedures and sanctions and information on structural measures applied in vulnerable areas"- The European Commission being the monitoring body for the implementation of the NAS 2016-2020.

In October 2019, the European Commission published the latest report on Romania's progress under the Cooperation and Verification Mechanism, noting that "the implementation of the National Anti-Corruption Strategy has continued at technical level. Corruption prevention measures have been taken, such as internal audits by each of the participating public institutions and peer review missions planned in 2018, both within central institutions and at local level (in county councils and town halls). (...) One of the objectives of the strategy is to improve the results in the fight against corruption through the application of criminal and administrative sanctions" (European Commission, 2019, pp. 17-18).

The internal audit should be specialised in the field of corruption prevention and include in the objective audit missions on the functioning of the anti-corruption management system, according to specific objective 2.1 of the NAS: "1. internal auditing, every two years, of the corruption prevention system at the level of all public authorities".

### **3. Audit of the implementation of the National Anti-Corruption Strategy (NAS) 2016-2020 at the level of the Prahova County Council**

In accordance with the provisions of Article 13(1). (c) of Law No.672/2002 on internal public audit, republished, with subsequent amendments and additions, to point 1.4.3.3. under the General Rules on the exercise of the internal public audit activity approved by Government Decision No. 1086/2013, Methodology for carrying out internal public audit missions on the evaluation of the corruption prevention system, developed by UCAAPI-MFP, having regard to the annual internal audit plan for 2019, an internal public audit mission was carried out at the level of the Prahova County Council.

#### **3.1. Purpose and objective of the internal public audit mission**

The purpose of the public audit mission is to verify the framework approved in Annex 3 to the National Anti-Corruption Strategy SNA 2016-2020. The audit mission aimed to provide assurance to the general management regarding the degree of implementation of preventive measures by reference to compliance with the headquarters of the matter presented in Government Decision No. 583/2016 on the approval of the National Anti-Corruption Strategy SNA 2016-2020 -Annex 3.

The objective of the internal public audit mission approved by the Methodology for carrying out internal audit missions on the evaluation of the corruption prevention system (developed by the Central Unit for the Harmonization of Internal Public Audit of the Ministry of Public Finance) is to evaluate the degree of implementation of the following measures: elaboration of the ethical/deontological/conduct code, designation of ethics adviser and identification of sensitive functions.

#### **3.2. Methodology for carrying out the internal public audit mission**

The internal public audit mission was carried out at 23 public entities respectively: the Prahova County Council, 18 subordinate public entities and 4 companies to which the county council is a shareholder.

The implementation of preventive measures was assessed by issuing checklists - model no. 2 contained The general rules on the exercise of the internal public audit activity approved by Government Decision No. 1086/2013, for each entity and on each objective.

The internal public audit mission was carried out through the following steps: preparation of the evaluation mission, on-site intervention, reporting of the results of the audit mission and follow-up of the implementation of the recommendations made.

The verification sample consisted of 100% consisting of 23 entities with legal personality (19 public entities and 4 public enterprises) and the Prahova County Council with all units under its subordination and under authority.

In order to obtain compliant findings on how to prepare and issue documents, the internal audit techniques used were physical verification and observation.

The documents developed during the audit were: the programme of the internal public audit mission, checklists and identification and analysis sheets of the problems identified, structured on objectives and drawn up for each entity.

The documents on the basis of which findings and recommendations were made were the rules of organization and operation, the code of ethics/deontological/ethical conduct, as appropriate, the job descriptions, management decisions, operational procedures on reporting irregularities and inventorying sensitive functions, self-assessment questionnaires on the implementation of the internal management control system .

### **3.3. Issues and recommendations**

#### **3.3.1. Issues**

##### ***a. Issues negative in terms of the preventive measure "Code of Ethics /Deontological/Ethical Conduct":***

The Code of Ethics/Deontological/Ethical Conduct has not been updated to 5 audited entities, does not contain information on: general principles/rules of conduct, monitoring and monitoring the application of professional conduct rules, liability rules, sanctions and final provisions.

The staff employed has not been regularly tested on knowledge of the provisions of the code of ethics/deontological/ethical conduct.

On 3 verified entities it was found that a procedure for reporting irregularities had not been developed.

Possible causes of the deficiencies presented are: failure to apply or omit aspects of the implementation of Standard No. 1 "Ethics and integrity" approved by the Order of the General Secretariat of the Government No. 600/2018 for the approval of the Code of Internal Management Control of Public Entities, the non-designation of the person/persons responsible for testing employees on the provisions of the Code of Ethics/deontological/Ethical Conduct.

##### ***b. Issues negative in terms of the preventive measure "Ethics Board" :***

Post sheets have been identified that do not contain tasks specific to the ethics board's work, the possible causes of this failure being the lack of staff, the volume and complexity of the activities.

##### ***c. Issues negative in terms of the preventive measure "Sensitive functions":***

Of the total verified entities, 16 entities have implemented the "Sensitive Functions" measure the rest of the entities are being implemented (partially implemented).

Entities that have not developed an operational procedure for the identification and management of sensitive functions have been identified.

Post sheets which do not contain tasks relating to the identification and management of sensitive functions have been identified.

Possible causes of the deficiencies presented are the small number of personnel, the non-application of the procedure on the identification and management of sensitive functions by all functional components.

#### **3.3.2. Recommendations**

##### ***a. Recommendations to the preventive measure "Code of Ethics /Deontological/Ethical Conduct":***

Updating the Code of Ethics/Deontological/Ethical Conduct in accordance with the rules of organization and operation and internal regulations approved at the level of verified entities, in the following structure: introduction, general principles/rules of conduct, provisions on monitoring and monitoring the application of the rules of professional conduct, rules on liability, sanctions and final provisions.

Designation of persons responsible for the evaluation of employees with regard to the Code of Ethics/Deontological/Ethical Conduct.

The management of entities will order the testing and evaluation of the jumpers, periodically on the knowledge of the Code of Ethics /deontological / Ethics Conduct.

Elaboration of an operational procedure for reporting irregularities.

**b. Recommendations to the preventive measure "Ethics Advisor":**

The job descriptions for staff appointed as Ethics Advisor will be updated with attributes specific to this quality.

**c. Recommendations to the preventive measure "Sensitive functions":**

Develop a procedure for the identification and management of sensitive functions.

The management of the verified entities will order the designation of the persons responsible for carrying out the process of identifying sensitive functions and completing the job descriptions with the specific tasks of this process.

Inventory of sensitive functions at the level of the compartments and elaboration of the Plan of Measures on the management of sensitive functions .

**3.3.3. Evaluation of preventive measures on verified entities :**

Based on verified documents and findings, the opinion of the audit expressed at the level of each preventive measure is presented in Table No.1

**Table No.1. Evaluation of preventive measures**

Name of preventive measure	Implemented	Partially Implemented	Unimplemented
<i>"Code of Ethics / Deontological /Ethical Conduct"</i>	11 entities	12 entities	-
<i>Ethics Board</i>	11 entity	1 entitate	11 unenforceable
<i>Sensitive functions</i>	16 entities	7 entities	-

Source: own conception

**3.3.4. Positive aspects identified in the implementation of anti-corruption measures**

In order to comply with Specific Objective 3.8 "Increased integrity, reducing vulnerabilities and risks of corruption in local public administration", from the National Anti-Corruption Strategy for the period 2016-2020 taking into account the provisions of the Methodology for identifying risks and vulnerabilities to corruption developed by the Ministry of Regional Development and Public Administration, the implementation of public anti-corruption measures and policies established by the approved Integrity Plan continued at the level of the audited entity.

The activities carried out at the entity level are aimed at improving public services offered to citizens and implementing their own working procedures in accordance with the principles of transparency, legality, effectiveness, the primacy of the public interest and the promotion of integrity in the exercise of public office, in the context of the regulatory and institutional framework for preventing corruption.

Encouraging integrity, corruption prevention and decision-making transparency are priority objectives of the entity's management, thus identifying permanent monitoring of preventive anti-corruption measures, approved in the Prahova County Council Integrity Plan to the National Anti-Corruption Strategy (NAS) 2016-2020, transmitted publicly on the entity's website in the Decision Transparency module (Prahova County Council, 2020).

At the entity level there are 167 operational procedures, and the level of appreciation of the internal/managerial control system is Good.

With regard to the monitoring of anti-corruption indicators, operational procedures are implemented, as set out in Table No. 2 .

**Table no. 2. Operational procedures for monitoring anti-corruption indicators**

• Code of Conduct of civil servants
• Code of Conduct of contract staff
• Monitoring of the implementation of rules of conduct by civil servants and disciplinary procedures
• Management of conflict of interest
• Reporting irregularities in the ethics of employees
• Risk management
• Elaboration of own process
• Risk management of own website
• Management Of the online transmission of public information
• Resolution of requests made under Law No. 544/2001.

*Source: own conception*

According to the provisions of Government Ordinance No. 75/2003, at the entity level, the Official Gazette of the Prahova County Council is drawn up, which contains administrative acts of a general and normative nature.

Citizens' satisfaction with the conduct of officials shall be assessed annually by providing a questionnaire to highlight the issues concerned. The results are found in the management analysis. The county council meetings are attended by representatives of the press, being recorded and broadcast on local television stations. Draft judgments of a normative nature are posted on the institution's website for consultation by citizens, according to the law.

#### **4. Conclusions**

Codes of Conduct and reports on the entity's strategy and policies must specify the values, purposes of the entity and the measures taken to build a compatible organizational culture in relation to its legal, ethical and citizen responsibilities.

The internal audit is intended to actively contribute to the support of ethical culture and to determine the management and employees within the entity, to respect these responsibilities, depending on the position occupied within the entity.

Thus, internal auditors must determine the management of the entity and the staff to comply with and fulfil their obligations and responsibilities in accordance with the established duties.

In this context, internal auditors who show confidence and integrity also have the necessary levers to get managers and other employees to comply with their obligations in carrying out the tasks set out in the posts. Thus, the heads of public entities can implement various legal forms, structures, strategies and procedures to ensure:

- a. compliance with the laws and regulations;
- b. respect for citizens' ethical principles and social expectations; comprehensive and honest
- c. information of hierarchical levels, the public and reporting on decisions, actions, management and results obtained.

Compared to those presented, we believe that a leading role in internal auditing is to evaluate the governance process of the public organization, with the aim of underpinning recommendations aimed at improving them, actively supporting the preservation of the organization's values, promoting ethical conduct and prompting leaders and other employees to comply with their obligations.

### References:

1. Decision of the Government of Romania No. 583/2016 on the approval of the National Anti-Corruption Strategy for the period 2016-2020, sets of performance indicators, risks associated with objectives and measures in the strategy and sources of verification, inventory of measures for institutional transparency and prevention of corruption, evaluation indicators, and standards for the publication of information of public interest
2. European Commission, 2019. *Report of the Commission to the European Parliament and the Council on Romania's progress under the cooperation and verification mechanism.* [online] Available at: <[https://ec.europa.eu/info/sites/info/files/progress-report-romania-2019-com-2019-499\\_ro.pdf](https://ec.europa.eu/info/sites/info/files/progress-report-romania-2019-com-2019-499_ro.pdf)>.
3. Law No. 672/2002 on internal public audit, republished in M.Of. No. 856/2011
4. Order of the Minister of Public Finance No. 1086/2013 for the approval of the general rules on the exercise of the internal public audit activity, M.Of. No. 17/2014.
5. Order of the General Secretariat of the Government No. 600/2018 for the approval of the Code of Internal Management Control of Public Entities, M. Of. No. 387/2018.
6. Prahova County Council, 2020. *National Anti-Corruption Strategy.* [online] Available at: <<https://www.cjph.ro/transparenta-decizionala/strategia-nationala-anticoruptie>>.

## ASPECTS OF THE PUBLIC SPENDING POLICY ON THE SOCIAL PROTECTION OF CHILDREN IN DIFFICULTY IN THE REPUBLIC OF MOLDOVA

**Scientific Researcher, Ph.D. Student, Mihail CIOBANU**

Scientific researcher in the section "Social research and the standard of living of population" of National Institute of Economic Research of Republic of Moldova,  
Ph.D. Student at the State University "Dimitrie Cantemir" of Republic of Moldova  
E-mail : ciobanu.mihail.s@gmail.com

**Abstract:** *One of the main directions of the public spending policy in Republic of Moldova is the social protection of the population. A group of population that is, especially, vulnerable to the difficult social and economic conditions is the children in difficulty – children who have insufficient parental support or lack it, due to parents' negligence, violence, death or other unfavorable conditions of familial environment. A widespread measure of support of these children is their separation from the difficult familial environment and the subsequent institutionalization. On the one hand, the need to make the use of public spending more efficient in supporting this category of children, on the other hand, numerous researches that demonstrate the negative effects of institutionalization on children have determined the government of the Republic of Moldova to orient itself towards deinstitutionalization measures in the last decade. In this paper we try to determine the main aspects of the public spending policy on the social protection of children in difficulty in the Republic of Moldova of the last decade in the light of deinstitutionalization efforts.*

**Keywords:** *children, public spending, social protection, Moldova.*

**JEL Classification:** *H53, I38, J13.*

### 1. Introduction

The social protection of the population is an important part of the public spending policy in Republic of Moldova as in many other countries, as well. The public spendings are directed towards supporting various vulnerable groups of population, from which, children in difficulty is one of the most vulnerable, because of the dependence on a parent or a tutor. The Moldovan law (The Law of the Parliament of Republic of Moldova No. 140 from 14.06.2013 on the special protection of children at risk and of children separated from parents) determines the conditions which can put children at risk of becoming children in difficulty that may need institutionalisation or other social or material support. These conditions include: subjection to violence; negligence; practicing wandering, begging, prostitution; deprivation of care and supervision by the parents because of their absence from home for unknown reasons; death of the parents; living in the street, running away or being chased away from home; the refusal by the parents to exercise their parental obligations regarding the raising and care of the child; the abandonment by their parents; the establishment of a measure of judicial protection (provisional, curatorial or guardianship protection) of one of the child's parents; being a victim of crimes.

To tackle the issues of families and children in difficulty a common measure was the separation of the children from the difficult familial environment and their subsequent institutionalization. But, on the one hand, the need to make the use of public spending more efficient in supporting this category of children, while on the other hand, numerous researches that demonstrate the negative effects of institutionalization on children have determined the government of the Republic of Moldova to orient itself towards deinstitutionalization measures in the last decade, convinced by a series of international and non-governmental organizations in the 2000s (UNICEF, Lumos, CCF Moldova and other organizations that have as one of their main objectives the deinstitutionalisation of children). In the light of deinstitutionalization efforts, Moldovan government implemented various programs and measures of support oriented towards families and children in difficulty. The social protection sector includes two interdependent areas - the social

insurance and the social assistance and has the largest share in the public budget of Moldova - about 33%. Further, we will determine the main aspects of the public spending policy on the social protection of children in difficulty in the Republic of Moldova of the last years.

## **2. The public spending policy for supporting the children in difficulty**

The 2000s were characterized with a series of problems for families and children in Moldova. The natality rate in this period was relatively low (the lowest – 9.9‰ in 2002, the highest - 10.6‰ in 2007) (National Bureau of Statistics of Moldova). The existing system didn't favour the family to educate the child inside the family. There was a high level of institutionalization of children and abandonment, which had a negative impact on the development of children. In 2006 were maintained 25 social assistance centers for children with 967 protected children and the expenses for the maintenance of these centers amounted to 7.1 millions Moldovan Lei or MDL (~541 thousands United States Dollars or USD in 2006) (here and further will be presented the amounts in USD based on the average yearly exchange rate where possible from National Bank of Moldova to give an approximative picture of the amount at the respective year). The social protection system of the child was focused on the form of residential care that is costly and inefficient. Also, the services provided to children and families with children were dispersed between several public administration structures - Ministry of Social Protection, Family and Child, Ministry of Education and Youth, Ministry of Health, local public administration, and there was no close coordination between these structures. Starting with 2005, was introduced a new method of calculating the monthly allowance for raising the child up to 3 years of age for the insured persons – 20% of the average monthly salary. To alleviate these issues were established as priorities of public spending policy the increase of social protection of families with children and the development of social services and of the network of social workers. Thus, in the area of social protection in the Republic of Moldova in 2008 was approved a program on children and family protection with the purpose of supporting families with children and children in difficulty, the provisions of which cover monetary benefits (single childbirth allowance; child-raising and childcare allowances; allocations for orphans, for those under guardianship, for day care centers and temporary placement for children, for family-type homes). All the program expenses are covered by the state budget, the budgets of the administrative-territorial units and the state social insurance budget. The program policy included two priorities: reducing social risks for families with children by creating a system of social protection of the family and the child, based on the development of the families' ability to raise and care for their children and developing the guardianship service as one of the most effective forms of child protection. There were 3 priority policy actions for the first priority (The Medium-Term Expenditure Framework (2008-2010)):

- 1) The introduction, starting with 2008, of the differentiated unique allowance at birth - for the first child 1200 MDL (~115 USD) and for each subsequent child born - 1500 MDL (~144 USD);
- 2) Increase of the single birth allowance by 200 MDL (~19 USD in 2008) each year;
- 3) Increase of the monthly allowance for the raising of the child up to the age of 3 years, to the insured persons by 5% every year and of the monthly allowance for the raising of the child up to the age of 1.5 years, to the uninsured persons with 50 MDL (~5 USD in 2008).

For the second priority two measures were applied:

- 1) Increasing the allowance for the guardianship of orphaned or abandoned children up to 450 MDL (~43 USD in 2008);

2) Establishment of temporary guardianship - from 7 days to 3 months as a temporary form of placement.

For these new measures for 2008 from state budget were allocated 46.9 millions of MDL (4.5 millions USD) and 20.8 millions MDL (2.0 millions USD) from the budget of social insurance.

The size of the single birth allowance by 2010 had to increase by 60% compared to 2006 and had to be in 2008: for the first child - 1200 MDL (115 USD), and for the second child – 1500 MDL (135 USD). In 2009 - first child - 1400 MDL (126 USD) and the second child – 1700 MDL (153 USD). In 2010 – the first child - 1600 MDL (129 USD) and the second child - 1900 MDL (154 USD). The amount of the monthly allowance for raising a child up to the age of 3 years old to the insured persons by 2010 had to increase by 60% compared to 2006. The allowance for the guardianship of orphaned or abandoned children had to increase about 2.25 times by 2010. The share of spendings for this program in total social sector spendings has been established to grow from 4.7% from 2008 to 5.3% in 2010.

In 2009 this program of support included the professional parental assistance service, as well as organizing the children's summer rest. Three medium-term objectives for the public expenditure policy were established: the development of a strategic framework for deinstitutionalization of children; the elaboration and implementation of the mechanisms of record and monitoring of the process of social protection of children and social protection of families at child birth and in raising children. To realize these objectives, alongside the actions from the previous year new actions included opening and maintaining the activity of day placement and temporary placement centers and increasing the allowances for orphan children and students and for those under guardianship. For the period 2009-2011 the measures from the previous years have continued - the increase of the one-time allowance at birth of the first child and for each subsequent child with 200 MDL (18 USD in 2009) every year; the increase of the monthly allowance for children up to the age of 3 to insured persons by 5% each year and the increase of allowances for students and orphan students and those under guardianship. The cost of the opening and maintaining the activity of social assistance centers for day placement and temporary placement for children grew from 20.3 millions MDL (1.8 millions USD) in 2009 to 22.2 millions MDL (1.9 millions USD) in 2011. Also, for the increase of allowances for students and orphan students and those under guardianship was allocated a fixed amount of 23.6 millions MDL (2.1 millions USD in 2009) each year in the period 2009-2011 (The Medium-Term Expenditure Framework (2009-2011)).

During the years 2001–2011 the public spendings for social protection sector increased from 1.6 billions MDL (124.3 millions USD) in 2001 to 11.0 billions MDL (937.0 millions USD) in 2011, their share in GDP increasing from 8.4% to 13.4%. The permanent increase of spendings for this sector was conditioned by the social problems in the country. The demographic situation of the Republic of Moldova has registered a deep and constant deterioration, characterized by a negative natural and migratory increase, which leads to the continuous decrease of the total population and to its aging.

For the years 2012-2014 the share of the spendings from the social protection for the program for the protection of family and children has constituted 7.7%. In this period it was necessary to review the priorities in the child protection system, taking into account the need to make granting financial means more efficient, based on the complex assessment of the individual needs of families with children and children in difficult situation in the context of the implementation of the National Program on the creation of the integrated system of social services for 2008-2012, National Action Plan on the protection of children left without parental care for the years 2010-2011. A problematic

issue was the quality and efficiency of the activity of the tutelary authorities regarding the identification, recording, assistance and protection of families with children in situation of risk, as well as of the children left without parental protection, especially in cases of abuse, violence and neglect. of children and the failure to fulfill the obligations of parents or legal representatives regarding the education and proper care of the children. Also, the level of allowances for families with children continues to be low. From the 2012 as medium-term policy objectives were chosen three (The Medium-Term Budgetary Framework (2012-2014)): the prevention of the separation of children from the family environment or (re)integration of children into the biological or extended family by developing social services and efficientizing the mechanisms for establishing the right to provide social benefits to families with children at risk and children in difficulty; promotion of active policies to increase the birth rate and to support maternity by systematically increasing the allowances for families with children; provision of assistance measures in the countries of destination, repatriation and protection of children identified without attendants and children in difficulty outside country borders.

Besides previous actions that were continued (granting allowances for children for insured persons and for uninsured persons; providing social services to children and families in risk situations (in day care centers and temporary placement centers); providing substitute services close to the family environment (family-type children's homes, professional parental assistance services); granting allowances for children left without parental that were adopted and those under guardianship or curatorship), the new actions for 2012-2014 included: annual increase with 300 MDL (24.8 USD in 2012) of the unique allowance at the birth of the first child and for each subsequent child starting with 2013 for insured and non-insured persons; increase, starting with 2013, by 5% of the monthly allowance for the child's raising up to the age of 3 years to the insured persons and with 50 MDL (4.1 USD in 2012) of the minimum ceiling of the allowance; increase of the monthly allowance for the maintenance of the child up to the age of 1.5 years for the uninsured persons with 50 MDL (4 USD in 2013) annually, starting with 2013; the increase, starting with 2012, with 100 MDL (8.3 USD in 2012) of the amount of the monthly allowance for the maintenance of the child in custody and the one under guardianship or curatorship. The total costs for these measures has grown from 785.1 millions MDL (64.8 millions USD) in 2012 to 915.0 millions MDL (65.2 millions USD) in 2014 or with 16.5%.

The total amount of costs for child allowances to insured persons has grown from 397.8 millions MDL in 2012 (32.9 millions USD) to 515.8 millions MDL in 2014 (36.7 millions USD) or by 29.7%. For the uninsured persons the total amount of costs for child allowances has grown from 227.6 millions MDL (18.8 millions USD) to 237.3 millions MDL (16.9 millions USD) or only by 4.3% in the period 2012-2014. For providing social services to children and families at risk (in day care centers and temporary placement centers) the costs grew in this period by 12.5%, from 31.9 millions MDL (2.6 millions USD) to 35.9 millions MDL (2.6 millions USD). For the providing of substitute services close to the family environment (family-type children's homes, professional parental assistance services) the costs grew in 2012-2014 only by 0.9% if at all, from 11.3 millions MDL (0.9 millions USD) to 11.4 millions MDL (0.8 millions USD). Granting allowances for children left without parental care and for those under guardianship or curatorship had a fixed amount of costs of 34.4 millions MDL (2.8 millions USD in 2012) in the period 2012-2014.

To support families with children new actions were implemented from 2013. The payment from the state budget account, of the single allowance for the birth of the child of the insured persons started from 2013. The costs for this action for insured persons have grown from 4.5 millions MDL (0.4 millions USD) to 4.9 millions MDL (0.3 millions

USD) in the period 2013-2014, while for non-insured persons – from 9.7 millions MDL (0.8 millions USD) to 11.0 millions MDL (0.8 millions USD). Another new measure was the increase of the unique allowance at the birth of the first child and for each subsequent child, to the insured and uninsured persons with 300 MDL (24 USD in 2013) in 2013-2014 and 600 MDL (32 USD) in 2015. Also, was decided the annual increase by 200 MDL (14 USD in 2014) of the allowance for the raising and care of the child up to the age of 1.5 years, to the uninsured persons, starting with 2014. Besides this, was established the annual increase with 200 MDL (14.2 USD in 2014) of the minimum amount of the allowance for the raising and care of the child until the age of 3 years, to the insured persons, starting with 2014. In addition to this, was continued the development of the family support service and the creation, maintenance and development of services for deinstitutionalized children.

At this stage, ones of the main problems of this sector remain the inefficiency of directing benefits to the poorest and insufficient social services based on the assessment of individual needs. As priority directions for support measures remain the development of quality social services, according to individual needs for children and families with children, victims of violence and trafficking in human beings and others and promoting new policies in the field of family and child protection. In order to alleviate these issues in the period 2014-2016 and onwards there were promoted active policies to increase birth rates by increasing allowances for families with children, there was provided support to families with children in order to prevent the separation of children from families and to ensure the reintegration of children in residential care into their families and there were developed mechanisms for preventing and combating violence against children.

For the sector of social assistance and support in 2015 were allocated 16.1 billions MDL (0.9 billions USD) and the amount has grown to 19.8 billions MDL (1.2 billions USD) in 2018. The share of spendings for this sector has reduced from 13.5% to 12.8% in the period 2015-2018. The public spendings for social protection as a share from GDP grew from 12.8% in 2016 to 13.1% in 2018. This share is expected to reduce to 11.8% in 2021. The spendings for social protection are expected to grow up to 25.0 billions MDL in 2021 (The Medium-Term Budgetary Framework (2015-2017)) (The Medium-Term Budgetary Framework (2016-2018)).

For the years 2019-2021 in the field of family and child protection, it is necessary to continue to ensure the conditions for the raising and education of children in the family environment. Measures are needed to standardize and increase the benefits granted to the children left without parental care placed in alternative family services, adjusting the respective benefits according to the special needs of the children placed. To this end, the allowances for families with children, as well as the benefits granted to children placed in services at community level, are to be increased (The Medium-Term Budgetary Framework (2019-2021)).

In the existing social assistance system of the last 3 years, the promoted policies focus on targeting assistance to the most disadvantaged families, with the emphasis on empowering social assistance beneficiaries to use the benefit according to the needs of the family. At the same time, an increased emphasis is placed on the involvement of local public administration authorities in the process of implementing activities of community interest to people from families receiving social assistance.

For the years 2019-2021 a priority remains the improvement of the financial support policies of families with children and the protection of children at risk and of children separated from parents. In order to sustain this priority for these years a new set of support measures began to be implemented. In the period 2019-2020 is carried out the Study on the family structure and the number of children desired the total costs of which amounts to 6 millions MDL (0.3 millions USD in 2019). It was established from 2020 the additional

option for the gradual granting of the child raising allowance until the age of 3 years: 1<sup>st</sup> year - 60%, 2<sup>nd</sup> year - 30%, 3<sup>rd</sup> year – unpaid, a measure for which an yearly amount of 39.6 millions MDL (2.2 millions USD at the average exchange rate for 01.01.2020-20.04.2020) was allocated for the years 2020-2021. For the contracting of the psychological counseling services of children in the adoption procedures for the years 2019-2021 were allocated yearly amounts of 32.0 thousands MDL (1.8 thousands USD in 2019). Starting with January 1, 2019 was established and paid the unique allowance at the age of 18 for children left without parental care, regardless of the service in which it is placed, in the amount of 5000 MDL (284 USD in 2019), and is to be indexed on January 1, in relation to the consumer price index for the previous year. To cover this measure for 2020 was allocated 1.2 millions MDL and in 2021 - 1.3 millions MDL.

Starting with 2019, by 100 MDL (5.7 USD in 2019) was increased the monthly allowance for child maintenance in the case of uninsured persons until the age of 2 years and by 50 MDL (2.9 USD in 2019) the monthly allowance for twin children or more children born from a pregnancy. To cover these costs the amount allocated for this measure tripled (from 53.3 millions MDL in 2019 (3.0 millions USD) to 160.0 millions MDL in 2021).

Also, beginning with January 1, 2019 was increased by 100 MDL (5.7 USD in 2019) the minimum monthly allowance for raising a child up to the age of 3 years in the case of insured persons. The costs for this measure for the years 2019-2021 to be allocated have been decided to grow by 4 times (from 4.9 millions MDL in 2019 (0.3 millions USD) to 20.5 millions MDL).

Starting with January 1, 2019 for the annual increase of the amount of the single allowance at the birth of the child in correlation with the monetary value of the minimum basket of goods necessary for the birth of the child, calculated for the previous year is to be allocated an amount of 14.5 millions MDL in 2019 (0.8 millions USD) that is expected to grow to 15.9 millions MDL in 2021.

A new implementation that is expected to begin in 2020 and continue in 2021 is the establishment of the National Resource and Assistance Center for Family and Child (with three branches), as well as the establishment within it of the Integrated Assistance Service for Child Victim Participating in Criminal Proceedings (forensic expertise, psychological expertise, protection interviews, conduct of hearing of children) of the type “Barnhaus Integrated Services” and the elaboration of the normative framework regarding the organization and functioning of the respective service. The cost of this is established at 12.0 millions MDL for this period (0.7 millions USD at the average exchange rate for 01.01.2020-20.04.2020).

The amount of the single placement allowance for children from professional parental care, family-type children's homes starting on January 1, 2019 was increased and subsequently indexed, starting on January 1, in relation to the consumer price index for the previous year. The costs for this measure are expected to grow continuously from 186.7 thousands MDL in 2019 (10.6 thousands USD in 2019) to 205.3 thousands MDL in 2021.

Also, the establishment and payment of the single allowance for children placed in guardianship or curatorship services, starting with January 1, 2019, and its indexation on January 1 in relation to the consumer price index was implemented. The costs of such a measure are expected to increase from 1.8 millions MDL in 2019 (0.1 millions USD in 2019) to 2.0 millions MDL in 2021.

Have grown, too, the single placement allowances for children up to 1 year old with 100%, for children of 1-3 years old with 50% and for children with disabilities - with 30%, that are placed in professional parental care, family-type homes or curatorship. For this

were allocated 296.6 thousands MDL in 2019 (16.9 thousands USD in 2019) and the amount shall grow up to 326.0 thousands MDL in 2021.

The monthly allowance for children placed in professional parental care, family-type homes and under guardianship was increased beginning with 2019. For 2019-2021 the spendings shall grow from 37.8 millions MDL (2.2 millions USD in 2019) to 67.5 millions MDL to cover the costs of this measure.

Apart from this, the monthly allowances for children with disabilities placed in professional parental assistance, family-type homes and guardianship or curatorship was increased with 30% since 2019. To cover the costs were allocated 373.0 thousands MDL in 2019 (21.2 thousands USD in 2019), an amount that is expected to grow to 503.5 thousands MDL in 2021.

Another measure, the increase of the monthly allowance for children temporarily left without parental care, young people with the status of orphaned children who continue their studies, in an amount equal to the minimum of existence for working people or children for which the cost in 2019 was 4.3 millions MDL (0.2 millions USD in 2019) is expected to grow to 4.7 millions MDL in 2021.

After all these years of increasing the spendings for the social protection of the population, it may be said that the government of Moldova has increased too much, year by year, the costs for this sector, but that isn't unjustified, because even in the Constitution of the Republic of Moldova in the article 126 is stated clearly that "[t]he economy of the Republic of Moldova is a market economy of social orientation" (Constitution of Republic of Moldova) and the article 50 state the right of the mother and the child to special assistance and protection, including those children born out of wedlock. Also, children and young people shall enjoy special assistance in the exercise of their rights and the state grants the necessary allowances for children and aids for the care of sick or disabled children and other forms of social assistance for children and young people are established by law. Any arguments that may try to counter this should take these legal provisions in consideration and justify further diversification of social support measures.

### **3. Conclusions**

The field of social protection involves complex and multidimensional reforms, the realization of which is conditioned by the need for a balance between economic and financial support reforms. The need to accelerate social protection reforms stems from the major impact it has on reducing poverty, supporting families with children, increasing the birth rate and addressing the demographic problem. In the existing social assistance system of the Republic of Moldova, the promoted policies focus on targeting assistance to the most disadvantaged families, with the emphasis on empowering social assistance beneficiaries to use the benefit according to the needs of the family. At the same time, an increased emphasis is placed on the involvement of local public administration authorities in the process of implementing activities of community interest to people from families receiving social assistance. Significant efforts through introducing various monetary support measures, creation of services, opening of special centers, increasing support costs and others have been undertaken year by year to deinstitutionalise children in difficulty placed in residential institutions, include them in a family or at least in a family-type of environment, to support vulnerable families. Obviously, the government efforts in this regard are commendable, yet it's necessary to make granting financial means more efficient, based on the complex assessment of the individual needs of families with children and children in difficult situation. The need to increase the efficiency and quality refers also to the activity of the tutelary authorities regarding the identification, recording, assistance and protection of families with children in situations of risk, as well as of the

children left without parental protection, especially in cases of abuse, violence and neglect of children and, reduction in the failure to fulfill the obligations of parents or legal representatives regarding the education and proper care of the children. The still low level of allowances for families with children needs also to be addressed. The efforts of deinstitutionalisation need to continue to reduce the permanent placement centers for children in difficulty and replace them where possible with social services of temporary duration. Further studies shall be done to identify which support measures are more efficient for the increasing of welfare of families and children in difficulty and what are the optimal costs for such measures.

### References:

1. *Constitution of Republic of Moldova*. [online] Available at: <<http://www.parlament.md/CadrulLegal/Constitution/tabid/151/language/ro-RO/Default.aspx>> [Accessed 20 April 2020].
2. National Bank of Moldova, 2020. *Exchange rates*. [online] Available at: <<https://bnm.md/ro/content/ratele-de-schimb>> [Accessed 20 April 2020].
3. National Bureau of Statistics of Moldova, 2020. *Statistical Databank Moldova, Natural movement rates by residence, 1940-2018*. [online] Available at: <[https://statbank.statistica.md/pxweb/pxweb/ro/20%20Populatia%20si%20procesele%20demografice/20%20Populatia%20si%20procesele%20demografice\\_\\_POP\\_\\_POP020/POP020200.px/?rxid=b2ff27d7-0b96-43c9-934b-42e1a2a9a774](https://statbank.statistica.md/pxweb/pxweb/ro/20%20Populatia%20si%20procesele%20demografice/20%20Populatia%20si%20procesele%20demografice__POP__POP020/POP020200.px/?rxid=b2ff27d7-0b96-43c9-934b-42e1a2a9a774)> [Accessed 20 April 2020].
4. The Law of the Parliament of Republic of Moldova No. 140 from 14.06.2013 on the special protection of children at risk and of children separated from parents, Published: 02.08.2013 in Official Gazette No. 167-172, art. No.: 534, Date of entry into force: 01.01.2014, MODIFIED: LP238 from 08.11.18, MO441-447/30.11.18, art. 709. [online] Available at: <[https://www.legis.md/cautare/getResults?doc\\_id=110518&lang=ro](https://www.legis.md/cautare/getResults?doc_id=110518&lang=ro)> [Accessed 20 April 2020].
5. The Medium-Term Budgetary Framework (2012-2014), approved by Government Disposition of the Republic of Moldova no.129-d from 29 december 2011. [online] Available at: <<http://mf.gov.md/ro/buget/cadrul-bugetar-pe-termen-meniu>> [Accessed 20 April 2020].
6. The Medium-Term Budgetary Framework (2015-2017), approved by the Decision of the Inter-ministerial Committee for Strategic Planning of Republic of Moldova no.2505-06 from 15 July 2014. [online] Available at: <<http://mf.gov.md/ro/buget/cadrul-bugetar-pe-termen-meniu>> [Accessed 20 April 2020].
7. The Medium-Term Budgetary Framework (2016-2018), Published on the site of Ministry of Finances of Republic of Moldova. [online] Available at: <<http://mf.gov.md/ro/buget/cadrul-bugetar-pe-termen-meniu>> [Accessed 20 April 2020].
8. The Medium-Term Budgetary Framework (2019-2021), approved by Government Decision of Republic of Moldova no. 851 from 20 August 2018. [online] Available at: <<http://mf.gov.md/ro/buget/cadrul-bugetar-pe-termen-meniu>> [Accessed 20 April 2020].
9. The Medium-Term Expenditure Framework (2008-2010), approved by Government Decision of Republic of Moldova no.756 from 2 July 2007. [online] Available at: <<http://mf.gov.md/ro/buget/cadrul-bugetar-pe-termen-meniu>> [Accessed 20 April 2020].

10. The Medium-Term Expenditure Framework (2009-2011), approved by Government Disposition of Republic of Moldova no.98-d from 20 October 2008. [online] Available at: <<http://mf.gov.md/ro/buget/cadrul-bugetar-pe-termen-mediu>> [Accessed 20 April 2020].

# THE STATE AID INSTRUMENT FOR SUSTAINING COMPETITIVENESS IN THE CONTEXT OF CURRENT CRISES

**Ph.D. Otilia MANTA**

Center for Financial and Monetary Research “Victor Slăvescu”,  
Romanian Academy, Romania  
E-mail: otilia.manta@rgic.ro

**Abstract:** *At the European level, the territorial approach is gaining more and more important in strategic planning, especially in the context of the current health crisis, a crisis that will directly influence the economic, social, financial crises that will follow in the next period. Although traditionally seen as an integral part of Cohesion Policy, space development has received increasing recognition in other EU policies in recent years. Territorial cohesion has been explicitly recognized and we believe that it must remain a priority as a fundamental objective of the EU, together with economic and social cohesion, through the Treaty of Lisbon (art.3 TEU). This basic document proposes as a principle the emphasis on the role of urban areas, functional areas, geographically disadvantaged areas, as well as the construction of macro-regional approaches. Moreover, the European Commission has recently approved the temporary framework for state aid measures to support the European economy in the context of the current COVID-19 epidemic. In this paper, we propose to reflect on the one hand economic realities before the COVID crisis, as well as personal considerations regarding the plan of measures to support the extremely affected business environment during this period.*

**Keywords:** *competitiveness, state aid, crises.*

**JEL Classification:** *F43, H71, G01.*

## 1. Introduction

Under the conditions of the new economic realities, the implementation of a coherent territorial approach in Romania must respond to the challenges resulting from the need to better capitalize on the existing economic potential. The experience of the last years (2007-2013) shows that:

(1) The territory is exploited to a very small extent in adding value to the economic processes through its characteristics of economic dynamics, economic functionality and spatial arrangement of activities. Although the polycentricity indicators have values comparable to the European regions, the urban centers insignificantly influence the networks of economic activities and allow the formation of an urban and industrial vacuum.

(2) The investments supported by the structural and cohesion funds will not be conceived punctually (in cities, companies, individuals) but will be oriented towards areas of intervention defined as integrated development areas. Despite the efforts so far, of which we exemplify the financing of the projects regarding the poles of competitiveness and the integration of SMEs in chains of suppliers or clusters, the associativity (public-public, public-private or private-private) is weak and this is the first obstacle. Other obstacles refer to the initiation and management of projects (especially large ones), given the differences at the institutional and operational levels and the lack of an integrated vision of territorial development.

(3) The intervention measures are not justified by and do not include elements of value formation at the territorial level. The expected beneficial effects of the operational programs cannot be effectively transferred in results due to the neglect of the effects of spatial agglomeration of the economic activity that at the same time generate positive and negative effects on the added value. Interventions through different operational programs (eg POSCCE and ROP) are not territorially integrated, as there is no spatial impact monitoring mechanism.

The vulnerability of the current territorial approach is not so much related to the definition of strategic priorities (including support through state aid), but especially to the definition and conceptualization in the fields and areas of intervention. The necessary changes are at the operational level, namely how we correctly understand the causal link from the use of territorial capital to the effects of economic growth. The current level of decentralization is insufficient, and the principle of subsidiarity is only formally addressed in the design and implementation of policies with territorial impact. There is a split between the top-down approach (initiated at the national level) and the bottom-up approach (initiated at the local level).

## 2. Methodology of scientific research

To substantiate this paper, we used observation and examination tools, research methods based on the basic principles of scientific research, and also created procedures based on factual analysis, as a result of significant practical experience and intensive documentation. at the level of the specialized literature existing internally and internationally.

## 3. Research results

The results of the research are given on the one hand starting from the situations existing at the European and national level since the end of 2019, as well as the situation of the last period directly influenced by the COVID crisis and the plan of governmental and European measures regarding the economic environment.

The structures (*local, regional, national administrations*) pursue more bureaucratic roles than functions of competitive mobilization of some development areas. All the aforementioned aspects demonstrate the importance of the territorial dimension in the elaboration of a competitiveness strategy, mainly needing common directions of action with the regional development strategies in order to orient the policies towards maximizing the competitive impact at the territorial level by approaching the 3 C:

- *Concentration*: overcoming density differences;
- *Connecting territories*: exceeding the distance factor;
- *Cooperation*: exceeding the factor of division.

In this respect, the thematic concentration and the priorities of public investments must be correlated with the main territorial objectives/keys (which link the territorial priorities with the objectives of economic and social development): accessibility (infrastructure), economic services of general interest, capitalization of the potential territorial, networking of cities (connectivity), support of functional areas.

Given the trends at the European level of analyzing the territorial component of competitiveness, the European Commission has proposed since 2011 to calculate a *Regional Competitiveness Index (ICR)*. The calculation methodology starts from the premise that in a spatial context economic competitiveness is determined by a complex system of factors, which concentrates, among others: the creative and innovative exploitation of the regional potential, the creation of connections at the territorial level by stimulating the appearance and strengthening of the intro and inter-industry value chains, capitalization of natural and cultural heritage, use of research-innovation potential and improving connectivity and accessibility.

The ICR is composed of 11 pillars that describe the different aspects of competitiveness. Through these pillars, the index assesses the strengths and weaknesses of a region. The pillars are classified into 3 groups: *elementary, efficiency and innovation*. The elementary group comprises 5 pillars: *institutions; macroeconomic stability; infrastructure; health; basic education*. These pillars are the essential elementary drivers of

all types of economy. As a regional economy develops and progresses, in terms of its competitiveness, factors related to a skilled labor force and a more efficient labor market can come into play. These factors are part of the efficiency group. It comprises 3 pillars: higher education, vocational training, and lifelong learning; labor market efficiency; the size of the market. At the most advanced stage of development of a regional economy, the drivers of improvement are part of the innovation group, which consists of 3 pillars: *technological maturity; sophistication of the business environment; innovation.*

Based on the ICR, whose calculation formula closely follows the Global Competitiveness Index, the map of regional competitiveness at the European Union level has been elaborated. Between the countries of the European Union, the development regions of Romania are in the last places both in terms of ICR and in almost all the rankings of the indicators that compose this composite index. The region of the capital has the highest values in terms of competitiveness, but the positive effects on the neighboring regions are limited.

Under these conditions, in the case of Romania, the cohesion policy must contribute not only to reducing regional disparities but also to achieving Romania's competitiveness objectives. The results of the Competitive Potential Index (CPI) at NUTS 3 territorial level (county) help us to outline some economic aspects related to the diagnosis and the measurement of the economic performance of a territory. The analysis of the distribution of these values leads to at least two findings:

- an axis of the counties with high values of the *Competitive Potential Index*, which runs almost diagonally across the country and overlaps the most complete infrastructure in Romania (European, national roads, railways, airports).

- a mosaic aspect of the distribution of this index that overlaps the western, central and southern slopes. The East of the country is characterized by a homogeneous distribution of values, which translates into the landscape of economic performance through an inability to make good use of natural and anthropic capital (low technology transfer, low capital, limitations in the area of polarization of Moldovan cities).

At the local economy level, according to the hierarchy of the CPI values, Arges county is located on the first place, with an index value of 0.78, compared to a country average of 0.31, which reflects a large volume of total exports (the second by country), the highest ratio between exports and the employed population (10,925 euros/employee) and the highest share of medium-high technology exports (20.3% of the total in the country and 24% of the total in the county). In the second place, with an index value of 0.68, is located the city of Bucharest, having the highest values of the export, but also the largest occupied population. Timiș County ranks 3rd, with the largest high-tech exports. No county in the NE region ranks among the top 20 in the ranking, as a competitive potential. Bacaul, on the 4th place from the point of view of the high tech exports, is only on the 34th place from 42, due to the high share of the low tech exports in the whole county (almost 70%) and the low value of the exports / employed population, of only 1,099 euros. Only two counties in the SE region - Constanta and Galați - exceed the country average in terms of the value of the competitive potential index, having as main branches shipbuilding and steel industry respectively.

The situation is similar for most other regions, each having generally two or at most three counties with values above the national average.

*The limited effects of training in the territory*, both at the spatial level (from county to county) and at the sectoral level (from industry to industry), can be understood, on the one hand, by the insufficient development of the links between different economic activities. The trade balance of Romania is very much dependent on the development of the auto industry in Argeș, and the Bucharest-Ilfov Region contributes more to the demand

for imports than by the surplus of sales abroad. The competitive advantages, measured by the participation in exports, are concentrated in seven counties, mainly located in the west and the center of the country. (Argeş 10%, Timiş 9%, Arad 5%, Constanta 5%, Bihor 4%, Braşov 4%, Sibiu 4%), which together with Bucharest (17%) makes 60% of Romania's exports. Călăraşi, Ialomiţa, Mehedinţi, Neamţ, Olt, Tulcea and Vrancea counties do not have high technology exports, and 29 counties out of 42 do not exceed the 1% threshold in the country (Cojanu, 2010). On the other hand, the absence of participation in international production and trade networks has an immediate effect on the health of the local economy. Counties such as Bistriţa Năsăud, Brăila, Buzău, Caraş Severin, Călăraşi, Dâmboviţa, Hunedoara, Olt, Sălaj, Tulcea, Vâlcea, face a potential risk at social level that results from the presence of companies with a large number of employees, but with economics relatively weak (Mereuţă, 2013).

The formation of competitive advantages in industrial agglomerations has become a public concern for some time, where the most important role is played by the projects of formation of competitiveness poles initiated from 2009 by the Ministry of Economy, Trade and Business Environment through the Industrial Policy Directorate (The Ministry of Economy, Trade and Business Environment, 2011). The agglomerations that play the most important role at national level, in terms of export performance and employment, are those in the steel sector in Galati county, ships in Tulcea, cars in Argeş and footwear in Bihor (Cojanu and Pîslaru, 2011).

**Table no. 1. County specialization in economic sectors**

Development region	Economic sectors
North-East	Bacău (wood products, cork and plaiting materials; textile materials and articles thereof; footwear, hats, umbrellas and the like) Botosani (textile materials and articles thereof) Iasi (electrical machinery, apparatus and equipment; recording or reproducing apparatus) Neamt (products of the chemical and related industries) Suceava (wood, cork and walnut products) Vaslui (electrical machinery, apparatus and equipment; recording or reproducing apparatus)
South-East	Braila (means of transport, textiles and articles thereof, base metals and articles thereof) Buzau (textile and articles thereof, base metals and articles thereof) Constanta (means of transport, plant products, live animals and animal products) Galati (common metals and articles thereof) Tulcea (means of transport) Vrancea (textile materials and articles thereof)
South	Argeş (means of transport) Calarasi (common metals and articles thereof; vegetable products) Dâmboviţa (electrical machinery, apparatus and equipment; recording or reproducing apparatus; common metals and articles thereof; live animals and animal products) Giurgiu (live animals and animal products) Ialomita (products of the chemical industry and related industries; textile materials and articles thereof) Prahova (wood, cork and walnut products) Teleorman (food, beverages, tobacco; recording or reproducing apparatus)
South-West	Dolj (means of transport) Gorj (plastics, rubber and articles thereof) Mehedinti (means of transport) Olt (common metals and articles thereof)

Source: National Institute of Statistics, 2017

*Explanatory note: The specialization is highlighted by the sectors with the largest trade surplus, where the first sector and the next three enter if the positive balance of the trade balance represents at least 50% of the largest surplus.*

This X-ray of the regional economy highlights some characteristics of the specialization in the territorial plan:

- *First, the premises of competitive advancement are very different between regions because the structure of the economy is very different.* Certain regional economies, e.g. South-West, South-East and West, they specialize in a very small number of sectors, other regions, e.g. South, North-West and Center are very diverse. Although neither situation is in itself favorable or unfavorable to competitiveness, clearly this diverse image suggests different needs at the local level of education, qualification and research, industrial restructuring and technological needs.

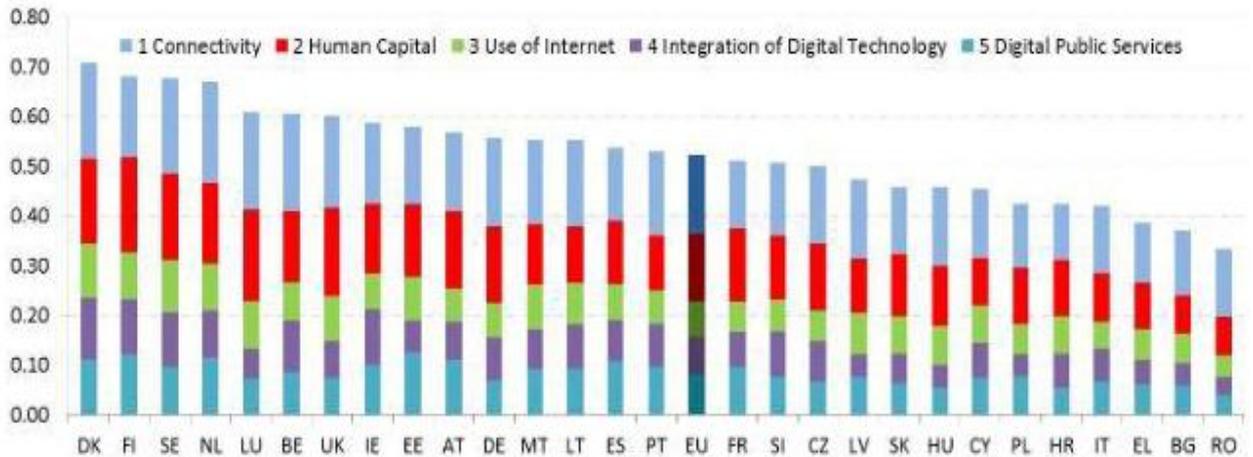
- *Secondly, it is worth noting that the agglomerations are already a visible presence in most regions,* by the participation of two or more neighboring counties in the same branch of activity and by the diversification of the economic activity; things are less favorable only in the North-East, South-West and North-West. However, this tendency must strengthen and begin to produce effects in terms of improving competitive advantage.

Significant gaps in terms of competitiveness also exist in the cities of Romania. In recent years, the population and the economic resources have concentrated around several major cities and their suburbs, increasing the internal differences (eg, the 10 largest cities in Romania generate over half of Romania's GDP).

In this regard, the recommendations of the World Bank report for increasing the competitiveness of Romanian cities aim to encourage urbanization in areas with high potential (suburbs of growth and development poles - Cluj Napoca, Timișoara, Iași, Oradea, Târgu Mureș; and emerging centers in the North East), improving connectivity and accessibility, or diversifying the economic base of cities, in order to support economic growth, and in times when some of the top areas are having difficulty (World Bank, 2013).

*Index of economy and digital society* On March 3, 2017, the European Commission presented the results of the Index of digital economy and society (DESI) for 2017. This instrument presents the performances of the 28 Member States<sup>9</sup> in various fields, from connectivity and digital competences to integration of digital technology by businesses and public services. The index of the digital economy and society (DESI) shows the following: connectivity has improved, but it is still insufficient to address future needs; The EU has more specialists in the digital sector than before, but there is still a gap in terms of skills; European citizens are increasingly acquiring digital skills; digital technologies are more present in businesses and e-commerce, but they are progressing slowly; European citizens make greater use of online public services.

**Chart no.1. Digital economy and classification of the company index in 2017**



Source: European Commission, March 2017

Overall, the EU has made progress and improved its digital performance by 3 percentage points compared to last year, but the situation varies from one Member State to another (the digital gap between the first and last ranking is 37 percentage points, compared to 36 percentage points in 2014). Denmark, Finland, Sweden and the Netherlands present the best results this year, followed by Luxembourg, Belgium, United Kingdom, Ireland, Estonia and Austria. The top 3 best players in the digital sector in the EU are also the world leaders, ahead of South Korea, Japan and the United States. Slovakia and Slovenia are the most important countries in the EU. Although there have been some improvements, several Member States, including Poland, Croatia, Italy, Greece, Bulgaria and Romania, are still lagging behind in terms of digital development, compared to the EU average.

As a conclusion, given the scale of the digitalization of the economy at national and European level, with a direct impact on competitiveness, we consider that, together with the Competitive Potential Index (CPI), at national level we must also consider the Index of digital economy and society (DESI), the two indices ensuring a true image of national competitiveness in the current context of European competitiveness.

General principles regarding the role of the Strategy in achieving the objectives of economic development: Romania has reached a stage of development in which the so-called "trap of middle-income countries" is manifested, characterized by the fact that competitive advantages, even if relatively advanced, do not necessarily support the platform for future growth. For each country in this situation, there are specific factors that describe the causes and possible solutions to overcome this obstacle. From this perspective, the National Strategy for Competitiveness offers several principles - guidelines for formulating economic policies for development, as follows.

*First of all, it is necessary to recognize the need to consolidate the existing advantages in production, technological development and innovation.* Romania has proven strengths in scientific research, there is a recent tradition in creating mechanisms favorable to innovation, and if we estimate the value of reputations through indicators such as relative number of researchers, funding of research, number of patents, specialization in intensive knowledge activities, etc., we can say that this is on an upward trend of Romania's visibility at European level, and the networks formed by those approx. 15,000 Romanian researches in the diaspora (World Bank, 2011), a remarkable number in absolute and relative values, places under good auspices the integration in the international circuit

of knowledge and innovation. The challenge is to build the capacity - simultaneously at the productive and institutional level - to turn this potential into economic results that will form a solid, long-term basis for high-level competitive performance. The priorities of the Strategy, in particular Partnership actions between the public and private sectors, Support factors and the Promotion of the 10 sectors of the future, contain objectives that involve the commitment of resources towards establishing elite production and research sectors in areas with high potential for intelligent specialization (bioeconomics, information and communication technologies, energy and environment, Eco-technologies), industrial revitalization through intelligent specialization and the transformation of knowledge and creativity into competitive sources of advance.

Secondly, the competitive factors of the next period must find the support of a market mechanism of entrepreneurial type and able to develop by itself. The strategic priorities regarding the regulatory environment and the partnership actions between the public and the private environment promote the creation of formal or informal market structures that provide a framework conducive to creativity, available sources of financing and means of ensuring the risk of doing business in the private environment. Smart specialization is a participatory project for innovation, technological experimentation and commercial exploitation of the government authorities (national and local) and the private environment. Together, by establishing working groups, authorities and companies must work and find solutions in a transparent and predictable environment for industrial revitalization and the launch on new competitive bases of traditional sectors, but also for promoting the knowledge economy in future industries, those key sectors for attracting private investment in innovation.

Modern industrial activity depends on the multiplication of inter- and intra-industrial cooperation between large firms and SMEs, especially by attracting the latter in the research or experimentation activities of multinational companies. The multiplication of this cooperation, although it is desirable because it would have beneficial effects for SMEs, will not evolve unless, first, SMEs will reach the "critical mass" in terms of quality, costs, development force and enter thus in the value chains of the higher-ranking suppliers<sup>1</sup>.

Finally, thirdly, the Strategy identifies the dependence between competitiveness and societal challenges as part of any solution for the next period of development. At the institutional level, by prioritizing the Regulatory environment, by sector, by the priority Promoting the 10 sectors of the future, and at the level of the whole society, by the priority *Preparing the Generation 2050*, convergent measures are needed to form a strong social cohesion and to transform it into a source of advantage. sustainable competitive.

The current place of Romania according to the *Global Competitiveness Index* and the factors of interest for increasing competitiveness.

The WEF assessments of the 2018 report, published in 2019, place Romania 52nd out of 140 countries in 2017, gaining 10 places compared to 2006, although the value of the index has improved (from 4.02, in 2006 to 6.35 in 2017). This tells us that in absolute terms there has been an improvement in competitiveness compared to the other countries; the finding clearly shows the meaning of the evaluations regarding the evolution of competitiveness - that of the place where one country is placed in relation to the others. Or, from this point of view, the greater improvement of the competitiveness of the others has led to the loss, for Romania, of another place in the hierarchy.

Regarding the stages of the evolution of the contribution of the competitiveness factors, the evaluation made by WEF using the global competitiveness index shows, for the

---

<sup>1</sup> We owe this clarification to ACAROM representatives;

first time, that Romania came out of the first stage - that of the competitiveness based on factors of production (cheap labor force, natural resources). , stage in which the basic conditions for productivity were created: institutions (legal framework), infrastructure, macroeconomic stability, basic level of education and health status - and is in the second stage, where the main orientation is strengthening of efficiency. The important factors at this stage are the High level of education (RO: position 50, with a score of 4.34 as against a maximum of 5.66 - US); Market efficiency - RO 76th place, with a score of 4.03 out of max. of 5.69 - Hong Kong; Technological training - RO position 49, with a score of 3.59, compared to max. 6.01 - Sweden).

According to these assessments, in order to increase competitiveness, the priority for Romania is represented by the technological endowment and the use of the existing technologies (the development of own technologies, but also technological transfers, by the known modalities - FDI, technological imports) and the extension of the scope of the labor force education at the level of university education. , to prepare the ground for innovation.

Romania must also focus on the proper functioning of the markets - the labor market, the capital market, to create conditions for competition, in order to result in a good allocation of resources, a judicious use of public money.

The evaluations regarding the competitiveness sub-indices used, the situation in 2018 is presented as follows:

**Table 2. Indicators of the competitive development stage**

Sub-indices	Romania		First place	
	The value index	Place	The value of the index	The country
<b><i>I. Basic requirements</i></b>	<b>4,6</b>	<b>72</b>	<b>6,05</b>	<b>Denmark</b>
1.1. Institutions	3,7	86	6,05	Finland
1.2. Infrastructure	3,8	83	6,51	Germany
1.3. Macroeconomy	5,2	38	6,19	Algeria
1.4. Health and primary education	5,5	92	6,98	Japan
<b><i>II. Efficiency enhancing factors</i></b>	<b>4,3</b>	<b>58</b>	<b>5,66</b>	<b>SUA</b>
2.1. University education	4,4	70	6,23	Finland
2.2. Market efficiency	4,1	92	5,69	Hong-Kong
2.3. Technological training	4,8	51	6,01	Sueden
<b><i>III. Innovation</i></b>	<b>3,3</b>	<b>107</b>	<b>6,02</b>	<b>Japan</b>
3.1. The degree of business sophistication	3,5	116	6,26	Germany
3.2. Innovations	3,1	96	5,90	Japan

Source: processed according to data published by WEF, Annual Report 2017-2018

The sub-indices of the competitiveness confirm the stage in which Romania is in terms of the factors on which the competitiveness depends. Thus, the basic requirements are met, but within them, the institutions have the lowest index value - although they do not occupy the last place in the world hierarchy - which says that this field has much to

advance to contribute to increasing competitiveness. Regarding the sub-indices of competitiveness of the efficiency factors, the efficiency of the market appears with the lowest level, followed by the technological preparation. As expected, in the third group of factors, innovation has a lower competitiveness index.

The increase of the competitiveness depends essentially on the activity of the companies, on their decisions to invest, and this is conditioned by the business environment. Elements belonging to the business environment are present in many of the 'pillars' on which competitiveness is supported, but in particular we find them in pillar I, which refers to institutions (property law, regulatory barriers, terrorist acts costs). and violence on business) and in pillar VI, which refers to market efficiency (efficiency of legal framework, impact of taxation, number of procedures required to start a business, competition, trade barriers, labor market and financial market). Therefore, comparative assessments on the business environment appear to be particularly useful in competitiveness analyzes. In this context, recent assessments of the World Bank group (World Bank Group, *Doing Business*, 2006), which refers to a number of 10 indicators<sup>1</sup> of the business environment - those that most influence the decision to invest - finds significant improvements in the business environment in Romania, which places it, according to these assessments, among the top 10 most reforming countries and assigns it 46th place, in 20, compared to 72 in 2005, from a total of 170 countries.

A similar result appears in the IMD's assessments on how easy it is to run a business, in which Romania ranks 44th out of 61 countries, but far ahead of some countries between the new entrants Slovenia and Poland) (IMD, 2006). The new position of Romania represented an important leap if we also take into account the fact that only 2-3 years ago Romania appears in the CER evaluations, together with Bulgaria, as being behind in one of the important aspects of the business environment, revealed by indicator "starting a business" (Murray, 2004, p. 74).

These assessments seem to say that, finally, there is a chance that macroeconomic stability measures will also be reflected in a positive reaction of the business environment, and positive developments of the business environment will lead to increased competitiveness. At the same time, the positive evolutions of the business environment may explain to a certain extent the transition from stage I to stage II of the factors supporting competitiveness. Romania has serious gaps in competitiveness compared to western and central European states. The reasons behind this delay are found in all the elements that determine the competitive capacity. All of them ultimately translate into low productivity, which defines the problem of competitiveness in Romania. The GDP level in the PPP represents only 50% of the average of the new EU member states. Following the analysis of the current situation, one can find an unfavorable situation to several factors that influence the competitiveness. Despite the progress made in the privatization, efficiency and regulation of the financial sector, firms' access to capital remains very limited. The use of outdated, energy-intensive technologies and equipment drastically reduces productivity in most industrial sectors. The SME sector is most affected, by the almost-absence of specific financing instruments, guarantee schemes, support of market access in the perspective of increasing competition in all fields, and by the extremely limited access to technology. Scientific research suffers as a result of the ever-decreasing level of public and private sector investments, the number of highly qualified specialists, and as a result of the extremely small number of centers of excellence.

---

<sup>1</sup> The 10 indicators are: 1. starting a business, 2. obtaining permits; 3. employment / dismissal; 4. registration of the property; 5. gaining credibility; 6. investor protection 7. taxation; 8. external marketing; 9. Contract force; 10. Closing business

At the domestic demand level, the solvency is low, considering the level of the average monthly net salary of only 450 euros. The level of demand sophistication in many areas is below the European level. Under these conditions, the internal pressures for certification and standardization were reduced, which limits the penetration capacity of the Romanian products on the foreign markets and, finally, the competitiveness on the own market under the conditions of EU accession and trade liberalization.

Regarding the strategy of the companies and the competition, the reduced skills in the field of management represent a perennial handicap and that is manifested at all levels. Most domestic companies still base their competitive strategies on low costs and not on improving productivity. Innovative firms represent three to four times less as a share in total firms compared to the European Union. The protection of intellectual property has made legal but less practical progress. There is no infrastructure to support innovative start-ups, and past initiatives (business incubators, etc.) have not had continuity due to faulty planning and management.

Regarding the related industries and the support services, the Romanian economy presents major deficiencies. Many of the economic sectors have developed either as a result of the natural advantage (wood processing, building materials, tourism) or as a result of the massive state intervention (machines and machines, metallurgy). Both reasonings have resulted in a low degree of aggregation and cooperation within the same sectors, with serious synopes regarding the provision of quality inputs for the final products and the provision of sales channels, innovation or promotion capabilities. The business infrastructure has many lags behind, and support services are still in an early stage of development. The SME sector, which employs almost two million people, does not have access to specialized consulting services.

In addition, there are other determinants of competitiveness, which do not fall directly under this strategy, but which must be viewed in close correlation with the process of competitive development (Han et al., 2019). The infrastructure presents serious deficiencies, both in terms of quantity and quality, after decades of insufficient investment. Access to university education is still below the regional average, with a very unfavorable situation regarding the rural graduates (corroborated with a low degree of urbanization throughout the country).

In view of the ones presented above, as in the case of other Central European countries, Romania must base its perspective of real convergence on two directions:

1. Management of structural transformations;
  - a. macroeconomic stability;
  - b. Social and health;
2. Management of competitive improvement (horizontal policies);
  - a. Innovation;
  - b. The information society;
  - c. SMEs and entrepreneurship;
  - d. Development of human capital.

In full accordance with the lines of action of the Commission proposals on the Competitiveness and Innovation Framework 2014-2021, the priorities of Romania's competitiveness strategy are:

- Improving access to the market, capital, technology of enterprises, especially small and medium-sized ones;
- Development of the knowledge-based economy: including the promotion of innovation, as well as the development of a competitive information society;
- Improving energy efficiency and capitalizing on renewable energy resources.

These priorities also take into account the guidelines proposed by the European Commission for cohesion policy in 2014-2021 (Manta, 2017). Thus, Romania's priorities were confirmed by the Commission's expressed intention to support the following processes:

- Improving access to finance;
- Increasing and improving investments in R&D;
- Facilitating innovation;
- Promoting the information society;
- Solving the problem of energy intensive consumption from traditional sources at European level.

The analysis of the current situation, on the basis of which the national priorities of the PND structure were identified, emphasized the need to act in the directions mentioned above. On the other hand, however, between these priorities, and between the specific indicators of each of them, a hierarchy according to the stage of competitive development of Romania (from factors to investments) is required. Moreover, as already mentioned, there are other elements intrinsic to the exercise of competitive strategy, which are not found among those mentioned, but are included among the other national priorities: human resources development, infrastructure development and modernization, productivity increase in the agricultural sector.

Competitiveness can be defined as that set of institutions, policies and factors that determine the present level of productivity of a country. Productivity determines both the welfare level of an economy at a given time and the potential for its growth in the future. Economic literature and practice have highlighted the fact that the development of a knowledge-based economy is one of the key factors in increasing the competitiveness of an economy.

The fundamental objective of the operational programs financed by the European Union is to promote the economic and social development of Romania in order to achieve its real and rapid convergence. From an economic point of view, this objective can be achieved by a rapid economic growth, based on the continuous improvement of the competitiveness of the Romanian economy within the development of a knowledge-based society.

The main priorities in which the measures to increase the competitiveness of companies at national level will be concentrated:

- Improve market access for businesses, especially small and medium-sized enterprises. Enterprises are the engine of economic growth and their performance depends on the competitiveness of the entire economy. Improving the access of companies to the factors, their participation in the European single market, their investments in optimizing the industrial base, respecting the principles of sustainable development, is a critical condition for ensuring the competitive functioning of the Romanian economy. The second part of the economic criterion of accession established in Copenhagen since 1993 draws attention to the imperative need for the Romanian companies to be prepared to face the competitive pressures within the European common market. The competition of the internal market will be beneficial to the domestic enterprises only insofar as they will be able to take advantage of the advantage given by the free movement of goods, services, persons and capital. Market access thus becomes a *sine qua non* condition of competitive success.

Regarding small and medium-sized enterprises, despite the clear progress made in the implementation of the European Charter for SMEs, there are still difficulties due to the limited resources they have, difficult access to finance, significant technological gap and

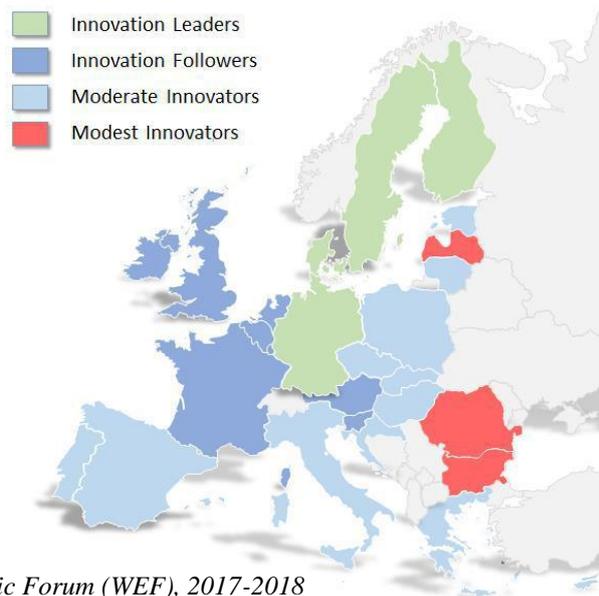
lack of know-how, which can make them it allows a quick adaptation to the demands of the European market and to the changes in the global economy.

The opening of markets will cause new competitive pressures on enterprises, especially in the traditional industrial sectors, and SMEs, in particular, will be exposed to numerous changes in the business environment. Therefore, efforts to support enterprises will focus mainly on improving access to the market, capital and the process of technological development, paying greater attention to the level of SMEs according to the principle proposed at European level "*think first at a small level*".

It is obvious that, at present, most of the small and medium-sized enterprises in Romania are not sufficiently prepared to meet their motor mission of the economy, the lack of competitiveness being caused, for the most part, by situations of non-adaptation to European standards, either due to their inability to access financing sources for investments in new technologies and the implementation of the quality system or to benefit from consulting services that provide them with adequate market orientation.

*Improving the environment for innovation is a key challenge for Europe.* Indicators evaluated by the World Economic Forum (WEF) suggest that the EU is growing slower than the US, Japan or South Korea in a number of dimensions of the innovation environment. However, in the US, the innovation environment is much weaker in many southern and new states (Figure 2). Moreover, as the experience of countries such as Finland has shown, even for those who invest heavily in innovation, external shocks can, however, have a strong impact on individual countries; and especially the small ones, which operate in a compartmentalized innovation environment in the EU.

**Figure no. 2. The European Union scoreboard on innovation**



Source: World Economic Forum (WEF), 2017-2018

There are also large variations in innovation performance across the EU. While Finland, Germany and Sweden reach scores similar to those in states such as the US and Japan, there are EU countries where innovation is very poor, as is Romania. In recent years, the European innovation performance has been undermined in addition to three factors: the slow recovery from the crisis; high competition, which has led to a slow transition to innovation from emerging ones.

The poor performance of innovation in Europe is largely due to the weak relations between industry and science, the poor commercialization of research results and inefficient exploitation of knowledge.

The intensity of research and development is much lower in Europe than in the US, Japan or South Korea. There are two reasons for this gap: firstly, the high-tech sectors in Europe are (by far) smaller in comparison; Secondly, the intensity of research and development in many sectors is lower. In Europe, the decline in R&D spending in countries with fiscal constraints has been largely offset by spending in countries such as Germany, France and the United Kingdom. However, achieving the EU goal of spending 3% of GDP on research and development will require an annual spending of € 130 billion on research and development above the current level.

#### *Impact of the current crisis on financial capacity*

At present, the financial situation has worsened significantly for European companies, especially for SMEs (larger mature companies have, in fact, become net savings). In a difficult economic and regulatory environment, which still finds the right balance between restricting excessive risk taking and allowing for efficient risk allocation, banks with limited capital have begun a process of borrowing that is ongoing and will mean a reduction in lending. banking. The situation is exacerbated in many of the countries most affected by the current crisis, as European financial markets have become increasingly fragmented, preventing the reallocation of resources from one country to investment opportunities in another country.

In the perspective of the crisis, there will be two main bottlenecks in ensuring the risk insurance capacity needed to catalyze investments. First, many Member States and sub-sectors, which are classic providers of risk-taking capacity for social projects to be desired through equity or guarantees. After the analysis carried out in the paper we can consider that the competitiveness of the companies at national level, is one of the main factors that contribute to the increase of the degree of convergence between economies and which directly contribute to the economic support at national level. Moreover, reinventing companies on the basis of competitiveness allows the decision-makers at the level of each economy to develop strategies and action plans that focus their interest on the respective branches of the economy that are competitive and which implicitly lead to economic growth at national and European level. The infusion of technological progress and capital either by increasing the expenses with maintaining the jobs, retraining, the degree of economic openness or through the investment channel at local level, is one of the main sources of convergence and economic growth from the current perspective at national and European level.

Focusing on the development of these sectors must be a basic objective of the national authorities at the level of these economies if the convergence and sustainable economic growth are pursued. Long-term sustainability is also extremely important because finding compromise solutions that will only produce results over short periods of time is not a successful strategy and, moreover, can trigger a negative effects gear that could be felt by states after a certain period of time and which can cause massive economic imbalances (Manta, 2020).

Despite the fact that the results of the statistical methods confirm the hypothesis of convergence at the level of the new Member States, the extremely large gap that exists between these economies and the average of the European Union or the euro area must be taken into account, an aspect surprised in the analysis undertaken by us by estimating the number of years needed to achieve convergence. Future strategies must be geared towards

reducing these differences in particular so that the convergence process is truly a perfect one.

*The impact of the economic and financial crises* on the economies of Europe has led to a reconfiguration of the models of economic growth, of the processes of convergence as well as of the economic policies engaged for this purpose. Considering these aspects as well as those mentioned above we can conclude the following:

- a) the quality and sustainability of the current support process for SMEs is an essential indicator of the economic growth of each economy;
- b) the realization of a sustainable strategy accompanied by concrete action plans, requires a given in the short term, but especially in the medium term;
- c) EU Member States are registering trends that are worsening the current situation at the level of the states, many actions being necessary.

These considerations need to be taken into account by national authorities at the moment either of the strategies for adopting the level of SMEs, of supporting the economic growth or of identifying tools regarding national competitiveness in the European context. Under present conditions this ability will prove to be vital and will be a representative indicator of the economic progress of the European Union member countries, especially as a result of the health, economic, social, financial crises of which we are all a part.

At the same time, the measures adopted by the European Commission in March 2020 through the Temporary Framework for State aid measures to support the economy in the context of the current COVID-19 epidemic, of which we mention the following:

- pursuant to Article 107 (3) (c) TFEU and in accordance with the Guidelines on State aid for rescue and restructuring, Member States may notify the Commission of aid schemes designed to respond to acute liquidity needs and to support undertakings facing financial difficulties caused or aggravated by the COVID-19 epidemic<sup>1</sup>;
- pursuant to Article 107 (3) (b) TFEU, the Commission may declare aid compatible with the internal market "*to remedy serious disturbances in the economy of a Member State*".

In this context, the courts of the Union have ruled that the disturbance must affect the entire economy or a significant part of the economy of the Member State concerned, not just the economy of a region or part of its territory. In addition, this is consistent with the need for a strict interpretation of any exceptional provision, such as Article 107 (3) (b) TFEU.<sup>2</sup>

***Temporary State aid measures:***

1. *Aid in the form of direct grants, repayable advances or tax benefits;*
2. *Aid in the form of loan guarantees;*
3. *Aid in the form of subsidizing interest rates for loans;*
4. *Aid in the form of guarantees and loans that are channeled through credit institutions or other financial institutions;*
5. *Providing short-term export credits;*

Member States must publish the relevant information on each individual aid granted under this communication on the comprehensive State Aid website, within 12 months of the grant date.

---

<sup>1</sup> Guidelines on State aid for rescuing and restructuring distressed non-financial enterprises, OJ C 249, 31.7.2014, p. 1. The Commission has authorized various schemes in nine Member States.

<sup>2</sup> Related cases T-132/96 and T-143/96, Freistaat Sachsen, Volkswagen AG and Volkswagen Sachsen GmbH v Commission, ECLI: EU: T: 1999: 326, paragraph 167.

**References:**

1. Cojanu, V., 2010. Competitive potential of economic growth: guidelines for a new industrial policy in Romania. *SPOS Strategy and Policy Studies 2010*. Bucharest: European Institute of Romania.
2. Cojanu, V. and Pîslaru, D., 2011. How important is agglomeration economies: a case study of Romanian industrial clusters. *Review of Economic and Business Studies*, 4(1), pp. 35-58.
3. Han, Y., Shao, X.F., Cui, X., Yue, X.G., Bwalya, K.B. and Manta, O., 2019. Assessing Investor Belief: An Analysis of Trading for Sustainable Growth of Stock Markets. *Sustainability*, 11, 5600.
4. IMD, 2006. World Competitiveness Factors. Available at: <<http://www01.imd.ch/wcc/factors>>.
5. Manta, O., 2017. *New challenges in economic science*. LAP LAMBERT Academic Publishing, Germany.
6. Manta, O., 2020. *Competitiveness, Entrepreneurship and Economic Convergence (CEEC)*. LAP LAMBERT Academic Publishing, Germany.
7. Mereuță, C., 2013. *The territorial distribution of the node companies on the main activities of the national economy*.
8. Murray, 2004. *The Lisbon Scorecard IV*, p. 74.
9. The Ministry of Economy, Trade and Business Environment, 2011. Analysis of the existing situation regarding the existing and potential competitiveness poles in Romania.
10. The World Bank, 2011. *Romania Functional Review. Research, Development, and Innovation Sector*. Final Report, 31 May, p. 21.
11. World Bank, 2013. *Competitive Cities. Remodeling the economic geography of Romania*. Available at: <http://www-wds.worldbank.org>
12. World Bank Group, Doing Business, 2006. *Explore Economies*. Available at: <<http://www.doingbusiness.org/ExploreEconomies/?economyied=158>, accesat la 12/09/2006>.

# MIGRATION AND ITS FUTURE – A LOOK OVER THE CURRENT MIGRANT FLOWS (LEGAL AND ILLEGAL) AND THEIR EFFECT OVER ECONOMIES, AND THE WAYS PUBLIC MANAGEMENT ADAPTS TO PANDEMIC CRISIS

**Ph.D. Sergiu – Dan IURIAN**

Post-doctoral student, “Valahia” University of Târgoviște, Romania  
E-mail: iurian\_sergiu@yahoo.com

***Abstract:** March 11, 2020 will forever go down in history as a sad date for humanity. It is the date when the World Health Organization declared the spread of the COVID-19 as being redefined as a pandemic crisis. Since then, and even before that, the spread of the virus has left its mark over the way migration is being understood. Usually governments had to tackle mostly problems regards illegal migration and migrant flows due to war zones. Since the pandemic crisis and its impact over the economies, the world is facing another challenge: the one regarding huge legal labour migrant flows, of people who were left out of jobs by the economic impact of the pandemic crisis. The purpose of this article is to make light into the current global status regarding the most affected parts of the world where positive and negative migration is evolving and how authorities adapt their methods and respond to such challenges, but also to take into consideration the future of illegal migration.*

***Keywords:** pandemic crisis, migrant flows, migrant crisis, labour migration, illegal migration.*

***JEL Classification:** F22, O15, H12.*

## **1. Introduction**

The pandemic crisis of coronavirus (officially known as COVID-19) is currently not only reshaping health systems around the world, but it also beginning to leave its mark over the global economy as well.

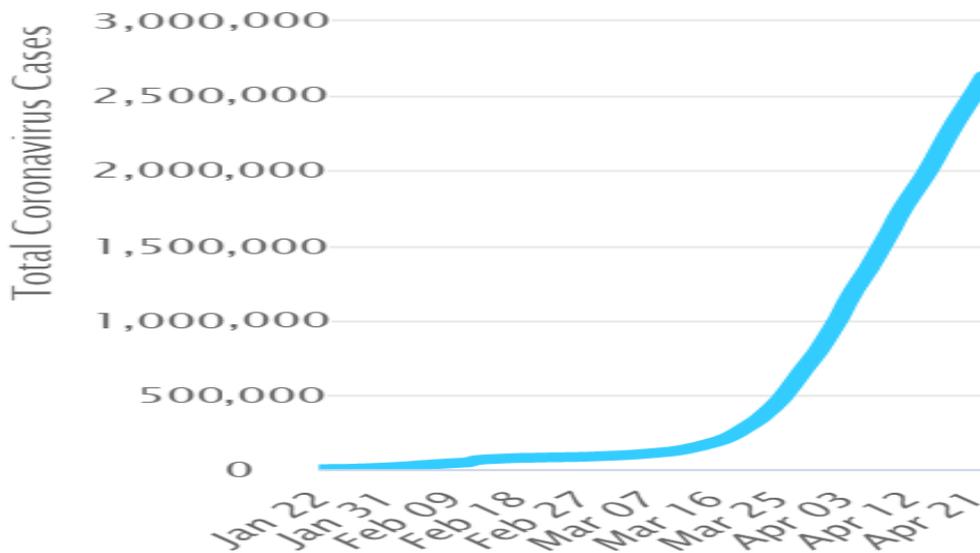
In the light of the recent spread of this virus, countries have resorted to measures that might seem at least out of dated such as the restriction of human movement. While it might seem that the whole world hasn't evolved pretty much since the Spanish flu, it actually has. This can be demonstrated by the effects that the current pandemic crisis has over the present world, which are far more severe (at least from a financial point) than the effects the Spanish flu had in 1918. The main reason is due to the high mobility of people nowadays. Thus migration plays an important part both into spreading the virus, but also into stopping economies.

At first, migration plays a huge part into spreading the virus, then, once countries resort to lockdown and the only ones moving are migrants going back to their sending countries, they will play their major part into the crash of global economies.

With regards to the literature review, the present article will probably be one of many more to come, due to the fact that there is no precedent into analyzing such extreme situation modern humanity is facing. Thus, while there might be found examples of understanding migration or understanding economic crisis in the current literature, very few comparisons can be drawn towards the present crisis. However, the present article aims to gather as many facts as possible regarding the spread of the virus, concepts of migration and the economic crisis that takes shape in the present and try to apply them over the general movement of migrant flows in the months and years to come. Based on the facts we have currently witnessed, we can resort to a basic scenario analysis of both migrant flows and the general economic crisis, in order to try to anticipate the future involving them.

## 2. The spread of the virus

The first case of the Wuhan coronavirus (COVID-19) was reported on December 1, 2019 in Wuhan City, Hubei Province of the People's Republic of China, when several people with the same symptoms of pneumonia were identified as workers in the same market, dealing with live animals from Wuhan. Later, Chinese scientists identified the new type of virus they named 2019-nCoV, which turned out to be at least 70% similar to the SARS-CoV genes. On January 20<sup>th</sup>, 2020, Chinese Prime-minister Li Keqiang announced decisive and effective measures to prevent and control the spread of the new virus, but these would be taken too late, as the first case was reported outside China on January 12, and by the end of the month, over 100 cases already existed and were reported outside the country. Three months later, in mid-April, there were already more than 2 million globally confirmed cases (Figure 1), and their exponential growth cannot be approximated in the coming months.



**Figure 1. The spread of COVID-19 in 2020**

Source: World O Meter, 2020. *Coronavirus Report*. Available at: <<https://www.worldometers.info/coronavirus/>> [Accessed 21 April 2020].

The main outbreaks of the virus around the globe are in: USA, Spain, Italy, France, Germany, Great Britain, Turkey, Iran, China, Russia, Brazil, Belgium, Canada, Holland, Switzerland, Portugal. Thus, Europe and the United States are therefore the main areas of the spread of the virus.

## 3. Understanding the concepts regarding migration

When we talk about migration as a phenomenon, we refer first of all to a main distinction, namely: legal and illegal migration (Ambrosini et al, 2020).

Legal migration can be classified as voluntary, more exactly as in searching of a better life (generally here referring to labor migration) and involuntary, as we refer to those migratory flows that occur as a result of increasing tensions in areas of conflict, when the inhabitants of a country are forced to leave their homes either within the borders of the same country or outside them (in refugee camps or applying for asylum in the countries that wish to receive them). The main causes of legal migration are due to lack of labor in a given country and at the same time the lack of opportunities in the labor market in the country of origin (Ambrosini et al, 2020).

Whether voluntary or involuntary, migration takes an illegal form when the migratory flows manage to enter the territory of a state without legal forms, and will later, either apply for those legal papers or extend their stay in the country taking advantage of the negligence of the local authorities. The main cause of illegal migration is terrorism, or in other words, concerns about the security of civilians in a certain area.

As a result of the conflicts in different parts of the Middle East, there have been more than 11 million migrants since 2015, and many of them have reached the gates or are even in the EU, causing not only security concerns but also applying for the legal migration process. Specifically, in many parts of the EU, the labor market has been affected by newcomers who are even a cheaper labour force than the Eastern Europeans with whom Western Europe was accustomed (Koehn, 2019).

The relationship between immigrants (people arriving in a state) and emigrants (people leaving that state) makes migration from that state positive or negative, more precisely it shows the willingness of that state to receive new citizens to fill the need for a labor force (and not only that). Europe (especially the western part of the EU), Russia, Australia and North America are the main areas where there is a positive migration rate, while the vast majority of areas have a negative migration rate (in other words, they are providers of migrants).

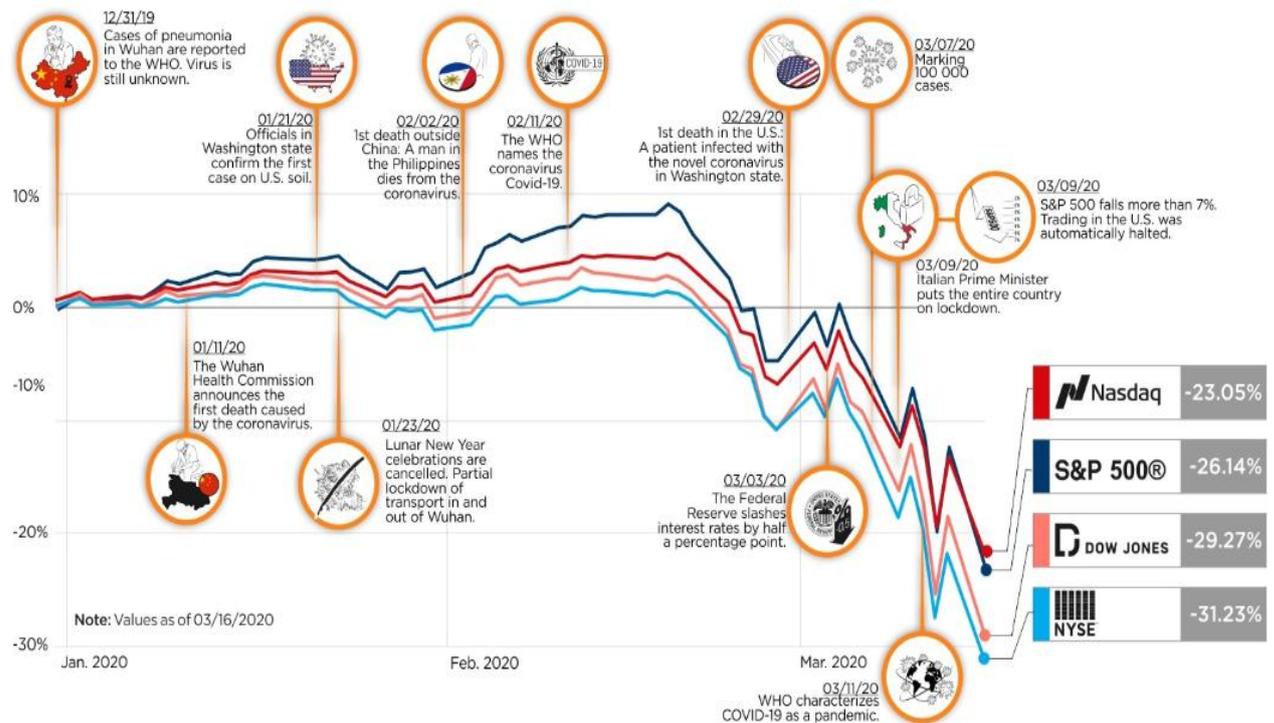
#### **4. The economic crisis – the result of the COVID-19 pandemic**

As of March 11, 2020, the World Health Organization has declared the spread of COVID-19 as being redefined as a pandemic crisis. Since then, and even before it, the spread of the virus has left its mark on the way migratory flows move. But before talking about the mobility of migratory flows, we must refer to the main measures taken by countries to combat the virus. The main measure taken by all states was to limit the movement of their own citizens within their borders, in order to prevent the spread of the virus. Just over 100 years after the famous "Spanish flu" which is supposed to have claimed between 20 and 50 million lives, with all the contribution of technology and all the evolution of modern medicine, humanity has been turned back in time, when the only temporary measure to prevent the spread of the virus was the isolation of each individual at home. (Fraser. 2020)

In this context, the vast majority of companies were forced to temporarily close their activities, and for the first time since its listing on the stock exchange in 1946, oil registered negative values. The impact of the temporary shutdown of most economic activities globally will cause an economic crisis whose effects are now expected to be even worse than that of 1929-1933 (the great depression). From Bill Gates to the health representatives from Germany to sports events organizers in Ireland everyone has predicted there will be no public gatherings over 1000 people at least by the end of the year, or as soon as everyone is vaccinated. Pharmaceutical companies have begun the race on finding and testing vaccines since January, but one thing is for sure and unanimously accepted: the global economy needs to be restarted, with or without the vaccine, otherwise the long term economical effects of the pandemic crisis will be even more severe.

As of March 23, 2020, when the COVID-19 pandemic was still in the United States, it had only 10% of the value of the number of infected people a month later, the main stock market indices already indicated a decrease of 20% to 30% (Figure 2), and with the exception of China, all countries have already announced budget deficits and negative economic growth for 2020.

## U.S. Stock Indexes Drops since 12/31/2019 (as %)



**Figure 2. U.S. Stock Indexes Drop since 12/31/2019 (%)**

Source: Carlos, J., 2020. *The Impact of COVID-19 on the World's Major Stock Indexes*. Available at: <<https://howmuch.net/articles/index-drops-amid-covid19-outbreak>> [Accessed 11 April 2020].

The European Stock Indexes drops are even more severe than the ones in US, with the fall being somewhere between 31 and 36% by the end of March. Thus, the Asian Stock Indexes were the more lucky ones and with their losses being under 20% by the end of the same month.

### 5. The evolution of migratory flows in the context of the economic crisis caused by COVID-19

Specifically, we refer primarily to the fact that most countries around the world have closed their borders to newcomers, and at the same time allowed citizens of other states on their territory to return to their countries of origin.

With Europe being the most devastated place by the virus, followed by the US, the future migrant crisis might offer at least 5 possible talking points in the future:

**5.1. The labour migrant flows will shift from construction workers to agriculture workers** – the current state of the world economies creates room only for consumer markets, thus countries will extend their capacities of providing and delivering food, and sacrifice their infrastructure projects.

**5.2. The global inequality will decrease amongst humans and rise amongst countries-** while it is hard to believe that luxury brands and goods in generally will have the same value in the current state of the market and it is easy to understand that countries will desperately need to complete their public income by increasing taxes for their wealthiest, the new migrant flows will be the number one enemy of globalization. Thus, by moving back to their countries of origin, some countries will have higher unemployment rates than others. Most of the eastern European countries really heavily on the money their

workers send home. Same examples can be given in countries such as: Philippines, Ghana, Honduras, Bangladesh etc. In some developing countries, more than three quarters of their FDI's values rely heavily on this source of income. With most of their workers returning home, their economies will suffer huge losses, while developed countries will take advantage of even cheaper and fewer labour force.

**5.3. The classical incapacities of EU border countries to maintain a high level of security regarding the entrance of illegal migrants have somehow disappeared. The EU borders are now safer than ever-** by declaring a state of emergency, all the countries have highly and effectively increased their security capacities and therefore are able to secure their borders. Thus, with fewer resources than ever and with the increased risk of infections with COVID-19, the number of illegal migrants forcing their way to the EU has basically stopped. Their future entrance chances into EU do not look good either, with countries like Hungary and its political leaders now being able to enforce emergency laws that will make the life of illegal migrants extremely difficult at the borders of EU (Fraser, 2020).

**5.4. The situation in refugee camps (either displaced within the borders of conflict zones, or outside them) will become critical** – with the world not being able to provide food and basic health care to these camps even before the pandemic crisis, there will be a critical level of increased death rates among refugee camps from either the virus itself or from the lack of food, water and/or healthcare. We might even argue that these camps will be the center of either new conflict zones or the spread of new forms of viruses or even new forms of COVID-19, due to the lack of economic help and insecurity. Northern Africa, Central and Eastern Africa, the Middle East or Venezuela, all of these zones will face extremely difficult challenges in the years to come, both from an economic and security point of view.

**5.5. The situation in the sports system will become critical** – with all the sports events in the world being cancelled, and most of the athletes being legal migrants, trying to find their way to success into different countries, beyond the financial side of sports there is a basic migrant flow fact as well: with most of the world's airplanes being on the ground, even if there were any sports events with no spectators, most of the athletes couldn't get there, being in home isolation in their own countries, or having to face entry restrictions from the receiving ones. Such example can be given by the cancelation of the Ultimate Fighter Competition event no. 249 being canceled by the ESPN network and their Disney parent company, as a result of the coronavirus outbreak. The American company had previously been left without its international fighters being able to participate at the event that was supposed to be held in the UFC Apex Facility in Las Vegas, on 18<sup>th</sup> of April, and then the UFC tried to replace them with American fighters but was forced by the cable network sports company to cancel the event. Thus, with athletes being unable to show up to their sports clubs/ sports events, and with all the sports events being suspended for now, contracts with sponsors and other employees will be re-negotiated or voided and the financial losses in the sporting system might turn up to be bigger than any other sector.

Public management will play a significant part in the months and years to come within the context of the pandemic crisis. Public managers will shape the faith of the world both internally and externally:

- internally, public managers will have to manage risk better than never before, evaluating the impact of their measures in each sector and being able to set priorities so that the most important sectors of the economy can restart functioning as soon as possible;
- externally, public managers will have to collaborate with each other and with both private groups as well, in order to easily support the implementation of public policies.

## 6. Conclusions

In 2020 the world is facing one of the toughest challenges it has witnessed probably since World War II. The challenges involve not only the burden on the current healthcare system, but also from a financial point of view. As a result of mass panicking from both health and wealth reasons, migrant flows are more volatile than ever in the last 80 years.

The present article aims to understand the basic facts of the pandemic crisis and to apply them over the basic understanding of migration. However, as a result it confirms two main hypotheses:

- the first being that migrant flows have different causes than usual and thus are one of the roots of the current financial crisis.
- the second is that if migrant flows will continue to be as volatile as in the present crisis, the future of the economy will depend on how countries will tackle the most important challenges regarding them.

## References:

1. Ambrosini, M., Cinalli, M., Jacobson, D., 2020. *Migration, Borders and Citizenship: Between Policy and Public Spheres*. New York: Springer International Publishing
2. Carlos, J., 2020. *The Impact of COVID-19 on the World's Major Stock Indexes*. Available at: <<https://howmuch.net/articles/index-drops-amid-covid19-outbreak>> [Accessed 11 April 2020].
3. Fraser, D., 2020. *Covid-19 has become an economic crisis*. Available at: <<https://www.bbc.com/news/uk-scotland-52367295>> [Accessed 7 November 2020].
4. Koehn, P.H., 2019. *Transnational Mobility and Global Health*. London: Routledge.
5. World O Meter, 2020. *Coronavirus Report*. Available at: <<https://www.worldometers.info/coronavirus/?>> [Accessed 21 April 2020].
6. Yayboke, E., 2020. *Five Ways COVID-19 Is Changing Global Migration*. Center for Strategic & International Studies. Available at: <<https://www.csis.org/analysis/five-ways-covid-19-changing-global-migration>> [Accessed 7 November 2020].

# AN EMPIRICAL ANALYSIS OF THE POTENTIAL EFFECTS INDUCED BY THE IMPLEMENTATION OF THE MEDIUM-TERM BUDGETARY OBJECTIVE IN THE COUNTRIES OF THE EUROPEAN UNION

**Scientific Researcher III, Ph.D., Ionel LEONIDA**

“Victor Slăvescu” Centre for Financial and Monetary Research, Bucharest, Romania,  
E-mail: leonidaionel@yahoo.com

***Abstract:** In this paper, an analysis will be carried out, which aims to identify potential effects induced by the implementation of the mechanism on the medium-term budgetary objective on the evolution of public finances in Member States that record public debts of over 90% of gross domestic product, but also on Romania. The indicators whose developments will be presented and analyzed are: economic growth; the level of the public debt, the budget deficit (conventional) and the structural balance. The research method used in the paper emphasizes the empirical analysis, by identifying and presenting the possible effects induced by the implementation of the medium-term budgetary objective mechanism on some fiscal-budgetary indicators. The obtained results can be constituted in arguments of efficiency or ineffectiveness of the mechanism of the medium-term budgetary objective.*

***Keywords:** budget deficit, budgetary objective, public debt.*

***JEL classification:** E61, H62, H69.*

## **1. The state of the art research**

There are a number of studies and researches in the economic literature that address the Stability and Growth Pact (SGP) in terms of procedures and mechanisms, increasing efficiency and successive revisions. Also, after 2012-2013, studies have appeared that analyze, and evaluate the implementation of the Treaty of Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), and its effectiveness.

The medium-term budgetary objective (MTO) has become a subject of analysis, both for economists and researchers, and especially for bodies with economic responsibilities and public finances in the institutional structure of the European Union (EU). Thus appeared a series of papers / publications, respectively a code of conduct with specifications on the implementation of the provisions of the SGP, the series of reports on the aging of the population; reports on the sustainability of public finances; series of guidelines on the implementation of the SGP.

In our approach, we do not intend to limit the empirical analysis regarding the fiscal-budgetary consolidation adjustments, generated by the implementation of the MTO only in a few EU countries, according to the title of the paper, but we will try to analyze, observe and record results recorded at the level of the two entities. institutional (EU and EA – Euro Area). We considered it useful to introduce in the analysis of some states with a higher level of public debt, in order to observe potential effects induced by the implementation of the medium-term budgetary objective (these could be more obvious in these states) and to formulate conclusions closer to economic reality. and public finances in the EU.

## **2. The medium-term budgetary objective - role and significance**

The MTO is the central element of the preventive arm of the SGP and has its formal support in Regulation (EC) 1466/97, which stipulates that each Member State should have differentiated medium-term objectives for the budgetary position, which may deviate from the requirement close to balance or in surplus, if it provides a safety margin against the conventional budget balance of -3% of gross domestic product (GDP). This ensures some

budgetary flexibility, taking into account the needs of public investment, certain structural reforms and exceptional situations of the Member States.

The purpose of this preventive mechanism is threefold, respectively: maintaining a safety margin in terms of compliance with the conventional deficit limit of -3% of the GDP reference value; ensuring continuous and relatively rapid progress in establishing and orientating fiscal-budgetary policies on sustainable trajectories and prudent levels of total public debt; the permission of some fiscal-budgetary leeway with availability, in particular, for public investment needs.

From this point of view, first of all, the MTO offers a margin of safety against the possibility that, given the unexpected worsening of economic conditions, the budget deficit will rise sharply and exceed 3% of GDP. This safety margin is based on the minimum reference value for the MTO, calculated using budget sensitivity and output gap. Thus, a state with a fiscal-budgetary position that is more sensitive to cyclical fluctuations should commit to a more demanding MTO level and, therefore, to a tighter target, in the medium term, for the structural budget deficit. While a state with a less fiscal-budgetary stance sensitive to cyclical fluctuations - as a result of institutional arrangements for the operation of automatic stabilizers - should engage in a less demanding MTO level and therefore in a less stringent medium-term target for the structural budget deficit. A similar commitment is to be expected from a state with high production fluctuations, as an unexpected drop in economic activity will affect the budget deficit (and vice versa).

Second, the MTO aims to ensure progress towards the sustainability of public finances, defined by taking into account both the current stock of government debt (so-called explicit liabilities) and future debt (so-called default liabilities), associated with the possibility of the expected deterioration of the fiscal-budgetary balances as a result of the increase of the public expenditures on social insurances, induced by the demographic trends (ie the cost of population aging).

In terms of public debt sustainability, the MTO aims to converge its high levels against the nominal criterion of 60% of GDP. Thus, a state whose debt-to-GDP ratio is above this threshold should pursue a more demanding level of MTO. While a state whose public debt / GDP ratio is below this threshold, it should pursue a level of less demanding MTO. States with high debt and low economic growth would then seek to achieve a stronger fiscal stance leading to an increase in government debt below nominal GDP growth, eventually converging to the benchmark.

In terms of the sustainability of default liabilities, the MTO aims to partially overburden the increase in social security spending, induced by demographic trends. Such an anticipated burden requires a state to improve its budget balances and increase its current savings (thus reducing the pace of debt accumulation or even increasing the value of some assets), so as to provide additional financial resources in the future (in the form a lower burden of public debt or even a larger stock of assets) to better cope with the increase in age-related spending, where appropriate. According to this situation, the MTO level is expected to be more demanding for a state that is facing a high cost of population aging or is willing to pre-charge a higher proportion of that cost. At the same time, the level of the MTO is expected to be less demanding for a state that faces a lower cost of population aging or is willing to preload a smaller proportion of that cost.

Third, the MTO allows a margin of maneuver for a state that chooses to undertake public investment, as a means of supporting aggregate demand or promoting economic growth. The beneficiaries of this situation are, in particular, countries with low public debt, through a less demanding MTO level, so that its budget can supplement investment expenditures, under certain conditions.

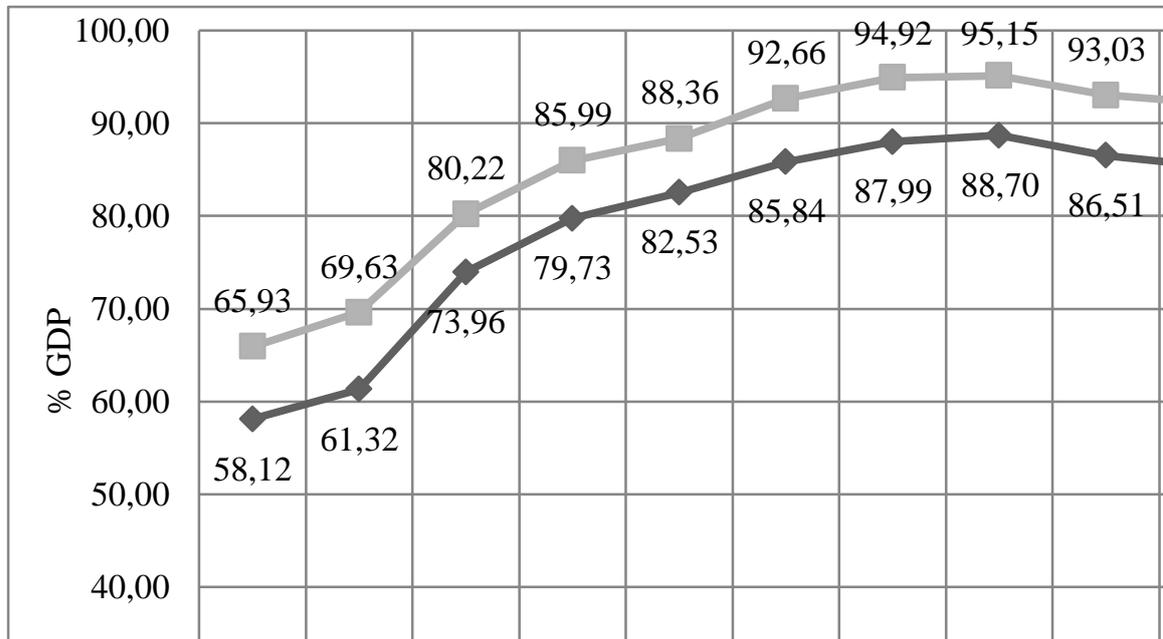
As noted, budgetary targets are differentiated for each Member State, depending on the state of the economy and the budgetary position of each and their perspective, as well as the potential risk to the sustainability of public finances in the context of future demographic changes.

### 3. Developments in the economic situation and public finances in the European Union and the Euro Area

The analysis aims to identify the potential effects induced by the implementation of the MTO on the two institutional entities - EU and EA, on some Member States that register public debts of over 90% of GDP and on Romania.

The indicators whose developments will be presented and analyzed are the level of public debt expressed as a share in GDP, the budget deficit (conventional) and the structural balance.

According to the evolution from figure no. 1, the inclusion of the additional effort to reduce public debt in the methodology for implementing the criteria for determining the MTO, seems to ensure relatively rapid progress towards convergence with the institutional level.

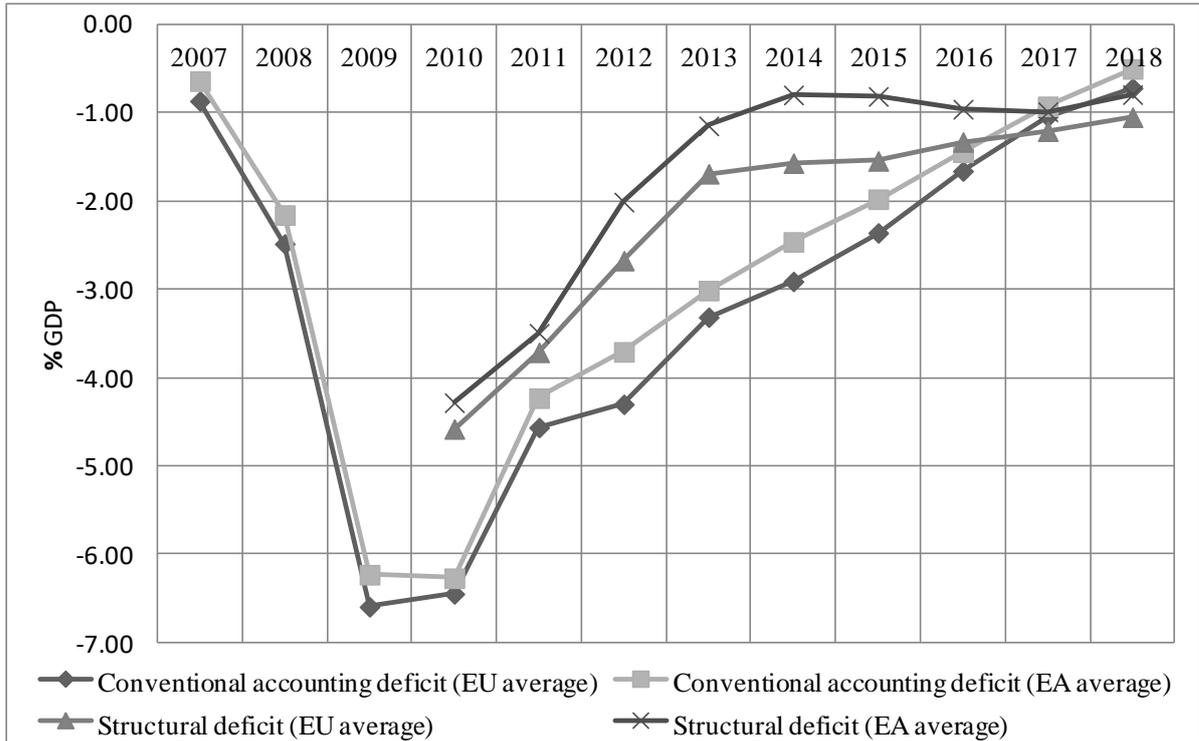


**Figure no. 1. The share of public debt in GDP - EU and EA average, 2007-2018**

Source: AMECO data, processed by the author

The evolution of budget deficits (conventional deficit and structural deficit), presented in figure no. 2, shows favorable developments, in particular, with regard to the conventional deficit, which is in the range of 3% of GDP, starting in 2014 in the EU (and a year earlier in the EA), until now, and the trend is slight increase in deficits in the coming years.

Regarding the structural deficit, as a target for the MTO, it is, formally, in the range of 0.5% - 1%, and the evolution is more favorable in the EA, being within the range in the period 2014 - 2018 and unfavorable at EU level, where it fails to enter this range for the entire period presented.



**Figure no. 2. The evolution of the conventional deficit and the structural deficit in the EU and EA, 2007 - 2018**

Source: AMECO data, processed by the author

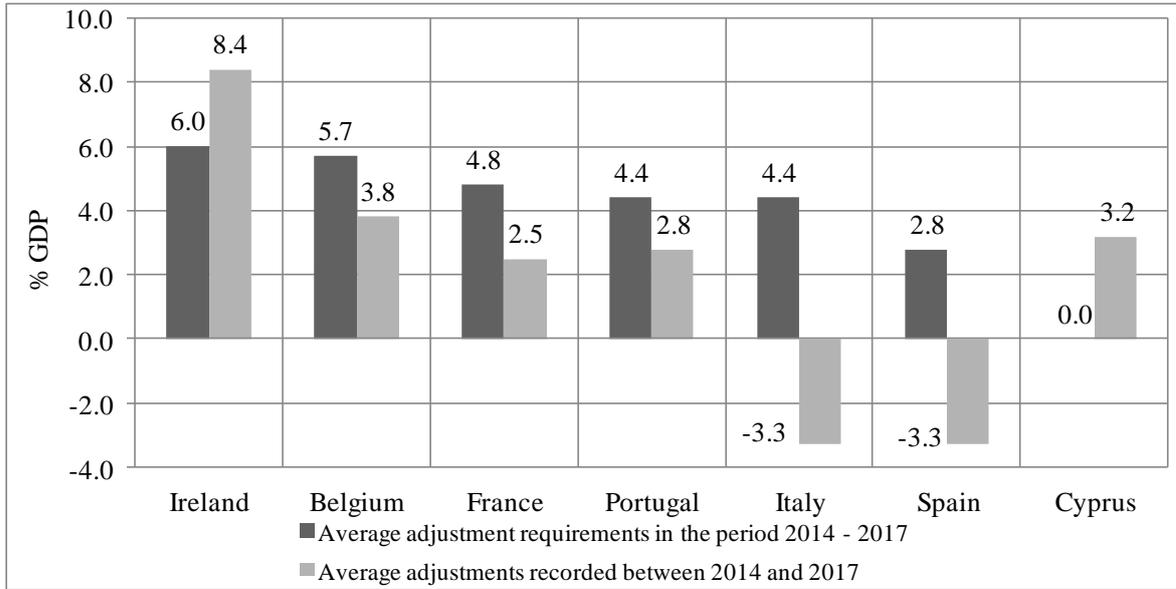
It follows that the implementation of the MTO and the printed flexibility of the SGP, through its successive changes, have led, at least overall at the level of the two institutional entities, to finding a certain balance between monitoring and implementing fiscal policies oriented towards economic growth, in particular by reforms and investments.

It is estimated that the use of this flexibility has led to a 0.8% increase in EU, GDP over the last four years and has contributed to the creation of around 1.5 million jobs.

#### **4. Evolution of the economic situation and public finances in EA countries that recorded a high level of public debt in GDP in 2014**

Next we will analyze the results recorded in the Member States with the highest levels of indebtedness (over 90% of GDP in 2014), these being: Ireland, Belgium, France, Portugal, Italy, Spain and Cyprus, all members of the SE.

Each of these countries had to take certain measures to strengthen fiscal and budgetary path and enter the path of adjustment towards the MTO. The progresses registered in relation to the cumulated requirements in the period 2014 - 2017 are included in figure no. 3.



**Figure no. 3. Cumulative adjustment requirements and results recorded (by varying the structural balance), in the period 2014-2017**

Source: AMECO data on the structural balance and EC requirements, issued following the evaluations, from spring 2015, 2016 and 2017.

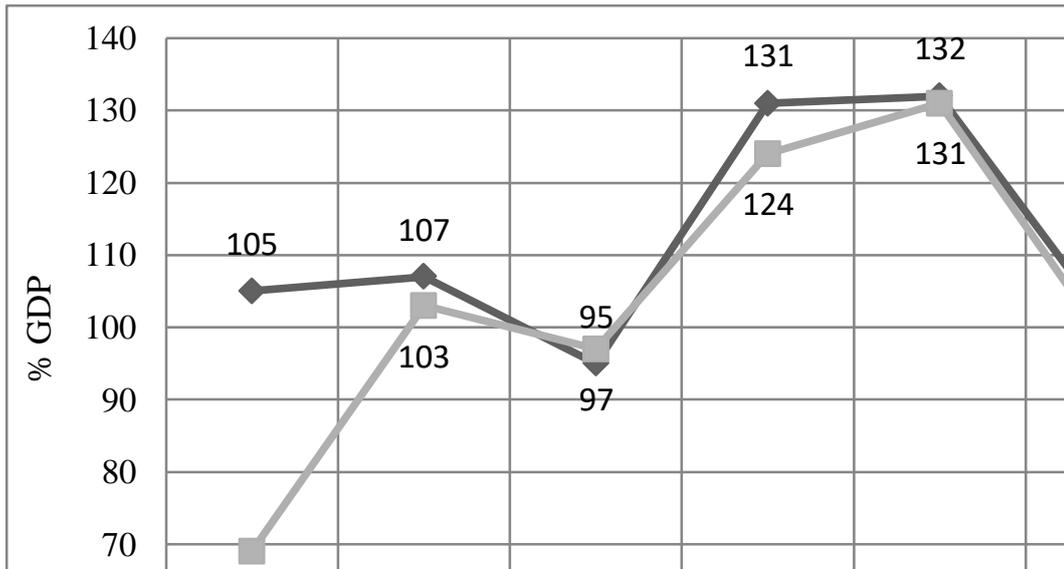
Two aspects emerge from this representation:

- *a positive one - represented by the cases of Ireland and Cyprus.*

Ireland has far exceeded the requirement in the matrix regarding the improvement of its structural balance, and in 2018 it reached the MTO, registering, as we will see below, rapid progress in reducing public debt. Cyprus has reached its medium-term budgetary target in 2018, and this, combined with the recovery, has shown, as we will see, a downward trajectory of the debt ratio, even if this decline has been slow.

- *a negative one - represented by the cases of Italy, Spain and France.*

The adjustments that have taken place in these countries are lower than the matrix requirements and, at this rate, will not facilitate convergence towards the MTO within a reasonable timeframe. Italy (under the preventive component) and Spain (under the corrective component), registered a deterioration of the structural balances and were removed from the MTO (Italy is at 2 pp, and Spain at 3 pp of the MTO). France, which is covered by the corrective component, managed to improve its structural balance to a very small extent during that period. Regarding the progress registered regarding the reduction of the public debt, represented in figure no. 4, they are relatively similar to the results recorded by adjustment to the MTO.

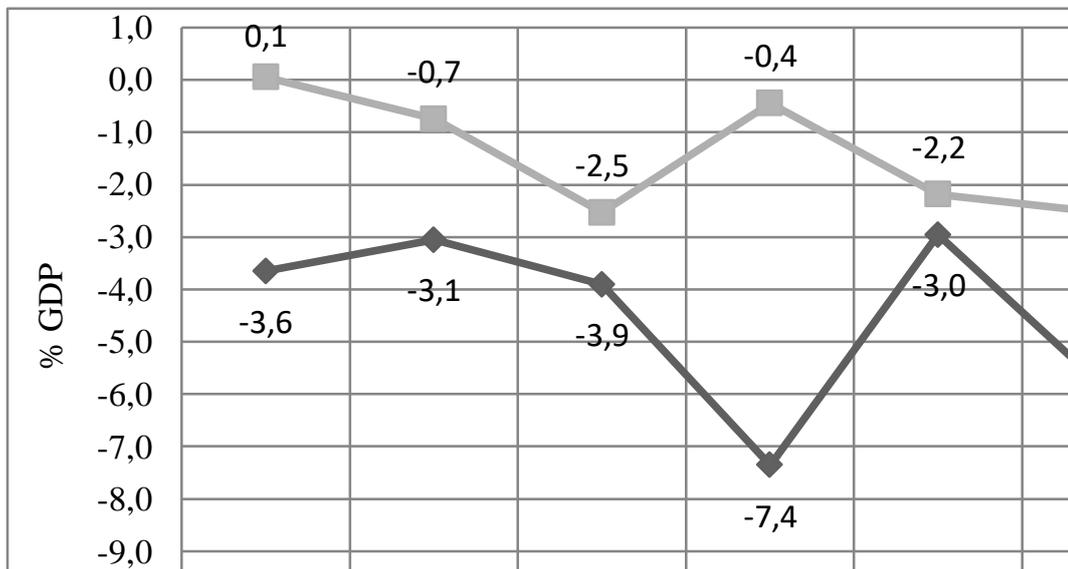


**Figure no. 4. The evolution of public debt between 2014 and 2018, in countries of the EU with public debt over 90% of GDP (in 2014)**

Source: AMECO data, processed by the author

Thus, Ireland and Cyprus have made significant progress, a reduction of 36 pp in the case of Ireland from 2014 to 2018, and 9 pp in the case of Cyprus in the same period. Portugal (7 pp), Spain (3 pp) and Belgium (4 pp) also recorded slower reductions over the same period. There is a lack of progress in the cases of France (-2 pp) and Italy (1 pp), compared to the same time frame.

Regarding the progress registered on the line of budget deficit reduction (conventional), all the analyzed states register progress in the mentioned time period (see the evolution presented in fig. no. 5).



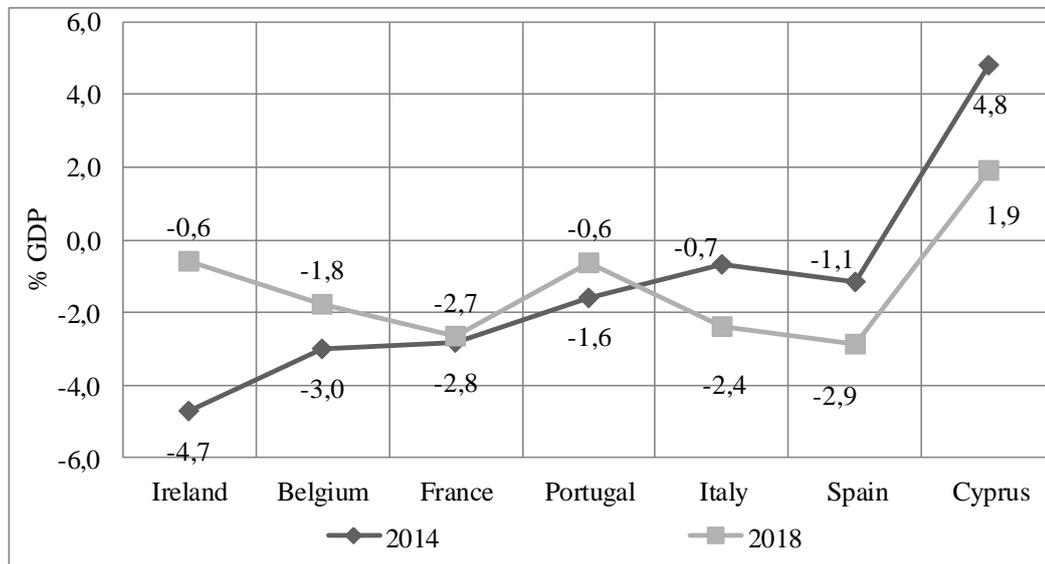
**Figure no. 5. The evolution of the conventional budget deficit, between 2014 and 2018, in EU countries with public debt over 90% of GDP (in 2014)**

Source: AMECO data, processed by the author

Significant reductions are recorded in Ireland (3.5 pp), Belgium (2.4 pp), Portugal (7 pp), Spain (3.4 pp) and Cyprus (4.3 pp), but this country remains below the TM level (-3% of GDP), with a deficit value of 4.4% of GDP.

France and Italy are making slower progress of 1.4 pp and 0.8 pp, respectively, but that is helping them to reach TM limits.

Regarding the progress made in the line of reduction of structural deficits, Ireland, Belgium, France and Portugal are making some progress, while Italy and Spain are deepening their structural deficits, while Cyprus is registering structural surplus, reducing it from 4.8 % in 2014, to 1.9% in 2018. (see the evolution presented in fig. no. 6).



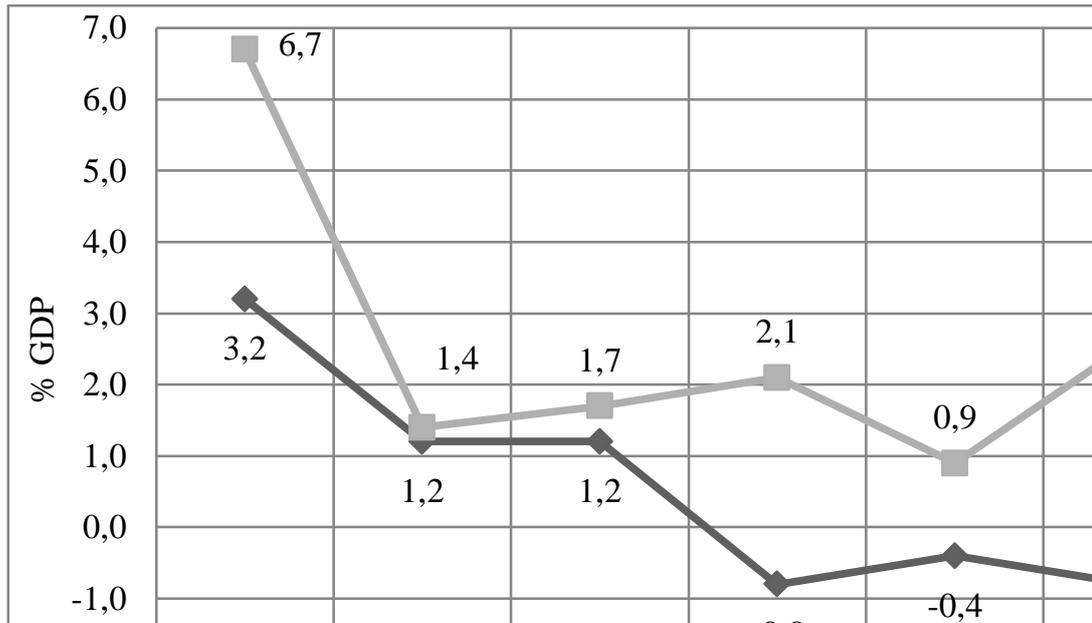
**Figure no. 6. The evolution of the structural deficit, between 2014 and 2018, in EU countries with public debt over 90% of GDP (in 2014)**

Source: AMECO data, processed by the author

I draw attention to the situations in Ireland, Italy and Spain. In the case of Ireland, the adjustment rate is noticeable, from -4.7% in 2014 to -0.6% in 2018. In the cases of Italy and Spain, the deterioration of the structural deficit is observed by more than 1.7 pp, in both cases during the analyzed period.

Regarding the progress registered on the line of economic growth, all the analyzed states register progress in the mentioned time period (see the evolution presented in fig. No. 7).

During this period, four states register an economic growth of over 3 pp, from 2014 to 2018, respectively: Ireland; Portugal; Spain and Cyprus, stating that three of them (Portugal, Spain and Cyprus) recorded negative economic growth in 2014, of -0.8%, the first two, and -1.7%, in the latter case. This positive development has contributed to a massive adjustment of the conventional budget deficits in these states.



**Figure no. 7. The evolution of the economic growth rate, between 2014 and 2018, in EU countries with public debt over 90% of GDP (in 2014)**

Source: AMECO data, processed by the author

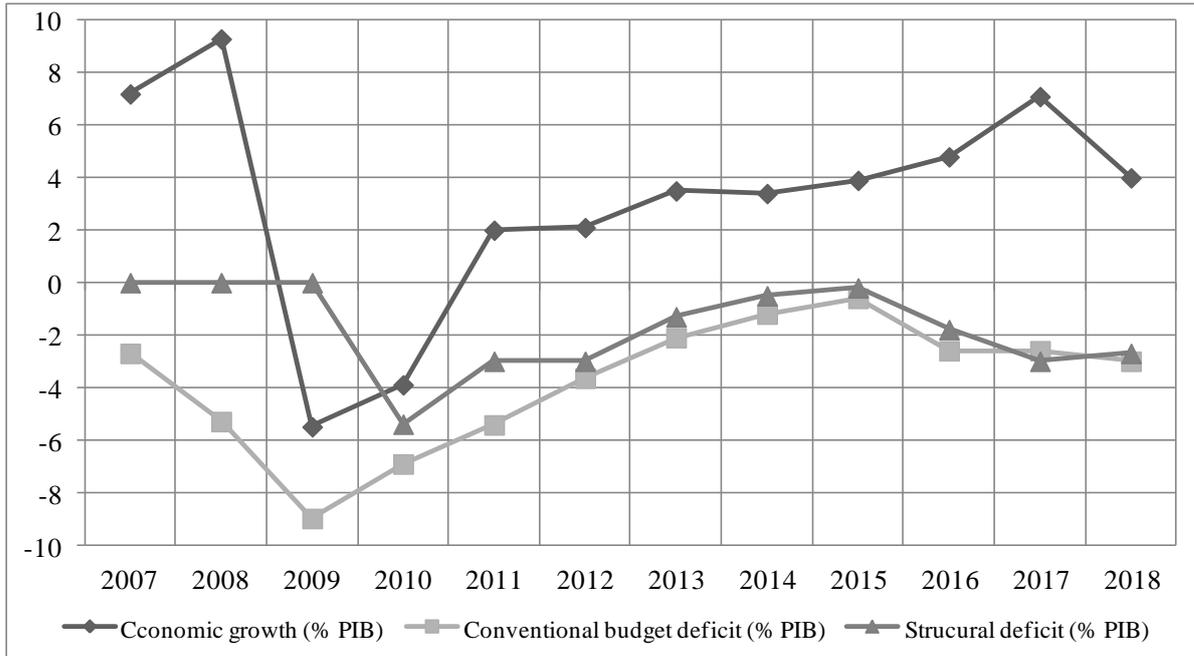
In the other states analyzed, there is slow progress in terms of economic growth between 2014 and 2018, respectively 0.2 pp in the case of Belgium, 0.5 pp in the case of France and 1.3 pp in the case of Italy, a situation that partly explains the slow progress made by these countries in the area of fiscal consolidation.

### 5. The evolution of the medium-term budgetary objective and its implications on public finances in Romania

Romania, having the status of a member state, has the obligation to comply with the reference values for the conventional budget deficit and public debt, according to the SGP. In addition to the two commitments, Romania also adhered to the Fiscal Compact (2012), which implies commitments regarding the assumption and observance of the medium-term budgetary objective.

In this situation, Romania currently has a commitment to comply with the MTO of -1% of GDP, assimilated to a structural balance, due to the fact that the ratio between public debt and GDP is below 60%, and the risks (at when calculating this level of MTO) on the long-term sustainability of public finances were low.

The effective analysis of the MTO compliance will be performed by subordinating the minimum limits of the structural deficit to the medium-term budgetary objective, in Romania, in the period 2007 - 2018, according to the evolution of this indicator from figure no. 8.

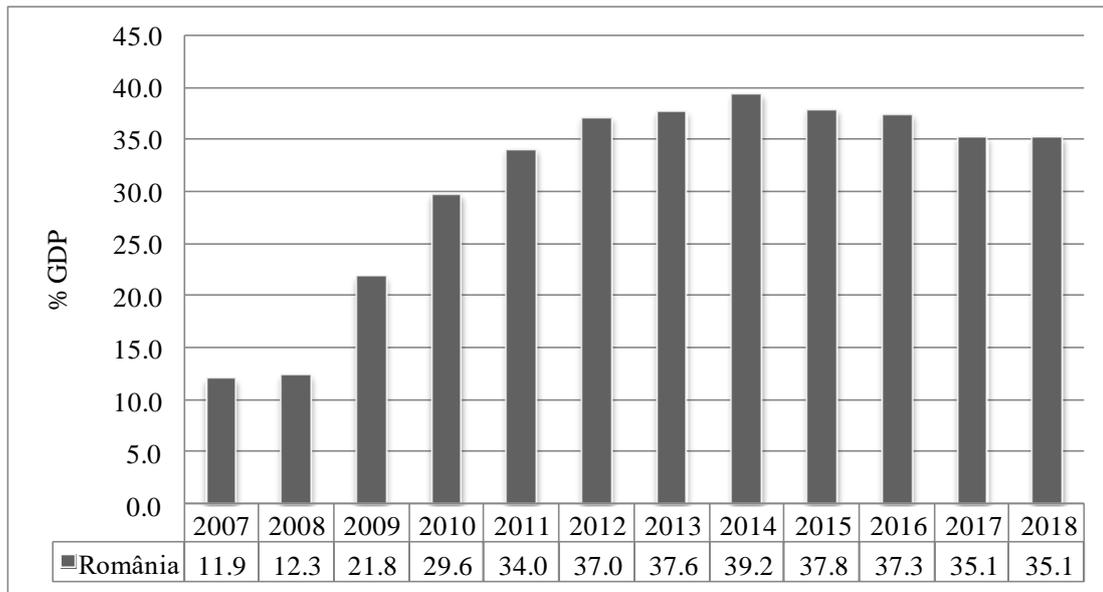


**Figure no. 8. The evolution of the conventional deficit, of the structural deficit and of the economic growth in Romania, in the period 2007 - 2018**

Source: AMECO data, processed by the author

The lack of normative constraints on the structural balance, in the first part of the analyzed period, led to a certain relaxation of the fiscal authorities regarding its evolution. With the implementation of European rules, taken over by national governments, on the requirement of a level of structural balance and its convergence with the MTO, and adjustment of prevention and corrective mechanisms, the level of structural balance has become a priority for tax authorities.

Against this background, it is noted that since 2013, the structural balance has reached the MTO target (-1%) faster than planned, a target within which it was maintained in 2014 and 2015. Moreover, there is synchronization in terms of concerns the observance of the limit of the conventional accounting balance of 3% of GDP (manifesting the effect of the structural balance of “safety” on the limit of the conventional accounting balance). Since 2016, the structural balance has been out of the MTO's target, amid anticipations of economic growth, the expansion of tax bases and potential effects of fiscal multiplication, government authorities have implemented measures to ease fiscal easing and increase budget spending, measures that negatively affected the two budget balances (structural and conventional accounting). On the other hand, the evolution of public debt in Romania, with increases of 3 - 4 pp of GDP, in the period 2012 - 2016, seems to support the consolidation of budget deficits in the same period (see figure no. 9).



**Figure no. 9. The evolution of public debt (% of GDP) in Romania, in the period 2007 - 2018**

Source: AMECO data, processed by the author

Continuing the reasoning of the "reverse synchronization" between the level of public debt and budget deficits, relative to GDP in Romania, it is found that in 2017-2018, the level of public debt decreased by 2 pp, and budget deficits increased during this period.

From the perspective of non-compliance with the MTO, Romania received from the EC a warning regarding the existence of a significant deviation from the MTO, starting with 2016, transposed in a recommendation to adopt some measures, in particular, regarding the maximum nominal advance of 3.3% of government expenditures in 2017, compared to 2016, and of 4.3% in 2018, compared to 2017. The implementation of these measures ensures successive annual structural adjustments of 0.5% of GDP and, implicitly, the approximation of OTM.

The EC recommendations have not been implemented, and in 2018 it issued another warning to Romania regarding the existence of a significant deviation from the adjustment path to the MTO, warning translated into a decision of the EU Council regarding the lack of effective measures for to correct the significant deviation from the MTO. It was also noted that the medium-term fiscal plans are not correlated with the budgetary ones and with the national economic perspectives, and the recommendations of the Fiscal Council are not sufficiently taken into account.

The evolution of the structural balance of the last three years and the non-implementation of effective measures to correct the significant deviations from the MTO, brings Romania closer to the possibility of opening the excessive deficit procedure.

## 6. Conclusions

The objective of the paper was to identify possible impacts of the application of the MTO on the fiscal consolidation process. Concrete progress has been made at EU and EA level, validated by the positive development of public debt and budget deficits.

In countries with a debt level of over 90% of GDP, with the exception of Ireland and Cyprus, which have made spectacular progress, several large euro area countries (Spain, France and Italy) are far from their long-term budgetary targets. environment, and

the structural deficit has worsened considerably, the same phenomenon being observed in an intensified form also in the case of the conventional budget deficit.

In contrast to the positive developments registered at the level of the two institutional entities (EU and EA), Romania, although it has an economic growth above their average, does not manage to stabilize the budget deficits, being in the situation of receiving repeated warnings regarding the existence of a significant deviation from on the adjustment path towards the MTO, a warning translated into an EU Council decision on the lack of implementation of effective measures to correct the significant deviation from the MTO.

The general finding is that progress towards the MTO was further increased immediately after the financial crisis and the implementation of the amendments to the SGP (2011), the TSGC and the Fiscal Compact (2013), until 2014, 2015, after which it decreased even more indebted countries. It is not on a trajectory that ensures that the goal is achieved within a reasonable amount of time.

### References:

1. Claey's, G., Darvas, Z.M. and Leandro, A., 2016. *A proposal to revive the European fiscal framework*. Bruegel Policy Contribution, No. 2016/07, Bruegel, Brussels;
2. European Commission, 2019. *Assessment of the economic situation*, May 2019.
3. The European Court of Auditors, 2018. *Special Report - Is the main objective of the preventive component of the Stability and Growth Pact achieved?*
4. Economic and Financial Committee, 2009. *Specifications on the Implementation of the Stability and Growth Pact and Guidelines on the Format and Content of Stability and Convergence Programs*.
5. Economic and Financial Committee, 2012. *Specifications on the Implementation of the Stability and Growth Pact and Guidelines on the Format and Content of Stability and Convergence Programs*.
6. European Commission / Economic and Financial Affairs, 2014. *The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps*. European Economy, Economic Papers 535.
7. European Commission, 2013 – 2019. *Vade mecum on the Stability and Growth Pact*” European Economy.
8. European Commission and Economic and Financial Affairs, 2015. *The 2015 Aging Report Underlying Assumptions and Projection Methodologies*. European Economy.
9. European Fiscal Board, 2019. *Assessment of EU fiscal rules with a focus on the six and two-pack legislation- August 2019*.
10. European Commission, 2020. *Stability and Growth Pact*. [online] Available at: <[https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact\\_en](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact_en)> [Accessed 1 February 2020].
11. European Commission, 1992. *Treaty on European Union*. [pdf] Available at: <[https://europa.eu/european-union/sites/europaeu/files/docs/body/treaty\\_on\\_european\\_union\\_en.pdf](https://europa.eu/european-union/sites/europaeu/files/docs/body/treaty_on_european_union_en.pdf)> [Accessed 1 February 2020].
12. European Commission, 2011. *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) - Fiscal Compact*. [pdf] Available at: <[https://www.consilium.europa.eu/media/20399/st00tscg26\\_en12.pdf](https://www.consilium.europa.eu/media/20399/st00tscg26_en12.pdf)> [Accessed 1 February 2020].

## SYSTEMS SIMULATION MODELS TO BALANCE SOCIO- PROFESSIONAL YOUTH LABOR MARKET

**Lecturer Ph.D., Loredana Maria PĂUNESCU**

Petroleum & Gas University of Ploiesti, Romania

E-mail: loredana.paunescu@yahoo.com

**Abstract:** A study on the labor market in Romania requires both knowledge processes, realities and trends across the country, and knowledge of phenomena manifested in this market over the years. The labor market in Romania is influenced by economic and social system of politics and the environment, so supply and demand on the labor market often have different tendencies, leading to a tense labor market. In recent years, the labor market has undergone a number of changes, so that both employees and employers have a new perspective regarding labor market insertion.

**Key-words:** computer simulation models, balance socio-professional labor market performance opportunities.

**JEL Classification:** A, A2, A23.

### 1. Introduction

Regional analysis (referring particularly to South-Muntenia) brings into focus some tools to answer all these deprivations of the labor market resulted in a series of projects whose overall objective is to improve employability and facilitating market access work and working life of a greater number of young people (students and especially graduates) looking for a job.

### 2. Timelines of the research

The paper addresses a topic particularly interesting in terms of labor market functioning. The theme addressed imposed an approach with a strong impact on human resources and the labor market insertion thereof in relation to the number of young university graduates seeking a job in the field of specialization graduated.

The necessity and importance of the research is justified by the fact that the development, both at institutional and national studies on youth employment in the labor market resulting from the need to analyze that have a positive impact on graduates and employers .

### 3. The purpose and objectives in research

The objectives of the research were:

O1: rehabilitation curriculum as required by labor market development scenarios of the last ten years;

O2: better advice on the labor market insertion of graduates.

### 4. Research methodology

The research methodology used in elaborating scientific achievement is evidenced by the following:

1. The proposal aims in research;
2. Making a plan of analysis;
3. Analysis and interpretation of data;
4. correlation performed using the proposed model.

#### a. Research methods and techniques

In research conducted it was proposed two models, models aimed at the life cycle of the computer system where data were analyzed and interpreted using them.

The reference cascade is one of ensuring the transition from one stage to another in the sequential order of the possibility of returning to the previous steps or going through the several steps in parallel:

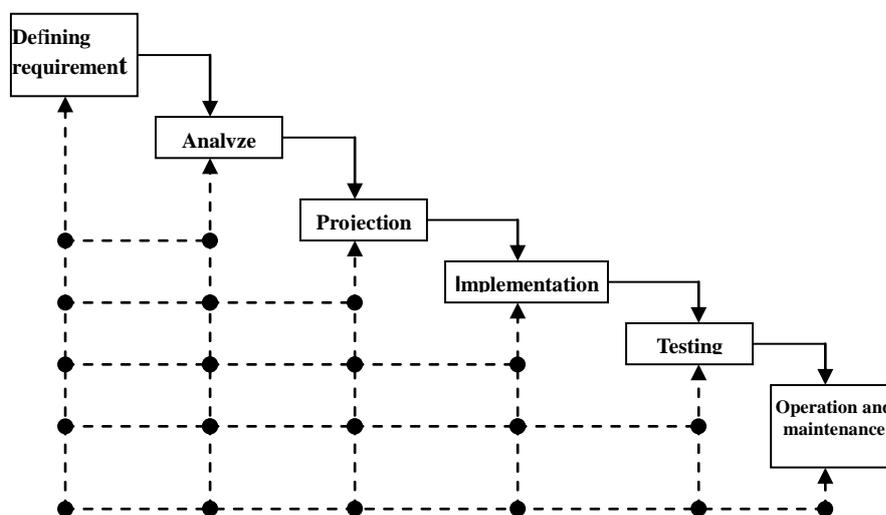


Figure no. 1. Waterfall model

Advantages of this model are:

- controls all phases in the sense that they have a strict order and field stretching is clear;
- model is easy to learn the design team;
- each step is accompanied by documentation.

The disadvantages of the model are:

- information system surrenders after completing all phases which means a longer period of time, the user can change claims;
- model does not represent a dynamic approach;
- not open to change.

The V model is a variant of the cascade that introduces the concepts of components, subsystems, applying the explicit hierarchical level tests to increase the control the way in which the steps are carried out, thereby obtaining a side of the letter V (fig. no. 2):

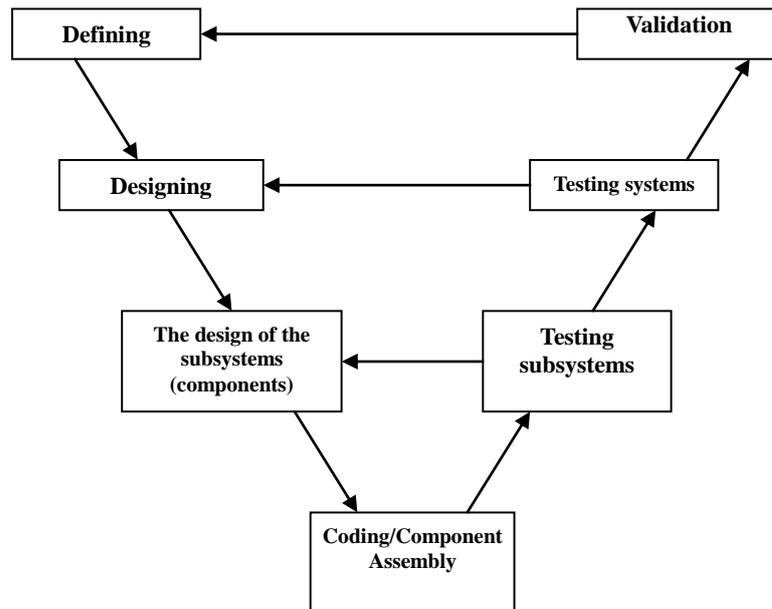


Figure no. 2. V model

The first side is down and through the proper comprising the steps of a computer system, and the second to include all stages upward through the clearance.

#### b. Research results

By evaluating the insertion socio - professional graduates obtain, on the one hand, a picture of young people's transition from school to work, the degree of concordance between supply and demand existing at some point in the labor market, and on the other some basic information on the effectiveness of education.

Despite demographic decline, changes in the number of students enrolled in public universities I know a slightly upward trend in recent years, indicating a growing level of demand in the reference period. Expectations for maintaining the baccalaureate graduation rates are so consonant with a policy of supporting a number of funded places offer higher education at least equal to that of the previous year.

In addition, the argument of maintaining annual tuition for master studies, the report highlights a growing interest for further training graduate and undergraduate studies master. Thus, the gross transition from undergraduate cycle masters is growing in recent years, and the ratio of the number of students enrolled in the master's or equivalent (ISCED 7) and the number of students enrolled in undergraduate or equivalent (ISCED 6) in Romania near the median level of the European Union is advisable to stay at least at this level.

#### 5. Conclusions

The research results will form a working tool which shows that appropriate measures to improve the current situation and recommendations to facilitate their integration into the labor market.

#### Personal Contributions

Analysis by presenting a national interest is served by developing this work addressing a topic particularly interesting in terms of the functioning of the labor market and social efficiency of higher education institutions at national and regional level. Also, one can see the transparency, efficiency and timeliness in data management that can help increase the relevance of higher education to the labor market.

Increasing adaptability of long-term labor market requirements must be achieved through investment in human resource development, based on a lifelong learning strategy.

At present, the labor market is characterized by a high level of caution, both in terms of employers and employees. Employers are increasingly careful in choosing suitable candidates, and offer jobs generally lower.

Candidates will be increasingly more competitive, since it will increase specialization and selection criteria are becoming more numerous. Also, after analyzing the labor market, it found that labor is not homogeneous, but differentiated on a broader or narrower range of occupations. No perfect transparency there because labor is not perfectly informed, information about job vacancies and about working conditions is not readily available or free. Therefore, between the participation rate and the employment rate there is a perfect similarity. To increase the participation rate may witness a drop in the employment rate due to the rise in unemployment.

It is possible that in the expansion phase of the economic cycle or boom, amid increasing general prosperity, increase the attractiveness of the exercise of an activity remunerated, so that some of the legal working age, but withdrawn dintr- for some reason the labor market, willing to rejoin the active population category, increasing labor supply at a rate higher than the increase in employment.

Equally possible is that new entrants or re-enter the no longer find work suitable to their preparation.

#### References:

1. Adams, T.L., Demaiter, E.I., 2008. Skill, education and credentials in the new economy: the case of information technology workers. *Work Employment Society*, pp.351-362.
2. Agenția pentru Dezvoltare Regională - Regiunea Sud – Muntenia, 2019. *Home page*. [online] Available at:<<http://www.adrmuntenia.ro/>>[Accesed 20 January 2019].
3. Aggarwal, C.C., 2015. *Data Mining – The Text Book*. Springer.
4. Bradley, H. and Devadason, R., 2008. Fractured Transitions: young adults' pathways into contemporary labour markets. *Sociology*, 42(1), pp.119-136.
5. Dolton, P.J. and Silles, M.A., 2007. The effects of over-education on earnings in the graduate labour market. *Economics of Education Review*, Elsevier, pp.1-15.
6. Dunham, M.H., 2003. *Data Mining. Introductory and Advanced Topics*. Pearson Education.
7. Gorunescu, F., 2011. *Data Mining. Concepts, Models and Techniques*. Springer.
8. ILO, 2019. ILOSTAT. [online] Available at:<<http://ilostat.ilo.org/>> [Accesed 13 January 2019].
9. ILO, 2019. *Minimum wages database*. [online] Available at: <<http://www.ilo.org/travaildatabase/servlet/minimumwages>> [Accesed 23 January 2019].
10. National Statistics Institute, 2019. *Tempo Online*. [online] Available at: <<http://statistici.insse.ro:8077/tempo-online/#/pages/tables/insse-table>> [Accesed 23 January 2019].
11. OECD, 2008. *Testing Educational for knowledge Societ*. [online] Available at: <<http://www.oecd.org/home>> [Accesat 22 April 2008].

12. OECD, 2009. *Centre for Educational Research and Innovation, European Year of Innovational and creativity*. [online] Available at: <<http://www.oecd.org/home/>>
13. Random Forest. [online] Available at: <<http://www.stat.berkeley.edu/~breiman/RandomForests/>> [Accessed 29 July 2017].
14. Țoțan, L., 2011. *Proiecția deficitului de ocupare*. Bucharest: Editura ASE.
15. Weka Wiki, 2017. *General Documentation*. [online] Available at: <<http://www.cs.waikato.ac.nz/ml/weka/documentation.html>> [Accessed 23 July 2017].

## DEFINING THE CONCEPT OF “CORE COMPETENCIES” IN RELATION TO STRATEGIC MANAGEMENT AND INNOVATION MANAGEMENT

Ph.D. Student Georgiana-Gabriela IACOBUȚĂ

“Valahia” University of Târgoviște, Romania

E-mail: iacobutag@gmail.com

**Abstract:** *Core competencies do not have an agreed-upon definition in the literature, even though the popularity of this concept has been rising in the last decades. Traditionally, the concept of core competencies has been discussed in relation to management, in general, and more specifically, in relation to strategic management. In this paper, we analyse the place and value of core competencies in relation to strategic management, while, at the same time, argue that this concept can be enriched when placed in the context of innovation management. In this manner, the concept of core competencies can move away from being defined as an ideally fixed, and rigid part of a business, and can move towards a conceptualization that integrates its dynamic component. We also discuss the case of innovation as a core competency.*

**Keywords:** *core competencies, strategic management, innovation management, economic innovation.*

**JEL Classification:** *M21, O32.*

In the last few decades, more and more authors have used the term “core competencies”, but few with the same meaning. Its relevance and growing importance in the field of management is undeniable, but, in this context, there is a risk of transforming this concept in a catch-phrase with little theoretical foundation. Some authors (Kawshala, 2017) have noticed the theoretical fragmentation and proposed further theoretizations and integrative models. In this paper, we analyse the definitions in the literature and how they relate to strategic management, on one hand, and to innovation management, on the other hand.

### 1. Defining core competencies

The concept of core competencies has become popular after Prahalad and Hamel’s article, “The Core Competence of the Corporation” (1990). The two authors argue that, in order to obtain a long-term competitive advantage for a company, businesses must identify and invest in core competencies, which are compared with a root system of a tree, which, in this metaphor, represents the diversified company.

In order to identify the core competencies, there are three tests which can be applied by a company:

- (1) whether the competency can provide access to varied and wide markets,
- (2) whether the competency can make important contributions for customer, and
- (3) whether the competency is difficult to imitate by competitor companies. More generally, core competencies represent a form of collective learning that enables the company to coordinate production, to integrate several technologies, and to involve human resources at multiple levels (Prahalad, Hamel, 1990).

Several authors have built upon Prahalad’s and Hamel’s understanding of this concept. Edgar and Lockwood (2009) have defined core competencies as “capabilities held by people within a firm that, when applied to create products and services, make a critical contribution to corporate competitiveness”.

Kawshala (2017) considers that one of the main characteristics of the core competencies is the presence of an unique set of skills, which can set apart a company from its competition. Core competencies can manifest in the form of know-how (technical or subject matter), business processes, relationships, or even organisational culture. The model developed by Kawshala includes capabilities, resources and general competencies as

the three dimensions of core competencies, which lead to competitive advantage, and, in turn, to business growth.

Other authors point out that the concept of core competencies is also sometimes used under different terms, namely “organisational competencies” or “distinctive capabilities” (Edgar, Lockwood, 2009).

In the literature on strategic management there are different approaches to the types of strategic alternatives. A number of strategic management specialists have developed the concept of "generic" (general) strategies that can be considered as priorities of industrial enterprises directing options and production management in order to obtain competitive advantages in a particular industry or market segment, with a specific product or product line.

Professor Michael E. Porter proposed a classification of generic strategies into:

- differentiation strategies;
- strategies based on low costs;
- targeting strategies that can be adopted in relation to the strategic advantage pursued: focus based on low costs or focusing on differentiation. The model of generic strategies is presented in the form of a two-dimensional matrix: strategic advantages - strategic target.

The differentiation strategy allows to obtain a competitive advantage through the uniqueness (unique character) of a specific attribute of the product offered on the market, which justifies a higher price that is accepted by customers.

The low-cost strategy prioritises all the company's efforts towards the objective of minimizing production and distribution costs at levels below those of competitors. Promoting this strategy requires spending efficiency, preferential access to low-cost input resources, restricting spending for some departments (research and development, advertising, sales, etc.).

The focus strategy involves focusing on one focus criterion: either by differentiation or by reduced costs.

In general, in order to opt for one of the above strategies, management must assess their feasibility in terms of "strengths" and "weaknesses".

Porter recommended adopting a clear competitive position, based on either low costs or differentiation or a targeting strategy, otherwise inadequate results will be obtained. But there are some criticisms of the Porter model. Indeed, the 1990s brought examples that show that the exclusive choice Porter recommends is outdated. Companies are cited that successfully follow a differentiation strategy in combination with a low cost strategy, without affecting financial performance (an example often invoked is that of Toyota, known for the relatively low cost of its products).

Other classifications of strategies according to different criteria have been proposed. Thus, Yvan Allaire and Mihaela Fîrșirotu (1998) group the strategies in the group of domination strategies of including the market dominance strategy through costs and the differentiation strategy, the group of market-wide strategies, with segmentation strategies, geographical expansion strategies and globalization strategies, the group of crenellations strategies, with concentration strategies, specialization strategies and investment strategies, as well as the group of diversification strategies in unrelated industrial sectors, including the strategy of companies in unrelated industrial sectors and the strategies of financial holding companies.

Henry Mintzberg classifies strategies according to two criteria: according to their character and evolutionary state (static strategies and dynamic strategies) and according to the development vector (penetration strategies, market development strategies, product development strategies and development strategies).

G.W. Hofer and D. Schendel proposed a classification of strategies, according to the level and purpose pursued, into 3 main types: firm strategies, economic strategies and functional strategies. According to this classification, company strategies address the formulation of the strategy at the level of each organizational subdivision, whether it is integrated into the overall functioning of the organization or operates independently. Economic strategies must establish the necessary approaches to ensure competitiveness in the industry. Functional strategies must ensure the optimization of resource use and results.

At the level of enterprises and organizations, economic strategies are characterized by the fact that they set overall objectives over long time horizons. An essential criterion for classifying strategies at the level of organizations is the dynamics of the level of objectives that indicate their trend of evolution: increase, constancy or decrease. Among the objectives, the increase of the turnover associated with the increase of the profit rate is predominant. The turnover trend defines 3 types of strategies associated with the dynamics of the level of objectives:

- growth strategy;
- neutral strategy;
- restriction strategy.

The growth (development) strategy has as its basic objective the increase of the turnover, more precisely of the sales expressed in physical units. Development strategies can come in various forms, of which priority can be mentioned: concentration strategies, vertical integration strategies and diversification strategies.

The focus strategy is to focus the company on a single product / service or product line, on a narrow market segment (a niche) or a single technology. The concentration strategy can be achieved in three ways:

- based on market development;
- by product development;
- based on horizontal or vertical integration.

The diversification strategy is the type of development strategy that consists in increasing the number of businesses, products, services, which are essentially different from current business. It can be achieved in two forms: concentric diversification (or correlated) and conglomerate diversification (uncorrelated). The concentric diversification strategy is characterized by the fact that the company is involved in several distinct types of business, by executing products / services clearly different from the current ones, but close in nature, for example with similar technologies, common skills or common markets.

## **2. The concept of “core competencies” in relation to strategic management**

Using a framework based on core competencies allows companies to enunciate strategic architecture and to build competencies in a competitive manner, that supports the company’s sustainable development in the future. The concept of “core competencies” is compatible with strategic management when such competencies are not fragmented, but coordinated in a “strategic architecture” (Prahalad, Hamel, 1990).

The concept of “core competencies” has been used to create an approach to strategy formulation. This approach has had the benefits of underlining the relationship between resources, capabilities and processes, as well as moving beyond the identification of competitive advantage, and strategizing how to sustain it in the long term.

Kak (2004) has applied such an approach to two pharmaceutical companies, for which the core competence were: R&D (in the form of addressing the consumers’ unmet medical needs) and marketing, respectively R&D (in the form of innovative therapies) and dedicated human resources. The three tests proposed by Prahalad and Hamel were applied, and the learning issues were compared. For each pharmaceutical company, a strategy and

core competence was identified: on one hand, to outgrow the company's competition using innovation and global marketing, and, on the other hand, to offer quality health care solutions using R&D and dedicated human resources.

This study (Kak, 2004) shows that, when used together in practical company analysis, the concepts of strategy and core competence can show what and how a company plans to do in order to gain competitive advantage. Moreover, since identifying core competencies assumes identifying certain competitive advantages, we consider that these are indicators that are especially fit for comparing the strategic management of different companies operating in the same field, especially ones that have apparently similar strategies.

### **3. The concept of “core competencies” in relation to innovation management**

Innovation management, understood as a systematic promotion of innovation in organisations at multiple levels, can create a framework for better understanding and defining the concept of “core competencies”.

In the context of strategic management, core competencies represent past and present fundamental blocks (e.g., of knowledge, skills, relations) that create distinct value upon which a business can build its future. From this perspective, core competencies can be seen as fixed and rigid, a view supported when analysing Prahalad and Hamel's view of core competencies. This underlines the need for a company to identify stable advantages, especially when a company develops a high number of products and services, which sometimes seem to have little to do with one another. Therefore, core competencies, when correctly identified, become more than a key to a company's success – they also become an important part of a company's identity. However, even though core competencies are more stable than other aspects of a company's strategy, they should not be treated as fixed or rigid.

We argue that, in practice, core competencies are rather dynamic. As a company grows and changes by adapting to its environment, so do its core competencies. We consider that the dynamic view of core competencies can be supported by Kawshala's model. Since capabilities, resources and general competencies – the three dimensions of core competencies – are subject to change in a business, it is to be expected that the core competencies of a business should be also subject to change.

Innovation management assumes a certain degree of change through the company, which can relate to the products and services themselves, or to the business processes (e.g., innovation in the production chain, or innovation in the human resource management).

We propose that there are two main ways that companies that use innovation management can relate to core competencies. One possibility is that core competencies can become more dynamic and subject to change as the company innovates and introduces changes. The other possibility for these companies is that innovation becomes a core competency of the company.

Several authors discuss innovation as a possible core competency for companies. For example, J. Kandampully (2002) introduces the idea of innovation as a core competency of services-based companies. He argues that amorphous knowledge is the most important resource for a service company and this leads to the potential of innovation as the core competency of the company, but, also, that innovation alone cannot generate substantial benefits for the company, since it needs to be linked to actual results in a customer-driven marketplace.

Moreover, we also point out that identifying “innovation” as a core competency of a company is rather vague and brings little practical value, at least in comparison to

specifying the type or types of innovation (e.g. marketing innovation, technological innovation, management innovation).

#### 4. Conclusion

The concept of “core competencies” needs further theoretical clarifications and agreement between management authors. Even though it is usually analysed from the perspective of strategic management, which brings several practical benefits for companies that use core competency based strategies, an innovation centered discussion is also important. We conclude that, in the context of innovation management, core competencies can either become more dynamic, or that innovation can be a core competency of a company that implements innovation management.

#### References:

1. Allaire, Y. and Firsirotu, M., 1998. *Strategic Management*. Bucharest: Editura Economică.
2. Băcanu, B., 1997. *Strategic Management*. Bucharest: Ed.Teora.
3. Edgar, W. and Lockwood, C., 2009. *Understanding, Finding, and Applying Core Competencies: A Framework, Guide, and Description for Corporate Managers and Research Professionals*. Working paper [9-15], Northern Arizona University, Northern Arizona, December.
4. Hofer, G.W. and Schendel, D., 1978. *Strategy Formulation*. New York: West Publishing Company.
5. Kak, A., 2004. Strategic Management, Core Competence and Flexibility: Learning Issues for Selected Pharmaceutical Organisations. *Global Journal of Flexible Systems Management*, 5(4), pp. 1-15.
6. Kandampully, J., 2002. Innovation as the core competency of a service organization. *European Journal of Innovation Management*, 5(1), pp. 18-26.
7. Kawshala, H., 2017. Theorising the Concept of Core Competencies: An Integrative Model Beyond Identification. *International Journal of Scientific and Research Publications*, 7(2), pp. 253-256.
8. Mintzberg, H., 1990. *Strategy Formation*. New York: Ed.Harper and Row.
9. Porter, M.E., 1980. *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. New York: The Free Press.
10. Prahalad, C.K. and Hamel, G., 1990. The Core Competence of the Corporation. *Harvard Business Review*, 5, pp. 79-90.

## INNOVATIVE TECHNOLOGIES USED IN THE SUSTAINABLE DEVELOPMENT OF NATURAL GAS DISTRIBUTION SYSTEMS

**Ph.D. Associate Professor, Mădălina ALBU**

Petroleum-Gas University of Ploiești, Romania

E-mail: malbu@upg-ploiesti.ro

**Abstract:** *One of the major concerns of the companies in the field of natural gas distribution is the development of the natural gas distribution system, both by its extension in the areas covered by the concession contracts, respectively by the license, as well as by the concession of new distributions. The foundation of the plans for the sustainable development of the distribution system in the medium and long term is done taking into account the new innovative technologies in the field, as well as the use of modern computer applications that will ensure the efficient management of the distribution networks in accordance with the regulations of the National Regulatory Authority in Energy domain. Considering that natural gas plays a key role in the transition towards an economy based on reducing carbon emissions, representing clean energy, flexible and adapted to energy needs, one of the objectives of the activity in the field is the use of innovative technologies to increase performance. economic. The paper addresses the field and refers to the activities carried out by Distrigaz Sud.*

**Key words:** *innovative technologies, sustainable development, gas, distribution systems.*

**Classification JEL:** *O32, Q01, L95.*

### 1. Introduction

Concerns regarding the use of innovative technologies are part of the development strategy of the main actors in the field of natural gas distribution. The development of the natural gas distribution system is achieved by expanding the areas covered by the concession contracts, respectively by the license, as well as by the concession of new distributions. The elaboration, development and implementation of the plans for the sustainable development of the distribution system in the medium and long term is done starting from the existing facilities and taking into account the new innovative technologies in the field. The use of modern computer applications, specific to the field of activity, aims to ensure the efficient management of distribution networks in accordance with the regulations of the National Energy Regulatory Authority - ANRE.

The investments necessary for the development of the distribution systems concern both the expenses included in the concession contracts of the natural gas distribution service as an obligation of the concession operator, as well as funds for the development and implementation of new innovative technologies (Mușatescu, 2003).

Considering that natural gas plays a key role in the transition towards an economy based on reducing carbon emissions, representing clean energy, flexible and adapted to energy needs, one of the objectives of the activity in the field is the use of innovative technologies to increase performance.

The expected results as a result of the use of new technologies are aimed at increasing the security of natural gas supply by reducing the number and duration of temporary interruptions for emergency interventions and faulty remedies, increasing the flexibility of the natural gas distribution system in congestion situations, increasing the pressure at which it is distributed. natural gas to consumers and alignment of pressure parameters to European standards, reduction of technological losses due to the high degree of wear of existing steel pipes, reduction of operational costs and minimization of the negative impact on the environment by reducing gas emissions into the atmosphere.

Gas distributors are responsible for the sustainable development of gas distribution systems. Therefore, by implementing modern technologies, it is possible to ensure the maintenance and development of the system and the safe distribution of natural gas to consumers.

## 2. General aspects regarding natural gas distribution systems

At national level, the natural gas distribution system is regulated by the performance standard for the natural gas distribution and system service.

This standard applies in the relations between the operators of the natural gas distribution systems, which perform the activity of public service, and:

1. the users of the natural gas distribution system
2. the natural or legal persons addressed to the distribution operator for granting access to the natural gas distribution system
3. the natural or legal persons who address the distribution operator in order to connect to the natural gas distribution system
4. natural or legal persons requesting information or addressing complaints, complaints, requests regarding the distribution and natural gas system service
5. National Energy Regulatory Authority (ANRE).

The quality parameters in the field of natural gas distribution are regulated by ANRE through the Natural Gas Distribution Standard and are reflected in the following performance indicators (Chisăliță, Albu, 2008).

1. recording and solving users' complaints, complaints and requests regarding the distribution and natural gas system service
2. contracting the natural gas distribution service
3. compliance with the conditions for surrendering and taking over natural gas
4. access to the natural gas distribution system
5. connection to the natural gas distribution system
6. restoration of the lands and / or assets affected by the execution of works to the objectives of the natural gas distribution system
7. limitation / interruption of the supply of the distribution and system service of natural gas

The essential characteristics of the system are defined by the National Energy Regulatory Authority - ANRE, by the regulation on access to natural gas distribution systems from 25.05.2018.

This regulation regulates the access conditions of the applicants / users to the natural gas distribution systems (SD) and completes the performance standard for the natural gas distribution and system service.

The characteristics of the system are:

a) the entry points into the distribution system (SD) are:

- the points located downstream of the taps at the exit of the manufacturer's regulation-measurement-delivery station;
- the points located downstream from the exit of the regulation-measuring-teaching station of the transport operator;

b) the interconnection points between the distribution systems are the points at the exit from the regulating-measuring station of an SD located upstream;

c) the exit points from the SD are the points located at the exit of the stations / adjusting / measuring stations or, as the case may be, the exit from the connection faucet to the installations for the use of the final customers.

The main strategic directions of the companies in the field are represented by the development and modernization of the distribution network. The main objectives pursued by companies through their investment programs are:

- connecting to the existing infrastructure of new communities, clients or economic agents;
- The modernization of the network by replacing the natural gas pipes that have a long-term operating life.

The main objectives that coordinate and materialize the activities in the field are:

- creation and development of public gas distribution services
- supporting investment initiatives in the production field by reducing the costs of energy consumed in various technological processes;
- stimulating productivity, modernizing and increasing the competitiveness of enterprises and other industrial and commercial structures
- Environment protection.

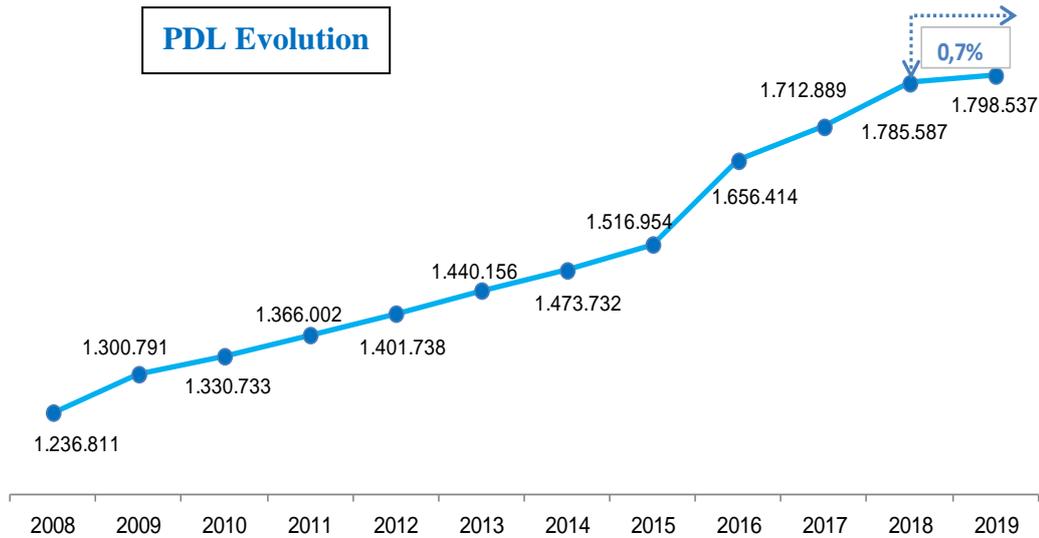
In order to achieve these goals, all companies in the field must act in the following directions:

- continuous improvement of the integrated management system of quality, environment and occupational health and safety
- use of automated equipment that gives the possibility to adjust the operating parameters of the remote distribution system and to increase the degree of security regarding its use;
- the use of equipment complying with European Union standards regarding quality and safety in operation;
- collecting the most accurate data from the field, referring to both individuals and industrial companies, in order to optimize the distribution and distribution systems.

### **3. Development of natural gas distribution systems by Distrigaz Sud Networks**

At national level, the development of natural gas distribution systems is carried out in two directions:

- Extension of existing distribution systems in areas where there is a concession contract and operating license;
- New gas concessions by expanding the concession area or by setting up new natural gas distribution systems, concurrently with the concession of the public gas distribution service.
- The extension of the existing distribution systems in the concession area starts at the request of connection to the distribution system of the clients, for this purpose a technical-economic study is carried out according to the procedure of elaborating the technical-economic study in order to achieve the objectives of the gas sector natural gas approved by the Order of the President of the National Energy Regulatory Authority no. 104 / 2015. This study evaluates the technical and financial conditions for achieving the elements necessary for connecting the applicants to the natural gas distribution system.
- By derogation from the provisions of Order 104/2015, in the situation where from the technical-economic study it appears that the financing deficit rate is less than or equal to 20%, the distribution operator fully bears the investment costs.
- For the period 2019-2023, it is estimated that approximately 350 km of pipelines will be built with financing from both own funds and with funding from applicants.
- Analyzing the increase of the number of delivery points (PDL) by 12,950 compared to the end of last year, as well as the increase of the density of customers on the network in March 2019 to 91 PDL / Km compared to 89 PDL / Km in the same period of the previous year, for the period 2019-2023 is estimated to install about 60,000 measurement devices / year to new customers.



**Figure no. 1.** Evolution of the number of delivery points (PDL)

Source: Processing after <https://www.distrigazsud-retele.ro/>

#### 4. Opportunity to use innovative technologies

Concerns regarding the use of innovative technologies are part of the development strategy of the main actors in the field of natural gas distribution. In this sense Distrigaz Sud Networks pay special attention to the activities that require interventions on the distribution network.

As an example, when a newly developed neighborhood needs to be supplied with natural gas or a pipeline needs to be replaced, the gas supply in that area should be stopped for the execution of the work. The innovative method used by Distrigaz Sud Networks, is based on the intervention with balloons and special equipment under gas pressure.

The technique is a know-how taken from the Engie Group, Distrigaz Sud Networks being the only company in Romania that uses it.

At the moment when the intervention is carried out on a large industrial consumer or when it is a whole residential area, any cessation of the natural gas supply can cause disturbances in their activity. Because balloon intervention implies continuity in feeding, these drawbacks are eliminated.

The technique involves establishing the area for which the intervention is required, computer simulation of the work in order to check the gas pressure and to identify the stations connected with the respective gas pipes, to perform the discovery, to identify the defect and to perform the by-pass. As the name suggests, the method is to make an alternate gas circuit through a special hose, during which the faulty pipe is fixed or replaced.

For the intervention, upstream and downstream of the defective pipe, there are two holes in which two special devices will be introduced. The first will be used for deflecting the gas, and the second for filling the pipeline by introducing balloons. During this entire execution interval, significantly reduced, the pressure is permanently monitored and diminished, if any.

This innovative technique has a major impact on the quality of the works performed by Distrigaz Sud Networks, but also on the satisfaction of the directly involved consumers.

The development on innovative principles of technologies in the field of natural gas distribution was the basic theme of the European meeting that took place between May 28

and 29, 2019 in Brasov. The European Association GD4S (Gas Distributors for Sustainability), has approached a topical theme with the title "Innovative Gas Solution for Municipalities". On this occasion, European funding programs were identified for municipalities to support the development of natural gas infrastructure, smart solutions in terms of energy efficiency and urban mobility.

The GD4S (Gas Distributors for Sustainability) association is founded by the DGSR together with GRDF (France), Nedgia (Spain), Galp Gás Natural Distribuição (Portugal) and Italgas (Italy) with the aim of promoting natural gas as the main resource in the Union European energy transition.

During the meetings generated by GD4S, it is stressed the importance of supporting the European authorities to increase the consumption of natural gas by expanding and modernizing distribution networks, stimulating urban mobility (based on GNCV technology), ensuring the security of gas supply in the European Union by enhancing deposits of the Black Sea.

### **5. Computer applications used in the activity Distrigaz Sud Networks**

From the perspective of information technology, within Distrigaz Sud Networks has been implemented over time an integrated computer system that ensures the acquisition, processing, storage, history, consistency and security of the data, in order to manage the activities and the operational processes and to provide services. quality, respecting the quality standards and the norms in force.

By implementing the integrated IT system, both the degree of access to the information relevant for substantiating within the organization the short, medium and long term decisions and the degree of technical-economic efficiency for the activities carried out by the company has been improved.

The architecture of the computer system currently comprises Software Applications, integration components, computing hardware and communications equipment and solutions to ensure data availability, security, compliance and confidentiality.

The management of resources within the company is carried out in the core system SAP ERP (Enterprise Resource Planning), respectively the IS-U solution specific to the domain of utilities.

List of modules used and their description within the SAP system:

- FI & CO for the management of financial-accounting and controlling activities
- SD for the management of sales and invoicing activities
- HR personnel management and payroll
- PM planning maintenance operational activity
- MM materials management
- PS management of investment projects
- WF management of workflows and automations within the system
- OP the integration component between systems
- BW Business Warehouse reporting component

The planning of resources (human, service providers, work equipment, materials, uses, and cars) associated with preventive, corrective maintenance activities (including emergency interventions), technical clientele (disconnection, reconnection, replacement of meters, commissioning) is carried out through the ABB Service Suite IT workforce planning application. By integration with the SAP system, the application allows the dispatching of work orders on mobile terminals to field technicians for execution (~ 800 mobile terminals). This ensures the following operational benefits:

- optimizing the planning process, streamlining resource management and increasing productivity;
- monitoring and traceability of activities;
- reducing the risks of industrial security, by allocating the appropriate competences in the operational activities;
- ensuring optimal response time for emergency interventions;
- increasing customer satisfaction through efficient scheduling of activities;
- Predictability by obtaining an efficient reporting tool.

## 6. Conclusion

Natural gas is one of Romania's main sources of primary energy. They have a wide use in the economic life, being an energy source used in all fields of activity.

Romania has the largest market for natural gas in Central Europe and was the first country to use natural gas for industrial purposes.

Companies in the field of natural gas distribution and in particular Distrigaz Sud Networks implement innovative integrated information systems that have the role of ensuring the acquisition, processing, storage, history, consistency and security of the data, in order to manage the operational activities and processes and to provide quality services to customers, respecting the quality standards and norms in force.

Following the study, the opportunity to maintain and continuously improve the technologies used is highlighted. In this way, both the degree of access to information relevant to the substantiation within the organization of short, medium and long term decisions and the degree of technical-economic efficiency for the activities carried out by the company increases.

In accordance with the provisions of the integrated management system, the systematic audit of the activity of the companies, can lead to the fulfillment of the conditions of satisfying the demands of the consumers.

Anticipating the evolution and development plan of the Distrigaz Sud Networks activity, the obligation to maintain an adequate level of quality and exploitation within the integrated computer system, the technological progress and technological progress of the aforementioned computer applications is absolutely necessary to make investments aimed at extending the functionalities and the existing capacity, digitization of processes and customer interaction, technical and functional upgrade of applications as well as periodic replacement of physically and morally used equipment.

## References:

1. Albu, M., 2015. Innovative integration of social responsibility in business strategy. *Annals of the „Constantin Brâncuși” University of Târgu Jiu, Economy Series*, Issue 6/2015, pp. 175-180. Academica Brâncuși Publisher.
2. Chisăliță, D. and Albu, M., 2008. Servicii condiționate/necondiționate pe piață gazelor naturale. *Revista Studii și cercetări de calcul economic și cibernetică economică*, ASE București, 42(1), pp. 167-174.
3. GD4S, 2019. *Gas Distributors for sustainability*. [online] Available at: <<https://gd4s.eu/>>.
4. Mușatescu, V., 2003. *Politici investiționale în domeniul energiei*. Bucharest: Editura Tribuna Economică.
5. National Energy Regulatory Authority, 2020. *Legislation*. [online] Available at: <<https://www.anre.ro/ro/gaze-naturale/legislatie/standarde-de-performanta/distributie>>.

6. National Energy Regulatory Authority, 2020. *Regulation on access to natural gas distribution systems*. [online] Available at: <<https://www.anre.ro/download>>.
7. Romanian Government, 2018. *Strategia energetică a României pentru perioada 2018 – 2030, cu orizont de timp 2050*. [online] Available at: <<http://energie.gov.ro/strategie-nationala/>>.

## PARTICULARITIES OF THE FORMATION AND DEVELOPMENT OF REGIONAL MARKETS OF LABOUR FORCE IN THE REPUBLIC OF MOLDOVA

**Associate Professor Researcher, Ph.D. Galina SAVELIEVA**

National Institute for Economic Research, Republic of Moldova

E-mail: savelievagalina@rambler.ru

**Scientific Researcher, Ph.D., Svetlana ZAHAROV**

National Institute for Economic Research, Republic of Moldova

E-mail: zaharov.svetlana@yahoo.co.uk

**Abstract:** This article presents the results of analysis of the particularities connected with the formation and development of national and regional labour markets of the Republic of Moldova. The research is based on statistical data on the number of the resident population and the population with usual residence, which reflects the real situation in the country, taking into account the population, that absence of more than a year. Evaluation of impact of demographic factors, including the population decline, the change in the age structure and demographic ageing, and migration processes, was given in the analysis of labour force market and the possibility of its reproduction. Economic factors have importance for the stable development of labour force market, including the state of production and social structures in regions, the development of different forms of property, the quality of professional training of labour force, as well as the level of remuneration or wage. As a result of a comparative analysis of the situation in the regional aspect, the main challenges of labour market were identified. The proposals to improve the socio-economic policies were developed, including to increasing of employment rate of working age population, reducing the regional differentiation of local labour markets, promoting new perspective forms of remuneration and, as a result, increasing the stability and sustainability of the above markets to exogenous and endogenous factors.

**Keywords:** demographic and economic factors, wage, quality of labour force, age structure, market of labour force, working age population.

**JEL Classification:** J21, J62, O18.

### 1. Introduction

The opportunities for stable development of labour market in the Republic of Moldova depend on the condition and characteristics of regional labour markets (by zones — mun Chisinau, North, Center and South), to evaluation which it is necessary to determine the main determinants of their equilibrium, contributing to the convergence of regional labour markets and adjustment of employment policies. The relevance (actuality) of this matter is connected to the need for evaluation opportunities and elaboration effective policies for the development of labour market in the Republic of Moldova that can respond to shocks of both endogenous and exogenous nature.

The functioning of labour market is affected by the number of factors, demographic (population decline, ageing), economic (demand and supply for labour force, the opportunity to ensure the reproduction of labour force at the expense of remuneration its real value) and structural (age and educational asymmetry of labour force structure) leading to a quantitative and qualitative change in labour force, its transformation.

### 2. Data and methodology

The research approach is based on Labour Statistic of National Bureau of Statistics of the Republic of Moldova for the period 2014-2018.

The research was performed on the comparative characteristic of both official statistics up to 2018, inclusively based on a database of resident population, and statistical data calculated on the basis of an indicator of the population with usual residence.

The following main areas in which the inequality factor takes place will be analyzed in connection with the analyse the heterogeneity of regional (zonal) labour markets:

- imbalances in the number of total labour force, inclusiv employed and unemployed population;
- assessment of labour force, employed and unemployed population by age groups, inequality in the level of employment of individual socio-economic groups in labour market;
- development of informal sector;
- imbalances in dynamics of educational structure of labour force;
- evaluation of wage;
- labor migration (migration flows).

The complex and systemic approaches were used in research, methods of scientific knowledge were also used, such as analysis and synthesis, the method of groupings, graphic images, comparative and system analysis.

### 3. Results

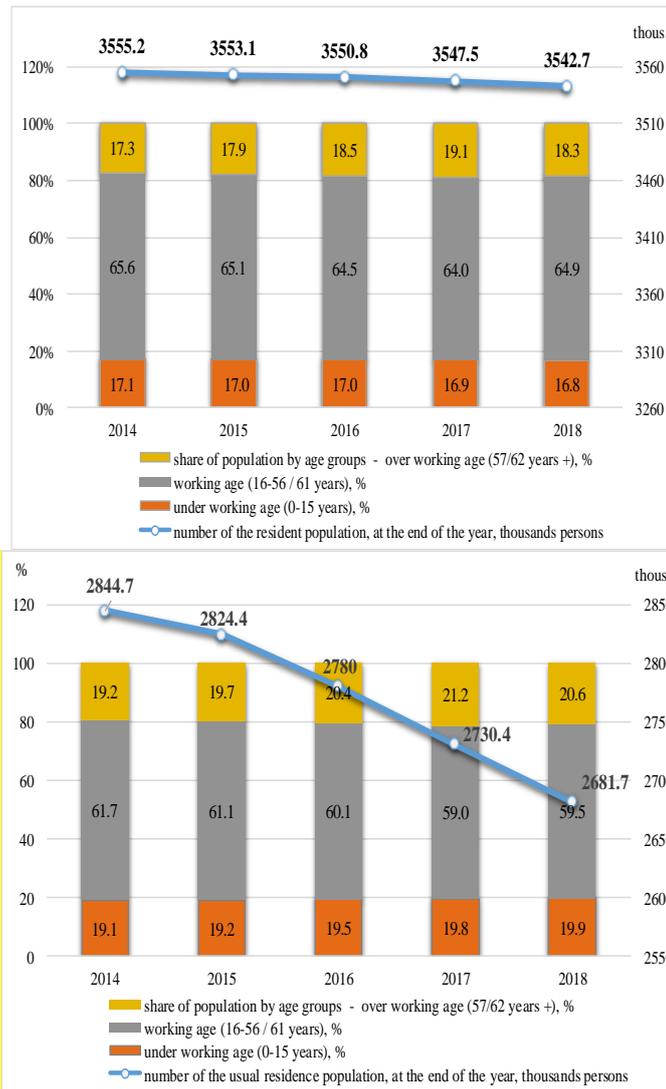
The evaluation of the unevenness development of regional labour markets would allow to more deeply understand the current asymmetries in labour market, determine the main factors and reasons for their existence, and also develop some proposals for socio-economic policies to reduce and prevention their impact in order to increase stability and competitiveness both national and local labour markets for the medium and long term.

### 4. The number of population

The basis of any labour market is human capital, country's working age population. In view of the above, the analysis will be logically built based on the evaluation of labour force potential, that is, the number of working-age population of the Republic of Moldova, which can constitute this potential (as the potential which should exist if the country's population were on its territory or resident population and the real population living at the moment in the country, excluding labour migrants). Such approach will make it possible to evaluate the future development of labour market and in terms of its age structure, subsequently the educational level. In Fig. no. 1 the absolute values and the share of population at working age (16-56 / 61 years) in the structure of the resident population and the usual residence population are presented. The tendency of population decline is reflected particularly evident, which is the consequence of ongoing demographic processes, which is one of main factors in decrease in absolute indicators of labour force. If *in the first case*, the letter **a**) there is a slight change in total number of registered resident population, what *in the second case*, the letter **b**) when evaluate the population with the usual place of residence, there is a sharp decline in population, as a consequence of demographic changes and, especially, migration processes. Simultaneously with the population decline, its structure is changing, namely, a reduction in the share of working-age population, as can be seen from the dynamics of both the resident population and the usual residence population. So, this indicator of the difference between the relative share of working-age population (labour force in participation age) was about 4-5 percentage points (p.p.).

a) resident population

b) usual residence population\*



\* Without the citizens who went abroad to work for a period of more than one year.

**Figure 1. Characteristics population at the end of the year, 2014-2018, thousand persons/% of total**

Source: elaborated by the authors on the basis of NBS RM data and authors' calculations, [www.statistica.md](http://www.statistica.md)

**5. The number of economically active, employed and unemployed population.**

Under the impact of various factors and processes, including: zonal unevenness of socio-economic development, demographic changes and migration flows, the effectiveness of regional management, the possibility of investing in the economy, the availability of human capital and the level of its professional development, changes are occurring that affect the homogeneity of regional labour markets. The above factors strengthen the process of differentiation of local labour markets at the regional level, lead to a deepening of the asymmetry of zonal employment, unemployment, the balance of demand and supply of labour force, etc. Taking into account that the labour market is derived from the economic state, any changes in this field are reflected in labour force market, and the development of different segments of employment, the emergence of new forms and types

of employment, new specialties and professions create their own *patterns of sustainability* of labour relations, including determine regional heterogeneity of labour markets and uneven development both at the macro level and at the level of zones (regions).

From analysis of economically active and employed population, it follows that in 2018, the main relative share in the formation of national labour market belongs to the **Northern zone**, respectively, 29.7% and 29.6%, according to data calculated on the basis of *resident population* and for employed population - 29.5 % Northern zone and 29.8% of the Central zone according to data calculated on the basis of *usual residence population*. Moreover, by 2018 the growth of total economically active population in the *first case* amounted to 104.7% (compared with 2014) and the employed population — 105.7%, respectively, compared to 2017, 102.5% and 103.7%, and in the *second case* these indicators were in 2018, compared with 2017, respectively, 101.8% and 102.9%. In this case, the difference from modified calculation methodology of these indicators was 20.6% in 2017 and 21.1% in 2018.

In general, it should be noted that the tendency both an increase and a decrease in the number of economically active and employed population in spite of the positive growth in number of economically active population in evaluation on the basis of the number of resident population<sup>1</sup> in local labour markets. In case of consideration of data for 2017-2018, there is the tendency for growth of both economically active and employed people, with the exception of mun. Chişinău - the decrease was, respectively, 2.6% and 1.7%. However, the decline in economically active and employed population by mun. Chişinău did not fully affect the growth in their total number, as it was offset by the an increase in their number in other zones (Savelieva G., Zaharov S. [1, p. 25]).

**Table 1. The number of economically active/employed population by zones, 2014-2018, thousand persons**

	Resident population					Usual residence population	
	2014	2015	2016	2017	2018	2017	2018
<b>Economically active population</b>							
<b>RM</b>	<b>1232,4</b>	<b>1265,6</b>	<b>1272,8</b>	<b>1259,1</b>	<b>1290,7</b> ↑	<b>999,7</b>	<b>1018,1</b>
<i>mun. Chişinău</i>	353,5	353,9	341,5	336,6	335,4↓	267,0	260,0
<i>North</i>	356,1	384,0	389,7	382,0	383,7↑	296,3	300,4
<i>Center</i>	321,5	329,1	344,1	338,6	364,9↑	278,7	298,8
<i>South</i>	201,3	198,7	197,5	201,9	206,7↑	157,8	159,0
<b>Employed population</b>							
<b>RM</b>	<b>1184,9</b>	<b>1203,6</b>	<b>1219,5</b>	<b>1207,5</b>	<b>1252,2</b>	<b>960,8</b>	<b>988,5</b>
<i>mun. Chişinău</i>	332,2	329,2	322,0	317,1	319,2↓	251,5	247,1
<i>North</i>	347,4	366,7	374,0	368,9	371,2↑	287,3	290,9
<i>Center</i>	311,3	315,8	329,6	324,9	359,3↑	268,4	294,7
<i>South</i>	193,9	192,0	194,0	196,6	202,5↑	153,6	155,8

Source: elaborated by the authors on the basis of NBS RM data, [www.statistica.md](http://www.statistica.md)

### Evaluation of unemployment

The formation of ILO unemployed population in the regional aspect is resulted from various factors, including structural transformations in the economy, deepening and development of market relations in all sectors areas of the national economy and other reasons of external and internal nature. So, for example, in 2015, recession and trade restrictions on agricultural exports from Russia, the crisis in Ukraine, growth of demand

<sup>1</sup> Further it is used “for the resident population” and “for the usual residence population”. Comment by the authors.

for domestic products in the EU, drought, problems in the banking system, etc. negatively affected on economic development. As a result, the growth in the number of unemployed amounted to 30.7% compared to 2014, including in the Northern zone - 2.02 times, in this case in the South of the country the number of unemployed on the contrary decreased by 7.2%.

In general, the number of unemployed tended to decrease by 2018, including, for example, a decrease in the Central zone constituted to 8.2 thousand persons or about 60%, mainly, the youth group of 15-24 years old (Table no. 3), as well as accordingly the number of migrants in this zone increased in 2018 (Table no. 5).

Despite the fact that mun. Chişinău is a key industrial and center of the country, in which the highest level of socio-economic and cultural development of the country, including employment opportunities in comparison with other zones, at the same time, that's why the municipality has the largest number of unemployed with lower number of employed compared to other country's zones - the share of unemployed mun. Chişinău has fluctuated between 36 and 45% of the total number of unemployed in the country, one of the reasons for this situation is the low level of wages.

With the transition to a new methodology for calculating labour market indicators, unemployment indicators calculated using data on the population with usual residence *have decreased significantly*, but the *existing asymmetry has remained*. So according to data for 2018 the absolute number of unemployed population amounted to 29.6 thousand persons, what is 8.8 thousand persons or 22.9% lower than the unemployed population (based on resident population).

The decrease in the number of unemployed has had an improvement in economic situation. So, despite the fact that in 2017 there was a dependence and vulnerability of economy of the Republic of Moldova from the influence of external factors, there were all signs of recovery in economy, including the increase in production volumes in industry and agricultural sector, investments in fixed capital, foreign trade, transportation, and the growth of real wages and remittances of labour migrants from abroad led to the increase in household incomes and, as a consequence, the increase in consumption. The 4.7% increase in Gross Domestic Product (GDP) was ensured by an increase in internal Gross Value Added (GVA) and product taxes. In 2018 GDP growth was 4.3%, or 0.4 pp lower than in 2017, at the same time, the availability of the good harvest in 2017 was positively influenced to the economic activity and, as a result, an increase in agricultural exports, an increase in investments, as well as the increase in household consumption by 3.8% compared to the previous year. The aforementioned factors caused to reduction of unemployment to 2.9%<sup>1</sup>.

**Table 2. The number of ILO unemployment population by zones, 2014-2018**

	Resident population					Usual residence population	
	2014	2015	2016	2017	2018	2017	2018
<b>The number of ILO unemployment population by zones</b>							
<b>RM, thousand person</b>	<b>47,5</b>	<b>62,1</b>	<b>53,3</b>	<b>51,6</b>	<b>38,4↓</b>	<b>38,9</b>	<b>29,6↓</b>
<i>mun. Chişinău</i>	21,3	24,7	19,5	19,5	16,1↓	15,5	12,9
<i>North</i>	8,6	17,4	15,7	13,1	12,5↓	8,9	9,4
<i>Center</i>	10,2	13,3	14,5	13,7	5,5↓	10,3	4,1
<i>South</i>	7,3	6,7	3,6	5,3	4,3↓	4,2	3,2
<b>The structure of unemployed by zones, % of total number of unemployed</b>							
<b>RM ( 100%)</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
<i>mun. Chişinău</i>	44,8	39,8	36,6	37,8	41,9	39,8	43,6

<sup>1</sup> 2.9% recalculated according to the new methodology, [www.statistica.md](http://www.statistica.md).

North	18,1	28,0	29,5	25,4	32,6	22,9	31,8
Center	21,5	21,4	27,2	26,6	14,3	26,5	13,9
South	15,6	10,8	6,7	10,2	11,2	10,8	10,7

Source: elaborated by the authors on the basis of NBS RM data and authors' calculations, [www.statistica.md](http://www.statistica.md)

Nevertheless, in mun. Chisinau, compared to regional labour markets, the relative share unemployed persons constitute to 39.8% in 2017 and 43.6% in 2018, despite the fact that, according to the data of the Municipal Employment Agency, the number of vacant work places have been over the number of unemployed (the number of unemployed registered since the beginning of 2018 was 2,919 persons), including 60.5% were job placed (on the end of the year the number of vacant work places was 16,300).<sup>1</sup> This situation takes place despite the fact, that more than 50% of the Gross Value Added (GDA) is produced in mun. Chişinău, in the key center of concentration of production, of main services (including of financial, IT) in comparison with other regions of the country. The analysis of the correlation between vacancies and unemployment based on the use of the **Beveridge Curve** in Fig. no.2 showed that despite the fact, that the national labour market and labour market mun. Chişinău are maintaining flexibility and aspiration for equilibrium (independently of the impact of external and internal factors), Beveridge Curve changes at the macro level and at the regional level (mun. Chişinău) have differences. So, the Beveridge Curve at the national level in response to the global financial crisis shows a reduction in unemployment, what at mun. Chişinău level the increase in unemployem takes place. The difference between the Beveridge Curve at the macro level and at the mun Chişinău level lies in the fact, that at the level of mun. Chisinau the Curve reflects the faster recovery in labour demand in labour market and in 2017-2018 years demand for labor exceeded the 2008 level, in contrast to the change in the Curve at the national level.

<sup>1</sup> National Employment Agency of Moldova, [www.anofm.gov.md](http://www.anofm.gov.md).

a). RM

b). mun. Chişinău

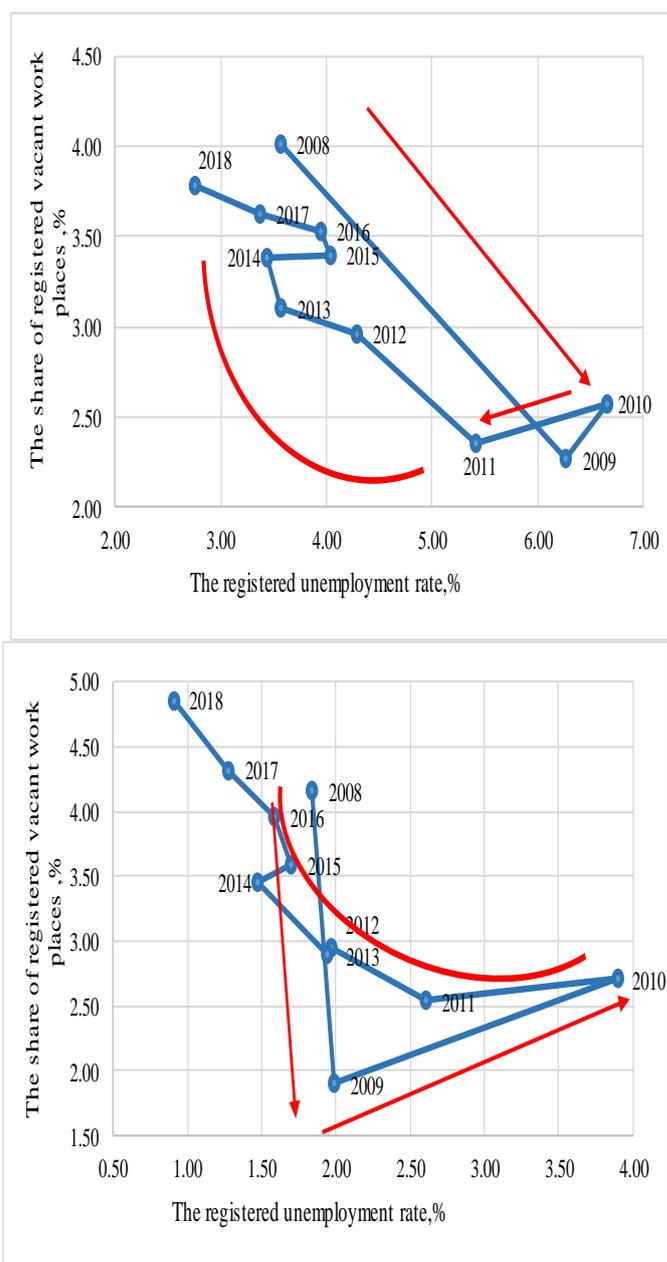


Figure 2. Beveridge Curve, 2008-2018

Source: authors' calculations based on NBS data and NEA data, [www.statistica.md](http://www.statistica.md), [www.anofm.md](http://www.anofm.md)

## 6. Analysis of the dynamics in age structure of economically active and unemployed population

Evaluation of changes in age structure of economically active and employed population by principal age groups gives reason to confirm, that they usually coincide. For comparison and the most probable estimation of the real potential of labour force, the analysis was based on the use of the resident population and the population with usual residence.

The difference in age structure of economically active and employed population is that the vector of changes at the national level (macro-level, +/-), representing the total number of economically active/employed population across the country, may or may not

coincide with changes at the level of defined zone (meso-level). So in 2018, compared with 2014, the share of the youth age group of 15-24 years old decreased by 1.4 percentage points in the whole country at the expense of its decrease in the Northern, Central and Southern zones (respectively -1.5 p.p., -2.2 p.p. and -1.8 p.p.), but in mun. Chişinău the relative share of this group has not practically changed compared to the 2014 level. (Table no.3, resident population). That situation may be a consequence of more favorable opportunities for training(education) and job placement of youth in mun. Chişinău. During the period under consideration the relative share of the 25-34 age group decreased, but an increase in its share is observed only in the Northern zone. In the matter of the increase in relative share of the 35-44 age group, it can be seen from the analysis, it is provided due to mun. Chişinău and the South zone. In the age group of 45-54 years significant zonal asymmetry is not observed. At the same time, can be noted the increase in relative share of older age groups (55-64 and 65 years and over) in almost all zones of the country, with the exception of mun. Chişinău.

At the same time, it is necessary to noted that as a result of demographic processes (mortality, ageing), the structure of working age population by age groups changes, which in turn promotes to strengthen the processes of labour mobility, including by type of economic activity: liberating working age population of older age groups in the course of structural reforms goes into those types of economic activity that are less in demand by younger age groups: in agriculture and the service sector, self-employed, various types of creative works(art) and crafts (Zaharov S. [1]). Moreover, it can be noted that the employment structure by type of economic activity in mun. Chişinău differs significantly from other zones in which economic activity in agriculture, forestry and fisheries predominates (Savelieva G., Zaharov S. [1, Table no. 2, p. 28]).

**Table 3. Characteristics of main indicators of economic activity and unemployment in the regional aspect, by age groups<sup>1</sup>**

	Economically active population							ILO Unemployment population						
	Age groups, years							Age groups, years						
	Total	15-24	25-34	35-44	45-54	55-64	65+	Total	15-24	25-34	35-44	45-54	55-64	65+
<b>RM - total</b>														
2014*	100,0	8,5	25,7	23,9	24,4	15,0	2,5	100,0	21,7	30,9	24,6	16,4	6,4	-
2018*	100,0	7,1↓	24,7↓	24,3↑	21,3↓	17,5	5,1	100,0	17,6↓	34,3↑	18,4↓	17,7	11,5↑	0,5
2018**	100,0	7,1	22,6	22,8	22,3	19,1	6,1	100,0	17,2	33,3	17,9	18,8	12,1	0,7
<b>Mun. Chisinau</b>														
2014*	100,0	9,0	34,6	23,4	19,3	12,3	1,4	100,0	15,0	32,9	28,6	15,0	8,5	-
2018*	100,0	8,8	30,9↓	27,0↑	18,2↓	12,8	2,3	100,0	17,4↑	31,7	14,9↓	21,7↑	13,7↑	0,6
2018**	100,0	8,8	30,0	25,8	19,2	13,7	2,5	100,0	17,1	30,2	14,7	21,7	14,7	1,6
<b>North</b>														
2014*	100,0	8,6	21,3	24,6	25,4	15,5	4,6	100,0	24,4	26,7	27,9	18,6	2,4	-
2018*	100,0	7,1	24,4	22,4	21,9	17,	6,4	100,0	21,6	33,6	20,8	12,8	11,2	-

<sup>1</sup> For comparability the data from the Labour Force Survey (LFS) were presented based on the data calculated from the resident population for 2014 and 2018. Given that starting with 2019, the Labour Force Survey was conducted according to a new survey plan and according to of the revised definition of employment, based on the estimation of the research results based on the number of the population with the usual residence, the data for 2018 are interpreted in the mentioned context.

		↓	↑	↓	↓	8			↓	↑	↓	↓	↑	
2018**	100,0	7,2	21,5	20,6	22,9	19,7	8,1	100,0	20,2	34,0	20,2	14,9	10,7	-
<b>Center</b>														
2014*	100,0	8,4	22,9	24,5	27,3	15,4	1,5	100,0	31,4	30,4	18,6	15,7	3,9	-
2018*	100,0	6,2 ↓	21,5 ↓	23,9 ↓	23,1 ↓	18,9	6,4	100,0	14,5 ↓	32,7 ↑	25,5 ↑	20,0 ↑	7,3↑	-
2018**	100,0	6,1	19,3	22,6	24,1	20,5	7,4	100,0	14,6	31,7	24,4	19,5	9,8	-
<b>South</b>														
2014*	100,0	7,7	22,3	22,4	26,8	18,1	2,7	100,0	24,7	30,1	17,8	19,2	8,2	-
2018*	100,0	5,9 ↓	20,9 ↓	24,1 ↑	21,9 ↓	21,9	5,3	100,0	11,6 ↓	51,2 ↑	14,0 ↓	14,0 ↓	9,2	-
2018**	100,0	5,7	18,7	22,4	22,7	24,1	6,4	100,0	12,5	46,9	15,6	15,6	9,4	-
* In estimating the research results, the number of the resident population was used;														
** In estimating the research results, the number of the population with the usual residence was used.														

\* for comparability the data from the Labour Force Survey (LFS) were presented based on the data calculated from the resident population for 2014 and 2018. Given that starting with 2019, the Labour Force Survey was conducted according to a new survey plan and according to of the revised definition of employment, based on the estimation of the research results based on the number of the population with the usual residence, the data for 2018 are interpreted in the mentioned context.

Source: authors' calculations on the basis of NBS RM data, [www.statistica.md](http://www.statistica.md)

The deviation between the indicators of the relative share of principal age groups in the structure of economically active and employed population, calculated on the basis of data on resident population or the population with the usual residence, constitute to  $\pm 2.3$  p.p. Moreover, the share both the economically active and the employed population in the age structure of workers of *older age groups* (55-64 and 65 years of age and over) increases.

Inequality of zonal labour markets is also reflected in different numbers of age groups with the highest rates of population economic activity (Table no. 4). So the South zone has only two age groups with the highest activity of 35-44 and 45-54 years, because the remaining age groups have lower economic activity of population compared to other zones. For mun. Chişinău is characterized by a higher rate of economic activity of youth group of 15-24 years compared to other zones, as a consequence of the availability of more opportunities for youth job placement. The indicator of economic activity for the age group 55-64 years in mun. Chişinău practically is equal both for the resident population and for the population with the usual residence, which also indicates the presence of favorable conditions for the participation of this age group in labour market in mun. Chişinău.

**Table 4. Economic activity rate by age groups and zones, 2018, %**

Age groups	Economic activity rate									
	Resident population					Usual residence population				
	RM	mun. Chişinău	North	Center	South	RM	mun. Chişinău	North	Center	South
<b>Total</b>	43,3	48,6	44,3	42,9	35,8	45,9	49,8	48,3	45,1	38,4
<b>15-24</b>	20,8	<b>31,4</b>	21,1	17,6	13,9	22,5	<b>33,1</b>	24,0	18,3	15,1
<b>25-34</b>	<b>47,4</b>	<b>57,8</b>	<b>48,7</b>	<b>45,0</b>	34,0	<b>52,5</b>	<b>62,0</b>	<b>54,4</b>	<b>49,5</b>	38,7
<b>35-44</b>	<b>58,3</b>	<b>69,2</b>	<b>57,3</b>	<b>56,8</b>	<b>48,1</b>	<b>63,2</b>	<b>72,7</b>	<b>63,6</b>	<b>60,9</b>	<b>53,2</b>
<b>45-54</b>	<b>61,7</b>	<b>69,3</b>	<b>61,4</b>	<b>59,9</b>	<b>57,0</b>	<b>66,4</b>	<b>74,0</b>	<b>67,5</b>	<b>64,3</b>	<b>59,9</b>
<b>55-64</b>	<b>47,6</b>	44,6	<b>52,2</b>	<b>47,6</b>	44,4	<b>49,4</b>	44,8	<b>55,5</b>	<b>49,1</b>	46,4
<b>65 and over</b>	16,1	7,4	19,6	21,7	14,1	17,5	7,3	22,6	22,5	15,1

Source: elaborated by the authors on the basis of NBS RM data, [www.statistica.md](http://www.statistica.md)

The significant reasons for the existence of inequality in the age structure of the unemployed aren't observed at the time of general reduction in the number of unemployed, calculated on the basis of both the resident population and the population with the usual residence (Table no. 2, Table no. 3). At the same time, some differences in comparison with other territories in the age structure of unemployed take place in the Center zone (resident population). Significant reduction in the share of the age group 15-24 years from 2014 to 2018 by 16.9 p.p. changed the age structure of the unemployed population of this zone, signs of asymmetry can be noted practically in almost all age groups (except for 15-24 years) in this zone. It is also noted the sharp increase in the share of the age group 25-34 years of the South zone in 2018 up to 51.2% (resident population, Table no. 3).

## 7. The educational structure of the labour force

Analysis of labour force by education level is an important step in evaluation its stability and competitiveness. Considering that local labour markets are components of the national market and they form it as a whole, therefore, evaluation their quality by education level is especially important.

In evaluating the quality of labour market as a whole, it can be noted that most of labour force and the employed population have professional education (according to results of research in 2018, it was identified that 60% of labour force has a professional education Savelieva G., Zaharov S. [2]). Moreover, the highest relative share of workers with professional education is concentrated in the age groups of 45-54 and 55-64 years. Also in this context, it can note a tendency to increase the share of working population with higher education, which, in turn, has largest of economic activity and employment rates. Analysis of the education level of labour force by individual age groups show, that the largest relative share of workers in the age groups of 25-34 and 35-44 years has higher education (in 2018, 36.8% and 29.4% for the resident population and 34, 8% and 28.4% for the usual residence population). At the same time, analysis the unemployment rate of various categories of workers hasn't identified any particular differences depending on education. [Zaharov S. 7, p. 55-56]

In 2018, the largest share of economically active population with higher education takes place in the mun. Chişinău (47.2%): 159.4 thousand persons. economically active population calculated on the basis of the resident population and 122.7 thousand persons economically active population calculated on the basis of the usual residence population have higher education, respectively, 47.5% of labour force and 47.2%. Vocational and secondary specialized education is characteristic of the Central zone (40.2%) and the Northern zone of the country (35.1%). Gymnasium graduates have a rather high relative share in the Northern zone — 29.2% of economically active population of this zone. At the same time, the Southern zone has the highest relative share of economically active population without education - 1.3% (Table no. 5). The above-mentioned differentiation in the education level of economically active population is reflected both the quality of local markets and the national one, reducing its stability and competitiveness. In large part, the existing situation is the consequence of socio-economic infrastructure, its changes during implementation of structural reforms and other transformations (Savelieva G., Zaharov S. [1, p. 28]). However, during the development of perspective programs for socio-economic development of territories, education and training, retraining should be determined as *one of the priority tasks*.

**Table 5. The educational structure of the economically active population by zones, 2018, thousand persons/%**

	Resident population					Usual residence population				
	RM	mun. Chişinău	North	Center	South	RM	mun. Chişinău	North	Center	South
Total	<b>1290,7</b>	<b>335,4</b>	<b>383,7</b>	<b>364,9</b>	<b>206,7</b>	<b>1018,2</b>	<b>260,0</b>	<b>300,4</b>	<b>298,8</b>	<b>159,0</b>
Higher	<b>312,8</b>	159,4	66,3	52,7	34,5	<b>230,9</b>	122,7	44,6	39,4	24,2
Secondary special	<b>167,0</b>	46,9	50,5	41,5	28,1	<b>133,1</b>	37,1	39,4	34,6	21,9
Primary (secondary) vocational education	<b>295,7</b>	54,0	85,7	100,5	55,6	<b>237,3</b>	42,2	66,0	85,4	43,8
Lyceum, general secondary	<b>241,0</b>	53,2	75,2	68,8	43,7	<b>193,0</b>	41,3	60,3	56,9	34,4
Gymnasium	<b>266,3</b>	21,7	103,2	99,1	42,3	<b>217,5</b>	16,5	87,5	80,7	32,7
Primary school or without	<b>7,9</b>	0,2	2,8	2,2	2,6	<b>6,4</b>	0,2	2,4	1,8	2,0
<b>In % of total</b>										
Total	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
Higher	<b>24,2</b>	47,5	17,3	14,4	16,7	<b>22,7</b>	47,2	14,8	13,2	15,2
Secondary special	<b>12,9</b>	13,9	13,2	11,4	13,6	<b>13,1</b>	14,3	13,1	11,6	13,8
Primary (secondary) vocational education	<b>22,9</b>	16,1	22,3	27,5	26,7	<b>23,3</b>	16,2	22,0	28,6	27,5
Lyceum, general secondary	<b>18,7</b>	15,9	19,6	18,9	21,1	<b>18,9</b>	15,9	20,1	19,0	21,6
Gymnasium	<b>20,6</b>	6,5	26,9	27,2	20,5	<b>21,4</b>	6,3	29,2	27,0	20,6
Primary school or without	<b>0,7</b>	0,1	0,7	0,6	1,4	<b>0,6</b>	0,1	0,8	0,6	1,3

Source: elaborated by the authors on the basis of NBS RM data and authors' calculations, [www.statistica.md](http://www.statistica.md)

## 8. Evaluation of wages

The transformation of the socio-economic regional infrastructure, structural transformations of the economy, the development and deepening of market relations, including the formation of a predominant share of private property and the liberalization of labour relations have led to the decrease in the state role in wage regulation. At the present time, wage in the Republic of Moldova does not cover the cost of labour force and have practically lost their principal functions such as stimulating, reproductive and economic regulation. The predominant share of working age population is occupied by the agricultural sector (39.3% in 2018)<sup>1</sup> which is the main one for the regions, including the Northern zone (48.9%), the Central zone (47.6%) and the South (45.9%)<sup>2</sup>.

At the same time, the labour in the above sector is not highly qualified, therefore the level of wages in it is also the lowest compared to other types of economic activity: in 2018, for example, with the average wage in the Republic of Moldova of 6268.0 lei, in sectors agriculture, forestry and fisheries, its size constituted to 4188.7 lei or 66.8% of the average for the country, including in agriculture, hunting and related services - 4088.4 lei or 65.2% of the average for the country. The level of remuneration at public and private property enterprises is different: in 2018 the wages of workers employed at enterprises and organizations with public property amounted to 6313.4 lei, and from private - 6 233.4 lei or

<sup>1</sup> Authors' calculations on the basis of NBS RM data, [https://statbank.statistica.md/pxweb/pxweb/ro/30%20Statistica%20sociala/30%20Statistica%20sociala\\_\\_03%20FM\\_\\_03%20MUN2019\\_\\_MUN020/MUN120200.px/table/tableViewLayout1/?rxid=b2ff27d7-0b96-43c9-934b-42e1a2a9a774](https://statbank.statistica.md/pxweb/pxweb/ro/30%20Statistica%20sociala/30%20Statistica%20sociala__03%20FM__03%20MUN2019__MUN020/MUN120200.px/table/tableViewLayout1/?rxid=b2ff27d7-0b96-43c9-934b-42e1a2a9a774).

<sup>2</sup> Authors' calculations on the basis of NBS RM data, <https://statistica.gov.md/pageview.php?l=ro&idc=350&id=4290>.

1.3% lower<sup>1</sup>. Consequently, the existing socio-economic infrastructure, type of economic activity, form of property, professional status of a worker to one degree or another affect to the level of wages and its differentiation in individual zones. The difference in the level of remuneration of employed population by zones compared with the average republican level for a five-year period, 2014-2018, had been reflected in Table no. 6.

**Table 6. Comparative characteristics of wages in the regional aspect<sup>2</sup>**

	Average monthly wage - brut, lei					The ratio of the regional wage to the average wage in the country, %				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
<b>RM</b>	<b>4089,7</b>	<b>4538,4</b>	<b>4997,8</b>	<b>5587,4</b>	<b>6268,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
<i>mun. Chişinău</i>	4827,0	5375,3	5951,5	6716,4	7490,0	118,0	118,4	119,1	120,2	119,3
<i>North</i>	3522,1	3871,0	4211,9	4665,2	5259,5	86,2	85,3	84,3	83,5	80,8
<i>Center</i>	3334,7	3719,5	4061,8	4522,3	5084,0	81,5	82,0	81,3	80,9	77,7
<i>South</i>	3183,5	3527,3	3881,6	4257,0	4814,7	77,8	77,7	77,7	74,4	73

Source: elaborated by the authors on the basis of NBS RM data and authors' calculations, [www.statistica.md](http://www.statistica.md)

As follows from the analysis, the lowest level of wages is characteristic for the Southern zone of the country. In principle, summarizing the results of the analysis, the following can be noted.

The growth of wages (up to 325 euros in 2018) made it possible for the Republic of Moldova to compare its average level with countries such as Armenia and Georgia. However, according to estimates of foreign experts the level of wages (brut) of the Republic of Moldova in 2018 remains 44% lower than a country in the European Union such as Bulgaria (580 euros), as well as Serbia (580 euros), Northern Macedonia (579 euros), and compared to Romania (965 euros), it less than 50%, three times less than in Poland (1,134 euros)<sup>3</sup>. Naturally, the current situation forces the working age population to search for possible ways to improve the material well-being of the family and, as one of the solutions, is labour migration.

## 9. Labour migration

One of the unfavorable factors for ensuring the stability of the development of labour force market is the low level of economic activity of population. Despite the decrease in the absolute values of economically inactive population by 7.4% in 2018, compared to 2016, the economic inactivity rate remains at the level of more than 50%, including in 2016 - 55.2%, 2017 — 55.9%, in 2018 - 54.1%. The main reasons for this situation are demographic changes, including a population decline, in particular a change in age and sex structure, ageing and migration processes. Evaluating the motives of existing situation, it can affirm, that the main relative share in this category of population is the category of pensioners (48.5% in 2018 as a result of demographic population ageing), in second place is the population in the process of study, vocational training (17.0%) and the category of labour migrants occupied the third place (13.9%). Moreover, if in 2016-2017 the share of migrants from rural was more significant (58.9% and 61.7%, respectively), then in 2018

1

NBS

RM,

[https://statbank.statistica.md/pxweb/pxweb/ro/30%20Statistica%20sociala/30%20Statistica%20sociala\\_03%20FM\\_SAL010\\_serii%20anuale/SAL010200.px/table/tableViewLayout1/?rxid=5aad211e-2f63-43c6-9796-f49f4cefe6cf](https://statbank.statistica.md/pxweb/pxweb/ro/30%20Statistica%20sociala/30%20Statistica%20sociala_03%20FM_SAL010_serii%20anuale/SAL010200.px/table/tableViewLayout1/?rxid=5aad211e-2f63-43c6-9796-f49f4cefe6cf).

<sup>2</sup> The calculation is based on the data on the average monthly wage - brut.

<sup>3</sup> Spatari M., GugaŞ. Situaţia salariatilor din Republica Moldova: o criză structurală. Friedrich Ebert Stiftung, Syndex Romania, 2019, p. 31-32.

the labour migration from urban increased from 41.1% in 2016. up to 48.2% in 2018 (in 2018, labour migrants from rural constituted for 51.8%). By gender, among migrants, male migrants constitute for a larger share (in 2016 - 67.6%, in 2017 - 66.6% and in 2018 - 62.3%), although there is a tendency to increase in the composition of women migrants. Considering the fact, that the economic factor takes place at the basis of labour migration (the possibility of job placement, conditions and regime of employment, wage size), uneven of socio-economic development, the absence of both production and socio-cultural infrastructure in the territories destabilize local markets labour force, which in turn is manifested in the differentiation of basic indicators, including those connected to labour mobility, its internal and external migration.

Analysis of labour migration flows had shown, that the largest relative share of labour migrants is constituted the working age population of the Central zone (40.3%) and the Southern zone (27.9%) in the total number of labour migrants, in this case the labour migration from the mun. Chişinău is also increasing (9,7%). Table no. 7 presents the characteristics of labour migrants (calculated on the basis of the resident population and the usual residence population), however, in the first and second cases, it can be noted that in 2018 the labour migration flows *have increased*.

**Table 7. The dynamics of labour migration by main zones, 2014-2018**

	Thousand persons						In % of total <sup>1</sup>							
	Resident population*					Usual residence population**		Resident population*					Usual residence population**	
	2014	2015	2016	2017	2018	2017	2018	2014	2015	2016	2017	2018	2017	2018
<b>RM</b>	<b>341,9</b>	<b>325,4</b>	<b>319,0</b>	<b>318,4</b>	<b>352,7</b>	<b>140,6</b>	<b>147,4</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
<i>mun. Chişinău</i>	32,3	33,5	31,1	36,5	44,8	13,5	14,3	9,5	10,3	9,8	11,5	12,7	9,6	9,7
<i>North</i>	101,3	97,6	86,9	82,9	97,2	29,1	32,6	29,6	30,0	27,2	26,0	27,6	20,7	22,1
<i>Center</i>	113,8	100,5	103,1	112,1	118,2	58,2	59,4	33,3	30,9	32,3	35,2	33,5	41,4	40,3
<i>South</i>	94,5	93,9	97,9	87,0	92,5	39,9	41,2	27,6	28,8	30,7	27,3	26,2	28,3	27,9

<sup>1</sup> authors' calculations

\* the number of citizens who left for work or in search of work abroad;

\*\* went to work abroad for a period of more than one year.

Source: elaborated by the authors on the basis of NBS RM data and authors' calculations, [www.statistica.md](http://www.statistica.md)

Evaluation of labour migrants by age structure shows to conclude, that the *predominant age group* is 25-34 years old practically in all zones of the country, that is, the most perspective and fertile group in labour market (the interval by zones is from 34 to 44% of total migrants). At the same time, the decrease in relative share of older age groups, including the age group of 45-54 years, can be noted. In mun. Chişinău in comparison with both the national average and zonal indicators, *lower involvement* in labour migration is noted in the age group of 15-24 years.

**Table 8. The structure of labour migrants by main age groups in regional aspect, 2018, % of total**

Age groups	Resident population					Usual residence population				
	RM	mun. Chişinău	North	Center	South	RM	mun. Chişinău	North	Center	South
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
<b>15-24</b>	<b>15,4</b>	9,1	16,4	15,8	16,8	<b>18,9</b>	12,0	19,9	19,2	19,9
<b>25-34</b>	<b>38,6</b>	42,1	33,8	38,2	42,5	<b>38,3</b>	44,2	33,5	37,7	41,0
<b>35-44</b>	<b>24,2</b>	24,1	24,4	23,9	24,5	<b>23,5</b>	24,7	22,1	24,3	23,1
<b>45-54</b>	<b>15,7</b>	17,6	19,2	15,9	10,7	<b>14,4</b>	13,4	19,3	14,2	11,2
<b>55-64</b>	<b>6,0</b>	6,9	6,1	6,0	5,4	<b>4,8</b>	5,7	4,9	4,6	4,8
<b>65 and over</b>	<b>0,2</b>	0,2	0,1	0,2	0,1	<b>0,1</b>	0,0	0,3	0,0	-

Source: authors' calculations on the basis of NBS RM data, [www.statistica.md](http://www.statistica.md)

Further, the analysis of the ratio of the number of labour migrants per 100 people of labour force had shown, that there are problems of *high labour migration* working age population in the South zone.

**Table 9. The number of labour migrants per 100 persons of labour force\* by zones, 2014-2018**

Labour Force	Resident population					Usual residence population	
	2014	2015	2016	2017	2018	2017	2018
<b>RM</b>	27,7	25,7	25,1	25,3	27,3	14,1	14,5
<i>mun. Chişinău</i>	9,1	9,5	9,1	10,8	13,4	5,1	5,5
<i>North</i>	28,4	25,4	22,3	21,7	25,3	9,8	10,9
<i>Center</i>	35,4	30,5	30,0	33,1	32,4	20,9	19,9
<i>South</i>	46,9	47,3	49,6	43,1	44,8	25,3	25,9

\* The ratio between the number of labour migrants per 100 persons of the economically active population.

Source: authors' calculations on the basis of NBS RM data, [www.statistica.md](http://www.statistica.md)

## 10. Informal employment

As noted earlier, a distinctive particularity of the Republic of Moldova's labour market was the low level of registered unemployment or less than 2%. However, the analysis of the actual situation suggests that this indicator does not reflect the real situation in the field of employment of labour force and, on the contrary, is often the result of hidden unemployment and imperfections of accounting of statistical data, including that it is calculated on the basis of the number of addressed population for job placement in public employment services. However, taking into account that these services are not able to provide the job placement for addressed workers, they are often job placed themselves, including in the informal sector, given the possibility of obtaining additional “into an envelope” wages or on the basis of self-employment. This fact is confirmed by the data of the Labour Force Survey (LFS) of the National Bureau of Statistics (NBS). So, according to the NBS, in 2018, informal employment constituted to 38.5% of total employment (calculation based on the resident population) and 39.7% based on the population with usual residence, that is a consequence of both structural transformations in national economy and implemented measures to optimize organizations of social and managerial structures at the national and local levels. Changes in ratio between formal and informal employment are presented in Table no. 10.

**Table 10. Distribution of employed population, formal and informal sectors, 2014-2018**

Employed population	Resident population, thousand persons					Usual residence population, thousand persons		Resident population <sup>1</sup> , %					Usual residence population <sup>1</sup> , %	
	2014	2015	2016	2017	2018	2017	2018	2014	2015	2016	2017	2018	2017	2018
<b>Total</b>	<b>1184,9</b>	<b>1203,6</b>	<b>1219,5</b>	<b>1207,5</b>	<b>1252,2</b>	<b>960,8</b>	<b>988,5</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
<i>Formal sector (formal work place)</i>	799,4	785,2	776,2	788,6	769,9	605,3	595,9	67,5	65,2	63,6	65,3	61,5	63,0	60,3
<i>Informal sector (informal work place)</i>	385,5	418,4	443,3	418,9	482,3	355,5	392,6	32,5	34,8	36,4	34,7	38,5	37,0	39,7

<sup>1</sup> authors' calculations

Source: elaborated by the authors on the basis of NBS RM data and authors' calculations, [www.statistica.md](http://www.statistica.md)

Analyzing informal employment by type (sector) of economic activity, it can be noted, that the situation is complex: the most favorable for the development of this form is the agriculture and construction sector, in which it constitute to 82.9% and 61.5 in 2018, respectively. These types of economic activities are traditionally predisposed to the above phenomenon already because, that in agriculture, which is not specially competitive and specific for rural, the predominant role of informal sector is connected with the form of labour organization based on employment of household members, who mainly produce products for own consumption, while in the construction sector the share of informal jobs has increased and this sector is connected with work in urban. Moreover, the share of employed population in these sectors is different, and taking into account the shortage of labour force in recent years, the need to attracting and exploiting investments for the country's economic development. This sector should be closely monitored by the state. At the same time, in the trade sector, hotel and restaurant activities (HoReCa), there is a tendency to decrease the share of the informal sector.

**Table 11. Informal employment by economic activity sectors, % of total employment**

	Total RM	Agriculture, hunting economy, fish farming	Industry	Construction	Wholesale and retail trade, hotels, restaurants	Transport and communications	Public administration, education, health and social assistance	Other activities
<b>2014*</b>	32,5	77,9	6,2	60,2	15,7	11,8	0,3	13,2
<b>2015*</b>	34,8	82,4	5,8	62,8	15,4	11,5	0,5	14,2
<b>2016*</b>	36,4	82,4	6,4	58,9	15,9	14,2	0,6	15,5
<b>2017*</b>	34,7	82,3	5,2	60,1	14,9	9,5	0,3	17,3
<b>2018*</b>	38,5	85,3	4,8	62,5	13,3	9,9	0,6	18,8
<b>2016**</b>	38,3	82,3	6,4	58,6	16,0	14,4	0,6	15,8
<b>2017**</b>	37,0	82,5	5,8	59,7	15,3	9,4	0,3	17,3
<b>2018**</b>	39,7	82,9	4,8	61,5	12,8	8,8	0,6	18,4

\* In estimating the research results, the number of the resident population was used<sup>1</sup>

\*\* In estimating the results of the research, the number of the population with usual residence was used, calculated by the authors, [www.statistica.gov.md](http://www.statistica.gov.md).

Source: authors' calculations on the basis of NBS RM data, [www.statistica.md](http://www.statistica.md)

<sup>1</sup> Spatari M., Guga Ş. Situația salariaților din Republica Moldova: o criză structurală. , Friedrich Ebert Stiftung, Syndex Romania, 2019, p. 24.

The largest share of informally employed population is concentrated in the youth group of 15-24 years old and 65+ years old, however, the employment rate in these age groups is low (Zaharov S. [4]).

## 11. Conclusions

Complex and systematic methodological approaches, as well as analytical, comparisons, synthesis, graphical and other methods used in research to evaluation the correlation of the socio-economic development of the country and its regions with the employment of working age population based on the use of statistical data about the population and labour force survey and households made it possible to formulate a number of main conclusions about the interdependence and impact of demographic and transformational changes in economy, including in labour force market. As a rule, any of the above changes lead to labour mobility by type of economic activity, in the territorial aspect, in employment rate, and there is also a change in the real earnings of employed population. The change in forms of property is played an important role in these processes, the predominant share of private capital is not a guarantee of the development of production and social infrastructure and the creation of new work places, and the existence of external and internal factors, political instability and vulnerability of the Republic of Moldova from them, is reflected both on the stability of socio-economic development of the country and its regions, and the situation and development of labour force market. Estimation of economically active and employed population in 2018 showed that the main relative share in formation of national labour market belongs to the Central zone or 29.8% and the Northern zone or 29.5%. Despite the positive growth in the number of economically active population as a whole throughout the country, there are tendencies of growth as well as a decrease in the number of economically active and employed population in the local labour markets.

An important step in evaluation its stability and competitiveness of labour market is the analysis of the labour force by level of education. The main relative share of employed population has professional education (60% of labour force in 2018 had a professional education), including this situation is typical for age groups 45-54 and 55-64 years old. In the age groups of 25-34 and 35-44 years old, the highest relative share of workers has higher education (34.8% and 28.4%, respectively).

An important element of labour force market is wage. The transformation of the socio-economic regional infrastructure, the development of market relations, the change in forms of property, the liberalization of labour relations have led to a decrease in the role of the state in wage regulation. At the present time, wage in the Republic of Moldova do not cover the cost of labour force and have practically lost their basic functions such as stimulating, reproductive and economic regulation. The predominant share of working-age population is occupied by the agricultural sector (39.3% in 2018), in which the lowest level of wage is registered: in 2018, the average wage in the sectors of agriculture, forestry and fisheries is 66.8% of the national average, in including in agriculture, hunting and related services –65.2% of the national average. The level of remuneration at enterprises and organizations of public and private property is different (in 2018, the wage of workers employed at enterprises and organizations with private property were 1.3% lower than with public property). The existence of a socio-economic infrastructure in the region, the forms of property, professional status of workers to one degree or another affect the level of wage and its differentiation in individual zones.

The economic factor, including the possibility of job placement (conditions and regime of employment, wage), unevenness socio-economic development, absence both production and socio-cultural infrastructure in the territories leads to destabilization of

local labour markets, which in turn is reflected in the differentiation of principal indicators, including those connected with labour mobility, its internal and external migration. The analysis of labour migration flows shows, that the working age population of the Central zone (40.3%) and the Southern zone (27.9%) constitute the largest relative share of labour migrants in the total number of labour migrants, in this case labour migration from mun. Chişinău is increasing (9.7%).

In addition to the above-mentioned factors, informal employment influences the formation and stable development of labour market, its competitiveness. According to the NBS date, in 2018, informal employment constituted to 39.7% of total employment as a consequence of structural changes in national economy and implemented measures to optimize budget organizations at the national and local levels. The largest relative share of informal employment is in the sector of agriculture and construction, accordingly, 82.9% and 61.5% in 2018. Moreover, this form for agriculture is more specific as a form of organizing employment of household members who mainly produce products for their own consumption, what for construction, reducing of relative share of informal employment is one of the tasks of national importance, taking into account the labour force deficit registered in recent years, as well as the strengthening of the role of this sector in connection with the attraction and exploiting of investments, including foreign capital for the economic development of the Republic of Moldova.

Consequently, demographic processes (population decline, changes in age and sex structure, demographic ageing, migration processes, etc.) and economic factors (transformation and structural changes of socio-economic infrastructure, development and deepening of market mechanisms, systems of remuneration) are the main factors influencing to the formation and development of both regional and national labour force markets, including determine their heterogeneity and the existence of differentiation in main characteristics of involvement and participation in labour market of working age population.

In order to improve the existing situation, increase the stability and competitiveness of national labour force market in the context of the above, consider it advisable to improve demographic, social and economic policies, taking into account the experience of the EU countries, including:

- development of programs for regional socio-economic development, taking into account the real number of population and the demographic forecast for the medium term, as well as the territorial balances of labour force to evaluation the effective functioning of the region's socio-production infrastructure. Regional programs should be elaborated taking into account the conditions of transformational transition of economy, the particularities of population reproduction and the development of depopulation processes;
- to conduct the research to evaluation the impact of changes in age composition of population of the Republic of Moldova on economic development (the correlation of consumption, savings and transfers between generations based on data from National Transfer Intergenerational Accounts) to develop policies to support the country's economic development for the medium term, depending on the scenarios of the demographic forecast;
- determination of the need for qualified labour force, including by type of economic activity, taking into account the emergence of new professions in labour market, by region. In this connection, the education system should be reoriented to training specialists, taking into account the real needs of labour market;
- reconsider the minimum wage, which is one of the lowest in the EU countries and at this time is not the tool for increase real wage, as well as with which the state could solve the problem of undeclared payments to workers;

- promotion of new forms and systems of remuneration. Wage, as an estimate of labour cost, have lost their basic functions, including reproduction, measuring as an estimate of labour contribution, social, ensuring an interest in improving professional skills and differentiating remuneration depending on the complexity of labour, etc. Legislative state policy in this field is based on 2 systems of remuneration in the budget and real sectors of economy. In the public sector, its increase is fragmented and depends on financial possibilities, and in the real sector of economy, the revision of wages depends on the growth of the consumer price index and the increase in labour productivity at the national level. This situation already creates a certain differentiation in remuneration and at the same time does not take into account the training and quality of labour force. In the EU countries, the remuneration system is based on professional skills, competencies of workers, the dependence of the level of remuneration on skills, complexity, productivity, the scale of the work performed and other factors provided by the corresponding standards. Improving the system of remuneration will provide an opportunity not only to stimulate employment growth, but will also help to reduce the share of workers in shadow sector of economy;
- improvement of the legislative and normative basis in taxation of wages (by earnings level) and tax benefits, indexation of labour earnings in connection with the growth of prices and tariffs for goods and services;
- reactualize policies that ensure labour market flexibility, including the solution of such problems as hiring/dismissing, existence various kinds of payments and benefits, obligatory conclusion of labour contracts, remuneration, regime of work and including “remote”, freelancing, training, retraining and improving professional skills, organizing and conditions for healthy work activities, creating new work places that are corresponding with the realities of market relations.

**Acknowledgements:** *This paper has been developed within the framework of the Scientific Project for the period 2020-2023, registered in the State Register of projects in the field of science and innovation of the Republic of Moldova with the code 20.80009.0807.21 Proiect Program de Stat ”Migrația, schimbări demografice și politici de stabilizare a situației”/Project State Program ”Migration, demographic change and stabilization policies”.*

**References:**

1. Savelieva, G. and Zaharov, S., 2019. Regional aspect of labour market: The case of Moldova. *The Journal Contemporary Economy*, 4(4), pp. 24-32. [online] Available at: <[http://www.revec.ro/images/images\\_site/articole/article\\_2d86435b46952e16759b5cd32d1c0c76.pdf](http://www.revec.ro/images/images_site/articole/article_2d86435b46952e16759b5cd32d1c0c76.pdf)>.
2. Zaharov S., 2019. *Labour activity of the older population in labour market: The case of Moldova*. In: Ene, C., Uzlaeu, C., Balan, M., Trends in the current economic environment: the 3<sup>rd</sup> edition of International Conference, 6-7 December 2018. Hyperion University of Bucharest, Faculty of Economic Sciences. Bucharest: Editura ProUniversitaria.
3. Savelieva, G. and Zaharov, S., 2020. *Moldova’s labour market in the context of demographic changes*. Trends in the current economic environment: the 4<sup>rd</sup> edition of international conference, 6-7 February 2020. Hyperion University of Bucharest, Faculty of Economic Sciences. Bucharest.

4. Savelieva, G. and Zaharov, S., 2018. *Key Labour Migration Trends in Moldova*. ANALELE Institutului Național de Cercetări Economice. Ch.: INCE, 2018, Ediția a IX-a, pp. 46-54.
5. Zaharov, S., 2016. *Informal employment in the framework of population ageing: the case of Moldova*. In: Progrese în teoria deciziilor economice în condiții de risc și incertitudine” conferința științifică internațională, 7 octombrie 2016, Ediția a XXXI-a, Institutul de Cercetări Economice și Sociale ”Gh. Zane”. Iași: Ed. Performatica, 2016, vol. XXVII, pp. 201-205.
6. Savelieva, G. and Zaharov, S., 2019. *Evaluation of labour market intensity in mun. Chișinău*. In: Creșterea Economică în Condițiile Globalizării: bunăstare și incluziune socială, Sesiunea științifică: Bunăstarea și incluziunea socială în contextul schimbărilor demografice: conferința internațională științifico-practică, 10-11 octombrie 2019. Ediția a XIV-a. Chișinău: Institutul Național de Cercetări Economice. Chișinău: INCE, 2019, pp. 77-90. [online] Available at: <<https://doi.org/10.36004/nier.cdr.2019.14-10>>, <[https://ince.md/uploads/Conferinta\\_2019/77-90\\_Conferinta\\_2019.pdf](https://ince.md/uploads/Conferinta_2019/77-90_Conferinta_2019.pdf)>.
7. Savelieva, G., 2018. *The labour market and structural changes in economy*. In: Creșterea Economică în Condițiile Globalizării: competitivitate, inovativitate, sustenabilitate, Sesiunea științifică: Transformări demografice și priorități de politici: conferința internațională științifico-practică, 11-12 octombrie 2018, Ediția a XIII-a. Institutul Național de Cercetări Economice. Chișinău: INCE, pp. 57-81.
8. Zaharov, S., 2017. *Educational structure of labour market in the Republic of Moldova*. In: Anuarul Institutului de Cercetări Economice "Gheorghe Zane", 2017, 26, pp. 42-50.
9. Zaharov, S., 2017. Causes of intensity of labour market in Moldova. *Economy. Finances. Management: actual issues of science and practical activity*, 10(26), pp. 35-46.
10. Zaharov, S., 2017. *Impact of demographic changes on labour market in the Republic of Moldova*. In: Dezvoltarea relațiilor comerciale din perspectiva integrării economice a Republicii Moldova în circuitul economic internațional: conferința științifico-practică internațională, 21-22 septembrie 2017, Universitatea Cooperatist-Comercială din Moldova (UCCM) în cooperarea cu Institutul Național de Cercetări Economice (INCE AȘM). Chișinău: UCCM: INCE, 2017, vol. II, pp. 35-38.

## TIME FRAME OF BUDGET PASSAGE: EVIDENCE FROM NIGERIAN DATA

**Ph.D. Student, Simon OGAGA**

Department of Economics, Federal University of Lafia,  
Nasarawa State, Nigeria  
E-mail: ogagasimon1@gmail.com

**Abstract:** *Employing descriptive analysis along with documentary evidence, this research investigated the time frame of budget passage in Nigeria and its implications on the economy since the time of her democratic dispensation. The enactment of the Federal budget prior to the new fiscal year is fundamental to quality governance. From the year 1999 to 2019, the different government administrations that have been at the helm of affairs have signed 21 national budgets into law (year 2000 budget to year 2019 budget). Of the 21 national budgets for the epoch of this study, findings reveal that only 14% of the federal budgets have been passed into law before the new fiscal year, while 86% have been delayed, with negative implications on budget implementation, the wellbeing of the citizenry and the general economy. Some of the consequences of a delay in budget passage are that it holds back private investments due to the fact that investors would be uncertain of the economic outlook for the forthcoming fiscal year, affects capital market activities and at the same time creates distortion in economic planning in the private and public sectors of the economy. It is recommended that there should be a constitutionally approved timeline for the enactment process which will be binding on all stakeholders of the federal budget process (and constitutional sanctions for violation of the approved timeline) in order to ensure timeliness in the yearly budget passage thereby creating the enabling environment for effective budget implementation and economic growth.*

**Keywords:** Budget, Fiscal Policy, Budget Delay, budgetary Process, Budget Implementation

**JEL Classification:** H61,

### 1. Introduction

Prior to the commencement of a new fiscal year, the central authority is expected to make a projection of the income and expenditure that will be made in the new fiscal year. This projection of national income and expenditure forms the national budget for the fiscal year. And it determines the direction of governance of the government. National Budget plays a key role in the economic growth and development of any nation. It highlights the government revenue target for the year as well as the expenditure that will be made in order to positively affect the lives of the citizenry. A timely passage of the national budget into law is a quality of good governance while also serving as an attestation of a responsible legislature. Nigeria's fiscal year begins on the 1st of January and ends on 31st December every year. Taking this into consideration, a review of the time frame for the passage of past budgets for the last 20 years since the commencement of the democratic era in 1999 reveals that the Nigerian government has found it arduous in ensuring that the forthcoming year's budget is passed on or before the end of the current year, hence making it impossible to begin implementation on the first day of January (the first day of the fiscal year as approved by constitution).

Over the years, the problem has not been just been one of budget formulation or implementation, but also of delay in passage. And since the efficiency of budget implementation also depends on the timeliness of budget passage, it therefore means that a delay in budget passage would negatively affect budget implementation. Ahmed (2011) opines that everything that could possibly go wrong with Nigerian budgets has gone wrong. The estimates are submitted late, and the national assembly takes too long a time to pass it. The view expressed by Ahmed elucidates the situation as associated with the Nigerian budgetary system. From 1999 when Nigeria began her democratic dispensation till date, budgeting in Nigeria has been characterized with delays from preparation stage to appropriation stage. In some instances, budgets were approved in the second or third

quarter of the current fiscal year. The implication is that only few months were left for the budget to be effectively implemented. This results in poor execution of projects that have been set aside for the year, and sometimes it leads to abandonment of projects. This is a recurring problem which needs to be solved once and for all by the Nigerian government.

Nigerians have for long looked forward to a time in which the budget of the new fiscal year would on a regular basis be set and running from the first day in the month of January. This would mean that the budget must have been deliberated upon and approved by the legislature, assented to and signed into law as an appropriation bill by the president before start of a new fiscal year. This requires a lot of dedication and cooperation among the legislative and executive arm of the federal government. Okogu (2012) opines that the process of getting the federal budget together is a huge task which requires a great deal of time and effort combined with meticulous ordering of spending priorities and substantial input from all the stakeholders.

On 17<sup>th</sup> December, 2019, in an online publication made available by nairametrics.com, President Muhammadu Buhari on his twitter account disclosed to the citizenry the signing into law of the 2020 fiscal year's budget. The quote from the twitter handle of the president reads "It is my pleasant duty, today, on my 77th birthday, to sign the 2020 Appropriation Bill into law. I'm pleased that the National Assembly has expeditiously passed this Bill. Our Federal Budget is now restored to a January-December implementation cycle". The last time a forthcoming year's budget was passed before the new fiscal year was in 2007 that is 12 years ago. Thus, the signing halts 12 years of budget delays by the Federal government, ushering in a January-to- December budget cycle for the third time since 1999. Although Nigerians greeted with cheerful news the signing into law of the 2020 budget before the end of 2019, it however remains a challenge on the government to ensure that this remains a consistent practice and becomes the norm for future budgets. Only then can we say that the Nigerian government has overcome the habitual delay experienced in signing the annual Federal Budget into law. This study therefore takes a retrospective look at the delay in budget passage over the years and the consequences such delays have on the economy while also making recommendations that can help to overcome the delay in budget passage , thereby creating the right political and socioeconomic atmosphere for budget implementation, and hence economic growth in Nigeria.

## **2. Literature Review**

### **The Concept of Fiscal Policy and Fiscal Year in Nigeria**

Fiscal policy is the term used to describe the yearly financial plan of government. It entails the strategy (mostly taxes) which the government will use to generate revenues and the expenditure that will be spent for the period in order to achieve the macroeconomic objectives of government. According to Chukuigwe and Abili (2008), fiscal policy is principally concerned with the public expenditures and revenues of government. This implies that through fiscal policy instruments and measures, modern governments participate in almost every part of social and economic life by influencing aggregate demand and supply, attempting to create the full employment conditions and moderate inflation, leading the policy of stable foreign trade balance as well as supporting steady economic development.

In Nigeria, Fiscal policy is operated by the Federal government through the budget office, ministries, parastatals and agencies, with legal backing from the legislature. Since the 70s, Nigeria's Fiscal policy has been built around revenue from oil (Baunsgaard, 2003). The fiscal year in Nigeria starts on January 1st and ends December 31st. However, there is no constitutional time limit for the National Assembly to consider and approve the budget

set before but there is a time limit for the President. This process commences in June with the issuance of a Call Circular from the Federal Ministry of Finance to Ministries, Department and Agencies (MDAs) to submit their expenditure proposals, which are set within the spending limits. A draft Bill is prepared by October by the Federal Ministry of Finance and sent to the National Assembly through the Presidency. The Bill could be passed with any agreed amendments before the legislatures embark on recess in December (CBN, 2015).

### **The Concept of Federal Budget**

Federal Budget which is also known as appropriation bill is an indispensable tool in governance and pivotal to the economic policy of any nation. The federal Budget which is the second most important document after the constitution in any nation is a legal financial document that projects government expenditure and expected revenue typically for one year period. It is usually in the form of a balanced sheet and estimates government revenue and expenditure during the forthcoming year. An evaluation of the national economy is usually made and a specified amount is allocated to each sector of the economy taking into cognizance the state of affairs of the economy and the priority needs of the population.

The Central Bank of Nigeria in its 2015 publication on the Nigeria budget process refers to the Federal Budget as a document from the Government that sums up its revenue and expenditure for a fiscal year, which runs from the first day of January to the last day of December. It is a financial plan which forms the government's estimated revenue and proposed expenditure for a fiscal year. According to section 81 of the Constitution of the Federal Republic of

Nigeria 1999 (CFRN 1999) "The President shall cause to be prepared and laid before each House of the National Assembly (NASS) at any time in each financial year estimates of the revenues and expenditure of the Federation for the Next following financial year". The Federal Budget reveals Government revenue trends, policies and payment issues for the fiscal year. Furthermore, it gives a detailed spending plan as it creates its financial activities in order to provide important goods and services like education, healthcare, power, roads and security to the citizenry. The influence of the federal budget as a fiscal policy tool on the economy cannot be overemphasized; the federal budget influences the prices of goods and services, exchange rate, interest rates and the overall growth rate of the economy.

### **Budget Delay**

In this study, the working definition of budget delay simply means passage into law of the current year's budget on the first day or any other day after the first day of the current fiscal year. This implies that if the budget (appropriation bill) of the current year is not passed into law on or before the ending of the previous fiscal year as approved constitutionally, then a delay in budget passage has taken place.

### **Principles of Budgeting**

There are essential principles that accompany the budgeting process. This is because of its importance in the overall development of a country. These principles are aimed at making the entire process transparent and participatory. They include:

- (1) Adequacy: The budget estimates should be able to identify and represent the needs of the citizens and the government and the economy as a whole
- (2) Clarity: The budget should be very clear and easy for the population to understand and also make input.
- (3) Regularity: This entails that the budget be presented at a time suitable to tally with the beginning of every fiscal year and also to last for a specified period.

- (4) Accuracy: It is imperative to ensure that the projected revenue and expenditure in a budget is correctly estimated. In essence, the projected estimates should be close enough to reality.
- (5) Comprehensiveness: The budget should include all financial estimates that government intends to work with. There is need to ensure that no other funds or extra budgetary expenditure is entertained.
- (6) Publicity: The budget should be given an open publicity due to the fact that it affects the lives of the citizens and how their wealth is distributed and spent.
- (7) Exclusiveness: The budgeting process should be seen as an exclusive financial process.

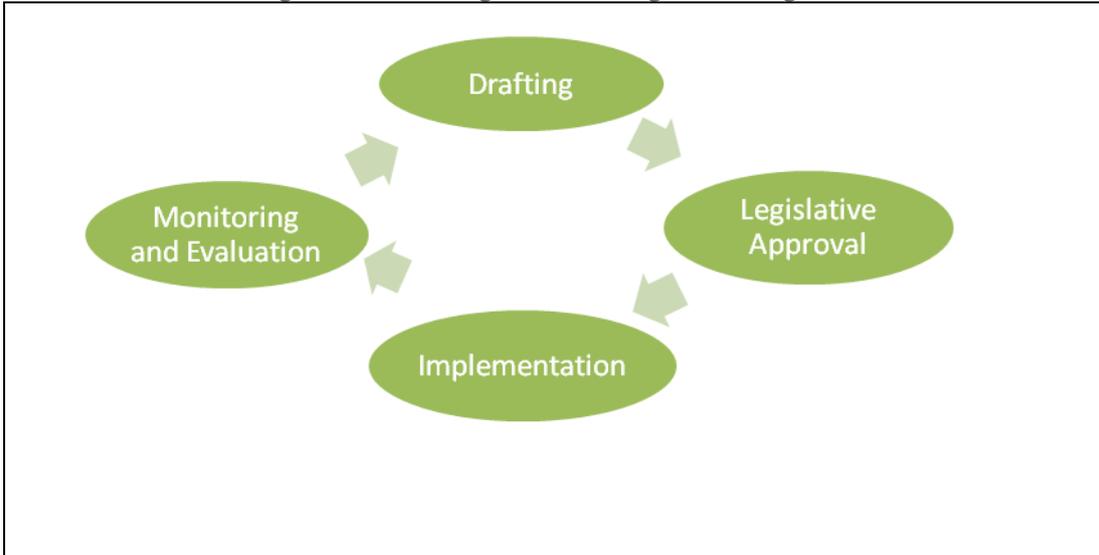
### **3. Stages of the Nigeria Budget Process**

Nigeria's Federal Budget undergoes a coherent process before it becomes both a law and an economic instrument. Budgetary process refers to the entirety of the processes a budget passes through before it finally becomes a document. The identification and setting of developmental goals is pivotal before budgetary policies are set based on the development plan of the government of the day. The process involves all the executive and legislative processes, that is, collection of estimates from all the government departments to the defense before the appropriate committees of the legislature and debates in the floor of the Senate and House of Representative, the passage into law and finally implementation and monitoring.

In order to improve the budget process of the country, the Acting President, Yemi Osinbajo, signed into law an executive order on the 18th of May 2017, placing emphasis on the timely submissions of the annual budget estimates of MDA's. The executive order directs all Federal Government agencies to submit their schedule of revenue and expenditure estimates for the next three years to the Minister of Finance and Minister of Budget and National Planning on or before the end of May every year. It additionally directs the agencies to forward their annual budget estimates to the Minister of Finance and Minister of Budget and National Planning on or before the end of July every year. It is expected that the implementation of this order would make Nigeria's budget process more efficient than the previous years.

According to CBN (2015), the Nigeria budget process undergoes four stages which include: drafting, legislative approval, implementation and; monitoring and evaluation. The stages are explained below:

**Figure no. 1: Stages of the Nigeria Budget Process**



- (1) Drafting:** This is the first stage in the Nigeria budget process. As clearly stated in Section 81(1) of the Nigerian constitution, the president is constitutionally saddled with the responsibility to produce and submit projections of revenues and expenditures for the fiscal year to the national assembly. The president delegates the power to the budget office of the Ministry of Finance (Ojobo, 2011). Thereafter, the budget office of the Federation (BOF) then produces the Fiscal Strategy Paper (FSP) that summarizes the government’s complete budgetary policy. The Fiscal Strategy Paper also comprises the macroeconomic structure, major assumptions, earning estimates and disbursement projections. It encompasses the strategy objectives of the president and is produced in conjunction with other Ministries, Department and Agencies (MDAs), like the National Planning Commission and the CBN. The final task of the drafting stage requires the federal ministry of finance to submit an outline of the budget to the President, after which the president will present the budget to the federal executive council, who will then deliberate on it.
- (2) Legislative Approval:** On an agreed date, in a joint sitting, the President presents the Appropriation Bill to the Senate and the House of Representatives. The appropriate committees in the House of Representatives and Senate will then scrutinize and suggest revisions to the different sections of the budget, as they deem necessary. The legislative approval process is usually long and necessitates compromise between the executive and legislature. During the stakeholder discussions, the Executive and the Legislature are engaged in extended debates as the parameters used to draft the budget are carefully deliberated upon. Pivotal issues such as appropriate oil price benchmark, oil and gas funding; gas Joint Venture Agreements and reimbursement for the fiscal year are deliberated upon. The deliberations also involve the review of the internal allocation of resources. At this stage of the budget process, Civil Society groups have the chance to participate and influence the budget process, after the final approval of the draft budget estimates by the National Assembly, an ‘appropriation bill’ is passed. When the bill is passed with all the necessary modification made, it is sent to the president to sign .thus it becomes the Appropriation Act, thereby giving the authority to incur expenditure as specified in the budget.

- (3) Implementation Stage:** The basic focus at this stage is to ensure the fulfillment of the expenditure outlays as specified in the budget. The key players at this stage are the federal government MDAs, which receive funds for their capital projects on a quarterly basis, and spend same based on the share of the budget from the Consolidated Revenue Fund of the Federation (CRF). In order to ensure accessibility of funds and reduce borrowing with regard to funding of the budget, the federal ministry of finance in 2005 initiated a “Cash Management Committee.
- (4) Monitoring and Evaluation Stage:** This is the last stage of the budget process. The justification behind monitoring is to embark on the verification of government funded projects in different locations in order to ensure that funds disbursed for such projects are effectively and efficiently utilized, so as to achieve the desired objectives as specified in the budget. A good development in the Nigeria budgetary process is that from 2006, the Federal Ministry of Finance prepares an annual Budget Implementation Report which reviews the level of execution of project implementation from various locations across the country, and the quality of each year’s budget. Ministries, Department and Agencies (MDAs) involved in the monitoring process include: the Federal Ministry of Finance (FMOF), the NPC, the National Economic Intelligence Agency (NEIA), the Presidential Budget Monitoring Committee (PBMC), the Office of Auditor General of the Federation (OAGF), the Office of the Accountant General of the Federation and the National Assembly (NASS). The ministries and agencies, Budget office of the Federation BOF and the NPC conduct physical inspection of all projects (completed and ongoing).

#### 4. Research Methodology

This research is employs descriptive analysis along with documentary evidence for its analysis. Secondary data were used. Related materials such as, Journals, textbooks, Newspaper and other official documents were consulted. Available literature on budget delay, budget process and budget implementation were also integrated into this study.

**Table no. 1: Analysis of Timeframe of Budget Passage: Evidence from Nigerian Data (year 2000 to year 2020 Fiscal Year)**

Fiscal Year	Date National Assembly received Estimates from President	Date revised Estimates was passed by Legislature and sent to the president	Date President Signed the budget of New Fiscal Year into law	Budget was Passed Into Law Before Start of New Fiscal Year	Length of Delay/Early Passage into Law Before or After start of New Fiscal Year(January 1st )
2000	Nov 24, 1999	Apr 14, 2000	May 5, 2000.	No	4 Months and 5 Days
2001	Nov 9, 2000,	Dec 21,2000	Dec 21,2000	Yes	10 Days
2002	Nov 7, 2001,	Mar 28, 2002,	Mar 28, 2002,	No	2 Months and 28 Days
2003	Nov 20, 2002.	Mar 11, 2003,	Apr 10, 2003.	No	3 Months and 10 Days
2004	Dec 18, 2003,	Apr 20, 2004,	Apr 21, 2004	No	3 Months and 21 Days
2005	Oct 12, 2004.	Mar 18, 2005,	Apr 12, 2005	No	3 Months and 12 Days
2006	Dec 6, 2005	Febr21, 2006,	Apr 22, 2006.	No	3 Months and 22 Days
2007	Oct 6, 2006,	Dec22, 2006	Dec 22, 2006	Yes	9 Days
2008	Nov 8, 2007.	Mar 27, 2008,	Apr 14,2008	No	3 Months and 14 Days
2009	Dec 2, 2008	Feb 3, 2009	Mar 10,2009	No	2 Months and 10 Days
2010	Nov 23, 2009	Mar 25, 2010	Apr 22,2010	No	3 Months and 22 Days
2011	Dec 15, 2010.	May 25, 2011,	May 27,2011	No	4 Months and 27 Days

2012	Dec 13, 2011.	Mar 15, 2012	Apr 13,2012	No	3 Months and 13 Days
2013	Oct 10, 2012.	Dec 20, 2012.	Feb 26,2013	No	1 Month and 26 Days
2014	Dec 19, 2013.	Apr 11, 2014.	May 24,2014	No	4 Months and 24 Days
2015	Dec 17, 2014.	Apr 28, 2015,	May 19,2015	No	4 Months and 19 Days
2016	Dec 22, 2015.	Mar 23, 2016,	May 6,2016	No	4 Months and 6 Days
2017	Dec 14, 2016.	May 11, 2017	Jun 22, 2017	No	5 Months and 22 Days
2018	Nov 7, 2017.	May 16, 2018,	Jun 20, 2018.	No	5 Months and 20 Days
2019	Dec 19, 2018.	Apr 30, 2019,	May 27.,2019	No	4 Months and 27 Days
2020	Oct 8, 2019	Dec 5, 2019.	Dec 17, 2019.	Yes	14 Days

Source: Media unit of the House of Representatives and Author's compilation.

As can be seen from the table above, from 1999 to 2019, the federal government of Nigeria has signed 21 national budgets into law. Only 3(14%) of these budgets (year 2001, year 2007 and year 2020) were signed into law before the commencement of the new fiscal year of the budget. The remaining 18 (86%) budgets experienced delay in passage into law. A delay in budget passage implies a delay in meeting the yearnings and aspirations of the masses who voted the government into power to take care of their infrastructural and developmental needs.

### 5. Weaknesses in Nigeria Budget Process As It Affects Budget Passage

The delay in budget passage in Nigeria has been attributed to several reasons. CBN (2015) mentions some weaknesses in the Nigerian budget process to include:

- ❖ The over bloated nature of the budget which is as a result of the partial funding of projects in various locations in the country and the high risk of these projects being abandoned in their unfinished state. New projects are introduced even while some projects are still ongoing and poorly funded, thus increasing the risk of neglect.
- ❖ Weak reporting culture of the Ministries Departments and Agencies (MDAs): The reports of the MDAs do not sufficiently reflect projects that are ongoing as various stages of implementation are not stated. Also, the MDAs do not adhere to appropriate monitoring and evaluation techniques on their projects and there is the challenge of difficulty in visiting each project because of the large number of MDA projects.
- ❖ The nature of the budget process often poses a challenge due to the fact that the budget needs to be reviewed at various stages with the possibilities of delays, like the drafting stage, legislative approval stage, implementation stage, and monitoring and evaluation stage of the budget process.
- ❖ The unplanned size of the recurrent expenditure: Increases in the wage bill and in allocation to certain MDAs have resulted in bloated budget. Thus making the budget skewed towards the recurrent spending whereas capital expenditure remained insufficient.

In addition, Ladi (2017) list some weaknesses in Nigeria budget process which affects the budget passage. They include:

- ❖ Lack of comprehensive timelines in presenting the budget before the National Assembly (any time during the fiscal year)
- ❖ Lack of definite timeline for the enactment of the Appropriation Bill
- ❖ There is no organic budget law that combines budget laws in a single document
- ❖ The existing laws and regulations do not provide adequately for a fixed and realistic budget calendar and public participation in the budget process

- ❖ Budgeting system is input-based rather than output/outcome-based
- ❖ Nonexistence of a reliable and comprehensive database on the socio-economic conditions of the country
- ❖ No rigorous analytical framework for determining policy objectives
- ❖ Lack of a budget manual, or an alternative guidance
- ❖ Laws do not indicate the necessity of a Budget Speech
- ❖ Budget is seen as a political tool rather than an instrument for development
- ❖ Lack of full transparency in some activities within the enactment process.
- ❖ Detailed report of the Appropriation Committee not circulated among members
- ❖ Obvious weak capacity of technical staff of sub-committees to interrogate MDAs budget requests.
- ❖ Power tussle between the executive and legislative arm of government.
- ❖ Sub-Committees do not adhere to budget ceilings as directed by the Appropriation Committee.

According to Eme and Okeke (2017), factors such as inadequate revenue, poor budget planning, inordinate political wrangling between the executive and legislative arms of the government and corruption are responsible for the persistent challenge of budget delay and the poor performance of budget in Nigeria.

## **6. Consequences of Delay in Budget Passage**

A delay in budget passage has several implications with ripple effects on the economy. A delay in budget passage limits the confidence of the citizens in the ability of the government to deliver on socioeconomic needs; it holds back private investments due to the fact that investors would be uncertain of the economic outlook for the forthcoming fiscal year. Furthermore, budget delay creates distortion in economic planning in the private and public sectors of the economy.

Kingsley, Kanayo, Ehigiamusoe, and Kizito (2014) posit that a delay in budget passage affects capital budget implementation; this is because several MDAs do not have adequate capacity to implement the capital budget. In addition, issues surrounding the due process mechanism and Public Procurement Act further compound the capital budget implementation.

Tella (2018), in a February 2018 online publication by thenationonlineng.net, is of the view that delay in budget approval affects the growth of the economy because such delay will not allow for the implementation of the capital part if the budget to a large extent and the implementation of capital budget is what engineers growth in every economy. Furthermore, activities in the capital market were often influenced by fiscal policies and activities of government and the Central Bank of Nigeria. To support the view of Tella, Uwaleke (2018), in an online publication by voice of Nigeria, posits that the delay in federal budget disrupts budget assumptions and renders unrealistic, targets related to gross domestic product growth. Also, it can heighten uncertainty in the market and has the potential to scare away foreign investors. Planned investments in agriculture and infrastructure in particular, could be hampered, while also hindering job creation. Delay in budget passage does not augur well for the stock market, as share prices of firms in the agriculture sector; industrial goods sector and construction sector will be worst hit. Furthermore, the delay can also adversely affect timely payment of contractors while also increasing the non-performing loans in banks, thus negatively affecting the value of their shares.

## 7. Conclusion and Policy Recommendations

This research investigated the time frame of budget passage in Nigeria and its implications on the economy from 1999 to 2019. Findings reveal that only 14% of the federal budgets have been passed into law before the new fiscal year, while the remaining 86% has been delayed, thus having negative implications on budget implementation and economic performance.

Based on the findings from this research, the following recommendations are made:

1. There should be an agreed Time Table for budget enactment that must be adhered to by all stakeholders. This time table should be prepared in such a way that will favour budget process by ensuring that the budget is signed into law before the new fiscal year begins.
2. In view of the fact that budget delay affects budget implementation, there should be a constitutionally approved timeline for the enactment process which will compel the president to present the budget to the national assembly, compel the senate to deliberate effectively on the budget and pass it into law, and compel the president to assent to it on or before the end of the 3<sup>rd</sup> quarter of the current fiscal year.
3. After the establishment of a constitutional timeline for the budget process, there should also be constitutionally approved sanctions on all stakeholders that violate the timeline
4. Creation of a federal government project monitoring agency (which will be independent of the MDAs and legislature) specifically saddled with the responsibility of monitoring and reporting effectively on all government projects across the country on a timely basis.

## References:

1. Ahmed, I., 2011. Vicious cycle of Budget delays and Non Implementation. *Daily Trust* 27th may [Accessed 2 May 2020].
2. Baunsgaard, T., 2003. *Fiscal Policy in Nigeria: Any Role for Rules?* Available at <<https://www.imf.org/external/pubs/ft/wp/2003/wp03155.pdf>> [Accessed 7 May 2017].
3. Budget Office of the Federation Federal Ministry of Finance, 2014. *Citizens Guide to the Federal Budget*.
4. CBN, 2015. Understanding Monetary Policy Series. No 56. The Nigeria Budget Process.
5. Chukuigwe, E.C. and Abili, I.D., 2008. An Econometric Analysis of the Impact of Monetary and Fiscal Policies on Non-Oil Exports in Nigeria: 1974-2003. *African Economic and Business Review*, pp. 59-73.
6. Eme, O.I. and Okeke, M.I., 2017. Addressing Budget Delays in Nigeria: Specialt. *Journal of Politics and Law*, pp. 1-11
7. Kingsley, K.O. and Ehigiamusoe, K., 2014. Capital Budget Implementation in Nigeria: Evidence from the 2012 Capital Budget. *Contemporary Economics*, Vizja Press & IT, Warsaw, pp.299-314. Available at <<http://dx.doi.org/10.5709/ce.1897-9254.147>> [Accessed 19 May 2017].
8. Ladi, H., 2017. Reforming the budget process in Nigeria. National Institute for legislative studies.
9. Nairametrics.com, 2020. Breaking: President Buhari Signs 2020 Budget [Accessed 7 May 2020].
10. Ojobo, J.A., 2011. *Public Financial Management – Nigeria in perspective*. Kaduna: Joyce Graphic Printers and Publishers.

11. Okogu, B., 2011. Budget process, implementation and challenges. Presentation to Public Services Institute of Nigeria. Abuja, Budget Office.
12. Premium times Nigeria, Why I delayed signing 2017 budget and the deal we struck [Accessed 29 March 2020].
13. Tella, S., 2018. How budget delay is affecting economy. Available at <[http:// www.thenationonline.net](http://www.thenationonline.net)> [Accessed 15 April 2020]
14. The Legislature and budget process in Nigeria. Available at <<http://cislacnigeria.net/index.php/category/publications/>> [Accessed 6 April 2020]
15. Uwaleke, U., 2018. Delayed budget could undermine economic growth plan says experts. *Voice of Nigeria*. Available at: <[http:// www.von.gov.ng](http://www.von.gov.ng)> [Accessed 15 April 2020].
16. Vanguard Newspaper, 2020. Recurring delay in budget passage- Matters Arising [Accessed 20 March 2020].

## INNOVATION AND CHANGE – CURRENT CHALLENGES FOR THE COMPANIES IN THE CONSTRUCTION INDUSTRY

Postdoctoral student, **Iuliana SCĂRLĂTESCU (TALMACIU)**

“Valahia” University of Târgoviște, Romania

Email: iuliana\_talmaciu@yahoo.com

**Abstract:** *Globalization, competition and technological progress directly influence the performance and development of an organization. Increasingly competitive markets emphasize the need to innovate and increase the ability of organizations to adapt to change, and the maturity of markets and shorter product life cycles bring to the fore the ability to create new business models, products, services and processes. In our opinion, the way in which innovation evolves at the level of companies is undergoing fundamental changes. The emergence of digital technologies gives innovation a more collaborative character and a more open to the international space. The purpose of this paper is to study the attitude of employees in the field of construction regarding the capacity for innovation and change of the companies in which they work.*

**Keywords:** *innovation, change, change capacity, construction industry.*

**JEL Classification:** *O30, I74.*

### 1. Introduction

The literature on innovation and change is vast, with various aspects of the process of organizational change being widely debated in recent decades. However, we can say that the opportunity to deepen the research topic is given by the complexity of organizational changes, the dynamism of the current socio-economic environment and the transformations that have taken place and take place every day.

„The environment is evolving fast with multiple technologies advancing rapidly and also startups in different regions constantly challenging the status quo. This new paradigm requires excellent execution capabilities as well as the ability to spot opportunities as they emerge” (Joost, 2020).

Although it is widely accepted that organizations face major changes in the marketplace and competitors and need to react quickly to survive, many of them fail. Statistics show that the average life expectancy of a company does not exceed 40 years and it is reduced due to the inability of the organization to transform and adapt quickly enough. To meet these challenges, organizations need to adopt an increasingly open attitude towards innovation and change.

The term "innovation" is widely used, being used with various meanings. Although the literature on innovation is very rich, it cannot be said that there is a unanimously accepted definition that fully clarifies this term. In a broad sense, innovation defines the introduction of the new to achieve useful results. Innovation is a broad concept that has been defined using several approaches. It is a process by which companies add value by successfully exploiting a new idea for the benefit of a part or an entire business, industry or nation. Innovation is recognized as an essential process for business success, ensuring growth, sustainability and competitiveness. Innovation is also an essential process for meeting the dynamic needs of the individual and facing new societal challenges.

According to the authors Bala K., Madhavi D. (2017), innovation is a complex process, which evolves from an idea but which “must be obvious as a complete invention, as a prototype or working model, before being adopted for a profitable implementation”.

Due to the complexity of the innovation process and the diversity of its emergence, it has been necessary to adopt some conventions in order to ensure operational definitions that can be used in the analysis of innovation. According to the OSLO Handbook, developed by the Organization for Economic Cooperation and Development (OECD) in

2018, “innovation is the implementation of a new or significantly improved product (good or service, or process), a new marketing method, or a new organizational method”.

Innovation is the process by which, based on new ideas - responding to societal or economic needs and / or demands, new products, services, technologies or organizational models are generated that are successfully introduced to existing markets or are able to create new markets, thus bringing benefits to society.

Innovation is frequently approached systematically and involves initiative, science, technology, management.

In the common perception, innovation is associated with technical progress, which has been the engine of society's development over time. However, innovation is not limited to the creation of new products and technologies (technical innovation), but has multiple materializations, both within organizations and in society. Although most applications in the field of innovation have been in the form of new products and technologies, the valences of innovation are broader. There is widespread recognition that new ideas can transform any activity, any part of the value chain, with products and services representing only the visible part of the iceberg.

The major role that innovation has in the progress of society is highlighted by Hamel G. (2012) who considers that "our existence is due to innovation, the human species exists due to the four billion years of genetic evolution". In his opinion, “our prosperity is due to innovation. Technological development has led to spectacular revenue growth and institutional innovations (capital markets, company law and patent protection have paved the way for economic progress, facilitating trade, capital formation and entrepreneurship)”.

In a highly competitive economic environment, innovation is considered a strategic engine in increasing competitive advantage. It increases sustainability, productivity, growth and business competitiveness. Innovation becomes a continuous process of learning, searching and exploring this result in new products, new techniques, new forms of organizations and possibly new markets. However, the growing dynamism and turbulence of the environment requires a new look at innovation. Therefore, companies need to have capabilities that allow innovation to be effective. The importance given more recently to knowledge management is increasingly emphasized.

Change is not only an inevitable step in a company's growth process but also a catalyst for its long-term evolution, provided it is managed efficiently. The literature presents some models that try to assess how prepared an organization is for change, but, as Weiner B. (2009, p. 29) states, “unlike the preparation of individuals for change, that of organizations has not yet been the subject of in-depth theoretical research or empirical studies.”

An organization's ability to adapt to change has been widely recognized as playing a key role in a company's success or failure and is a key component of the organizational learning process. It is obvious that the world is changing and the changes are happening with or without our will. The choice is between diminishing or producing change. We believe that what Charles Darwin said about the evolution of species "Neither the most beautiful nor the smartest will survive but the one that will adapt the fastest to change" is also valid for the current economic, political and social environment and can be applied and in the case of organizations. The ability to adapt to future changes must be developed and encouraged by using all the opportunities that arise from past and present changes. Although the term "adaptation to change" is often used, most of the time organizations and their members are not fully aware of what it means and the implications it has. In order to have positive results in implementing change management, sufficient attention must be paid to the question "how can change management be effective if the organization is not prepared for change?" (Combe, 2014, p.14)

## 2. Characteristics of innovation and change in construction

Innovation in the construction industry is generally seen as restricted because often the same solutions and materials are used, with little variation, on already known topics.

While most industries have undergone fundamental changes in recent decades, the construction industry has been reluctant to embrace digital innovation.

As construction is a core sector of an economy, it is constantly looking to adopt innovations and implement new solutions, which generally focus on reducing its impact on the environment, improving productivity and reducing costs.

The construction sector is frequently affected by imposed or necessary and planned changes.

**Table 1. Sources and impacts of changes in construction projects**

Stage	Stakeholder	Types of changes	Impacts	Actions
Specification	Owner/Client/User or architect	Changes to requirements including specification, scope of projects, design brief, etc.	Changes in design and construction processes	Carefully provide detailed specification documents before bidding.
Design	Design/engineering Consultant	Incomplete/inconsistent drawings; design error/defect; design change; omissions of site conditions and buildability; changes in codes and regulations	Rework of design and drawing; rework in construction; change orders	Better control of design versions, drawings; site investigation; consider buildability in design
Construction	Contractor/sub-contractors	As-builts not confirm with as-design; quality defect; unanticipated site conditions; value engineering; materials or equipment not available; inclement weather	Rework; change orders; changes in design	Quality control; site operational control; coordinated documents and drawings; daily logs

Source: Hao, Q., Shen, W., Neelamkavil, J. and Thomas, J.R., 2008. *Change management in construction projects*. International Conference on Information Technology in Construction, Santiago, Chile.

Although it is widely accepted in the literature that innovation is a major factor in the development of the construction sector, according to the European Construction Sector Observatory. Integrating digital innovations in the construction sector, published in March 2019, IT expenses incurred by construction companies do not exceed 1% of the total and only agriculture and hunting seem to spend less. As a result, labor productivity in the construction sector has risen only slightly, to a quarter of the rate of production in the last two decades, and may lag behind in the race for innovation. This does not mean, however, that there is no useful innovation for this sector. Experts recommend “construction information modeling (BIM)”, “object internet”, “3D laser scanning and component printing”, “big data analysis”, “augmented reality”, “drones” as some examples of innovations that could had a major impact on the construction sector. These are largely innovations from other industries, but could help the construction sector build faster, better and cheaper, while maximizing resource use and increasing the profitability of construction companies.

At European level, the most important part of the construction sector is represented by SMEs, which account for about 80% of turnover. Companies with less than 250 employees represent 99% of the total in this sector, while the smallest companies, with less than 49 employees, have a share of 98%. The report published by Eurostat in June 2020,

which examines the evolution of the European construction sector in March and April 2020, shows that construction work fell by 14.6% month-on-month in the Eurozone and by 11, 7% in the European Union. The most important decreases were registered in France (-32.6%), Spain (-26.3%) and Slovakia (-10%). Another study, conducted by Euler Hermes and quoted by Forbes, shows that the construction sector in Europe has been severely affected by the coronavirus pandemic and expects an increase in insolvencies by 14-24% in 2020. Analysts expect the number of insolvencies to register an increase of + 24% in Spain, + 19% in France and the Netherlands and + 15% in Italy and the United Kingdom. At European level, the construction sector already accounts for 20% of total insolvencies. The Covid-19 crisis has exacerbated the vulnerabilities of SMEs and large companies are not immune either, even if for the time being they have resisted the changes better.

In the case of Romania, the construction sector accounted for 4% of GDP and contributed 0.8% to economic growth in the first quarter of this year, which was 2.4%, according to data released by the Ministry of Finance. According to the latest data from the INS, the volume of construction works (as a seasonally adjusted series) decreased in May by 2.2% compared to April 2020 but was 14.3% above the level of May 2019.

Analyzing from the perspective of demand, the construction sector has performed better than expected in recent months, given the pandemic context. The increase of over 22% in the volume of construction works in the first five months of 2020, corroborated with positive developments in all segments is a reason for optimism. The largest increases, of at least 50%, were recorded for major repair and maintenance projects.

By construction objects, in the first 5 months of 2020 (compared to the same period in 2019) there is an advance of engineering constructions of 39.4%, followed by the increase of residential buildings of 20% and non-residential buildings of 8.4%.

By structural elements, in the first 5 months of 2020 (compared to the same period in 2019) the volume of current maintenance and repair works increased by 64%, that of capital repair works by 50% and that of new constructions by 11%.

On the other hand, in May 3,062 building permits were issued for residential buildings, increasing by 34% compared to April 2020 but by 26% below the level of May 2019. In the first 5 months of 2020, a total of 13,997 building permits for residential buildings, down 15% compared to the same period in 2019.

An analysis published by KeysFin predicted that the turnover of the local construction market will register a slight increase, compared to 2019 (when it reached 89 billion lei) and will reach in 2020 approximately 90 billion lei. In 2018, the turnover of the local construction market (building construction, civil engineering and special construction works) was 84.4 billion lei. Popescu R., managing director of KeysFin, appreciates that “although the most important companies in the construction industry, from the point of view of turnover, contract large infrastructure projects, it is important to mention that the industry is not only based on them, and medium and small companies that deal with the construction of residential complexes, office buildings or other civil constructions, add up to an important value of the total ”.

According to the results of the research *Assessment of the impact of COVID-19 on the economic environment in March and April 2020*, conducted by the National Institute of Statistics, the impact of the COVID-19 epidemic on the volume of activity in the construction sector in Romania has two characteristics:

- on the one hand, the uncertainty of business evolution is increasing with the extension of the time horizon;
- and, on the other hand, the increase in the share of businesses that are affected by the restriction by more than 25% of the volume of activity or their closure. The share of agents who cannot estimate the evolution of the activity volume increases from 21.6% in

March to 33.1% in April 2020, by reducing the share of those who did not estimate an impact or estimated an impact of up to 25% of the activity volume. Of the economic agents that were able to estimate an impact of the COVID-19 epidemic on the volume of activity in April 2020, 61.4% predicted a reduction in the volume of activity by more than 25% or the closure of activities while in March their share was 39.2%.

In line with trends in other countries in remote work, the office construction segment had the lowest growth rate at the structural level, only 4% in the first 5 months, and the pace is expected to slow as projects started before the pandemic spreads and are completed.

Eurostat states that the only EU Member States in which construction works increased in August 2020 compared to August last year are Romania (12.4%) followed by Slovakia (4.8%) and Finland (2.2%).

While in Romania, construction works registered a double-digit increase, in the euro area construction works recorded an annual decline of 0.9% in August, while in the EU they registered a decrease of 1.5 %.

In August 2020, compared to the previous month, construction works increased by 2.6% in the euro area and by 2.4% in the European Union. In this case, too, Romania is among the countries where construction works recorded the largest increases, from one month to another, with an advance of 0.9%, along with France (4.9%), Slovenia (2.4%), Hungary (1.9%) and Portugal (1.8%).

Optimistic forecasts show that the construction market in our country still has a chance to grow, but this depends on the social, economic and fiscal measures adopted at national level.

### **3. Research results**

The research aimed to highlight the perception of innovation and change of members of organizations in the construction sector in Argeş County. Another goal involves identifying the views and attitudes of employees on various organizational issues, such as: perception of the need for change, willingness to participate in the change process, the role of innovation in facilitating the implementation of organizational change and perception of innovation capacity and adaptation to change of the analysed organizations.

The questionnaire used in the quantitative research was completed by 108 people employed in three companies operating in the field of construction in Argeş County. Among the participants in the study, 68 are men, representing 63% of the respondents and 40 are women, respectively 37%. Among the respondents, 48% are between the ages of 40 and 49, about 26% are between 50 and 59 years old, while 22% of the respondents are between 30 and 39 years old. Most respondents have higher education, 70.4% have a university degree and 22.2% also have a postgraduate degree. The number of employees with high school education was the lowest and represents 7.4% of the total.

Analyzing the answers from the questionnaires, it was observed that almost half of the respondents are older than 5 years in the company, while 37% are in the range of 1-5 years spent at the current job and 14.8% of respondents have less than one year from the time of employment in the current position. The questionnaire was completed by employees from all hierarchical levels. Thus, 11% of respondents hold top-management positions, 33% are middle managers and 56% are employed in executive positions.

As a result of the data processing, we found that most employees, namely 70.3%, are informed about the company's position on the construction market and know its strengths compared to competing companies and consider that the company where they work "is flexible and can easily adapt when the situation requires it".

Respondents are open to accepting changes in the companies they work for because 88.9% appreciate that they are welcome and associate the change with the development and improvement of the company's situation. In this sense, 92.6% of respondents appreciate the speed with which small projects are implemented and 81.4% the speed with which decisions are made within the company.

However, most employees believe that changes need to be made with caution. Thus, only a third of them (33.4%) consider that major changes would be required and the percentage of those undecided is significant, 29.6%.

Also, only a little over half (55.5%) of the respondents consider that changes are opportune, as long as the company's activity is carried out in good conditions and only 44.4% believe that changes would be indicated in times of crisis.

The majority of employees (74%) state that they understand the importance of innovation in order to ensure the company's competitiveness and, respectively, its adaptation to change and 62.9% appreciate the fact that managers clearly present the objectives of the innovation strategy. As a result, most respondents (59.2%) are concerned with finding new solutions to existing problems, 74% aim to improve products and processes within their company and 70.4% associate innovation with the creation of new products and processes. However, there is a high percentage of undecided employees (25.9%), which shows that managers must insist more on the importance of the innovation process in the smooth running of the company's change activity.

About 70% of employees appreciate that they are encouraged by the company's management to present new ideas, meant to achieve a beneficial change, but only 44.4% of them believe that the company's reward system really supports innovation.

Following the analysis of the answers obtained, it resulted that 74% of respondents agree that the organizational structure of the company meets the requirements to support the innovation process, 64% appreciate that the company has projects that facilitate the development and implementation of new ideas but only 59 % believes that the company has a clear system for choosing innovation projects and that all departments are involved in product and process innovation.

In the context of the current competition in the construction market, the main goal of the innovation activity within companies is to attract customers and, at the same time, to satisfy their needs and expectations in the best conditions. 81.4% of respondents stated that customer needs are constantly assessed and the company takes into account their opinion in creating, developing and improving new projects.

In order to develop new processes, products and services, the companies to which the questionnaire was applied also collaborate with other companies, in this case with companies specialized in advanced technologies or in specialized knowledge, which is recognized and appreciated by 74% of respondents. The same cannot be said about collaborating with academia and research centers, as three-quarters of respondents say that companies do not use their experience to develop knowledge in order to innovate new technologies and products.

In order to maintain and increase the performance of the analyzed companies, only 29.6% of respondents consider that the company they work for organizes meetings with representatives of other companies and 44.4% believe that improving innovation management is achieved by systematically measuring the results obtained.

In order to stay on the market, it is necessary that the activity of change through innovation in construction companies has a permanent character. There is a need for constant evaluation of the results obtained through innovation, both internally and externally. In the analyzed companies, 85.1% of the respondents consider that they learn more from mistakes by reviewing projects.

Following the analysis of the data from the questionnaires, we found that we have a significant difference regarding the respondents' opinion about the importance of the capacity to adapt to change and that regarding the magnitude of the changes that are needed in the companies in which they work. They believe that change should only be made if it is absolutely necessary and they want change to not be a major one.

The inaccuracies between the answers to some questions come from the fact that the concern of managers to make employees understand and accept the need for changes in times of crisis is relatively low as the percentage of those who do not know this concern is significantly 40.8%.

#### 4. Conclusions

We appreciate that in the companies where the research was carried out, it is necessary to orient towards an open innovation. This involves involving a greater number of actors in the innovation process, including from outside the company (consulting firms, research centers, universities, etc.), creating an innovation-friendly regulatory environment and an integrated system of innovation and organizational change. We believe that the implementation of the mentioned aspects can contribute to a sustainable innovation manifested through ecological growth, eco-innovations, clean-tech, sustainable energy, material and energy efficiency, circular economy, present and future challenges for the construction sector.

In the process of innovating their products / services and processes, companies operating in the field of construction must also pursue the impact on the environment and society. We appreciate that their goal must be to follow the best path to a more sustainable future and it depends on how resources are managed today.

Innovation is a main engine of the transformation of the organization and its adaptation to the requirements of the contemporary economy.

Most companies do not have a culture of innovation that favors the introduction of change in the organization, more often there is a strong resistance from staff and sometimes from managers. The results of an organization's innovation process should provide a competitive advantage; this should help the organization to grow and better achieve or exceed its strategic objectives.

In these times of uncertainty, an increased focus of companies on innovation is needed to define the future of the construction industry and become stronger in the long run. Past experience shows that those companies that invest in innovations during an economic crisis benefit from them in the recovery phase. As such, the ability to innovate continues to be a key factor in economic success.

**Acknowledgements:** *This work is supported by project POCU 125040, entitled "Development of the tertiary university education to support the economic growth - PROGRESSIO", co-financed by the European Social Fund under the Human Capital Operational Program 2014-2020.*

#### References:

1. Bala, K. and Madhavi, D., 2017. Models Of Innovations: An overview of Perspectives and Expositions. *International Journal of Value Chain Management*, 8(4). [online] Available at: <[https://www.researchgate.net/publication/322666922\\_Models\\_of\\_innovations\\_An\\_overview\\_of\\_perspectives\\_and\\_expositions](https://www.researchgate.net/publication/322666922_Models_of_innovations_An_overview_of_perspectives_and_expositions)>.
2. Combe, M., 2014. *Change readiness: focusing change management where it counts*. Project Institute Management. [online] Available at:

- <[www.pmi.org/learning/~media/PDF/Knowledge%20Center/Focusing-Change-Management-Where-it-Counts.ashx](http://www.pmi.org/learning/~media/PDF/Knowledge%20Center/Focusing-Change-Management-Where-it-Counts.ashx)>.
3. European Commission, 2019. *European Construction Sector Observatory. Integrating digital innovations in the construction sector*. [pdf] Available at: <[https://www.buildup.eu/sites/default/files/content/ecso\\_tp\\_3d\\_printing\\_amp\\_dr\\_ones\\_march\\_2019.pdf](https://www.buildup.eu/sites/default/files/content/ecso_tp_3d_printing_amp_dr_ones_march_2019.pdf)>.
  4. Forbes Romania, 2020. *Analiza Euler Hermes: Criza Covid-19 stârnește o criză de profitabilitate majoră pentru IMM-urile din construcții*. [online] Available at: <<https://www.forbes.ro/analiza-euler-hermes-criza-covid-19-starneste-o-criza-de-profitabilitate-majora-pentru-imm-urile-din-construcii-175132>>.
  5. Hamel, G., 2012. *Ce contează acum. Cum să câștigăm într-o lume a schimbărilor implacabile, a competiției feroce și a inovației de nestăvilit*. Editura Publica.
  6. Hao, Q., Shen, W., Neelamkavil, J. and Thomas, J.R., 2008. *Change management in construction projects*. International Conference on Information Technology in Construction, Santiago, Chile.
  7. Joost, K., 2020. A successful approach to Corporate innovation: The 8 Ps of Innovation. *Innovation Management*. [online] Available at: <[https://innovationmanagement.se/2020/05/26/a-successful-approach-to-corporate-innovation-the-8-ps-of-innovation/?utm\\_source=InnovationManagement+Subscribers&utm\\_campaign=b51ef69de4-im-weekly-2020-06-02&utm\\_medium=email&utm\\_term=0\\_b22a198eba-b51ef69de4-42047531](https://innovationmanagement.se/2020/05/26/a-successful-approach-to-corporate-innovation-the-8-ps-of-innovation/?utm_source=InnovationManagement+Subscribers&utm_campaign=b51ef69de4-im-weekly-2020-06-02&utm_medium=email&utm_term=0_b22a198eba-b51ef69de4-42047531)>.
  8. OECD/Eurostat, 2018. *Oslo Manual 2018: Guidelines for Collecting, Reporting and Using Data on Innovation*. The Measurement of Scientific, Technological and Innovation Activities. [online] Available at: <<https://www.oecd.org/science/oslo-manual-2018-9789264304604-en.htm>>.
  9. Weiner, B., 2009. A theory of organizational readiness for change. *Implementation Science*, 4(67). [online] Available at: <<http://www.implementationscience.com/content/4/1/67>>.

## FINANCING PUBLIC EDUCATION IN THE REPUBLIC OF MOLDOVA

**Professor Hab. Ph.D., Tatiana MANOLE**

Technical University of Moldova, Republic of Moldova

E-mail: tatmanole@yahoo.com

**Abstract:** *In this article we wanted to inform the reader about the process of financing education in the Republic of Moldova. Although the number of educational institutions and the number of pupils / students is decreasing, the state budget increases the allocations for this branch from year to year. This effort of the state budget must change the content of education by increasing the quality and performance in this area of priority importance for the state. We have demonstrated the increase of budgetary resources by increasing the amounts of value norms for a weighted student and for an institution, starting with 2014, the year in which in the Republic of Moldova pre-university education moved to a new funding methodology - based on standard cost per weighted student.*

**Keywords:** *value norms, weighted student, budget allocation, state budget, budget expenditures, general primary and secondary education, gross domestic product.*

**JEL Classification:** *I20, O10, O18, M14.*

### 1. Introduction

Education is a national priority and a key factor in the sustainable development of a knowledge-based society. Through its education policy, the state ensures the fundamental right to education, indispensable for the exercise of other human rights; implementation of the basic mechanism for the formation and development of human capital. 1

The policy in the field of education in the Republic of Moldova is oriented towards ensuring the quality of studies, and *the education system of the Republic of Moldova , according with the Education 2020 Strategy, it is accessible to all citizens, provides quality education, relevant to society and economy , in terms of economic efficiency.*

### 2. The state budget – the main source of financing social needs

The budget is considered a privileged instrument of policy, both in terms of allocated resources, as well as the achievement of fundamental political objectives with social impact.

So, we can ascertain, that budget, firstly, the state one, aims at economic activity , both as a whole and locally, through grants and transfers. It can affect virtually the entire economic policy, including: political conjuncture adjustment, monetary and financial policy, through taxation and loans, current account balance and export policy, price policy, industrial policy, cultural policy, income policy, land use planning policy, urbanization and vocational training. Therefore, the budget is the most important act in public life, it constitutes the fundamental strategy of the state for planning and supervising the economic-financial activity , and budgetary decisions are acts of political essence.

In the process of preparing the draft budget, there is an increased focus on public spending by "spending ministries" and society as a whole. It is known, however, that resources are limited, and the financial no exception. For these reasons, the budgetary practice of advanced countries seeks to envisage a new use of budgetary instruments, especially budgetary instrument of public expenditure in the sense of limitations or restrictions. The application in the process of substantiating the public expenditures of the modern methods of the analysis on objectives allowed a better rationalization of the budget.

*Therefore, the budget is an instrument of economic and financial stabilization, through which the public administration provides quality public services, ensures the*

social protection of citizens, being at the same time a concrete form of manifestation of public finances and implementation of financial policies, constituting the main means by which budget revenues are formed and budget expenditures are made..

Assessment of the effects of state intervention in social life and in the economy presupposes the knowledge, first of all, of the volume of public expenditures allocated by the central and local bodies, state from public funds of financial resources for economic and social needs. Of these social needs, the priority is to finance education.

According to the Strategy of the Government of the Republic of Moldova on the sustainable financing of public education, and especially higher education, consisted, that budget allocations for education increase from year to year. Our research confirms this upward dynamics by analyzing the sources of funding of public education in the state budget for the years 2017-both as an absolute amount and as a share in the total state budget expenditures, as well as the share in gross domestic product (GDP) for the respective periods presented below.

**Table 1. Comparative analysis of budget financing of public education during 2017-2020**

Thousands of lei

Indicators	State budget for the year 2017	State budget for the year 2018	State budget for the year 2019	State budget for the year 2020	Deviation in % of SB 2020 compared to:	
					2020 compared to 2017	2020 compared to 2019
<b>Expenses, total</b>	<b>37 796 940,7</b>	<b>41 332 400,0</b>	<b>47 664 200,0</b>	<b>51 551 945,0</b>	<b>+ 36,4%</b>	<b>+8,16%</b>
- Share in GDP, %	21,38 %	21,55 %	22,77 %	22,6 %	+ 1,22 %	<b>-0,17%</b>
<b>Budgetary resources for education, total</b>	<b>9 232 543,7</b>	<b>9 909 586,8</b>	<b>10 610 115,1</b>	<b>12 362 187,2</b>	<b>+33,9 %</b>	<b>+16,51%</b>
- Share in total expenses, %	24,43 %	23,97 %	22,25 %	23,98 %	-0,45%	+1,73%
- Share in GDP; %	5,22 %	5,17 %	5,07	5,42 %	+0,20 %	+0,35%
<b>Budgetary resources for higher education, total, thousand lei</b>	<b>757 557,65</b>	<b>858 961,1</b>	<b>863 422,5</b>	<b>1 030 318,6</b>	<b>+36,00%</b>	<b>+19,33%</b>
- Share in total expenses, %	2,0 %	2,08 %	1,81	2,0 %	0,00 %	+0,19%

- Share of total expenditure on education, %	8,21 %	8,70 %x	8,14 %x	8,33 %	+0,12 %	+0,19%
- Share in GDP, %	0,43 %	0,45 %	0,42 %	0,45 %	+ 0,02 %	+0,03%
- Total resources for education and research, thousands of lei	x	x	x	13 252 308, 6		
- Share in GDP, %	x	x	6,33 %	5,81 %	x	-0,52 %

Source: Prepared by the author on the basis of calculations made on the basis of research on budgets for the periods indicated, 2017-2020)

Note : In this table N 1 and in the others that follow N2 and N 3 the figures are expressed in Moldovan lei (MDL). Reference course of the Moldovan leu (MDL ) against the dollar SUA (USD) at the date 26.01.2021 is of 17,4569 lei for 1 dollar SUA (USD).

From the information presented in the synthetic table of comparative analysis, we find that the Strategy of the Government of the Republic of Moldova is aimed at sustainably supporting the development of education in the country. This state policy is confirmed by the increase from year to year in the financing of this sector from the budgetary means..

We compared the relative indicators of the 2020 budget year compared to those of the 2017 budget year (taken as a basis for comparison) and those of the previous year, 2019. Thus, the total expenditures of the state budget in 2020 increased by 36.4% compared to the same indicator of 2017, and compared to 2019 - by 8.16%.

This increase of the budgetary resources for the branch of education takes place in the conditions of the reduction of the number of pupils / students. Below we present this dynamic of decreasing the number of pupils / students.

In the table below we present the statistical information on the number of educational institutions and pupils / students in the Republic of Moldova during the years 2010-2019.

**Table 2. Number of educational institutions, of pupils / students (2010-2019)**

The years of studied	2010/ 2011	2011/ 2012	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018	2018/ 2019
Institutions, total	1645	1612	1545	1518	1484	1446	1407	1358	1364
<i>Including in:</i>									
Primary and secondary educ. instit.	1489	1460	1397	1374	1347	1323	1291	1243	1246
Professional schools	75	70	67	67	61	46	43	43	42
Colleges	48	48	47	45	45	42	32	32	34
Centers of excellence	-	-	-	-	-	4	11	11	13
Higher education institutions	33	34	34	32	31	31	30	29	29
<i>Nr. of pupils / students, total</i>	<i>557884</i>	<i>537136</i>	<i>520015</i>	<i>497991</i>	<i>477824</i>	<i>462704</i>	<i>457246</i>	<i>447758</i>	<i>439115</i>
<i>Including in:</i>									
Primary and secondary educ. instit.	396488	381418	367251	353207	340977	334509	333729	335621	334159
Professional schools	21419	20320	19581	18248	17508	15417	17228	15436	13932
Colleges	32164	31442	30725	29251	29810	24641	17188	17364	17379
Centers of excellence	-	-	-	-	-	6468	14375	13786	13037
<i>In higher education institutions in the Republic of Moldova</i>	<i>107813</i>	<i>103956</i>	<i>102458</i>	<i>97285</i>	<i>89529</i>	<i>81669</i>	<i>74726</i>	<i>65543</i>	<i>60608</i>

**Source:** After Ex.: A. BEZU, senior consultant, în DAMEP; National Bureau of Statistics (NBS), p. 76.

\* National Bureau of Statistics of the Republic of Moldova. Education in the Republic of Moldova Statistical publication. 2017/2018. Chişinău 2018. Pag. 74.

The information presented by the NBS of the Republic of Moldova confirms that the number of educational institutions and the number of pupils are decreasing..

### **3. Financing pre-university education based on the standard weighted cost per student**

We mention that although the number of pupils / students is decreasing, the budgetary allocations for education increase from year to year.. Budgetary resources for education, for example, increased in the budget year 2020 by 33.9% compared to 2017 and by 16.51% compared to the previous year 2019. They also showed a substantial increase in budgetary resources for higher education. Corresponding to the analyzed period, this increase is 36.0% and 19.33%.

The Ministry of Education, Culture and Research (MECR) in the budget year 2020 identified the budgetary resources for research in the amount of 890 121.4 thousand lei, constituting in the total resources for education 7.20%.

This increase in budget funding, for example, for primary and general secondary education, manifested by increasing from year to year for a student regulatory quantum weighted for an institution. Because the new mechanism for financing this level of education based on “weighted standard cost per student” in the Republic of Moldova started in 2014, we found it appropriate to present the dynamics of these funding indicators from 2014 to 2020. Below we present in tabular form these value norms for the years 2014 - 2020.

**Table 3. Financing pre-university education based on the standard cost per student (2014-2020), lei (MDL)**

The value norm	2014	2015	2016	2017	2018	2019	2020 approved
The amount of the value norm for a "weighted student"	6929,0	8771,0	9603,0	9803,0	10 445,0	11 218,0	13 247,0
The amount of the value norm for an institution	402 998,0	428 982,0	450 996,0	449 572,0	477 880,0	513 258,0	714 837,0

Source: *Methodological notes on the elaboration by the local public authorities of the draft budgets for the respective years. / MF of the Republic of Moldova.*

*Circular on the elaboration by the local public administration authorities (LPA) a budget projects for those years. Peculiarities regarding the elaboration by the local public administrative authorities of the projects of the local budgets for the year 2020 and of the estimates for the years 2021-2022. Annex no. 1 to the MF circular no. 06 / 2-07 of November 4, 2019.*

From the information presented in the table above we find that the value norm for a weighted student in the budget year 2020 increased compared to 2014 in absolute amount by 6318 lei, and relatively this increase was 191.18%, about 2 times. The value amount for an institution during this period also showed an increase of 311,839.0 lei in absolute amount and the percentage increased by 177.38%.

Budget allocations for education are increasing year by year. Thus, in the budget year 2020 the amount of the value norm for a weighted student increased in absolute amount compared to the previous year, 2019, by 2029 lei, and in percentages this increase is 118.08%. The value amount for an educational institution also increased during this period by 201 579.0 lei in absolute amount and by 139.27 percentage points.

In conclusion, we found that in the period under review the Government promoted and developed a strategy for sustainable development of branch education through budgetary funding, although contingent of pupils / students in Moldova is decreasing.

Therefore, the task of those who directly implement this strategy is to provide quality education, using public money efficiently.

**References:**

1. Becker, G.S., 1997. *Human capital: a theoretical and empirical analysis with special reference to education*. Bucharest: All.
2. Becker, G.S., 1993. *Human Capital: a theoretical and empirical analysis, with special reference to education*. Third edition. Chicago: The National Bureau of Economic Research.
3. Decision of the Government of the Republic of Moldova ”Regarding the amendment of Government Decision no. 868/2014 on the financing on a standard cost basis per student of primary and secondary general education institutions under the subordination of local public authorities of the second level. (Effective from 01.01.2020).
4. Education Code of the Republic of Moldova no. 152 of July 17, 2014 (Official Gazette of the Republic of Moldova No. 319-324 of October 24, 2014).
5. Education development strategy for the years 2014-2020 "Education 2020" (Official Gazette of the Republic of Moldova No. 345-351 of November 14, 2014).
6. Peculiarities regarding the elaboration by the local public administration authorities regarding the elaboration of the local budgets for the year 2020 and the estimates for the years 2021-2022. Annex no. 1 to the MF circular no. 06 / 2-07 of November 4, 2019.
7. State Budget Law for 2020 No. 172 of 19-12-2019 (Published 27.12.2019 in the Official Gazette of the Republic of Moldova No.393-399, art.321).

## FISCAL POLICY OF THE EUROPEAN UNION. THE ROLE OF THE EUROPEAN FISCAL BOARD

Lecturer Ph.D., Gica Gherghina CULIȚĂ

“Constantin Brâncoveanu” University of Pitești, Romania

E-mail: ggculita@yahoo.com

***Abstract:** Fiscal discipline has always been considered a necessary prerequisite for the orderly functioning of a monetary union geared towards price stability. However, there is no consensus about which is the most appropriate policy mix to achieve it: the debate on fiscal austerity vs. growth is bitter now among researchers and international policymakers. In this paper we review the effects of different fiscal policies from the European Fiscal Board perspective.*

***Cuvinte cheie:** fiscal policy, public debts, taxes, European Fiscal Board.*

***JEL Classification:** H3, H6.*

### 1. The fiscal policy

Fiscal policy is the use of government spending and taxation to influence the economy. Governments typically use fiscal policy to promote strong and sustainable growth and reduce poverty. The role and objectives of fiscal policy gained prominence during the recent global economic crisis, when governments stepped in to support financial systems, jump-start growth, and mitigate the impact of the crisis on vulnerable groups. In the communiqué following their London summit in April 2009, leaders of the Group of 20 industrial and emerging market countries stated that they were undertaking “unprecedented and concerted fiscal expansion.” What did they mean by fiscal expansion? And, more generally, how can fiscal tools provide a boost to the world economy?

Historically, the prominence of fiscal policy as a policy tool has waxed and waned. Before 1930, an approach of limited government, or *laissez-faire*, prevailed. With the stock market crash and the Great Depression, policymakers pushed for governments to play a more proactive role in the economy. More recently, countries had scaled back the size and function of government - with markets taking on an enhanced role in the allocation of goods and services - but when the global financial crisis threatened worldwide recession, many countries returned to a more active fiscal policy.

The original architecture for economic governance in Europe’s Economic and Monetary Union (EMU), established with the Maastricht Treaty of 1992, included a series of provisions aimed at fostering fiscal discipline: the prohibition of excessive deficits, the prohibition of monetary financing, the no bailout clause and the prohibition of privileged access to financial institutions.

The original EMU architecture, however, neglected the importance of macroeconomic imbalances, which can be a source of fiscal risks for national governments. Furthermore, in the run-up to the global financial crisis of 2008, a loose implementation of fiscal rules failed to encourage Member States to build up sufficient fiscal buffers. Public debt ratios in a number of high-debt Member States were not adequately reduced under these relatively favorable economic circumstances.

The Greek sovereign debt crisis highlighted the important role of national institutions in ensuring an effective and transparent enforcement of fiscal rules.

The emergence of the sovereign-bank nexus in the euro area made clear that banking crises can have detrimental consequences for public finances and, conversely, that undisciplined fiscal policies can be a source of bank distress and impair the functioning of EMU.

Based on the lessons learned during the crisis, the six and two-pack reforms aimed

at strengthening the EU economic governance framework in five ways, by: (i) reorienting fiscal rules towards a greater focus on debt developments and expenditure control; (ii) strengthening enforcement through sanctions; (iii) expanding economic governance to the monitoring of macroeconomic imbalances; (iv) establishing independent fiscal institutions at the national level; (v) completing the EMU architecture, most notably by introducing crisis-resolution mechanisms and establishing a banking union.

Since the six and two-pack reforms, EU fiscal rules remained subject to continued refinements and interpretative innovations, which added to the complexity of an already elaborated system.

Greater complexity and judgement in the implementation of the Stability and Growth Pact (SGP) heightened frictions between different institutional players over who ultimately exercises discretion. While flexibility is desirable, the growing complexity of the functioning of the SGP has become problematic, raising questions about transparency, equal treatment among countries, and communicability to the public.

## 2. How the economy is influenced

When policymakers seek to influence the economy, they have two main tools at their disposal - monetary policy and fiscal policy. Central banks indirectly target activity by influencing the money supply through adjustments to interest rates, bank reserve requirements, and the purchase and sale of government securities and foreign exchange. Governments influence the economy by changing the level and types of taxes, the extent and composition of spending, and the degree and form of borrowing.

Governments directly and indirectly influence the way resources are used in the economy. A basic equation of national income accounting that measures the output of an economy—or gross domestic product (GDP)—according to expenditures helps show how this happens:

$$GDP = C + I + G + NX.$$

On the left side is GDP—the value of all final goods and services produced in the economy. On the right side are the sources of aggregate spending or demand—private consumption ( $C$ ), private investment ( $I$ ), purchases of goods and services by the government ( $G$ ), and exports minus imports (net exports,  $NX$ ). This equation makes it evident that governments affect economic activity ( $GDP$ ), controlling  $G$  directly and influencing  $C$ ,  $I$ , and  $NX$  indirectly, through changes in taxes, transfers, and spending. Fiscal policy that increases aggregate demand directly through an increase in government spending is typically called expansionary or “loose.” By contrast, fiscal policy is often considered contractionary or “tight” if it reduces demand via lower spending.

Besides providing goods and services like public safety, highways, or primary education, fiscal policy objectives vary. In the short term, governments may focus on macroeconomic *stabilization*—for example, expanding spending or cutting taxes to stimulate an ailing economy, or slashing spending or raising taxes to combat rising inflation or to help reduce external vulnerabilities. In the longer term, the aim may be to foster sustainable growth or reduce poverty with actions on the *supply side* to improve infrastructure or education. Although these objectives are broadly shared across countries, their relative importance differs, depending on country circumstances. In the short term, priorities may reflect the business cycle or response to a natural disaster or a spike in global food or fuel prices. In the longer term, the drivers can be development levels, demographics, or natural resource endowments. The desire to reduce poverty might lead a low-income country to tilt spending toward primary health care, whereas in an advanced economy, pension reforms might target looming long-term costs related to an aging population.

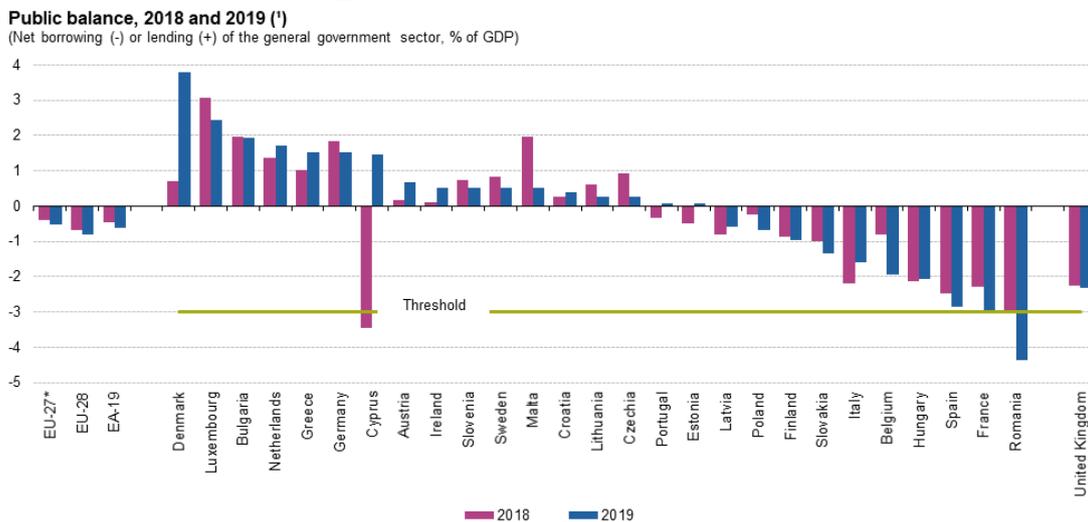
### General government surplus/deficit

The EU-27's government deficit-to-GDP ratio increased from -0.4 % in 2018 to -0.5 % in 2019, while this ratio also increased in the EA-19 from -0.5 % to -0.6 %. For 2018, at the level of the EU-27 and euro area, the lowest deficits in the available time series were observed.

Seventeen EU-27 Member States — Denmark (+3.8 %), Luxembourg (+2.4 %), Bulgaria (+1.9 %), the Netherlands (+1.7 %), Greece, Germany and Cyprus (all +1.5 %), Austria (+0.7 %), Ireland, Slovenia, Sweden and Malta (all +0.5 %), Croatia (+0.4 %), Lithuania and Czechia (both +0.3 %) as well as Portugal and Estonia (both +0.1 %) — registered government surpluses in 2019.

There were eight EU-27 Member States, namely Latvia, Poland, Finland, Slovakia, Italy, Belgium, Hungary and Spain, that recorded deficits in 2019 that were smaller than 3.0 % of GDP. Two EU-27 Member States had deficit equal to or higher than 3.0 % of GDP: France (-3.0 %) and Romania (-4.4 %), (see Figure 1).

Figure nr. 1. Public balance, 2018 and 2019



\* from 1 February 2020  
(1) Data extracted on 22.10.2020.  
Source: Eurostat(gov\_10dd\_edpt1)

eurostat

Source: [https://ec.europa.eu/eurostat/statistics-explained/index.php/Government\\_finance\\_statistics#General\\_government\\_surplus.2Fdeficit](https://ec.europa.eu/eurostat/statistics-explained/index.php/Government_finance_statistics#General_government_surplus.2Fdeficit)

### 3. The role of European Fiscal Board (EFB)

Fiscal deficits and public debt ratios (the ratio of debt to GDP) have expanded sharply in many countries because of the effects of the crisis on GDP and tax revenues as well as the cost of the fiscal response to the crisis as well as the last years world economy evolutions. Support and guarantees to financial and industrial sectors have added to concerns about the financial health of governments. Many countries can afford to run moderate fiscal deficits for extended periods, with domestic and international financial markets and international and bilateral partners convinced of their ability to meet present and future obligations. Deficits that grow too large and linger too long may, however, undermine that confidence.

European Union has created European Fiscal Board especially to address some of the main issues of European countries. The Board was set up following the Five

Presidents' Report Completing Europe's Economic and Monetary Union", with the aim to strengthen the current economic governance framework.

The main responsibilities of EFB are:

- evaluate the implementation of the Union fiscal framework and the appropriateness of the actual fiscal stance at euro area and national level
- make suggestions for the future evolution of the Union fiscal framework
- assess the prospective fiscal stance appropriate for the euro area as a whole based on an economic judgment, as well as the appropriate national fiscal stances, within the rules of the Stability and Growth Pact
- cooperate with the National Independent Fiscal Councils
- provide ad-hoc advice to the Commission President

In April 2019, the European Commission decided to renew the mandate of the European Fiscal Board for a second and final three-year period taking effect on 20 October 2019.

In August 2019, the EFB report "Assessment of EU fiscal rules", made at the request of the European Commission, revealed many of the problems that European Union faces in the last years and bring some solutions.

First, evidence on what would have happened, if the EU had continued to rely on the pre-crisis rule book is not available, so conclusions are necessarily tentative. Yet, the EFB specialists report that – underpinned by the major analytical efforts undertaken, in particular, by our Secretariat – the six and two-pack reforms have moderately advanced sustainability. However, the reforms have been unable to significantly reduce pro-cyclical elements in national fiscal policies and to improve the quality of public finances. In particular, the reforms have not protected investment against bearing the brunt of the cutbacks in public expenditures since the crisis started from 2008-2009.

Second, the EFB has found it useful to supplement the rich documentary evidence available by collecting well-informed, often divergent, views through a series of conversations with policy officials who have been involved in designing and in implementing the EU fiscal rules, including some of the 'architects' of the six and two-pack reforms

While the simplification of the rules that have been asked to propose may seem analytically feasible, the EFB understands that political agreement on how to advance could be easily achieved; the agenda may at the same time be too narrow and too divisive.

As to the former and the more analytical aspects, the EFB sees itself as part of an emerging consensus in understanding simplification as focusing on one anchor – the longer-term evolution of the ratio of public debt to GDP – and one main instrument – the expenditure benchmark – while replacing some of the piecemeal elements of flexibility which have been introduced, mostly through negotiations between the Commission and individual Member States since 2015, by a general escape clause. The use of such a clause should be embedded into a clearer demarcation than in current practice between economic analysis and the political arguments that European Fiscal Board will occasionally have to override it.

EFB already presented some of these ideas in the Annual Report 2018. Simplification along the lines suggested would, in the view of the EFB, be desirable, even when viewed in isolation. But it is easy to anticipate the resistance to it and to understand why the current Commission envisages a revision of the rules after 2020. Member States, which have relied on delaying fiscal adjustments, want to retain well-known, but opaque procedures, while other Member States fear that the later could risk becoming (even) more flexible. Both groups seem to share the view that the current practices have not been sufficiently destabilizing to make a revision a high priority. Given this stalemate, a narrow

agenda may become a constraint – as it was when the six and two-pack reforms were adopted. At that time, agreement on a major clarification of the fiscal rules and on tighter monitoring of them was facilitated by its coincidence with an agreement on a safety net, later the European Stability Mechanism (ESM), to provide conditional financing, if things were to go badly wrong, despite efforts to observe the rules.

Circumstances in 2019 are, fortunately, less ominous than nearly a decade ago, mainly because much of a banking union and a wider safety net have come into existence. Yet some of the original flaws persist: despite a substantial recovery over the past couple of years, a number of high-debt Member States have not used the good times to build fiscal buffers, making their public finances vulnerable once more to even a modest slow-down of activity; at the same time, monetary policy has limited scope for further accommodation.

EFB have reviewed the challenges of such a shorter-term scenario in the report of June 2019 on the appropriate fiscal stance in the euro area. Looking beyond the next one or two years, a simplification of the fiscal rules with carefully targeted scrutiny of a general escape clause could be easier to implement if accompanied by some allowance for a stabilization capacity at the joint level of the euro area, as was argued already in the Annual Report 2017.

The EFB identified multiple sources of unnecessary complexity in the current framework. First, there is an excessive reliance on European Fiscal Board unobservable indicators and real-time data – both often subject to major revisions ex-post. Second, with the benefit of hindsight, flexibility was often badly timed, also due to political considerations thus facilitating pro-cyclicality, while at the same time it failed to protect public investment. Third, there is a tendency to rely on annual rather than longer-term plans. Member States continue to postpone adjustments to the outer years in their stability and convergence programs.

For example, the proposal of the EFB brought several advantages resulting in a simplification. In its annual report 2018 the EFB has made a proposal that relies on a simple medium-term debt ceiling and one operational target, namely, a ceiling on the growth rate of primary expenditure net of discretionary revenue measures, and an escape clause triggered on the basis of independent economic judgement. This proposal would focus more clearly on underpinning sustainability, improve observability, simplify the rules and reduce pro-cyclicality. Net primary expenditure growth is linked to potential growth and thus would have an implicit stabilizing effect on the economy. The EFB proposal encourages a focus on the medium run by fixing the net primary expenditure growth ceiling for a period of three years ahead. Furthermore, the use of flexibility to reconcile stabilization better with sustainability, while improving the quality of public finances, remains an appropriate objective. The EFB proposes that any flexibility should be based on independent economic judgement. Finally, the EFB concludes that the ‘matrix approach’, which determines the speed of adjustment towards to the medium-term objective, has not worked and could be abandoned.

Further efforts need to be undertaken to improve the quality of public finances. The EFB’s proposes the introduction of a limited Golden rule to protect public investment, while avoiding overburdening the EU fiscal rules with too many conflicting objectives. A variant of the Golden rule would exclude some specific growth enhancing expenditure from the net primary expenditure growth ceiling. The selection of relevant expenditure would take into account projects already identified by the EU budget. The EFB proposes that Member States could voluntarily top-up expenditures on projects beyond their co-financing commitments. These could then be deducted from the calculation of the net primary expenditures. National independent fiscal institutions could monitor the classification of growth-enhancing expenditure. This would further reduce the risk that

governments unduly classify certain expenditure items as public investment.

There are certain governance issues that need to be addressed.

First, the Directorate-General for Economic and Financial Affairs (DG ECFIN) of the European Commission should play a more independent role, to be defined in secondary legislation, in carrying out economic analysis and providing advice to the College of Commissioners.

Second, after the introduction of the reverse qualified majority voting (RQMV) the Commission appears to have become more reluctant in following through with the enforcement of the fiscal rules. RQMV might also have contributed to the involvement of politics of the Commission and the ambivalence of fiscal surveillance at the expense of multilateral peer review. The RQMV should be abolished.

Third, the EFB is convinced that the functioning of the Eurogroup could be improved if it was chaired by a full-time president, who is neither a national Finance Minister nor a member of the Commission.

Considering the relatively high turnover of Finance Ministers in the Eurogroup this would improve continuity and the governance of the euro area as a whole.

Financial sanctions in case of non-compliance with the EU fiscal rules framework have been politically difficult to enforce. The EFB has been a strong advocate of introducing a common fiscal capacity at the European level. One of the eligibility criteria to access funds could be compliance with the EU fiscal rules. Incentivizing compliance in this way might be more effective than financial sanctions. Going beyond uniform rules, one could imagine closer coordination of fiscal policies across Member States. Based on a mutual agreement between Member States over a seven year cycle, staggered against the multiannual financial framework of the EU, medium-term debt targets could be made country-specific. High-debt countries would commit to reduce their debt, and symmetrically low-debt countries would commit to increase growth-enhancing government expenditure, in particular those that have positive cross-border spillovers. The proposed agreement would effectively implement a euro area aggregate fiscal stance. Finally, the creation of links between net expenditure growth and the MIP could be explored.

#### **4. Conclusions**

In general, in the absence of a movement towards either a central fiscal capacity or other features of a deeper Economic and Monetary Union (EMU) and coordination of national policies, a burden will continue to be put on the fiscal rules as a partial substitute.

EFB have tried to outline a major simplification of the rules and a revision of the governance framework within which they operate. They would help in reconciling the objectives of sustainability of public finances and of economic stabilization. But it is necessary to go beyond pure simplification by trying to accommodate, through a variant of a Golden Rule, stronger incentives for public investment into the rules than have been provided so far.

More attention to stimulating growth-enhancing spending is warranted by the likely persistence of a low interest rate environment as well as by the increasingly specific nature of EU investment initiatives.

The 2019 EFB Report looked at how EMU deepening might reconcile the heterogeneity of the euro area with the need to give more meaning to its aggregate economic performance, as represented by the notions of the euro area fiscal stance and the macroeconomic imbalance procedure. This would involve recognition of diversity by collective negotiation of country-specific debt targets for the longer run.

These latter subjects were gone well beyond immediate mandate of EFB and required much further reflection. They must be addressed in future work, as well as to

addressing links from fiscal rules to financial integration and to the strength of crisis mechanisms in the euro area to lessen the risks for public finances. This will be in the benefit of all member states, future part of the euro area.

**References:**

1. Horton, M. and El-Ganainy, A., 2020. *Fiscal policy: taking and giving away*. International Monetary Fund. [online] Available at: <<https://www.imf.org/external/pubs/ft/fandd/basics/fiscpol.htm>> [Accessed 12 June 2020].
2. European Commission, 2020. *Mandate, Composition and Secretariat of The European Fiscal Board*. [online] Available at: <[https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/european-fiscal-board-efb\\_en](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/european-fiscal-board-efb_en)> [Accessed 12 September 2020].
3. Eurostat, 2020. *Government finance statistics*. [online] Available at: <[https://ec.europa.eu/eurostat/statistics-explained/index.php/Government\\_finance\\_statistics](https://ec.europa.eu/eurostat/statistics-explained/index.php/Government_finance_statistics)> [Accessed 12 September 2020].

## SOCIAL INCLUSION-A FORM OF ERADICATION OF POVERTY AND SOCIAL EXCLUSION. SOCIAL INDICATORS FOR MEASURING SOCIAL EXCLUSION

**Ph.D. Student, Cristina-Cora PÎRVU**

”Lucian Blaga” Interdisciplinary Doctoral School, Sibiu, Finance Field, Romania

E-mail: [pirvucristina@yahoo.com](mailto:pirvucristina@yahoo.com)

**Associate Professor Ph.D. Maria Carmen IORDACHE**

”Constantin Brâncoveanu” University of Pitești, Romania

E-mail: [iordache72@yahoo.com](mailto:iordache72@yahoo.com)

**Abstract:** *Social inclusion, as a support for social policies, is both a deliberate process of integrating and welcoming all people into a society based on equal opportunities and greater tolerance, and an objective aimed at combating social exclusion by removing barriers to people's participation in society. In the foundation of social policies are used social indicators that allow the description in statistical terms of the level of social development achieved in society, but also of the current existing problems. They provide confidence in social policy actions and make it possible to monitor progress in solving problems of general interest. This paper highlights the conceptual presentation of the term of social inclusion, both in general and from the perspective of the European Union, the system of indicators used in measuring social inclusion, social trends regarding the evolution of social inclusion indicators at EU and Romanian level.*

**Keywords:** *social inclusion, social exclusion, social indicators, AROPE.*

**Classification JEL:** *H53, I32, I38.*

### 1. Introduction

Poverty is a socio-economic phenomenon that has manifested itself and is manifested in all societies and at all times, to a greater or lesser extent, under the influence of a wide variety of factors. It could be said that poverty never disappears entirely, but it can be alleviated by consciously applied measures. For this, however, the phenomenon must be known, understood, measured and monitored.

Specific tools are needed in the process of studying and assessing poverty, as well as in developing measures to combat this scourge. Among these instruments, statistical indicators and statistical methods for characterizing the size, structure and dynamics of poverty are of primary importance. That is why the need for a comprehensive set of indicators that characterise the different facets of poverty, exclusion and social inclusion in a complex way cannot be ignored. The task, however, is by no means simple given the forms and areas in which poverty manifests itself, the sources of statistical information available, the methods of assessment proposed by statistical theory and practice.

The research methodology is based on three main stages: identification of the literature, its selection, corroboration and synthesis of data.

The literature addresses a series of research, mostly conceptual, international studies that show a fundamental theoretical orientation about social inclusion. The methods used focus on the conceptualisation and description of social inclusion, and it is necessary to examine this concept closely in view of its importance in eliminating disparities in material welfare and Social Security.

An initial, informal evaluation of the literature revealed that there is little data and authoritative sources on social inclusion. Data source at EU level, the main statistical tool for collecting data to provide the information needed to measure poverty and social exclusion is the income and living conditions survey (EU-SILC). This is a harmonised survey, with all member countries being obliged to apply the regulations adopted by the Council of Europe in this area.

## 2. Analysis of specialized literature

While exclusion is an older term, first introduced in the 1970s and first taken up in France in the early 1980s as a concept of social policies and then, over the next decade, at European Union level, inclusion is a much newer term, defined as a policy to respond to situations of social exclusion in the European Council documents of 2000, among which the Lisbon strategy is distinguished. In the years that followed, the promotion of social inclusion, as a line of public policy, replaced the fight against social exclusion.

In the early 1990s, policy documents of the community institutions, such as the 1993 Green Paper on European Social Policy: Options for the Union, mentioned combating social exclusion as a line of Public Policy. In the academic environment of those years inclusion still did not appear, terms such as integration or insertion being used in the analysis of policies to combat social exclusion (Rodgers, 1995). The reference to the introduction of the term social inclusion is the European Council of Lisbon in 2000, the point at which it was launched, the strategy of the European Union, having as its horizon the year 2010, also known as the Process or the Lisbon Strategy, however, the presence of the concept of social inclusion in policy documents, we will return to in the next section, the policies in this area.

As such, social inclusion is defined as the process of improving the terms and conditions of participation in society for people who are disadvantaged on the basis of age, sex, disability, race, ethnicity, origin, religion, or economic status, or other opportunities for increased access to resources, voice and rights (<https://pjp-eu.coe.int/en/web/youth-partnership/social-inclusion>).

**Table no.1 Typology of definitions on social inclusion**

Social Inclusion	
Haan, 2001	a lens through which people look at reality and not reality itself
Law no. 292/2011- Social assistance law	multidimensional measures and actions in the fields of social protection, employment, housing, education, health, information-communication, mobility, security, justice and culture, aimed at combating social exclusion and ensuring the active participation of individuals in all economic, social, cultural and political aspects of society
British Council, 2009	respect for the status and rights of all people in a society, who must have the opportunity to participate in its life in a relevant way and enjoy equal treatment with others
World Bank Group. 2011	process by which efforts are made to ensure equal opportunities for all.
Graumann, 2012	the process of improving the conditions of participation in society, especially for disadvantaged people, by improving opportunities, access to resources, voice and respect for rights.
Rheem Al-Adhami, 2011	a vision for a " society for all " in which every individual has rights, responsibilities and an active role to play.
Vobruba (1998)	Conditions " that allow people at least to tolerate social change, through bearable costs

Source: by author

From an academic perspective, two questions on social inclusion are emerging. The first would be to what extent inclusion can be more than just an active response to situations of exclusion. The second concerns the extent to which one can speak of an impact of social inclusion on the structure of social programmes. However, it is relevant to note that both aspects, as well as the treatment of social inclusion – concept in social policies, are very rarely and only marginally present in academic analyses.

Regarding the first question, the theoretical position by which inclusion is seen as more than a reaction to social exclusion is well represented by Meg Luxton (2002). According to the author, social inclusion " recognizes that the solution to inequality is not

simply to offer the excluded the same formal rights (...). Instead of waiting for the marginals to conform to the prevailing norms and practices of those at the centre, social inclusion implies a reconfiguration of the Centre to encompass the practices of the marginals” (Luxton, 2002: 2-3). In other words, this position underlines the potential for integration of various minority cultural groups.

However, a clear answer to the second question is expected. In an analysis of precisely this aspect of the impact of inclusion on the structure of social programmes in the UK, John Hills concludes that "the ways in which policies and responses to problems such as poverty, deprivation and disadvantage can change", but "if it happens in practice, it is another question" (subl. in the original) (Hills, 2002: 240). As arguments, Hills evokes the analyses of the Social Exclusion unit of the British Prime Minister, which also focused on issues other than material poverty, such as school dropout, deprivation, homelessness and teenage pregnancies. However, Hills notes a close link in the social policies promoted by the Tony Blair-led New Labour government between inclusion and the rhetoric of wage labour participation.

In 2000, EU leaders initiated the process of social inclusion, aimed at taking decisive action to eradicate poverty by 2010 (Atkinson, Rob and Davoudi, Simin (2000). The union has provided member states with a common framework for developing and coordinating national strategies on poverty and social exclusion. Non-governmental organisations, social partners and local and regional authorities play an important role in this process.

### **3. The system of indicators used to measure social inclusion**

The system of indicators for social inclusion aims to highlight the issue of poverty through the creation of a statistical database, which can be used for information and research in supporting the national programs for combating poverty, as well as conducting various international comparisons.

Worldwide, there are two main methods of assessing poverty:

- absolute method-which uses a poverty threshold determined on the basis of the expenditure imposed by obtaining a consumption basket that ensures the minimum acceptable caloric requirement
- the relative method-which uses a poverty threshold determined on the basis of a proportion - typically 60% - of the median distribution of disposable income per equivalent adult.

Eurostat, the EU's Statistical Office, uses the relative method of measuring poverty (from which the risk of poverty indicators derive) for two reasons :

- ensuring all European citizens a high standard of living, corresponding to the level of economic and social development of each state, not just a minimum standard of living;
- the existence of considerable disparities between the stages of development of the states, which makes it very difficult to define a minimum, universally acceptable standard of living in the Union.

In addition to these methods, a set of national indicators for social inclusion in the consideration of a number of indicators of the characteristics of the conditions of life - the primary, secondary, and tertiary, which may be associated with the concept of poverty and social exclusion, describing many different aspects of the main characteristics of the living conditions of the population (incomes and expenses, consumption, poverty, and the size of it; the labour market, the employment rate of the labour force and the unemployment rate;

the educational level, the rate of participation in education and drop out of school; health and medical care; housing conditions, housing characteristics and facilities; crime).

The most general indicator, also used to measure the achievement of the EU target for increasing social inclusion, follows people at risk of poverty or social exclusion (AROPE) who are in at least one of the following three situations:

➤ Are at risk of relative poverty, even if they have received social transfers (indicator called AROP). These are those whose annual disposable income is less than 60 percent of the median disposable income per adult equivalent. Disposable income is the sum of all income realized (including income from social protection: Social Security benefits, unemployment benefits or social assistance benefits) minus taxes (on income or property) and social contributions paid.

➤ Live in households with very low labour intensity (MDS), i.e. persons living in households where members aged 18 to 59 worked less than 20% of their labour potential in the reference year.

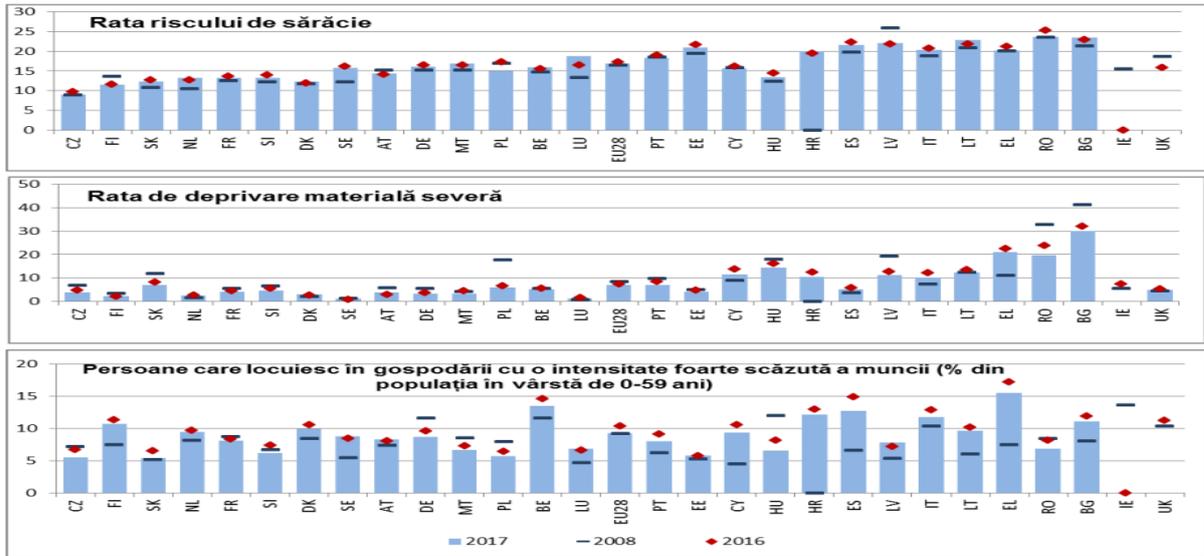
➤ They are exposed to severe material deprivation (VLWI), people from households that are located in at least four of the following nine conditions: (1) they can't afford to pay the rent, the rates, loans, or utility bills; (2) they can't afford to keep their home heated adequately; and (3) are not able to cope with our own financial resources unforeseen costs; and (4) they can't afford to eat meat or proteins every two days; and (5) they can't afford to go on holiday to the annual the a week at a time away from home; (6) does not have a colour tv; (7) a washing machine; (8) I don't have a car; (9) do not have phone .

The European Union's major concern for promoting social inclusion in the Member States has found its way through the development of an integrated strategy, called Europe 2020. This strategy has set the goal of eliminating the risk of poverty across the Union for at least 20 million people by 2020.

#### **4. Social trends on the evolution of social inclusion indicators at EU level**

People from a migration background are at significantly higher risk of poverty or social exclusion. In 2017, the AROPE rate was more than twice as high among people born outside the EU as among Indigenous people (41% versus 20.7 %). This difference was particularly large in Belgium (37,1% points), Sweden (29,6 percentage points) and Denmark (25.8 points of percentage), but it was the lowest in Poland (4.6 percentage points), Portugal (6.8 percentage points) and the Czech Republic (7.8%).

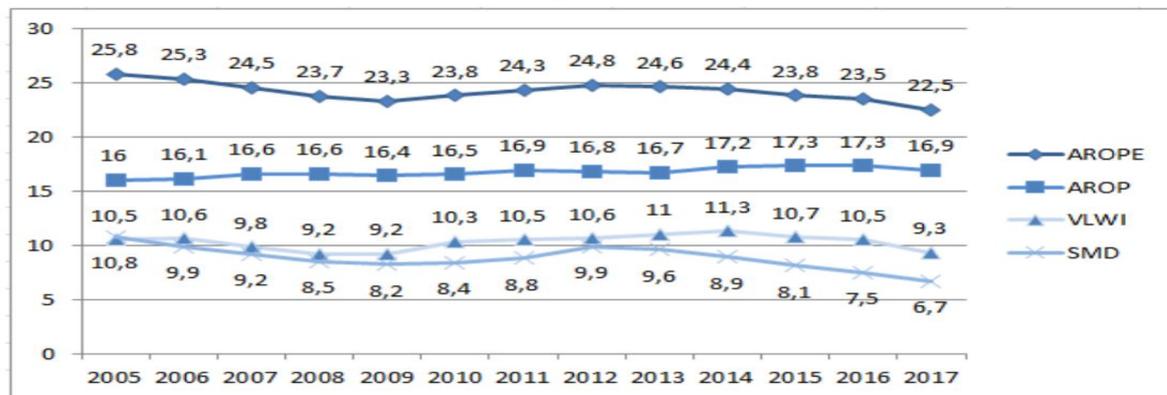
**Figure 1 Sub-indicators of risk of poverty or social exclusion**



Source: Eurostat, SILC. Note: the indicators are ranked according to AROPE in 2017. On 26 October 2018, IE and UK data for 2017 are not available. EU-27 values are used for 2008 (no data are available for HR).

The number of people at risk of poverty or social exclusion (AROPE) decreased substantially in 2017 and is now below pre-crisis levels. The downward trend of this indicator continued for the fifth consecutive year in 2017, falling to 113 million people (or 22.5% of the total population) in line with the recovery in employment and the increase in disposable income. Therefore, in 2017, the number of people at risk of poverty or social exclusion decreased by 5 million in the EU compared to the pre-crisis situation (in 2008), while the decrease from the peak in 2012 amounted to almost 11 million. However, given the setback caused by the crisis, achieving the Europe 2020 headline target (with 20 million fewer people at risk of poverty or social exclusion compared to 2008) remains difficult. The current overall decline of this indicator is driven by all three of its subcomponents, albeit to a different extent (See also Figure 3 below).

**Figure 2. Percentage of the population at risk of poverty or social exclusion (AROPE) and its subcomponents (2005-2017)**



Source: Eurostat, SILC  
AROPE-rate of risk of poverty or social exclusion; AROP-rate of relative poverty; SBD-rate of severe material deprivation; VLWI – share of people living in households with very low labour intensity

A sharp drop in the number of people affected by severe material deprivation (MDS) brings the figures to the lowest level in recent history, reflecting rising living standards. More than 3 million people were freed from severe material deprivation during the year to 2017, bringing the total number of people affected to 34.8 million or 6.9% of the EU population (0.6 percentage points lower than in 2017 and below the 2008 level). This decrease represents a significant improvement for the fifth consecutive year, reflecting an improvement in the material situation of households. Despite these positive developments, there is still considerable variation between member states.

**Table 2. Indicators of public support / protection and social inclusion**

	<i>Public support / protection and social inclusion</i>			
	Impact of social transfers on poverty reduction	Children under 3 years of age receiving formal care	Self-reported unmet health care	Needs digital skills level of the population
Year	2017	2016	2017	2017
Best performance	DK, FI, HU, SE	FR, LU, NL, PT		FI, LU, NL, SE
Above average performance	BE, CZ, FR, NL, PL, S I	EE, ES, MT, SI	AT, CZ, DE, DK, ES, FR, HU, IT, LU, MT, NL, PL	AT, CZ, DE, MT, UK
Average / neutral performance	CY, DE, MT, SK	CY, DE, FI, IE, IT, LV, UK	BE, BG, FI, HR, LT, PT, SE, SK	A T
Good performance, but to monitor	A T	BE, DK, SE		DK
Poor performance but improving		RO	EE, EL	CY
To be watched	EE, ES, HR, LT, LU, P T	AT, HR, HU, LT	CY, RO, SI	EL, HU, IE, LV, PL, P T
Critical situations	BG, EL, IT, LV, RO	BG, CZ, EL, PL, S K	LV	BG, HR, RO

Source: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Income\\_poverty\\_statistics/ro](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Income_poverty_statistics/ro)

The situation according to each indicator is presented as follows:

- Bulgaria, Greece, Italy, Latvia and Romania are facing a "critical situation" in terms of the ability of social transfers to reduce the risk of poverty. This contrasts with Denmark, Finland, Hungary and Sweden, which have "the best performances";
- Bulgaria, the Czech Republic, Greece, Poland and Slovakia score critically on the participation of children under 3 years of age in the formal childcare system, compared to France, Luxembourg, the Netherlands and Portugal, which Score "Best Performances";
- Latvia faces a "critical situation" in self-reported unmet health care needs (based on the methodology, no "best performing" countries were identified, but 12 countries scored "above average");
- Bulgaria, Croatia and Romania are facing a "critical situation" in terms of digital skills levels, while Finland, Luxembourg, the Netherlands and Sweden have the best performance.

The measures for the prevention of and the fight against poverty and risk of social exclusion are in line with the general multi-dimensional action to the process of social inclusion that ensure the opportunities and resources necessary for the participation of vulnerable groups in the economic, social and cultural development of the society, as well as in the decision-making process concerning his life, and that they have access to their fundamental human rights.

For the prevention of and the fight against poverty and risk of social exclusion through public policies which has been initiated, the state ensures the access of vulnerable persons to certain rights such as the right to housing, to social security and healthcare, education and employment and to put in place measures to support according to the needs of individuals, families and groups in need.

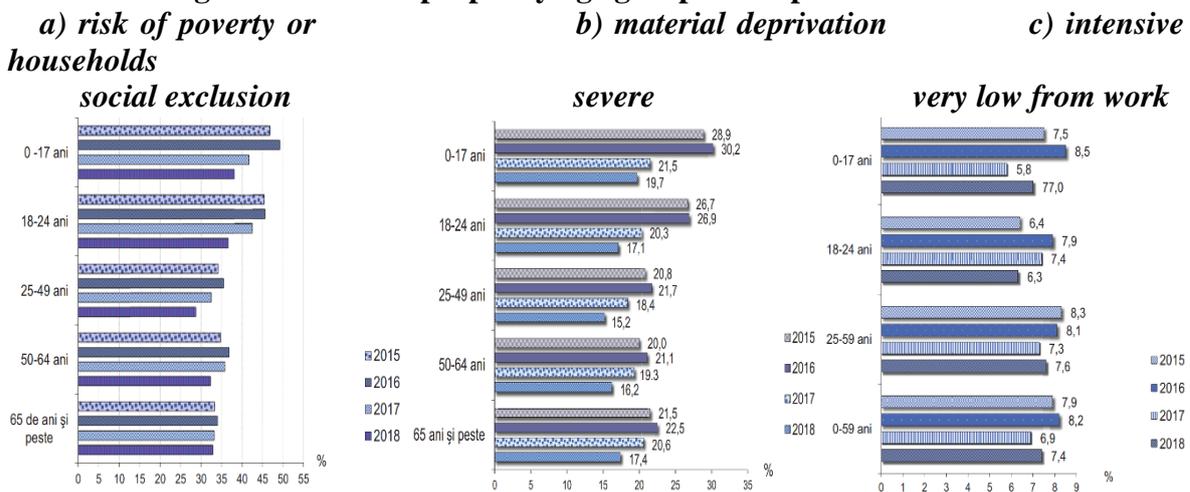
The harmonization of policies aimed at the knowledge of, prevention of, and fight against the situations which leads to poverty and risk of social exclusion is carried out in the framework of the national mechanism for the promotion of social inclusion, established by law, with the participation of the authorities of the central public administration and local government, and representatives of civil society organizations.

### 5. AROPE indicator profile in Romania

The risk of poverty or social exclusion (AROPE) rate was 32.5% in 2018, corresponding to 6.4 million people. In 2018 there is a further decrease in the indicator, compared to 2017 being by 3.2 percentage points lower. Compared to other EU member states, the estimated relative levels for Romania are very high. In general, it can be said that the AROPE indicator presents a much more unfavorable situation than that resulting from the analysis of the poverty rate itself (32.5% compared to 23.5% in 2018). Women, the unemployed, people with a low level of education and children are the socio-economic categories with the highest risk of poverty or social exclusion on average.

The acute lack of financial resources means that some people cannot afford to own goods, make payments or consume products that, at the present stage of economic and Social Development, represent a minimum of elements necessary for a decent living. Compared to 2015, the rate of severe material deprivation decreased by 5.9 percentage points, reaching 16.8% of the population in 2018.

**Figure 3. Share of people by age group in the period 2015-2018**



In 2018, the incidence of severe material deprivation is higher mainly in children aged up to 18 years (19.7%) and in the elderly aged 65 years and over (17.4%). Compared to the beginning of the analyzed periods, in 2018 there were significant decreases in the weight of severely deprived persons in the age groups under 18 and 18-24 years, reductions by 9.2 and 9.6 percentage points respectively.

As a share of the total population aged up to 60 years, people from households with very low labor intensity accounted for 7.4% in 2018, slightly below the starting value of the analyzed period (by 0.5 percentage points). Also, the employment potential of the

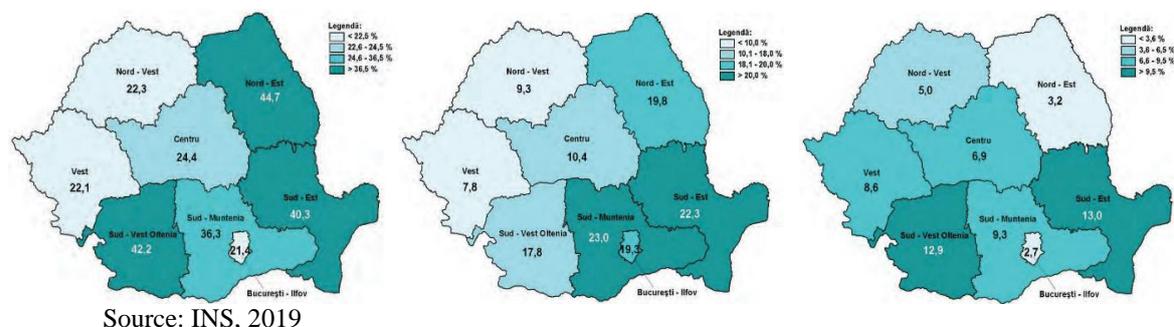
members of the working age household (18-59 years) is very differently exploited, for reasons internal or external to the household. It is precisely this aspect that is the objective of the indicator on the standard of living in households with very low labour intensity, since this type of household is considered to be strongly threatened by the spectrum of poverty or social exclusion.

It is indisputable that the pursuit of a gainful activity is an essential factor in ensuring adequate daily living conditions. At the same time, it is desirable that the activity in question should, as far as possible, be of a continuity nature and make full use of working capacity, so that the benefits of the activity can be reflected in the person's standard of living. In concrete terms, the composition and characteristics of households are extremely heterogeneous, under the influence of the number and gender of members, their age, training and occupation, as well as other demographic-socio-economic factors. In Romania, in 2017, in households where adults of working age carried out activities that required less than 20% of their potential to work, there were 1022 thousand people aged up to 60 years. Compared to 2014, the number of people in households with very low labor intensity decreased by 77 thousand people. The distribution by sex of these people shows that during the whole period, the number of women exceeded that of men (in 2017 by 92 thousand).

The risk of poverty or social exclusion is also unevenly distributed in the regional profile. Maintaining the proportion shows about the same distribution of regions as for the relative poverty rate. Thus, the highest rate of risk of poverty or social exclusion is recorded in the South-West Oltenia region, followed closely by the North-East and South-East regions.

Severe material deprivation is also unevenly distributed in the regional profile. In 2018, the highest incidence of severe material deprivation was recorded in the South-Muntenia and South-East regions by 15.2 and 14.5 percentage points higher respectively compared to the West Region. The analysis of the evolution of severe material deprivation, in regional profile, during the analyzed period highlights the fact that, compared to 2017, decreases in severe material deprivation were felt in most regions, the highest being recorded in the West Region (6.0 percentage points), followed closely by the South-West Oltenia region by 4.2 percentage points. A slight increase was recorded in Bucharest-Ilfov region by 0.2 percentage points.

**Figure 4. Share of people by development regions in the period 2015-2018**  
*a) risk of poverty or social exclusion*      *b) material deprivation severe*      *c) intensive very low from work*

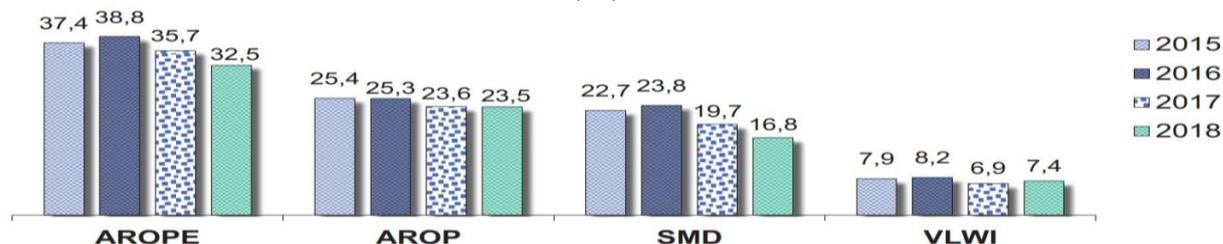


Analysis of the evolution of people aged up to 60 years living in households with very low labor intensity, in regional profile, highlights that the lowest rates are recorded in

the Bucharest-Ilfov region (2.7%), and the highest rate in the Southeast (13.0%) and Southwest Oltenia (12.9%).

In the period 2015-2018, the evolution of the components of the AROPE indicator, namely: the relative poverty rate, the rate of severe material deprivation and the share of people living in households with very low labor intensity is presented in the following figure.

**Figure 5. Evolution of the three components of the risk of poverty or social exclusion (AROPE) in the period 2015-2018 (%)**

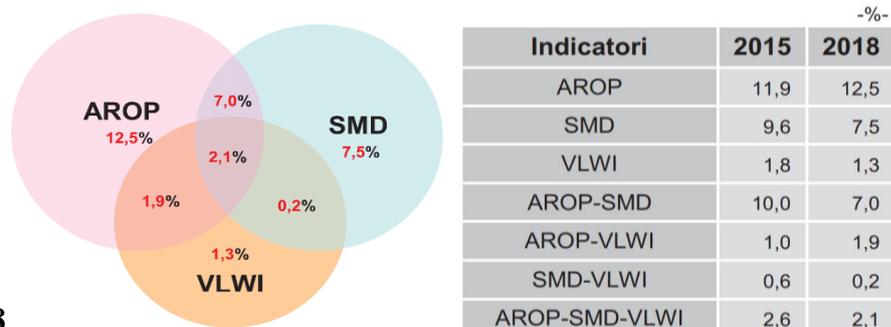


Source: INS, 2019

AROPE-rate of risk of poverty or social exclusion; AROP-rate of relative poverty; SMD-rate of severe material deprivation; VLWI – share of people living in households with very low labour intensity

The intersection of the components of the AROPE indicator provides information for detailed analysis of the impact of each of the three components on the evolution of the composite indicator. In 2018, nearly 1.4 million people are at risk of poverty and are severely materially deprived (7.0%).

**Figure 6. The components of the AROPE indicator and their intersections in**



2018

Source: INS, 2019

Compared to 2015, among people at risk of poverty and in a state of severe material deprivation (AROP-SMD), there was a decrease in 2018 by 3.0 percentage points. The share of people who are at risk of poverty and live in households with very low labour intensity (AROP-VLWI) registered an increase of 0.9 percentage points in 2018 compared to 2015. The percentage of people who are in a state of severe material deprivation and live in households with very low labor intensity (SMD-VLWI) registered a decrease of 0.4 percentage points in 2018, compared to 2015. The share of people who are at risk of poverty, are in a state of severe material deprivation and live in households with very low labor intensity (AROP-SMD-VLWI), decreased in 2018 by 0.5 percentage points compared to 2015.

## 6. Conclusions

Beyond the frailty of the plan, however, the social inclusion, mark a new approach based on the institutions of the eu by highlighting the major risks to be perceived as a source of growth, inequality, and social exclusion: the major changes in the labour market, changes in the demographic structure and the increase in ethnic diversity, the increasing role of the sector of information and communication technologies, changes in the function and structure of the family, as well as the roles of women and men in the family. Individual factors referred to by the European Commission, which increases the risk of social exclusion and the maintenance of the medium-term or long-term poverty are: unemployment, long-term, low incomes, low-paid jobs, poor health, lack of housing or inadequate housing, immigration status, skill level of the low handicap, the addiction of drug or alcohol abuse, the fact of belonging to the marginalized communities/ the poor, the low level of education and illiteracy, care for the children in the families.

## References:

1. Atkinson, A.B., 1998. Social Exclusion, Poverty and Unemployment. In: Hills, J. (Ed.) *Exclusion, Employment and Opportunity*. London: London School of Economics.
2. Atkinson, R. and Davoudi, S., 2000. The concept of social exclusion in the European Union: Context, development and possibilities. *Journal of Common Market Studies*, 38(3), pp. 427-448.
3. Barry, B., 2002. Social Exclusion, Social Isolation, and the Distribution of Income. In: Hills, Le Grand, J., Piachaud, D. (eds.), *Understanding Social Exclusion*. Oxford: Oxford University Press.
4. Berghman, J., 1995. Social exclusion in Europe: Policy context and analytical framework. In: G. Room, ed., *Beyond the Threshold – The Measurement and Analysis of Social Exclusion*. Bristol: Policy Press, pp. 10-28.
5. Cace, C., 2004. *Social Insurances: Management, evolutions and tendencies*. Bucharest: Expert.
6. Council of the European Union, 2001. *Conclusions of the Laeken European Council*. Brussels.
7. Democratic Dialogue, 1995. *Special Reports: Report 2 – Social Exclusion*. Social Inclusion online: <http://www.dem-dial.demon.co.uk/index.htm> (June 1 2001).
8. Ebersold, S., 1999. *Exclusion and Disability*. OECD internet <http://www.oecd.org/els/edu/ceri/conf220299.htm>.
9. European Commission, 1994. *European Social Policy – A Way Forward for the Union – A White Paper* (COM(94) 333), Brussels. European Commission.
10. European Values in the Globalised World, *Communication from the Commission*, Brussels (COM2005) 525 final). Available at: [http://europa.eu.int/comm/employment\\_social/news/2005/oct/global\\_comm\\_en.pdf](http://europa.eu.int/comm/employment_social/news/2005/oct/global_comm_en.pdf)
11. Goodin, R.E., 1996. Inclusion and exclusion. *European Journal of Sociology*, 37, pp. 343-371.
12. Haralambos, M., Holborn, M., Heald, R., 2008. *Sociology: Themes and Perspectives*. Londra: Collins.

13. Hills, J., 2002. *Does a Focus on 'Social Exclusion' Change the Policy Response*. In: Hills, J., Legrand, J., Piachaud, D. (eds.), *Understanding Social Exclusion*. Oxford: Oxford University Press.
14. INS, 2019. Dimensiuni ale incluziunii sociale în România în anul 2018.
15. Legea nr. 292/2011, Legea asistenței sociale.
16. Luxton, M., 2012. *Feminist perspectives on social inclusion and children's wellbeing*. Toronto: The Laidlaw Foundation.
17. Merghman, J., 1995. *Social Exclusion in Europe: Policy Context and Analytical Framework*. In: Room, G. (ed.), *Beyond the Threshold*. Bristol: Polity Press.
18. Ministerul Muncii, Familiei și Protecției Sociale, Proiectul Phare, 2006. Asistență tehnică pentru promovarea campaniei naționale de conștientizare în domeniul incluziunii sociale.
19. OECD, 1999. *Inclusive Education at Work*.
20. Rheem Al-Adhami, 2011. *The Significance of Social Inclusion for Development*. News and Views. 3 May. Geneva: United Nations Research Institute for Social Development (UNRISD). <http://www.unrisd.org/80256B3C005BE6B5/%28http%29/777A23064D897C88C125788500507772>
21. Social Exclusion Unit, 1999. *Opportunity for All: Tackling Poverty and Social Exclusion*, summary of the UK Labour Government's First Report on Tackling Poverty and Social Exclusion, September 1999, CM 4445, the Stationery Office, London.
22. The World Bank, 2001. *Annual Report*.
23. Vobruba, G., 1998. Income mixes: Work and income beyond full employment. *Crime Law and Social Change*, 29(1), pp. 67-78.
24. Whelan, C.T. and Maître, B., 2005. Economic vulnerability, multidimensional deprivation and social cohesion in an enlarged European Community. *International Journal of Comparative Sociology*, 46(3), pp. 215-239.

## CLOUD COMPUTING

**Associate Professor Ph.D., Carmen RĂDUȚ**

”Constantin Brâncoveanu,, University of Pitești, Romania

E-mail: c\_radut@yahoo.com

**Abstract:** *With development cloud computing, organizations around the world prefer to invest in a small local infrastructure, focusing an infrastructure as a cloud service. The characteristics pursued by customers when choosing between various cloud infrastructures, as a service provider, are: cost-effectiveness, reliability, security and performance. The customer is given access to the virtualized component in order to build their own IT platforms. The concept of cloud is used in the interest of the very large corporations and in all institutions, research centers and government agencies, companies. Infrastructure as a Service (IaaS) is one of three basic service models of cloud computing with Platform as a Service (PaaS) and Software as a Service (SaaS). Like all cloud computing services, providing access to computing resources in a virtualized environment through the Internet. Communities cyber criminals are very interested to study and exploit the direct and indirect risks of cloud implementations, hoping to collect a lot of data and information that can bring direct and indirect benefits or income.*

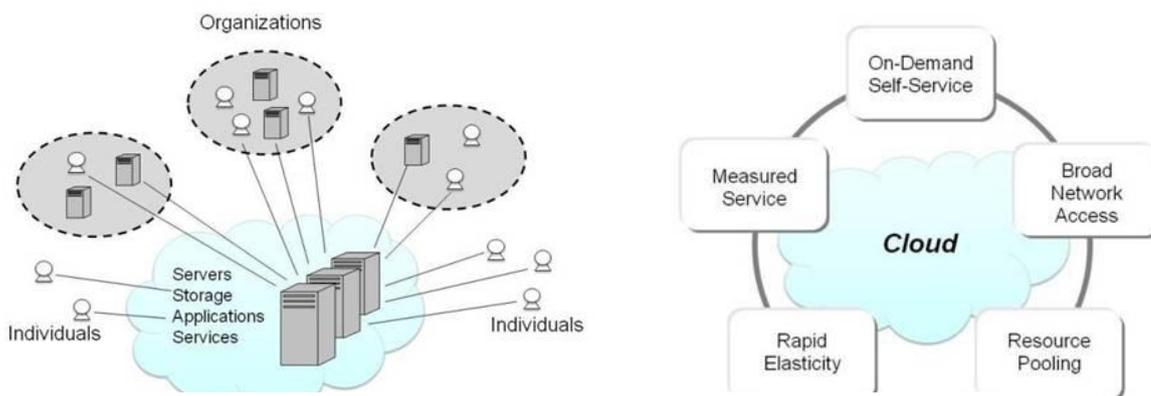
**Keywords:** *IaaS, SaaS, PaasS, Cloud, Security.*

**JEL Classification:** *L86, L96, M15.*

### 1. Introduction

2006 is the year that announced the first available cloud service companies. Since then, the growth of cloud computing has begun, which is characterized by unlimited theoretical computing power, wherever access and collaboration is at a level that has a direct impact on the efficiency of IT departments by changing the way they conduct business in general, through access faster to the company's information resources. Some companies are important players in the cloud market such as: Amazon, Microsoft, Google, IBM etc. Cloud computing can be defined as follows: cloud computing allows cloud service providers and consumers to establish an initial set of management, security and interoperability expectations and determine a fair value generated by the use of cloud technology.

Important features of the cloud infrastructure include: automated on-demand service, broadband network access, shared resources, rapid flexibility, and tools to measure the quality of services provided. Access to the cloud is competitively allowed to a large number of consumers through virtualized technologies with automated auto-scaling and forecasting functions depending on the number of processing requests. Theoretically, the amount of processing and storage resources that a user can benefit from is unlimited. Figure 1 summarizes the definition of cloud computing presented above.

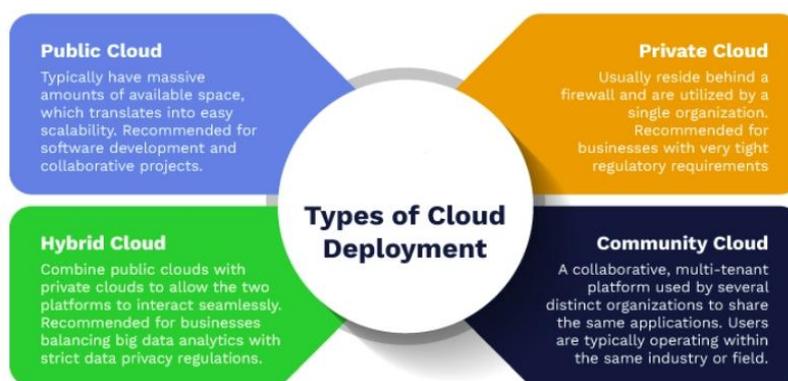


**Figure 1. Basic Cloud Computing Model / The Essential Characteristics of Cloud Computing**

Source: [http://www.opengroup.org/cloud/cloud\\_for\\_business/p1.htm](http://www.opengroup.org/cloud/cloud_for_business/p1.htm)

## 2. Cloud computing implementation models

The concept of cloud is used in the interest of large software companies, but of very large corporations as well as in any institution, research center and government agencies or companies.



**Figure 2. Type of cloud development**

Source: [http://www.opengroup.org/cloud/cloud\\_for\\_business/p1.htm](http://www.opengroup.org/cloud/cloud_for_business/p1.htm)

- **Public cloud** - represents the investments of large software companies and intended for global consumers regardless of size and field of activity. Apple, Google, and Microsoft are the largest providers of public cloud for mobile devices, storage, and application purchases, and Google and Microsoft are offering free Office document creation and processing application packages to customers;

**Table 1. Worldwide Public Cloud Services Forecast (Millions of Dollars)**

	2016	2017	2018	2019	2020
Cloud Business Process Services (BPaaS)	40,812	43,772	47,556	51,652	56,176
Cloud Application Infrastructure Services (PaaS)	7,169	8,851	10,616	12,580	14,798
Cloud Application Services (SaaS)	38,567	46,331	55,143	64,870	75,734
Cloud Management and Security Services	7,150	8,768	10,427	12,159	14,004
Cloud System Infrastructure Services (IaaS)	25,290	34,603	45,559	57,897	71,552
Cloud Advertising	90,257	104,516	118,520	133,566	151,091
<b>Total Market</b>	<b>209,244</b>	<b>246,841</b>	<b>287,820</b>	<b>332,723</b>	<b>383,355</b>

Source: Gartner (February 2017)

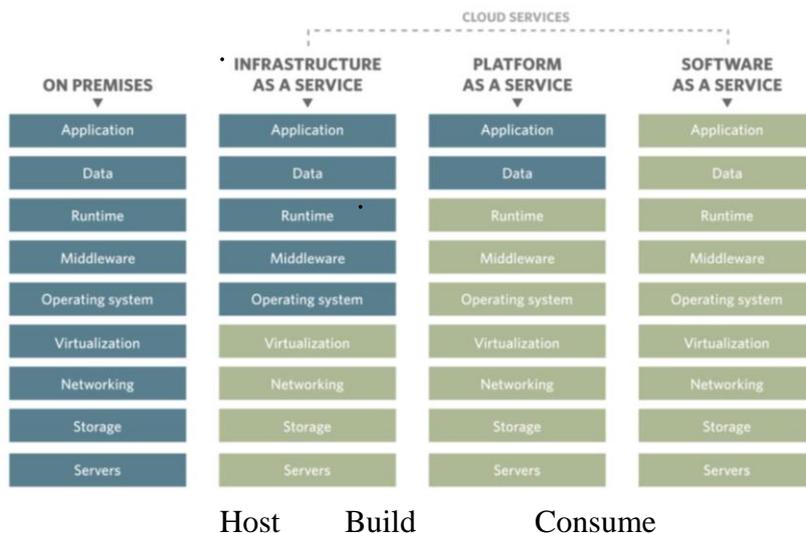
- **Private cloud** - represents the investments of a company or a conglomerate of companies, intended largely exclusively for consumers within the company. Examples of solutions for creating private clouds are: System Center - Microsoft; IBM Cloud - IBM; CloudPlatform - Citrix; vCloud Suite - VMware; Cloud Forms - Red Hat;

- **Hybrid cloud** - involves the use of services offered by the public cloud interconnected with internal information entities, intended mostly for very large companies and aims to expand internal processing capacity in order to serve consumers within the company. The disadvantages of the hybrid cloud are related to: the transfer of company data beyond the "border" of firewalls, the large volume of data that are transferred through public Internet networks, which leads to increased costs of Internet access and the risk of being intercepted by the places they pass through, ultimately causing high implementation and management costs.

- **Community cloud** - involves the joint sharing of resources of a group of organizations within the same field of economic and social activity. This type of model is organized as a virtual data center where the community cloud is technically implemented by sharing unused resources of community members' computers.

### 3. Cloud service models

All cloud computing services provide access to computing resources in a virtualized environment through the Internet. The difference between the on-premises model and cloud computing are presented in figure 3.



**Figure 3. Types of cloud services**

**a. Characteristics of the IaaS Model**

IaaS is one of the newest cloud service models and allows customers to create their own computer infrastructures, network and storage equipment. The client has the possibility to build his own IT platforms, to configure: the equipment by specifying the number of processors, of their type; the amount of RAM allocated; the size of the storage space and how to connect to the network. In this way the computing resources provided are specifically the virtualized hardware resources. IaaS offers can include facilities such as: virtual space on the server, network connections, bandwidth, IP addresses, etc. From a physical point of view, hardware resources are accessed from a multitude of servers and networks usually distributed in numerous data centers, for the maintenance of which the IaaS service provider is responsible. The main providers of IaaS are: Amazon (AWS), Microsoft (Azure), Google (Cloud Platform) etc.

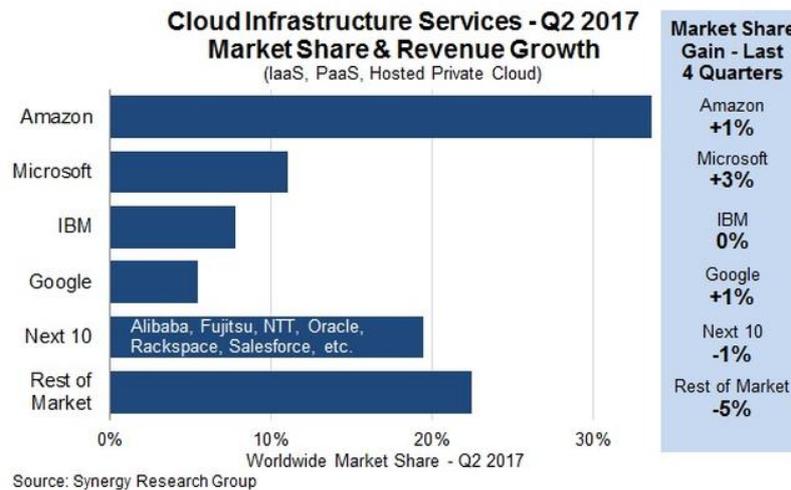
**b. Characteristics of the PaaS Model**

PaaS is one of the most complex models of cloud services because it is a suite of applications and services designed to build other applications and services, offering developers specific sets of APIs. Thus, developers do not need to install and configure their own processing servers (middleware), databases or web servers. The services delivered by PaaS providers are classified as follows: application development; collaboration (tools that ensure the integration of teams); data management (through database-specific tools); testing and performance tools (intended for the analysis of applications implemented in order to optimize resource consumption); storage space (applications that manage data stored in the cloud in database format, files that are integrated into hybrid cloud architectures to ensure the persistence of historical data in the company's computing center); transaction management (transaction management tools or transaction integrity brokerage services).

**c. Characteristics of the SaaS Model**

SaaS is one of the most used models of cloud services in that it allows a large number of users to benefit from a set of specific applications, standardized and necessary in carrying out current activities. Access to applications is through web browsers or through dedicated client applications (eg Outlook, Skype, DropBox, Google Drive, etc.). Information services offered in the cloud in the form of SaaS are: project and portfolio management; business intelligence and data warehouse; training management; geographic

informatics systems; mobile device management; ERP; human resources management; supply and distribution chain management; activity management; documents management.



Infrastructure as a Service (IaaS) provides the following features and benefits:

- **Scalability.** The resource is available when / how the client needs it.
- **No hardware investment is required.** The physical hardware which provides the basis for IaaS services is configured and maintained by the cloud service provider.
- **Utility style costs.** The service can be accessed on request, and the customer pays for the resource actually used.
- **Independence from the location.** The service can generally be accessed from anywhere, as long as there is an internet connection, and the security protocol of the cloud service allows it.
- **Physical security for data center locations.** Services available through a public or private cloud hosted externally by the cloud service provider benefit from the physical security specific to servers hosted in a data center.
- **No faults.** If a server or other network element fails, the service is not affected because there are countless / many hardware resources as well as a configuration redundancy.

#### 4. Cloud security

The permanent concern about cloud computing is linked in security and privacy in the cloud, because company data or persons data resident on computers of other companies which triggers suspicions regarding access. In general, the main vulnerabilities that companies or individuals are exposed when accessing cloud technologies are:

- **Cloud connection vulnerabilities.** Because methods of connecting to cloud services include specific browsers and applications, customers need to ensure that they are protected and secured.
- **Data and communications encryption.** Each cloud service transfers data through secure channels: HTTPS, SSH, RDP, FTPS, but it is up to the customer to ensure when connecting that they access the correct site for authentication.
- **Physical location protection** is a concrete security requirement for the location of the client using cloud services.
- **Risks related to performance and functionality.** Customers need to be sure that when choosing a cloud service that they have tested the performance of the service well enough and that the functionalities correspond to the specifics of the company's processes / business flow.

- **Exposure to social engineering attacks.** Although cloud protection mechanisms make it difficult or minimize traditional attacks, cybercriminals are looking for other ways to gain access to companies' information content.

America's cloud security standards define several specific classes of controls to determine the level of vulnerability of a service, for example: configuration management; acquisition of systems / services; protection of systems and communications; systems and information integration. Thus, each class of controls has its own specific categories of risks and vulnerabilities generally applicable to information systems, including cloud architectures.

## 5. Conclusion

Cloud computing is a business model that brings consistent financial benefits to intermediary companies in the distribution of cloud services and has: a rate of adoption of cloud computing services in a continuous increase; the decision to choose the cloud service provider is based on objective factors (low IT budgets) the company's data security; data availability; simplicity in use and freedom to choose / change the supplier; Software as a Service (SaaS) and Platform as a Service (PaaS) services are increasingly sought after and adopted among users; software applications must be developed so that they can be implemented in the cloud, simple and fast, and the hybrid cloud will be the service model chosen by enterprise-type companies. The more technology-dependent or integrated life generally becomes, the greater the associated risks. Thus, the Internet of Things (IoT) will create new vulnerabilities and security demands related to the physical and digital environment. However, the concern in the field of interconnecting the real world with the virtual world offers almost unlimited possibilities and directions.

## References:

1. Data Flair, 2020. *Features of Cloud Computing – 10 Major Characteristics of Cloud Computing*. [online] Available at: <<https://data-flair.training/blogs/features-of-cloud-computing/>> [Accessed 12 May 2020].
2. Felter, B., 2020. *The Different Types of Cloud Computing and How They Differ*. Vxchnge. [online] Available at: <<https://www.vxchnge.com/blog/different-types-of-cloud-computing>> [Accessed 12 May 2020].
3. Gour, R., 2019. *9 Major Characteristics of Cloud Computing*. Dzone. [online] Available at: <<https://dzone.com/articles/9-major-characteristics-of-cloud-computing>> [Accessed 12 May 2020].
4. Mell, P. And Grance, T., 2011. *The NIST Definition of Cloud Computing*. [online] Available at: <<https://csrc.nist.gov/publications/detail/sp/800-145/final>> [Accessed 12 May 2020].
5. Ranger, S., 2018. *What is cloud computing? Everything you need to know about the cloud explained*. [online] Available at: <<https://www.zdnet.com/article/what-is-cloud-computing-everything-you-need-to-know-about-the-cloud/>> [Accessed 12 May 2020].
6. The Open Group, 2020. *Cloud Computing for Business – What is Cloud?* [online] Available at: <[http://www.opengroup.org/cloud/cloud\\_for\\_business/p1.htm](http://www.opengroup.org/cloud/cloud_for_business/p1.htm)> [Accessed 12 May 2020].

## RELIGIOUS TOURISM - BETWEEN CONTENT AND DESIRE IN ECONOMIC AND SOCIAL DEVELOPMENT

**PhD Iordache Maria Carmen**

Constantin Brâncoveanu University, Pitești, Faculty of Management Marketing in  
Business Affaires Ramnicu Valcea  
Email: iordache72@yahoo.com

**Abstract:** *Tourism and religion are two increasingly interconnected notions in many cultural contexts in the future, given the popularity and flexibility of both activities. Religious tourism is the pioneering form of tourism that began almost with the beginning of mankind. Since ancient times, religious destinations have not only been a part of the cultural landscape, but have also become a vital factor in local marketing and the economy of hosted destinations. The purpose of this article is to give an outline of a meta-analysis, which reflects the key areas of the perspective of the academic impact of the connection of religion and tourism, to generate a conceptual framework that may be useful to decision-makers in the industry, to understand the effects of and dimensions of religious tourism as well as the factors that affect the growth in religious tourism.*

**Keywords:** *religion, religious tourism, pilgrimage.*

**JEL Classification:** *L83, Z12, Z30.*

### 1. Religion - Tourism connection

Religion and tourism have always been inextricably linked. This pioneering form of tourism began in the form of religious pilgrimages, such as those of Christians traveling to Jerusalem or Muslims to Mecca. Pilgrimages have always been one of the dominant factors for motivating people to travel. Turning to religious history, it was found that major religions stimulated tourism globally as a basis for the spread of their own religious beliefs.

The founders of the main religions-the Prophet Muhammad (Islam), Jesus (Christianity), Moses (Judaism), Gautama Buddha (Buddhism), inspired various acts of pelerinaj. Pe next to the religions mentioned above there are several other religions, such as Hinduism, Sikhism and Jainism, which carry their own norms and values. They have their own special religious destinations. For example, the Pashupatinath Temple in Nepal is the most important pilgrimage destination of Hindus.

A sacred place was connected with events associated with the life of Holy faces, such as Jesus Christ and Muhammad. In many cases, a location can serve different religions. Jerusalem, for example, is one with the most famous paradigms of a holy city, which is the cradle of three religions: Christianity, Judaism and Islam. For Christians, Jerusalem is the city where Jesus Christ lived and was crucified. For jews, Jerusalem is the capital city of their Kingdom, where they find king Solomon's temple, which was destroyed by the romans (70 a.d.C.), today there is just a Wall, where he performed the pilgrimage to the jewish, the most important thing (Egresi, 2012; Kurar, Akbaba & Art, 2015). However, Jerusalem is also a holy city for Muslims, because Muhammad lived and came into contact with God in this city (Moir, 2003).

In the Orthodox religion, a visit to the Holy Land is a matter of great importance. This desire was born when St. Helena (5 d.Hr.) revealed part of the Holy Cross and built some churches the places that today represent the center of Christianity.

In the past, Transport did not exist and this type of travel was was quite dangerous. People traveled for months without food and water, and sometimes thieves or pirates threatened their lives (Moir, 2009). However, this difficult and dangerous journey was part of the purification process. The lack of necessary things made believers stronger and caused them to continue and save their souls from evil.

There are sources in the literature that indicate that since in the Byzantine era there were hotels in the Holy Land. These data show that religious tourism for monotheistic religions has a fairly early start (Selebou, 2016). On the other hand, for Muslims, travel to Mecca has the form of obligation. In the Islamic faith, this journey is a kind of obligation for believers, it is called in the Qur'an with the name Hajj. Religious Islamic texts show that Muslims, in addition to Mecca, must visit Medina and other sacred places, where Muhammad had lived (Balomenou et al., 2015; Turker, 2016).

Religion and experience are two important topics in tourism, the desire of pilgrims to be in a religious place being comparable to the desire of tourists to visit a tourist attraction. Evidence shows that religion plays a vital role in the lives of everyday people (Hunt, 2013), but also in tourism practices and destination selection (CollinsKreiner & Kliot, 2000). Religious travel is linked to constructive elements such as spiritual fulfillment, self-discovery, broadening the cultural horizon or visiting sacred places (CollinsKreiner, 2010). Although any tourist experience is largely based on the emotions and moods of the individual, in the case of religious tourism it gains greater importance among religious visitors, for spiritual and mental fulfillment or the creation of states of peace and happiness obtained. (Collins-Kreiner, 2018). Pilgrims perceive feelings of union with others, special fulfillment about their religious calling, considering themselves closer to God. The trip is perceived not only as a tourist experience, but also as a religious experience that has offered spiritual healing and piety in a framework focused on three central components, namely: tourist place, faith and action.

## **2. Research methodology**

The research methodology is based on three main stages: identification of the literature, its selection, corroboration and synthesis of data.

The literature is based on a series of research, mostly conceptual, international studies that show a fundamental theoretical orientation about religious tourism. The methods used focus on conceptualizing and describing the notions of religion and religious tourism, and it is necessary to closely examine this concept in view of the opportunities it offers to both religious entities and the tourism industry.

An initial, informal evaluation of the literature, using computer sources, revealed that there is a lack of statistical data on the number of tourists and revenues related to religious tourism. In parallel with the increase in supply and demand, recent years have witnessed a significant increase in the number of researchers exploring different aspects of the Religion-Tourism link according to their various medium disciplines (history, theology, sociology, psychology, anthropology, economics and geography). These researchers publish hundreds of relevant articles every year, making a review paper on the topic almost impossible to compose.

Accordingly, there are a large number of articles, books, case studies and research papers and review has been written on the topic.

The purpose of this article is to give an outline of a meta-analysis, which reflects the key areas of the perspective of the academic impact of the connection of religion and tourism, to generate a conceptual framework that may be useful to decision-makers in the industry, to understand the effects of and dimensions of religious tourism as well as the factors that affect the growth in religious tourism.

## **3. Analysis of specialized literature**

The history of religious tourism is undoubtedly connected with the existence of the human being on Earth, the notion of the sacredness of a place becoming crucial (Moir, 2003).

It is difficult to give a specific definition of religious tourism because cultural and religious trips overlap somewhat, most cultural tourists also visit religious destinations as part of their itinerary and are thus referred to as religious tourists.

As a general definition of religious tourism we can say that it represents those trips with the main reason for experiencing religious activities or products they induce, such as art, culture, traditions and architecture. This definition, however, does not reveal the real meaning and motivations of religious tourism.

First of all, religious tourism is a special form of cultural tourism, the main motivation being given by the deep desire of man to honor God (Skoultos and Vagionis, 2015). However, religious tourism also includes knowledge of religious heritage and Customs. Through a trip motivated by religion, tourists have the opportunity to study architecture and religious art, to strengthen faith in God. The tourist experience of a religious nature becomes more intense, as tourists participate in religious events, get in touch with other people and share their beliefs, and work in a religious environment. Mount Athos is a perfect example because tourists engage in rituals, pray and taste unique monastic cuisine (Tsarouchis, 2016).

**Table no.1. Typology of definitions for religious tourism**

El-Gohary, 2016: 125	Travel with the main motive of experimenting with religious forms, or the products they induce, such as art, culture, traditions, and architecture
Utomo & colab., 2019	A journey resulting from religious reasons, to a holy place for spiritual purposes and inner tranquility
Nicolaides & Grobler, 2017	Visiting religious attractions such as shrines, tombs, mosques, churches as well as trips to religious rituals and ceremonies.
Collins-Kreiner, 2010	Moving to areas with religious objectives in order to increase social and spiritual cohesion
FICCI, 2012	Travel with the basic motive of experiencing the religious form or the products they induce, such as art, culture, traditions and architecture
Kim, B., Kim, S.S., and King, B., 2016	That segment of cultural tourism associated with spiritual motives, which brings to the fore heritage sites
OMT, 2014	The trip contributes to the inner spiritual fulfillment and satisfaction of the tourist by improving the psychological and physical dimension of the individual
Rinschede, 1992	A specific form of Tourism ,whose participants are " motivated either partially or exclusively by religious reasons"

Source: made by the author on the basis of the studied bibliography

Managing this activity is even more challenging, with religion retaining a socially significant place in the preservation of culture and traditions, in the conditions of a constantly changing global society.

Religious tourism refers to all travel outside the usual environment for religious purposes, excluding travel for professional purposes (eg. priests traveling for work). Participation in wedding parties or funerals are generally classified under the heading visiting friends and relatives. However, in countries where these ceremonies have a strong religious connotation, it would be more appropriate to integrate them under the heading religion and pilgrimages (UNWTO, 1995).

In their reports, Mintel seeks to broaden their definition of " religious tourism " beyond individual motivation to emphasize a number of activities undertaken: visits sites, significant religious trails and festivals, participation in conferences, conventions, camps, etc.religious significance.). Excludes trips to ancient sites (such as still temples and pyramids), which despite having a religious significance, are usually included in the segment of cultural tourism (Mintel, 2012).

By mixing these definitions and reflecting on the wide range of activities it encompasses, we can create a typology of faith-based tourist trips.

**Table no. 2. Size of religious tourism products**

Traditional pilgrimage	The word "pilgrimage" suggests that the participant undertakes a journey to a sacred place as an act of religious devotion.
Religious tourism	Visiting religious "tourist attractions" because they are sacred;
Church tourism	Visiting houses / places of prayer and shrines for cultural, historical and architectural reasons-not for any religious motivation
Religious events	This category includes crusades," conventions, " rallies, faith-based camps, meetings, and other events involving religiously motivated activities such as Holy Week processions.. Although some are annual events, many "events" are not site / location specific and are hosted at different locations on a regular basis.
Missionary and volunteering	This type of travel involves volunteer work, usually for a church or charity.
Withdrawal	They comprise a form of introspective activity of meditation or prayer, usually to (re)connect with God. Retreat facilities range from spartan to luxurious.
Student/youth activity	Short-term outings to residential "camps", often involving fun and adventure in addition to spiritual training and personal development.
Faith-based cruises	Leisure cruise tourism can be combined with visits to various cultural, historical, religious, natural areas and other tourist facilities.
Religious trails	From routes with the purpose of forgiving wrong deeds, asking for favors (health, success) or other religious reasons, to routes that find expression in cultural ones
Spiritual pilgrimage	This segment involves visiting a place in the usual environment, with the intention of spiritual growth - this could be religious, but also include non-religious, sacred or experiential intentions

Source: made by the author on the basis of the studied bibliography

To simplify things, in tourist practice the term "religious tourism" is used, but it is fully recognized that this designation is limited and subtly masks the terms used for custom activities.

Motivation for religious tourism is a combination of cultural, traditional and spiritual values that interact and lead to a travel decision. Religious tourists are generally motivated by their desire to know more and generate spiritual memories (Griffin, 2007).

It is very difficult to identify the characteristics of a religious tourist, since literature lacks this information. Rinshede (1992) argues that different reasons lie at the base of each trip, some being clear and others hidden. Religious tourism connects and interacts, to a large extent, with cultural tourism, because religious tourists every time they go to a sacred place behave like ordinary tourists, who eat in restaurants, buy souvenirs, stay in hotels and visit monuments.

The spiritual experience can also be satisfying for those tourists whose main motivation was not related to worship, but who felt that they had deepened their religious knowledge after visiting the Holy Land, the significance and atmosphere of the sites related to the life of Jesus strengthening their faith (Collins-Kreiner and Klot, 2000).

In some religious places, socio-demographic differences have led to increased demand for tourist products. Historically, the cult of saints and the Virgin Mary involved the search for cures for diseases, protection against diseases or the evocation of help to solve infertility. For example, the vast majority of visitors to holy places with the Virgin Mary in Europe are women who seek the beneficial interaction of the Virgin in matters related to fertility, health, the good of the family and those close to them (Gemzöe, 2005). In contrast, Mount Athos is an exclusively male sacred shrine (Andriotis, 2009), somewhat similar to Mecca, where travel is limited by gender, with most pilgrims being male. Various theoretical studies exploring the interpretation of the causal effects of religion on health, argue that religious involvement has positive health outcomes (e.g. lower depressive symptomatology, better health practices) especially in relation to the health-related well-being of older people. (Thoresen, 2002).

In addition, religious tourism has a political character and social expressions. There is no doubt that some nations are connected with an activity of a saint or own a monument

that has led tourists to consider it blessed. The Virgin of Guadalupe is an example that characterizes the Mexican nation, with Catholic tourists considering this top destination linked to their religion (Moira, 2009).

These situations illustrate that it is very difficult to clarify the characteristics of religious tourists. However, some studies create a religious tourist profile and indicate that religious tourists are about 40 years old, have higher education and a high level of culture (Tsarouchis, 2016).

#### **4. The size of religious tourism**

The links between religion and tourism are extremely varied and have numerous implications for sites, visitors and locals (Butler & Suntik, 2018). Religious tourism is one of the fastest growing types of tourism in the world, with the World Tourism Organization (2017) estimating that about 900 million national and international trips of a religious nature. Of those internationally, 50% Are Made in Asia and the Pacific and 40% in Europe. Every year about 30 million Hindu pilgrims go to the Ganges river in northern India, 50% of those who visit Saudi Arabia are religious tourists (Mecca and Medina alone attract about 80% of pilgrims) (Euromonitor, 2011).

According to estimates made by the US, religious tourism is a global industry on the American continent of 18 billion dollars, stating that in North America alone it is estimated at 10 billion dollars. In addition, one in four North American tourists are currently interested in holidays of a religious nature. The group ARC (Alliance of Religions and Conservation) claims that "it is impossible to obtain fully accurate figures for the number of pilgrims", because in many places, their number is not recorded. However, ARC estimates that more than 200 million people make pilgrimages each year - with the duration of the journey ranging from hours to days and sometimes months. But this figure is quite conservative, since it includes only tourists who visit the largest places of pilgrimage in the world.

The development of religious tourism can have a strong economic impact on the local community, as well as socio-cultural, political and environmental implications (Collins-Kreiner, 2010b; 2010c). Especially when dealing with small communities, the impact of religious tourism on the economy should not be underestimated. For example, Lourdes, a small town in the south of France with a population of 15,000, had in 1987 more than 300 shops, 370 hotels, 28 campsites, 45 restaurants, eight banks and 18 large garages for services (Vukonic, 1998). The city has three times as many rooms as the number of its population and has the largest number of hotels in France after Paris (Carroll, 2010). Practically we could say that the whole city is engaged in the service of pilgrims. Let us not forget that the sanctuary of Our Lady Of Lourdes is one of the most visited places in all of Christendom, with an estimated 300 million pilgrims visiting the site from 1860 to the present.

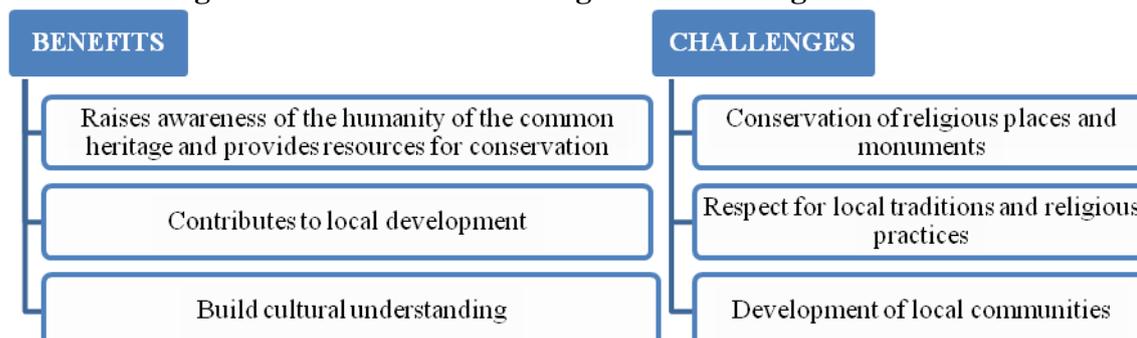
The excessive growth of religious tourism could put a huge strain on the existing infrastructure especially in smaller cities and less developed areas, but sometimes even in countries with great economic potential. For example, local authorities have restricted the increase in the number of pilgrims to Mecca by placing a quota on each country based on population (Reader, 2007; Henderson, 2011). Excessive development of this sector could be a threat to the sustainability of the religious site. Wall and Mathieson (2006: 9) warned that as more and more tourists begin to visit the holy places, their religious significance, which made them famous, will be diminished. The presence of a large number of tourists could inevitably lead to the marketing or exposure of the pilgrimage site too much and could make it difficult to observe religious conduct. The situation is even worse when visitors and locals are of another religion, especially when residents are Muslims and

visitors of another religion (Henderson 2003). That is why good site planning and management are necessary.

In general, due to the perceived economic and social benefits, the local population supports the development of religious tourism. Still, unlike other types of tourists, religious ones do not cause problems related to alcoholism and crime (Terzidou et al 2008). They mainly complained about the tourist traffic that caused overcrowding.

The World Tourism Organization (UNWTO) argues that "religious tourism can be one of the most effective tools for promotion and development on sustainable principles.

**Figure 1. The benefits-challenges chain of religious tourism**



Source: made by the author

The World Tourism Organization argues that religious tourism can be one of the most effective tools for promotion and development on sustainable principles. Religious tourism must generate benefits for the local community at the same time as effectively managing the challenges to which the local community is exposed due to it.

**Table 3. Factors influencing growth in religious tourism**

Factor	Influence
The quest for authenticity	Consumers ' drive for an authentic experience, such as getting to know the spiritual and cultural traditions associated with certain religions and places of pilgrimage
Diversification of the product offer	The emergence of tourism products based on religious motivation through which tourism providers seek to extend the traditional season of Tourism
Increase in the number of travel agencies	The emergence of more travel agencies that offer religious tourism, pilgrimages and church tours and that by default attract more tourists
Cheap flights	More and cheaper intra-European flights and longer flights at competitive prices, making travel easier (especially for Europeans)
Forced popularity of domestic travel	Many tourists choose to travel to their own country because of the perceived threat of terrorism
The search for the original	A global culture where people are looking for more unique vacations or more diversity in one trip
Personal faith	Religious travel seen as a way to check personal beliefs and spirituality
Cultural preservation	Recognizing that religion and spirituality can help preserve cultures and traditions
Increasing the number of shorter holidays	Changing work and leisure patterns with increasing short and frequent free periods
Average	High media profile offered to many of the world's great pilgrimage sites and religious shrines
Search for revenue streams	It must generate revenue for the preservation of religious and architectural heritage
Sustainable development	Global trend in the development of sustainable tourism products
Market expansion	A general expansion in the world tourism market
Internet	Widespread use of the Internet, online booking and smart use of technology and social media

Source: made by the author on the basis of the studied bibliography

The increase in the number of tourists has a fairly strong economic and social impact on Business and the local community. First of all, several accommodation spaces are built, giving most tourists the opportunity to stay in the province for several days, which leads to the multiplication of catering businesses, souvenirs, marketing of local products or other services (transport, recreation, entertainment, etc.) thus encouraging the opening of new businesses, the creation of new jobs that lead to the satisfaction of both tourists and locals.

Much of the commercial activity is represented by the sale of religious objects and other souvenirs, with many religious entities using this practice because such sales reach hundreds of millions of dollars annually (Fleischer, 2000). In addition to these religious objects, almost any place of pilgrimage has artisanal, handmade products or various preparations made by locals. Therefore, the economic impact associated with religious tourism is higher than in other market segments, because pilgrims and other religious travelers are avid buyers of religious souvenirs, in addition to adding other purchases. Because the economy of religious tourism is so lucrative, many religious groups are also willing to accept groups of ignorant tourists who visit and disrupt their religious centers.

We must point out that excessive commercialization, specific in some cases to tourism, can have a negative socio-cultural impact on sacred places. Consequently, a balance must be established so that the commercial and economic side of a religious place does not overshadow its spiritual mission and affect the environment and community in which the meeting of religious tourist demand and supply takes place.

## 5. Conclusions

Religious tourism and pilgrimage are substantial reasons for the global movement of people. Today, religious tourism is progressively becoming part of mass tourism, the main reasons underlying this phenomenon are highlighted in the following.

► First, religious institutions and organizations have more and more expenses related to priests, religious objects and activities, and the number of religious philanthropists who support them through donations is lower. Because of this, religious institutions and organizations need an increase in the number of tourists, even if they are not primarily motivated by religious reasons.

► Secondly, many governments try to regulate religious tourism legally, due to the benefits generated, such as the taxation of religious entities that practice tourism (taxes arising from the organization of pilgrimages, the sale of religious objects, donations collected) or those of a social nature (additional employment, increasing the quality of life of local people in the areas visited, etc.).

► Thirdly, various types of tourist enterprises are emerging that are trying to develop religious tourism due to the effects of tourism, which are economically beneficial. Today, tour operators are a crucial factor in the development of religious tourism in the international tourist market.

► Fourthly, today's visitors (tourists and hikers) have become more demanding and demand additional offers and services in destinations, including those of a religious nature.

► Fifth, the marketing of religious products and services has begun to take on impressive dimensions. Religious people see religious products and services as a means of transmitting their faith, while sellers see them as a means of spreading the faith. These two entities - religion and marketing, depend on the transmission of a message and the willingness of people to have faith. By different means - rituals, practices and myths, religions create and impose their role, while marketing does the same through advertising and shopping. Similarly, religion assumes acceptance of a belief system, and marketing

accepts belief about a product. Religions have faith communities, while marketing has brand communities. Religion and marketing have a symbiotic relationship, for example, religion is considered as a product, and products as religions.

The decision makers in the field of tourism are different actors from the public and private sectors, non-governmental organizations working in this sector. These decision - makers undertake various tourism policy measures and activities to improve and develop tourism in destinations, the area of operation expanding from local, regional, national to international level (Koufodontis and Gaki, 2019). They are the professionals who need to develop activities specific to all forms of selective tourism, including religious tourism, and governments to create a stimulating business environment in order to improve the efficiency of the overall tourism sector in order to increase the competitiveness of the destination (Kim et al., 2015).

Tour operators and religious entities are the main partners of Tourism decision makers in the process of formulating a set of measures and activities specific to tourism policy to stimulate the development of religious tourism. The level and quality of communications between tourism, policy makers and tour operators will directly influence the conditions for the development of religious tourism.

### References:

1. Andriotis, K., 2009. Sacred Site Experience – A Phenomenological Study. *Annals of Tourism Research*, 36(1), pp. 64-84.
2. ARC World, 2016. *Alliance of Religions and Conservation, 2016*. [pdf] Available at: <<http://www.arcworld.org/downloads/ARC%20NEWSLETTER%202010-11.pdf>> [Accessed 5 April 2020].
3. Balomenou, C., Poulaki, P. and Lagos, D., 2015. *Religious Tourism in Greece and regional development: The case of Samos Island*. Presented at the 55th Congress of the European Regional Science Association. European Regional Science Association (ERSA), Lisbon, Portugal: 25-28 August 2015.
4. Belhassen, Y., Caton, K. and Stewart, W.P., 2008. The search for authenticity in the pilgrim experience. *Annals of Tourism Research*, 35(3), pp. 668-689.
5. Butler, R. and Suntikul, W., 2018, *Tourism and religion: issues and implications*. Rachel Dodds, Ryerson University, Canada.
6. Chami, M. and Kaminyoge, G., 2019. Closed house of wonders museum: Implications to the tourism of Zanzibar Stone Town, UNESCO World Heritage Site. *Journal of Tourism, Heritage & Services Marketing*, 5(1), pp. 31–36.
7. Collins-Kreiner, N., 2018. Pilgrimage-Tourism: Common themes in different religions. *International Journal of Religious Tourism and Pilgrimage*, 6(1), pp. 8-17.
8. Collins-Kreiner, N. and Wall, G., 2015. *Tourism and Religion: Spiritual Journeys and Their Consequences*, pp. 689-707. In: S.D. Brunn (Ed.), *The Changing World Religion Map*, Springer.
9. Egresi, I.O. and Kara, F., 2018. Residents' attitudes to tourists visiting their mosques: a case study from Istanbul, Turkey. *Journal of Tourism and Cultural Change*, 16(1), pp. 1- 21.
10. El-Gohary, H., 2016. Halal tourism, is it really Halal? *Tourism Management Perspectives*, 19, pp. 124-130.
11. Euromonitor, 2011. Tourism Flows Inbound in Saudi Arabia. *Euromonitor International*, April 2011.
12. FICCI Religious Tourism Report, 2012. *Diverse beliefs: Tourism of faith religious tourism gains ground*. [pdf] Available at:

- <<http://www.ficci.in/spdocument/20207/Diverse-BeliefsTourism-of-Faith.pdf>>  
[Accessed 5 April 2020].
13. Fourie, J., Rossello, J., Santana-Gallego, M., 2015, Religion, Religious. *Diversity and Tourism*, KYKLOS, 68(1), pp. 51-64.
  14. Gemzöe, L., 2005. *Heavenly*. In: D. Kulick and A. Meneley, *Fat: The Anthropology of an Obsession*, pp. 93-107. New York: Jeremy P. Tarcher/Penguin.
  15. Kurar, I., Akbaba, A. and Inal, M.E., 2015. A Qualitative Study on Situation Analysis of Faith Tourism: The Case of Tarsus. *Tourism Academic Journal*, 2(1), pp. 62- 76.
  16. Griffin, K.A., 2007. *The Globalization of Pilgrimage Tourism? Some Thoughts from Ireland*. In: R. Raj and N. Morpeth, *Religious Tourism and Pilgrimage Festivals Management: An International Perspective*, pp. 15-34. Wallingford: CABI Publishing.
  17. Hunt, S., 2013. *Religion and everyday life*. London: Routledge.
  18. Kaelber, 2006. Paradigms of travel: From medieval pilgrimage to the postmodern virtual tour. *Tourism, religion and spiritual journeys*, pp. 49-63.
  19. Kartal, B., 2015. Examining the religious tourism potential of Manisa, Turkey with a marketing perspective. *Tourism Review*, 70(3), pp. 214 -231.
  20. Griffin, K. and Raj, R., 2009. The Importance of Religious Tourism and Pilgrimage: reflecting on definitions, motives and data. *International Journal of Religious Tourism and Pilgrimage*, 5(3), pp. 73-79.
  21. Kim, B. and Kim, S.S., 2019. The effect of religious tourism experiences on personal values. *International Journal of Religious Tourism and Pilgrimage*, 7(2), pp. 85-93.
  22. Kim, B., Kim, S.S. and King, B., 2016. The sacred and the profane: Identifying pilgrim traveller value orientations using means-end theory. *Tourism Management*, 56, pp. 142- 155.
  23. Koufodontis, N.I. and Gaki, E., 2019. Local tourism policy makers and e-image of destinations. *Current Issues in Tourism*, pp. 1-12.
  24. Kurar, I., Akbaba, A. and Inal, M.E., 2015. A Qualitative Study on Situation Analysis of Faith Tourism: The Case of Tarsus. *Tourism Academic Journal*, 2(1), pp. 62- 76.
  25. Marine-Roig, E., 2016. The impact of the consecration of 'La Sagrada Familia' basilica in Barcelona by Pope Benedict XVI. *International Journal of Tourism Anthropology*, 5(1/2), pp. 95-115.
  26. Mintel Group, 2012. *Religious and Pilgrimage Tourism – International*. Mintel International Group Ltd, London.
  27. Moira, P., 2003. From pilgrim to religious tourist. Sociological Approach. *Tourist Scientific Review*, 1(1), pp. 87-102.
  28. Moira, P., 2009. *Religious tourism*. Athens: Interbooks.
  29. Nicolaides, A. and Grobler, A., 2017. Spirituality, Wellness tourism and quality of life. *African Journal of Hospitality, Tourism and Leisure*, 6(1), pp. 1-37.
  30. Rinschede, G., 1992. Forms of religious tourism. *Annals of Tourism Research*, 19, pp. 51-67.
  31. Selebou, A.M., 2016. *Religious Tourism in Greece: The case of Thessaloniki*, Thessaloniki: Auth.
  32. Skoultzos, S. and Vagionis, N., 2015. *Cultural and Religious tourism as part of Greek Tourism Product*. Paper presented at the 1st International Conference on Experiential Tourism, Santorini, Greece: 9-11 October 2015.

33. Tsarouchis, I., 2016. *New types of Tourism: Cultural and Religious Tourism in Greece*. Piraeus.
34. Turker, N., 2016. *Religious Tourism in Turkey*, 121, pp. 151- 172. In; I. Egresi (Ed.), *Alternative Tourism in Turkey*, Geojournal Library.
35. UNWTO, 2011. *Religious Tourism in Asia and the Pacific*. [pdf] Available at: <cf.cdn.unwto.org/sites/all/files/pdf/110325\_religious\_tourism\_excerpt.pdf> [Accessed 5 April 2020].
36. Utomo, S., Scott, N. and Jin, X., 2019. *The impact of Hajj satisfaction on Islamic religious commitment: a theoretical framework*. In: A. Jamal, R. Raj and K. Griffin, ed., *Islamic Tourism: Management of Travel Destinations*. Oxfordshire: CAB International.
37. Vukonic, B., 1998. Religious Tourism: Economic Value or an Empty Box? *Zagreb International Review of Economics and Business*, 1(1), pp. 83-93.
38. Wall, G. and Mathieson, A., 2006. *Tourism: change, impacts, and opportunities*. Pearson Education.

# HEALTH CRISIS IMPACT OF THE CORONAVIRUS ON ROMANIAN ECONOMY

Lecturer Ph.D., Sorin GRIGORESCU

”Constantin Brâncoveanu” University of Pitești, Romania

E-mail: soringry@yahoo.com

**Abstract:** *In late 2019 and early 2020, there was no sign of the health crisis that would follow within a very short time. It was on the news as a casual item about the Sars-Cov 2 virus which was affecting China at the time. Gradually, the virus spread throughout Italy reaching significant proportions in March. Ever since March 2020, the whole Romanian economic paradigm has changed; the priorities of the population and economic operators have changed within a very short time. The population’s perspectives on saving and consumption have changed, as there are only “survival, hunger, health, ventilators, masks, disinfectants, number of Coronavirus-related cases or deaths.” The ensuing health and economic crisis required the government’s involvement and, in addition, the Romanian population perceived it as weak involvement. At the same time, from March to April 2020 which was the period of utmost concern both in terms of health protection and of food security, the importance of Romanian companies and their contribution in overcoming those difficult times were obvious.*

**Key-words:** *virus, economic security, health security, economic decline, unemployment, aids and subsidies.*

**JEL Classification:** *G21.*

## 1. Introduction

The biological (SARS-CoV2) Coronavirus has a major impact on population’s health and is causing life losses all over the world. It is the largest public health crisis that has also affected business environment generating a major economic crisis, leading to a stop of production in the affected countries, a decline in consumption and confidence, and a decline of stock markets. The economic forecasts issued between April and June 2020 described a bleak outlook on the magnitude of the global economic downturn triggered by the pandemic.

## 2. Contents of the Paper

International organizations issued forecasts on the economic impact of the coronavirus pandemic. Thus, in June 2020 the IMF predicted a decrease in global GDP by 4.9% in 2020 followed by a partial recovery, with a 5.4% increase in 2021. The ILO estimates that the COVID-19 impact will lead to an increase in global unemployment by 5.3 million (“low” scenario) to 24.7 million (“high” scenario), signalling that “supporting trade operations will be particularly difficult to do by small and medium-sized enterprises” (SMEs) (ILO, 2020 [5]).

According to the economic forecasts in the autumn of 2020, the Euro Zone economy would decrease by 7.8% in 2020, before increasing by 4.2% in 2021 and by 3% in 2022. According to forecasts, the EU economy would decrease by 7.4% in 2020 before recovering with an increase of 4.1% in 2021 and 3% in 2022.

SME’s are being directly affected by both supply and demand. As for supply, they are facing a decline in labour supply as employees are being directly affected by the virus or they need to take care of their children or other dependents as long as schools are closed and people’s circulation is limited. The steps taken to stop the spread of the pandemic through lockdowns and quarantines are leading to interrupted supplies and generating shortages of intermediate goods. In terms of demand, its sharp decline and a decline in SME revenues are affecting their ability to operate and are generating illiquidity.

At the same time, consumers are facing declining incomes, fear of illness, increased uncertainty which in turn reduce spending and consumption. These effects are

worsening, many employees are being fired because companies can no longer pay their salaries. The crisis is affecting the economic sectors differently, with a strong impact on tourism and transport which are in turn disrupting the consumption flow. SME's are strongly represented in sectors such as tourism and transport which are being significantly affected by the virus and by the steps taken to fight against it, as well as the sectors of fashion and food products where it is essential to have short delivery times.

Generally speaking, SME's are likely to be more vulnerable to "social distancing" than other companies are. The impact of the virus could have potential effects on financial markets, along with low confidence and loan decline. Such diverse effects are impacting both larger and smaller companies. However, the effect on SME's is particularly severe especially because of higher levels of vulnerability and lower resilience related to their sizes.

SME's often have a limited number of suppliers. In some cases, this may protect them from shocks. In other cases, SME's can rely on suppliers from countries and regions with lots of COVID-19 cases, thus increasing their vulnerability. Similarly, obstacles in maritime, road or air transport are affecting SME's. Some SME's are seriously affected by the disruption of business relationships and supply networks with larger operators. In the long run, it might be difficult or even impossible for many SME's to rebuild their connections with former partners who have concluded new business agreements.

Enterprises including SME's will bear the burden of a decrease in global demand for their products and services. This impact can be felt especially in certain sectors such as tourism and also among the SME's that serve local markets where quarantine measures have been implemented.

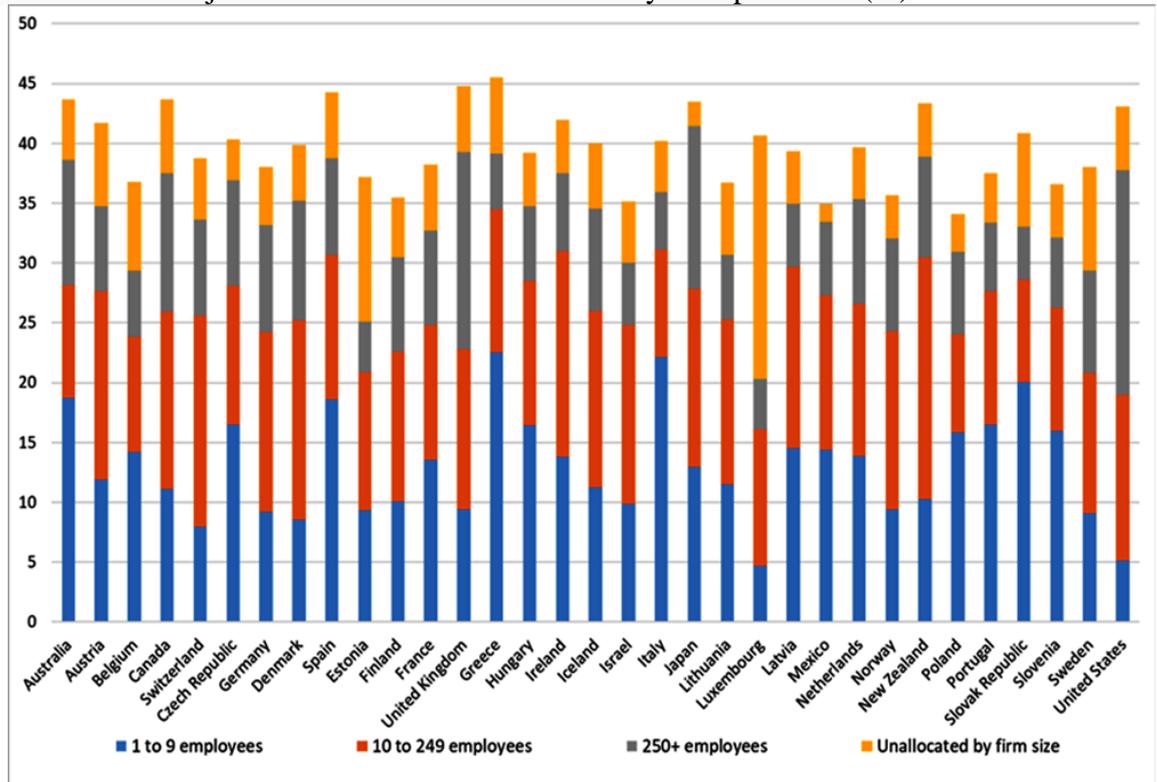
SME's can additionally have serious problems managing the costs involved in the measures taken during the pandemic. The costs of preventing the spread of the disease as well as the changes required in work processes such as switching to teleworking can be relatively higher for SME's, given their smaller sizes, but also, in most cases, given their level low digitization level and difficulties in accessing and adopting technologies. SME's may find it more difficult to obtain information not only on how to stop the spread of the virus, but also on potential business strategies to alleviate the shock and on available government initiatives to provide support.

Given the limited resources of SME's and the barriers they are facing in accessing capital, the period during which SME's can survive shocks is more limited than that of larger companies.

SME's and the sectors most affected by the crisis which, according to an OECD analysis, include: transport production, construction, wholesale and retail trade, air transport, accommodation and food services, real estate, professional services and other personal services (e.g. hairstyling). Recent OECD data show that while SME's in the business economy as a whole account for over 50% of employment in all OECD countries, the share of employed SME's in those sectors is on average 75% in all OECD countries and almost 90% in Greece and Italy. In some OECD countries, micro-enterprises are particularly well represented in the affected sectors. In Italy and Greece, the share of micro-enterprises in the most affected sectors is 60%, whereas their share in total employment in the business economy is 45% and 55%, respectively (OECD, 2020 [30]).

**Graph 1. Smaller companies are dominant in the most affected sectors**

Share of total number of jobs in the most affected sectors by enterprise size (%)



Source: OECD (2020) Strong, medium, vulnerable (OECD, 2020[30])

In our country, the pandemic has affected almost all economic sectors and has intensified already existing social issues.

**Graph 2. Social issues caused by the health crisis in our country**

Date	5 February 2020	
Individual labour agreements on hold	915.237 of which:	306.689 – Manufacturing industry 166.360 - Wholesale and retail trade; Repairs of motor vehicles and motorcycles 112.166 – Hotels and restaurants
Individual labour agreements ended	313.930 of which:	57.090 - Wholesale and retail trade; Repairs of motor vehicles and motorcycles 55.147 - Manufacturing industry 44.137 - Constructions

Based on the special situations caused by the pandemic and which SME's are currently facing, countries have taken various steps to support the former. While concern for population's health is at the forefront, a wide range of steps are being taken worldwide to reduce the economic impact of the coronavirus outbreak on business. Specifically, many countries are urgently implementing measures to support SME's and the self-employed in order to support short-term liquidity. Such policies are taking various forms. Some countries have focused on more general policies with the potential of cushioning the blow for the economy and for all businesses. For example, in many countries, central banks have intervened to support lending by easing monetary conditions and allowing commercial banks to lend more to SME's. Examples include unprecedented steps taken by the U.S. Federal Reserve and the European Central Bank.

Among the main SME-specific policy steps, there are:

- Shortening the working time, temporary dismissal and sick leave, some of which are being directed straight to SME's. Similarly, governments are providing support for wages and incomes to temporarily laid off employees or to companies in order to protect employment. In many cases, countries have laid down measures specifically focused on the self-employed.
- Postponing the taxes, social security payments, debt payments, and rent and utility payments. In some cases, tax exemptions or a moratorium on debt repayments have been implemented. Some countries are also taking action on public procurement procedures and delayed payments.
- Applying, extending or simplifying the provision of loan guarantees in order to allow commercial banks to extend loans to SME's.
- Intensifying direct loans to SME's through public institutions.
- Awarding grants and subsidies to SME's and other companies in order to reduce revenue decline.
- Using non-bank financial intermediaries in the policy support mix.
- Applying structural policies to help SME's adopt new ways of working and (digital) technologies, and to find new sales markets and channels so as to continue operating under the predominant quarantine measures. The policies aim at addressing urgent short-term challenges such as the advent of remote work, and also help to strengthen the resilience of SME's in a more structural way thus supporting their further development.
- Implementing specific schemes to monitor the crisis impact on SME's and to improve the governance of SME policy responses.

### **3. Relaunch measures announced by the Romanian Government in favour of SME's**

On 1 July 2020, the Romanian government announced the economic recovery plan which is based on the amounts allocated to Romania by the European Commission in the form of assistance for companies' recovery and overcoming the crisis. However, the allocated European budget will only be accessible to the companies concerned on the basis of long-term concrete business projects and plans. SME's have to think about concrete projects to access funds, decide on the investments they are pursuing, identify the economic flows that can be automated and make a plan for the professional development of their employees.

The eligibility conditions will differ depending on the facility they are accessing, but as regards the measures addressed to SME's, at least two must be met by an applicant, namely qualify as an SME and not be in financial difficulty. In order not to risk any sanctions, SME's must pay attention both during the first stage, when determining

beneficiary eligibility and, subsequently, when, while preparing the documents for accessing the programme, beneficiaries sign and submit declarations on their own responsibility stating that they meet the requirements, with all the legal consequences that ensue thereof. If the reasoning at the time of analysis was erroneous, the beneficiary risks having their guarantee cancelled / having the grants or subsidies awarded to them returned, as deemed necessary.

Some of the measures are already in place and have aimed at the rapid access to financial resources for the period March-May 2020, so as to ensure the retention of jobs for the employees working in the industries severely affected by the restrictions imposed in the pandemic context. It is mainly the “IMM Invest Programme,” including the government paying for technical unemployment, re-insertion allowance for employees in technical unemployment, tax advantages such as the suspension of the obligation to pay taxes, bonuses for the payment of taxes, etc.

#### **4. Concrete measures for SME’s included in the relaunch plan**

First of all, the “helicopter money” measures should be mentioned herein. They are among the most anticipated aid measures for companies that have been severely affected by the COVID-19 pandemic crisis: *awarding grants to companies* (non-reimbursable amounts granted directly to beneficiaries). The category of levers offered to SME’s by the authorities to get out of the crisis also includes financing guarantee schemes and instruments. Along with the IMM Invest Programme, there is also the IMM Leasing Programme which offers guarantees for financial leasing granted to SME’s in order to purchase equipment needed for the company activity.

The Romanian government sets the digitalization of SME’s as a priority and decides to award grants to economic operators in order to automate economic flows and digital training of employees. Accessing those grants should be a priority, because it is only through digitalization that Romanian SME’s will be able to be competitive as opposed to large companies.

The IMM Invest Programme allows SME’s significantly affected by the COVID-19 crisis to ensure their liquidity for day-to-day business or for investment. They can access one or several loans for investment and/or one or several loans/open-end credits for working capital guaranteed by the Romanian FNGCIMM, through MFP. The maximum allocated fund is 15 billion lei.

Such advantages are given to any form of organization of a business activity authorized according to the laws in force for performing production, trade or service activities in order to obtain revenues, under competition conditions, namely: companies regulated by Romanian Companies Law no. 31/1990, cooperative companies, freelancers, entrepreneurs holding a sole proprietorship or family business authorized according to the legal provisions in force, which carry out economic activities. Associations and foundations, agricultural partnerships and firms carrying out economic activities are also included.

Small and medium-sized enterprises are the enterprises that cumulatively meet the following conditions:

- they have an average annual number of employees of less than 250;
- they perform a net annual turnover of up to 50 million Euros equivalent in Lei, or total assets that do not exceed the Lei equivalent of 43 million Euros, according to their latest approved financial statements. Total assets mean fixed assets plus current assets plus advance expenses;

Benefits in case of working capital loans for small and microenterprises:

\*working capital financing of up to 1,000,000 Lei for a small enterprise and up to 500,000 Lei for a micro-enterprise;

\* state guarantees of maximum 90% of the loan amount;

\* financing duration of up to 36 months, with the possibility of extension for another 36 months;

\* ROBOR interest rate every 3 months + 2.5%/year 100% subsidized from the state budget;

\* costs of granting, monitoring and administering the guarantees granted on behalf of the government will be borne by the state budget.

Benefits in case of investment loans for small and microenterprises:

\* financing of up to 10,000,000 Lei;

\* state guarantees of up to 80% of the value of loans, excluding interest, commissions and related expenses;

\* financing duration of up to 72 months, with the possibility of a grace period of 18 months maximum;

\* interest rate made up of ROBOR every 3 months + 2%/year is subsidized 100% from the state budget;

\* costs of granting, monitoring and administering the guarantees granted on behalf of the government will be borne by the state budget;

As to microenterprises and SME's which have not submitted any financial statements at the date of application, the maximum amount of working capital loan financing will be calculated as double the average working capital expenditure in their monthly balances.

The interest subsidy period starts at the moment of granting the loans/open-end credits contracted after 21 March 2020 and can last until 31 March 2021. The interest subsidy is approved annually only if the estimated economic growth for the period is below the one of 2020.

The outstanding tax obligations and other budget receivables of a beneficiary in this guarantee programme will be paid from the loan/open-end credit for working capital granted under the programme. The penalties stipulated for delays in the execution of obligations arising from contracts concluded by SME's with public authorities holding a certificate for emergency situations shall not be due during the state of emergency.

#### References:

1. Deloitte, 2020. *Relaunch measures for SMEs announced by the Romanian Government: under what conditions can the facilities be accessed?* [online] Available at: <<https://www2.deloitte.com/ro/en/pages/business-continuity/articles/masurile-de-relansare-pentru-imm-uri-anuntate-de-guvernul-romaniei-in-ce-conditii-se-pot-accesa-facilitatile.html>> [Accessed 12 November 2020].
2. CECCAR Business Magazine, 2020. *Responses to the COVID-19 pandemic: how countries support SMEs.* [online] Available at: <<https://www.ceccarbusinessmagazine.ro/raspunsurile-la-pandemia-de-covid-19-modul-in-care-tarile-sustin-imm-urile-a6594/>> [Accessed 12 November 2020].
3. European Commission, 2020. *Autumn 2020 economic forecast: Romania - GDP will fall by 5.2% in 2020 and increase by around 3.3% in 2021, i.e. by 3.8% in 2022.* [online] Available at: <[https://ec.europa.eu/romania/news/20201105\\_previziunile\\_economice\\_toamna\\_romania\\_ro](https://ec.europa.eu/romania/news/20201105_previziunile_economice_toamna_romania_ro)> [Accessed 12 November 2020].

4. ING, 2020. *IMM Invest Programme: State-guaranteed funding for the conduct of current activity or for investments*. [online] Available at: < <https://ing.ro/lp/imm-invest> > [Accessed 12 November 2020].

## THE ASSESSMENT OF THE COVID-19 IMPACT UPON THE FIRMS FROM THE FINANCIAL AUDITORS' PERSPECTIVE

Lecturer Ph.D., Niculina STANESCU

“Constantin Brâncoveanu” University of Pitești, Romania

E-mail: niculina.stanescu@yahoo.com

**Abstract:** *As a result of the risks to which the firm is presently exposed, their assessment and the analysis of the financial implications on the company imply a high level of professional judgement of the management. The recent events related to COVID 19 have implications for the financial reports of the companies, especially for those with economic connections with the affected areas. From January 2020, auditors must be extremely alert to audit risk, mainly in terms of the direct implications for the compliance with the principle of continuity by the audited companies.*

**Key words:** *financial audit, financial situations, pandemic, continuity.*

**JEL Classification:** *M41, M40, M42.*

### 1. Introduction

Financial auditors must evaluate the impact of COVID-19 upon the financial reporting and compliance with the principle of business continuity both for the entities of public interest and for the other categories of economic entities.

There are recommendations from professional bodies for the financial auditors related to the implications of COVID 19 auditors need to be extremely alert to audit risk, especially in view of the direct implications of the audited companies.

When applying the audit procedures and preparing the audit report, one of the key issues in the statutory audit may be how the auditor reviewed, observed, and applied the audit procedures regarding significant developments before and after the pandemic within the entity.

### 2. The evaluation of continuity principle

The business continuity principle assumes that the financial statements are prepared on the same grounds as the current ones, unless management intends to either liquidate the entity or cease trading or has no other realistic alternative. The assessment of whether the appropriate basis for the continuation of the activity is appropriate shall be taken into account in subsequent events after the end of the reporting period. For example, for December 31, 2019, for companies that are severely affected by the impact of the COVID-19 pandemic, even if the significant impact on operations occurred after the end of the year, the management will need to consider the appropriateness of financial statements on an ongoing basis. When management is aware of significant uncertainties that seriously call into question the entity's ability to continue to operate, the entity should disclose those material uncertainties in the financial statements. Thus, on the basis of ISA 560 "Subsequent Events", it is necessary to include in the annual financial statements as of December 31, 2019 detailed information notes on the impact of this situation on the company, so that users can assess the implications or at least be aware of the effects on the entity, itself and the economy in general. Stock market participants, investors, authorities need detailed information, specific to each field of activity, in order to make economic decisions (CAFR, 2020).

The assessment of the business continuity must also be based on all information available after 31 December 2019, and this information may be linked to the existence of major uncertainties due to the unpredictable evolution of emergencies: whether a company with a good track record profitability is based on external financial resources and, due to the urgency imposed by "COVID-19", is forced to suspend operations in March 2020,

directors must consider a wide range of factors such as the worsening economic situation, the impact on profitability, debt repayment capacity, etc. Thus, companies must ascertain whether COVID-19 and its effects influence the business continuity assumption or change the time horizon used for the purpose of the assessment (Mazars, 2020).

In what the further events are regarded, there may be two extreme situations (CAFR, 2020):

1. There is an explanatory note on subsequent events, which details the measures taken by the company and there is a degree of insignificant uncertainty about the risk of business continuity. In this situation, the audit report will be affected by an explanatory paragraph that will draw attention to this issue, without affecting the audit opinion on the situations as of December 31, 2019.

2. There is no explanatory note on subsequent events detailing the measures taken by the company and there is a significant degree of uncertainty about the risk of business continuity. In this situation, the audit report will contain in the opinion basis a remark related to the significant risk of business continuity and, as such, will change the audit opinion accordingly, in the sense of a contrary opinion or even the impossibility of expressing the opinion.

IAS 10 stipulates that the financial statements may include those events that occur after the balance sheet date, but do not require the introduction of accounting data in the balance sheet (which does not affect the financial statements). In addition, IAS 1 “Presentation of Financial Statements” generally requires disclosures of future developments and the main causes of uncertainty. Therefore, directors should consider the impact of the COVID-19 emergency on their economic activity and provide adequate information on assets and liabilities that are particularly exposed to the uncertainty of the estimates, which generally include directors' assumptions about future recovery capacity of an asset or the liquidation value of a liability, as follows (Mazars, 2020):

- variable fees according to IFRS 15 “Revenues from contracts with customers”;
- net achievable value of inventories, according to IAS 2 “Inventories”;
- ability to recover prepaid taxes in accordance with IAS 12 “Income Taxes”;
- the residual value of fixed assets, intangible assets and rights of use, according to IAS 16 “Property, plant and equipment”, IAS 38 “Intangible assets” and, respectively, IFRS 16 “Leases”;
- provisions for risks, in accordance with IAS 37 “Provisions, contingent liabilities and contingent assets”.

### **3. The auditor's procedures for auditing companies in the context of COVID-19 events**

The documentation regarding the key aspects and application of audit procedures involves performing the following activities:

Procedure 1: analysis of the uncertainties and risks to which the company is exposed in the context of events related to COVID-19 and the presentation in the explanatory notes and in the note of subsequent events, as well as in the directors' report.

The worksheets prepared by the auditor may include the following objectives:

- analysis and evaluation of the risks presented by the client in the explanatory notes to the financial statements and the report of the administrators;
- collection of audit evidence to analyze the assessment of the entity's ability to continue its activity and documentation;
- identification of subsequent events and collection of sufficient and adequate audit evidence to document the 3 types of subsequent event situations:

- those that provide additional evidence regarding the conditions that existed at the end of the period - until the issuance of the audit report;
- those that provide additional evidence regarding the conditions that existed at the end of the period-until the submission of the financial statements;
- those that constitute an indication regarding the conditions that arise after the end of the period - after the submission of the financial statements;

Procedure 2: the inspection of the minutes of the shareholders' meetings and of the board of directors for the previous year and in the period until the submission of the financial statements;

The worksheets prepared by the auditor may include the following objectives: conclusions regarding the investigation of the issues discussed in the General Meetings of the Shareholders, the Board of Directors, the audit committees held after the end of the period for any references to financial difficulties, significant risks, subsequent events and continuity of activity.

Procedure 3: interviewing the relevant persons from the management of the entity with regard to the subsequent events and observing the principle of continuity of activity;

The worksheets prepared by the auditor may include the following objectives:

- Preparation and completion of the questionnaire regarding the subsequent events and observance of the principle of continuity of activity by the client and by the auditor
- Establishing the risks based on the questions from the questionnaire regarding the subsequent events and respecting the principle of continuity of activity

The interview of the relevant persons from the management of the entity can be done by oral or written communication, based on some questions asked by the auditor and developed according to the answers received. The questionnaire may include various questions such as:

1. Is the company involved in any activities that may give rise to litigation, which may result in compensation which the company cannot afford?
2. Were you notified of the bankruptcy of an important client this year?
3. Were the amount of bonuses and other entitlements due to employees for the financial year ended after the reporting period, the entity being required to pay these amounts?
4. Have major loan repayments matured or is refinancing required?
5. Has the company been affected by a refusal (or reduction) of the usual commercial credit terms?
6. Does the company face major staff difficulties?
7. Has the company faced a loss of major suppliers or customers or technological developments that lead to the obsolescence of a key product?
8. Is the company subject to a forced external reduction of operations, due to the legislative, regulatory framework or other factors?
9. Is the company involved in any activity, which can have various consequences, which would affect the principle of business continuity?
10. Do recent events related to the COVID-19 virus have a financial impact on society? Please provide details.
11. Does the company have external suppliers and customers in the areas strongly affected by the COVID-19 virus?
12. Does the company have enough stocks to continue the activity in the next period?
13. Have forecasts, estimates of future cash flows been made? If so, please attach.

14. Did the company register the loss of some customers, interruptions in supply and production?

15. Has the company registered the loss of some customers, interruptions in supply and production?

16. Is there a major risk of losing significant contracts?

Procedure 4: obtaining and evaluating the litigation situation prepared by the company's management and discussing with the company's management the status of the litigation and adjustments, as well as the potential exposures.

The worksheets prepared by the auditor may include the following objectives: analysis of the situation of litigation and the need to establish provisions.

Procedure 5: analysis of the main economic-financial indicators.

The worksheets prepared by the auditor may include the following objectives:

- Assessing the entity's ability to continue its activity based on the analysis of checking balances, bank journals / account statements, sales and purchase journals for the previous year and in the period until the submission of financial statements;
- analysis of turnover and operating result;
- analysis of the income and expenditure budget;
- analysis of management forecasts;
- analysis of the situation of external clients and suppliers.

#### **4. Conclusions**

The auditor's conclusion following the applied audit procedures, the adequate and sufficient audit evidence obtained, the corroboration of the information obtained from the client and the results of the auditor's verifications, must justify whether it presents a reasonable basis to assess the subsequent events and the capacity to continue its activity for the next period.

It is the responsibility of the auditors to obtain such information before issuing the final audit report. Movement restrictions and low staffing may affect the obtaining of such information as is necessary in the preparation of the audit report. In the case of audit teams, both the team leader and the other experts will need to adapt their approach to the current context. Auditors will need to explore alternative means of gathering information that make the most of technology. Used relevantly, technology can reduce time and maintain audit quality. Posting in cloud / secure platforms by the beneficiary the requested information, as well as verifying the traceability of the information provided can support the "remote" performance of audit tests (Fanita, 2020).

Even if the audit missions are carried out with difficulty, they must necessarily reach the assumed objectives (Diaconescu, 2020):

- the reflection of the faithful image of the patrimony situation and of the financial results in the balance sheet and in the profit and loss account;
- the expression of an opinion regarding the extent to which the financial statements present a true picture of the economic entity's business at the balance sheet date and the results of the year ended, in compliance with applicable laws and practices in the country where the audited economic entity has its registered office;
- maintaining the quality and coherence of the accounting system, so as to ensure the certainty of the reflection in the balance sheet and in the profit and loss account, correctly, honestly and completely of the patrimony, financial situation and results of the exercise;
- improving the use of the accounting information;

- appreciation of the performances and efficiency of the information and organization systems.

In carrying out a quality financial audit mission, it is necessary to re-evaluate the audit risk by the auditors as a result of the main risks and uncertainties faced by the audited entity. The control risk is very important to be recalculated and analyzed as a result of errors that may occur during the state of alert, emergency, as a result of the use of information technology extremely much, the decrease of staff capacity to cope with adaptation to new conditions inadequate use of office documents, homework, telework, unavailability of use of all staff as a result of those affected by health problems by infection and isolation of covid.

Also, the communication with the company management remains extremely important, especially in the context in which customer trips have been greatly reduced due to traffic restrictions imposed by the pandemic, telework.

Both corporate governance and financial auditors should give importance to the analysis of the exposure to business risk and the implications for the annual financial statements.

The quality of the works both for the auditor and for the audited companies must remain within the allowed limits, as well as the errors as well as the readjustment on the market to the new conditions of competition, client, suppliers.

#### References:

1. CAFR, 2020. *Impactul pandemiei COVID 19 asupra rapoartelor de audit financiar*. [online] Available at: <<https://www.cafr.ro/impactul-pandemiei-covid-19-asupra-rapoartelor-de-audit-financiar/>> [Accesed 25 March 2020].
2. Deloitte, 2020. *Cum reflectam COVID 19 in situatiile financiare?* [online] Available at: <<https://www2.deloitte.com/ro/en/pages/business-continuity/articles/cum-reflectam-COVID-19-in-situatiile-financiare.html>> [Accesed 10 March 2020].
3. Diaconescu, A., 2020. *Audit financiar. Garantia adevarului si incertitudinile COVID-19*. [online] Available at: <<https://royal-synergy.ro/audit-financiar-garantia-adevarului-si-incertitudinile-covid-19/>> [Accesed 11 May 2020].
4. Fanita, A., 2020. *Criza Covid si auditul financiar*. [online] Available at: <<https://blog.business-mark.ro/2020/06/12/alina-fanita-pkf-finconta-criza-covid-si-auditul-financiar/>> [Accesed 12 June 2020].
5. Mazars, 2020. *Ce implicatii va aduce COVID-19 din perspectiva IFRS?* [online] Available at: <<https://rum.mazars.ro/Prima-pagina/Despre-noi/Comunicate-de-presa-i-studii/Comunicate-de-presa/Implicatii-COVID-19-din-perspectiva-IFRS>> [Accesed 13 March 2020].