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Romania: Budget Credibility and the Sustainable Development Goals

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International Budget Partnership

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As Romania seeks accession to the Organisation for Economic Co-operation and Development (OECD), centering the Sustainable Development Goals (SDGs) can ground its budget in a clear, mission-driven, and performance-based vision. To actually achieve the global goals, however, the government will need to direct spending effectively toward critical development priorities—all while ensuring that funding is reaching the intended programs and beneficiaries.

One challenge that can undermine these efforts is budget credibility, a measure of how far governments deviate, during implementation, from a budget approved by the country's legislature, either by overspending or underspending in different sectors and programs. The SDGs recognize this challenge with tracking indicator 16.6.1, which looks at government expenditures as compared to the approved budget.[1] To explore how budget credibility could potentially support Romania's efforts to achieve the SDGs, this brief examines Romania's progress on planning and executing its budget across seven SDG-related sectors.

[1] Metadata for SDG indicator 16.6.1 can be found here: https://unstats.un.org/sdgs/metadata/files/Metadata-16-06-01.pdf

1. Romania's progress toward achieving SDG targets

Romania is currently embarked on a journey to reform its public financial management, both to comply with the standards set by the economic governance framework of the European Union as well as a way to meet the criteria to become an OECD member state. This reform has looked into various policy issues, including performance-based budgeting, SDG budgeting, and other processes that should lead to more modernized public financial management. This discussion also has included a conversation about budget credibility, including through spending-review processes; through efforts to better manage infrastructure projects, especially large ones; or to deliver on specific policy outcomes. However, most of the public debate related to budget credibility is linked to the under-spending related to investment, either through national capital expenditure or European-funded programs. While this is a real issue (see, for example, this previous pilot research on Romania's budget credibility, excerpted from Funky Citizens' work and published by the International Budget Partnership [IBP]), as Romania seeks to recalibrate its spending post-pandemic, it also must look into how budget credibility is affecting other policy areas, such as health, education, or support to the most vulnerable. By exploring whether these SDG-related budget allocations are being underspent or overspent, this brief will speak to their credibility while also offering insight into how shifts in expenditure may impact the government's budget priorities during the year.

These shifts would be consistent with Romania's own commitments. In 1999, the country developed its first sustainable development strategy based on the premise that the benefits of economic development should outweigh its costs, including those relating to the conservation and improvement of the environment.

The country's accession to the European Union in 2007 led to a change in Romania's national priorities, which resulted in the National Sustainable Development Strategy of Romania 2030, first adopted on 12 November 2008. To meet the goals of the 2030 Agenda for Sustainable Development, the government adopted a revised strategy in 2018. Although its operationalization remains ongoing, the strategy was supposed to prepare the ground for the Ministry of Public Finance to align the country's budget with SDG targets.

According to the 2021 Sustainable Development Report, Romania achieved 74.97% of the SDGs in 2021, a slight overall improvement from 2015, when it scored 73.84%[2]. The details for each goal show uneven results, however, with some indicators degrading in the last few years. This snapshot for 2021 shows the main areas of concern:

[2] A complement to the official SDG indicators and the voluntary national reviews based on the publication, The Decade of Action for the Sustainable Development Goals. Sustainable Development Report 2021 (Sachs et al, 2021).

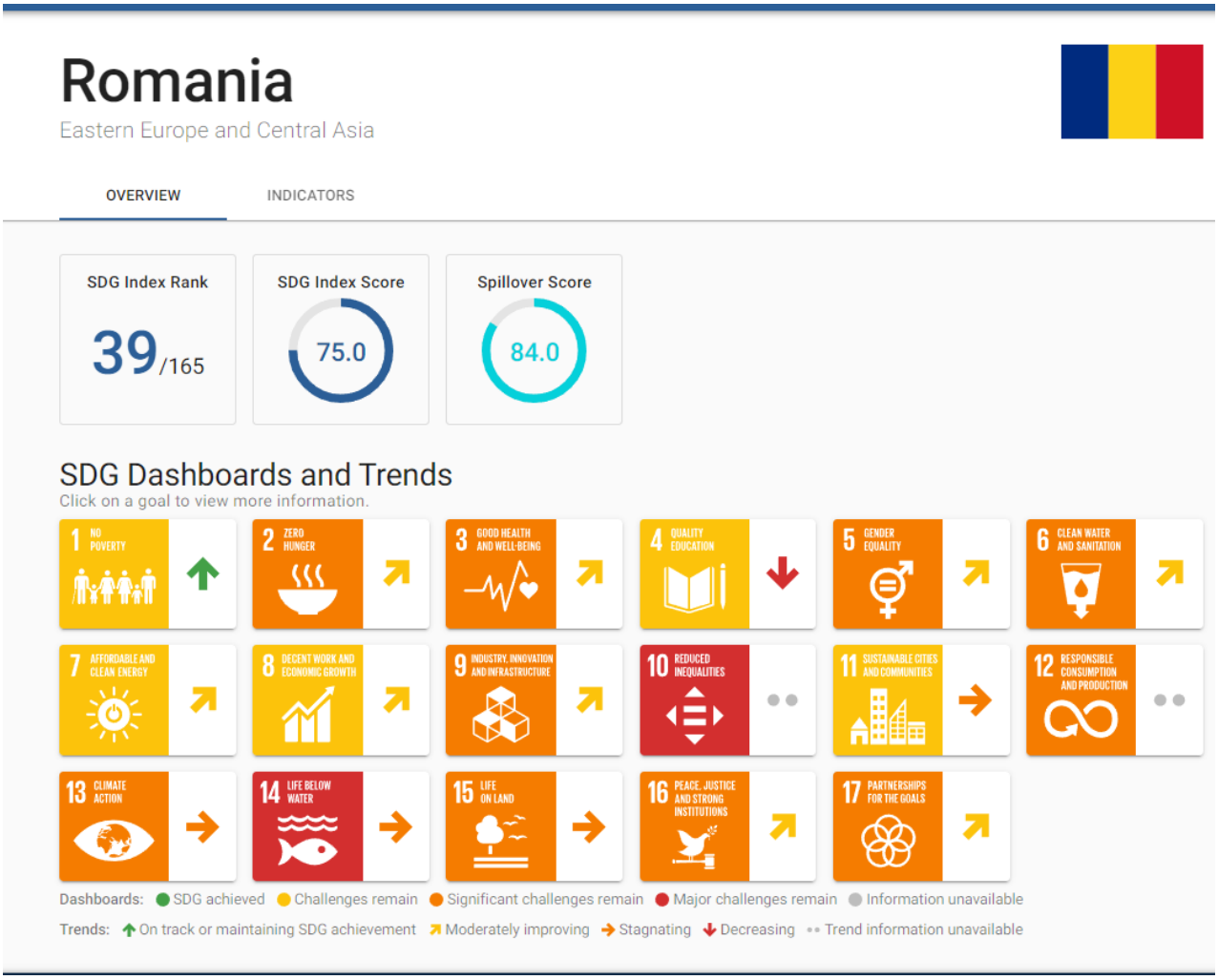

Figure 1: Romania's SDG Index Rank and Score, 2021

2. Government engagement with the SDGs in setting national priorities

To put Policy Coherence for Sustainable Development at the core of policy making, Romania established in 2019 the Interdepartmental Committee on Sustainable Development (ICSD), composed of all line ministers and headed by the Prime Minister. That year, Romania also established Sustainable Development Hubs at the level of line ministries and agencies. These hubs include public officers who serve as liaisons between the Department of Sustainable Development (DSD) within the Prime Minister's office and departments within their respective ministries responsible for implementing the country's Sustainable Development Strategy.

Building on this, the government of Romania asked the OECD to assist in developing its capacity to link policy planning and budgeting to support the implementation of the SDGs. The Report on SDG Budgeting in Romania was published in September 2020 and sets out recommendations for implementation of SDG budgeting in the context of the current budget framework in Romania. The report emphasized the opportunity to link the fiscal stimulus package with SDG budgeting, an action that did not happen. On the contrary, several transparency gaps in the allocation of funds to tackle the effects of the Covid-19 pandemic were observed, as noted in the profile of Romania in IBP's report on Managing Covid Funds: the accountability gap.

Another OECD recommendation was that Romania introduce an SDG perspective to its priority setting, namely "a requirement for sectoral ministries to explain how their budget helps support achievement of the SDGs in their policy declarations provided during the preparation of the budget, including a SDG Budget Statement accompanying the draft budget, as a way to provide evidence and accountability for outcomes and impact." A next step was supposed to introduce tagging of budget programs linked to the SDGs and to develop a more detailed SDG Budget Statement.

Instead, the executive budget proposals for FY 2021 or FY 2022 did not meet any of these recommendations, pointing to the low credibility of SDG-related budgets. Budget credibility, which corresponds to SDG indicator 16.6.1, was also omitted from the government's 2018 Voluntary National Review (VNR), which focused on efforts to achieve SDGs 6, 7, 11, 12, 15, and 17. (SDG 16 on "Peace, justice, and strong institutions" was also excluded.) Romania has committed to conducting a new VNR that will be presented at the 2023 High-Level Political Forum.

3. The context for budget credibility in Romania

Romania went through a set of reforms immediately after the economic crisis of 2008-2009, which led to fiscal responsibility legislation that, along with public finance legislation, is setting up a framework for budget credibility. Besides setting up a Fiscal Council that is providing research and advice on fiscal policies, several rules with an impact on budget credibility were put in place. The most important regulations are related to a more responsible way of assessing revenues, to expenditure limits, and to the adoption of thresholds guiding decision-makers' responses to macroeconomic trends. Taken together, these regulations contribute to overall budget credibility by forcing the government to build its budget on more sound grounds. The law specifically requires the substantiation of targets set in the budget, including by presenting the calculation methodology used and comparing them with execution over the last two years.

This legislation also provides for several other rules with direct impact on budget credibility. For example, the government cannot revise—or "rectify"—its budget during the first semester of the year, and the overall number of annual rectifications cannot exceed two (unless there are exceptional circumstances, as was the case during the pandemic). Also, the government has to publish budget executions at least on a quarterly basis, allowing the Fiscal Council to analyze the data and provide recommended rectifications.
During the year, these rectifications usually bring the budget closer to the reality of execution. During the pandemic, however, there remained a large difference between final budget execution and the initial approved budget, particularly with respect to capital expenditure and other investment programs.

4. Data sources, process for classifying budget according to the seven SDG-related sectors, and progress toward targets

Despite neither fully implementing its program budget nor having a tagging system for SDG allocations, the Romanian fiscal framework allows for relatively transparent and accessible tracking of data related to the budget lines contributing to the SDGs. These include the major budgetary chapters allocated for education and healthcare. Nevertheless, identifying precise allocations supporting the SDGs was impossible because it is not clear what share of total spending for one area is actually going toward achieving the SDGs as compared to other policies or objectives.

With this in mind, several considerations inform this brief's conclusions about Romania's progress toward the SDGs.

- Timeframe: The analysis spans the years 2018-2020; a better overview would reach back at least three years—to 2015.

- Sources: Data is drawn from enacted budgets, as approved by the legislature at the beginning of the fiscal year; final budgets, reflecting the typical two rectifications happening within the fiscal year;[3] and year-end \ reports, which present annual accounts with actual expenditure and are sent to the legislature for approval within six months of the end of the fiscal year). Even though the Ministry of Finance publishes data for the entire fiscal cycle, the analysis below relies on the official documents sent for the legislature's approval and which contain all three aforementioned sources.[4]

- Currency: All data is calculated in the national currency (RON), the value of which has fluctuated significantly due to inflation; a more consistent measure might be pegged against the country's GDP, the U.S. Dollar, or the euro.

- Appropriation Types: The analysis takes into account "credite bugetare" (budget appropriations) instead of "credite de angajament" (commitment appropriations) for every given fiscal year; it would be interesting to include the latter in the evaluation, especially given a trend toward lower budget credibility for investment —an area where we often see larger commitment appropriations.

[3] While the methodology for SDG 16.6.1 on budget credibility compares the final approved budget with actual expenditures, in this brief the initial Enacted Budget is the basis for comparison. This is because in Romania there are budget rectifications a so called "Emergency Ordinance" or a simple "Ordinance" that are passed by the executive and go into force immediately. In theory, these rectifications are subject to approval by the legislature, but in practice many are approved only after the end of the fiscal year. This means that in Romania the main document that is approved by the legislature and guides expenditures during the fiscal year is the Enacted Budget.

[4] Lege pentru aprobarea contului general anual de execuţie a bugetului de stat, a contului anual de execuţie a bugetului Fondului naţional unic de asigurări de sănătate şi a contului general anual al datoriei publice aferente anului 20xx / Law for the approval of the annual general account of execution of the state budget, of the annual account of execution of the budget of the Single National Health Insurance Fund and of the annual general account of the public debt related to the year 20xx

- Budget Types: The analysis considers only figures from the central government budget (bugetul de stat), which does not include subnational governments, extra-budgetary funds, or public corporations. To be more comprehensive, future analyses should consider extra-budgetary funds such as those for health and social insurance, which constitute a large proportion of the allocations for these two areas. Factoring them in also might help with a more accurate picture of budget credibility, as the government subsidizes these two funds from the state budget. A similar, though slightly more time- and resource-intensive analysis could be conducted for the sub-national level, where data for the major functional classifications contained in the national budget is available for the covered timeframe.

- Classifications: The analysis takes into account mainly the functional classifications for the major budget lines, with the exception of "water and sanitation," where the major chapter according to the functional classification includes other major, non-related expenditure on housing, services, and public development (Locuinte, servicii si dezvoltare publica). Hence, for this line, the analysis looks at the detailed budget classification and chooses the sub-chapter water supply and hydro-technical arrangements (Alimentare cu apa si amenajari hidro-tehnice).

- Gender: For gender equity, since there is no functional classification line to encompass it, the analysis measures the small agency budget of the National Agency for Equal Opportunities between Women and Men (Agenția Națională pentru Egalitate de Șanse între Femei și Bărbați), which is entirely dedicated to gender equity. Even though it does not manage all the funds for this goal, focusing instead on a small range of projects, its budget credibility evolution makes an interesting case study. Moreover, all public spending can potentially impact gender equality, and this cannot be understood fully without gender responsive budgeting systems and tracking. These systems do not yet exist in Romania, however.

- Administrative Capacity: The analysis also draws on raw data from the administrative classification of all other goals, with the exception of "water and sanitation"; even though the line ministries in charge of the major part of the national budget's allocations are not solely responsible for expending these funds, it would be interesting to compare credibility along functional and administrative lines. This comparison could help answer an important question: to what extent does the administrative capacity of one institution affect budget allocation for a goal?

With the above methodological points as context, the calculations in Table 1 compare the enacted budgets for SDG-related activities with their actual execution. The data shows significant deviations, with no discernible pattern to the significant underspending or overspending represented in Table 1. Allocations for "environment" and "agriculture," for example, deviate in both directions.

At the same time, spending on other goals exhibits a rather clear pattern. When it comes to "education," there seems to be a constant underspending tendency, even though the range is very diverse (from -1.65% to -11.48%). Similarly, when it comes to "social protection," there seems to be a constant tendency of overspending (with a more constant deviation, ranging between 3.52% and 7.39%), which can be of particular interest since this chapter has the highest share of spending in the state budget (and it is complemented by the Social Insurance and Unemployment budgets, both extra-budgetary funds).

These SDG-related sectors' relative performance seems to correspond to the government's spending on them. Romania's progress toward SDG 4 ("quality education"), for example, lags behind its quest to achieve SDG 1 ("no poverty"). Although the latter corresponds to the government's social protection budget, given the fairly limited data set, attributing progress to overspending in this sector may be a stretch. Still, exploring the link between spending and impact may reveal important insights, especially since aggregate budget credibility can hide wide deviations within individual programs.

Sector	Related SDG Goal(s)	SDG Index Performance	SDG Index Trend	Share of Total Spending (Average)	Budget Deviation (Average)
Agriculture and Food	Goal 2: Zero Hunger	Significant challenges remain	On track or maintaining SDG achievement	11%	1%
Education	Goal 4: Quality Education	Challenges remain	Decreasing	13%	-5%
Environment	Goal 13: Climate Action	Significant challenges remain	Stagnating	1%	2%
	Goal 14: Life Below Water	Major challenges remain	Stagnating		
	Goal 15: Life on Land	Significant challenges remain	Stagnating		
Gender	Goal 5: Gender Equity	Significant challenges remain	Moderately improving	0%	-9%
Health	Goal 3: Good Health and Wellbeing	Significant challenges remain	Moderately improving	4%	4%
Social Protection	Goal 1: No Poverty	Challenges remain	On track or maintaining SDG achievement	19%	5%
	Goal 10: Reduced Inequalities	Major challenges remain	Trend information unavailable		
Water and Sanitation	Goal 6: Clean Water and Sanitation	Significant challenges remain	Moderately improving	0%	3%
Total Budget					4%

5. Covid-19's impact on spending patterns

After the pandemic hit Europe, Romania took key tax and spending measures. These measures were passed at the end of March 2020, immediately after a state of emergency was decreed, and they included additional funds for the healthcare system, measures for employees (including for parents that needed to stay at home with their children), and measures for employers and businesses (including debt postponing, subsidies for wages, and loan guarantees). All these measures were reflected in a budget rectification. The relief package was maintained and further completed with extra measures during 2020, leading to significant overspending on areas like healthcare and social protection (especially through the extra-budgetary funds used for unemployment benefits).

According to the collected data, there are two lines which saw a significantly reversed trend—healthcare and agriculture. Although overspending on healthcare during the pandemic is not surprising, the reversed deviation for agriculture, which also negatively impacted the sector's net value, is significant.

Similarly, even though we cannot see a significant deviation in them, social protection allocations have experienced an overspending trend for the past three years. Although these allocations are higher in 2020, it is unclear whether this change will impact future efforts to achieve the SDGs, particularly because many of the measures were aimed at temporary relief to those affected by the pandemic. Changes induced by the pandemic may well affect Romania's progress toward the SDGs, however. In the medium-term, for example, investment in some healthcare infrastructure can be expected to improve the goals related to this area. Conversely, students who did not have access to quality education during the pandemic—especially in rural areas, where the response was mainly related to buying equipment and less to the training of teachers—may face even greater challenges given the country's long-standing dearth of investment in education (and in its digital transformation).

6. Overcoming limitations in the data

An in-depth look at the budget chapter related to healthcare can help illustrate the value of addressing the limitations on data noted in Section 4 of this brief.

		Deviation 2020		Deviation 2019		Deviation 2018		Deviation 2019	
		EB vs YER	FB vs YER	EB vs YER	FB vs YER	EB vs YER	FB vs YER	EB vs YER	FB vs YER
Health	Healthcare	13.37%	-6.11%	-6.78%	-2.33%	6.83%	-2.89%	10.21%	-1.92%
	Personnel Cost	7.89%	-0.85%	-2.44%	-0.77%	-6.98%	-0.41%	26.97%	-0.32%
	Goods and Services	22.38%	-8.65%	-4.50%	-1.80%	16.86%	-2.85%	14.22%	-0.97%
	Transfers	10.06%	-4.17%	-4.88%	-2.70%	9.18%	-3.09%	-8.50%	-4.07%
	EU Funds	-88.85%	-71.52%	-82.79%	-29.10%	-85.62%	-90.88%	-57.56%	-61.00%
	Capital Expenditure	188.96%	-0.74%	-13.97%	-2.37%	-29.48%	-1.49%	13.77%	-0.36%
	Ministry of Health	70.01%	-3.76%	32.03%	-1.44%	5.82%	-2.70%	6.45%	-0.98%
	National Health Insurance Fund	10.17%	-0.90%	6.87%	-0.29%	3.21%	-0.29%	1.78%	-0.42%
	Subsidy from the state budget	260.75%	-1.15%	259.92%	-0.49%	2.20%	-3.27%	1.82%	0.02%
Total	Expenditure	14.73%	-3.52%	-1.10%	-3.42%	-1.41%	-3.47%	-3.82%	-4.71%

Table 2: Budget Deviations in the Health Sector

As shown in Table 2, there are significant differences within the same classification of healthcare costs, with certain deviations significantly higher than others. If those deviations happen for allocations that have a significant nominal value, the impact on the credibility of the entire budget is equally significant. For example, if we look at the provisioned expenditure from European Union funds (i.e. investment from European Union funding available for Romania as a member state), the deviations are important and have a strong impact. Similarly, we can observe that the deviations tend to be higher between the enacted budget and the final budgets. There are also instances when even the final budgets are far away from the actual expenditure (again, for investment from EU funds).

Another important note is related to the timeframe covered by the data. If we look at the data for the "healthcare" line along its respective functional classifications, we notice that expenditure during the Covid-19 pandemic (2020) follows a trend similar to those of 2017 or 2018: there is overspending in comparison to the enacted budget, but there is underspending in comparison with the final budget (though the final budget is usually available with approximately one month left for execution).

To the same extent, by adding an extra layer of administrative classification analysis, we notice that some of the deviations are generated by dysfunctions in extra-budgetary funds. This applied in 2020, when there was a significant increase in the Ministry of Health budget, as much as in 2019. In both years, we can observe a large deviation between the enacted budgets and actual expenditure (70% in 2020 and 32% in 2019). If we dig deeper, however, we see that these deviations were generated by subsidies that were needed to supplement the National Health Insurance Fund (NHIF). In other words, budget deviations in the health sector were generated not only by the pandemic, but also by increases in the level of public pensions, for which the state budget subsidizes the social contributions due to the NHIF.

7. Conclusion

There are significant deviations in almost all of the Romanian budget's chapters related to the SDGs. These range from a few percentage points to over 70% deviation in some cases. To better understand how these deviations affect Romania's progress toward the SDGs, decision-makers should consider:

- The actual deviations within the allocations for each chapter and, through them, determine whether a lack of administrative capacity in some areas may have an effect on the country's ambitions related to the SDGs.

- Aligning the institutional framework of Romania's budget systems with the country's commitment to the SDGs, ensuring that subsidies at the sub-national level or extra-budgetary funds are factored into any analysis of underspending or overspending.

- Adding further granularity to available data, including through "tagging," to ensure an accurate assessment of how allocated resources are being spent.

8. Annex: Detailed data and sources

Table 1: Budget allocation and execution data for 2018 - 2020.

X Sector	Functional (or Administrative Classification)	Approved Budget (National Currency, RON)			Actual Spending (National Currency, RON)			Deviation (National Currency, RON)			Deviation by Sector (%)			Sector Share of Total Spending (%)		
		2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Agriculture and Food	Agriculture, Forestry, Fisheries,and Hunting (Agricultură, silvicultură, pescuit și vânătoare) (functional)	23,989,119,000	23,509,031,000	19,053,855,000	20,496,572,866	21,373,014,564	24,032,821,770	-3,492,546,134	-2,136,016,436	4,978,966,770	-14.56%	-9.09%	26.13%	11.73%	10.66%	9.73%
Education	Education (Învățământ) (functional)	22,082,774,000	31,898,874,000	30,208,203,000	21,719,466,679	28,235,671,873	29,218,046,668	-363,307,321	-3,663,202,127	-990,156,332	-1.65%	-11.48%	-3.28%	12.43%	14.08%	11.83%
Environment	Environment (Protecția mediului) (functional)	1,060,278,000	1,296,245,000	1,193,045,000	558,510,556	2,228,447,652	977,783,897	-501,767,444	932,202,652	-215,261,103	-47.32%	72.92%	-18.04%	0.32%	1.11%	0.40%
Gender Equity	National Agency for Equal Opportunities between Women and Men (Agenția Națională pentru Egalitate de Șanse între Femei și Bărbați) (administrative)	6,331,000	5,384,000	7,053,000	3,883,075	6,560,145	6,288,018	-2,447,925	1,176,145	-764,982	-38.67%	21.85%	-10.85%	0.00%	0.00%	0.00%
Health	Health (Sănătate) (functional)	5,672,572,000	10,272,664,000	9,678,664,000	6,059,983,289	9,576,297,654	10,972,486,294	387,411,289	-696,366,346	1,293,822,294	6.83%	-6.78%	13.37%	3.47%	4.77%	4.44%
Social Protection	Insurance and social assistance (asigurări și asistență socială) (functional)	32,981,653,000	36,114,381,000	39,956,682,000	34,142,900,869	38,091,047,969	42,908,690,192	1,161,247,869	1,976,666,969	2,952,008,192	3.52%	5.47%	7.39%	19.55%	18.99%	17.38%
Water and Sanitation	Water supply and hydro-technical arrangements (Alimentare cu apa si amenajari hidro-tehnice) (functional)	230,643,000	335,840,000	263,523,000	257,873,228	302,193,829	285,850,607	27,230,228	-33,646,171	22,327,607	11.81%	-10.02%	8.47%	0.15%	0.15%	50.12%
Total Budget		177,171,941,000	202,781,473,000	215,224,161,000	174,674,158,685	200,556,575,318	246,929,902,042	-2,497,782,315	-2,224,897,682	31,705,741,042	-1.41%	-1.10%	14.73%	-	-	-

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