
Consequences of Corruption and Prevention Program in Romania

Authors: **Enea Constanța**, Constantin Brancusi University of Targu Jiu, Romania; **Enea Constantin**, Constantin Brancusi University of Targu Jiu, Romania

The consequences of corruption are differently perceived by companies also depending on their size by number of employees. Small companies consider to a larger extent that the main consequence of corruption is the moral; decline of society. Medium companies believe losing foreign investments is the main consequence in this respect and large companies consider to a larger extent that the development process is slowed down by corruption. The consequences of corruption are differently perceived by companies also depending on the source of capital. Romanian capital companies consider to a larger extent that the main consequence of corruption is that it slows down the private sector development while foreign companies believe to a larger extent that the main consequence of corruption is foreign investment opportunities.

Keywords: *consequence; corruption; prevention*

Introduction

After the change of the political regime in 1989, Romania became the place of numerous changes that were meant to place our country among

the young democracies with a functional economy. Achievements registered in these domains were often thrown into shade by noisy corruption scandals, which monopolized the front page of the newspapers. Thus, we came to the situation occurred in 1996, when most of the parties included in their political program an ambitious fighting program against corruption. The fact that they had no success in that legislature led to a civic sanction of that legislature and to the change of the government party in the year 2000. The party elected in the year 2000 “has among its priorities corruption control by radical measures”.

Corruption existed even before 1989 but it was publicly denied till the beginning of the nineties. After being publicly admitted the corruption phenomenon didn't lead to a public policy immediately. The public policies came out when politics overlapped the problem. They were the result of thousands or maybe millions of people who wanted to stop the phenomenon. The first ones to ask for a public policy against corruption were the citizens, which came up against small corruption in the administration. Here they had to pay bribe in order to get a license or any other document and not to be put in line. This is also a matter of ignorance because most of the citizens are not aware of their rights or they don't know the procedures to get such licenses and documents.

The state also needed a public policy against corruption in order to accomplish its functions and to exert a positive role, productive one and not a negative, destructive one. As a result of the public request The National Fighting Corruption Program was created. The majority of the citizens believe the elaboration and carry out part of this program are done by the government, especially by the Prime minister and by the President. The fact is that it had been mainly influenced by the parties: the one in power needs a good perception among citizens in order to be reelected in 2011 and those standing in opposition needs a negative perception among citizens, meaning a failure of the legislature, so they can seize the opportunity and win the elections in 2011. In the end all of this is in fact the result of the fight between the interests groups. “The interests groups are most of the time hierarchical hierocracy, managerial

teams led from the top by a few office holders” which for their own interests use the others. There are also wealthy men or persons with a very high public status who act as the interests groups. They use their money and voices to push the policy where they want it.” Regarding the corruption the most active were the business associations (as ARIES), which because of this phenomenon couldn’t protect their interests and fulfill their goals. The business associations contributed to the information exchange among citizens, especially between businessmen and political leaders. The information exchange was done through media, meetings, memorandums, polls and other means. They are very important if we want to emphasize the way the phenomenon is understood by the population and to be able to get to a common point of view.

The necessity of a fighting corruption program came also as a result of the citizens’ inequality. I’m not talking about inequality in front of the law but about the socio-economic inequality, which leads to the impossibility of fulfilling their interests (they don’t have money to pay the bribe to the civil servants as it’s bigger every day). This is also the situation of some of the firms, which pay a bigger percent of their profit as bribery every day. At the beginning fighting corruption meant just punitive measures. The law punished the offences that were in connections with the phenomenon such as bribery, stock embezzlement, as the corruption offence does not exist. Now the accent is put on preventing measures. That means creating ethic codes for business, special statuses for civil servants, magistrates etc.

Romania now has a law package for fighting corruption even though they didn’t follow the procedures and the Government decided to assume the responsibility for them. Some of the people may believe this also means corruption at the highest level in state. Romania must now focus on applying the public policy of fighting corruption. Beside laws we also have the institutional frame (even though is not the best one); there are special departments in the Public Ministry, Supreme Court and also in the Ministry of home Affairs, Ministry of Justice. Lately there are also

many cases of policemen and justice officials accused of corruption. Now when we have a national program of fighting corruption a problem that must be solved is the assessment of its results. First of all they are assessed by the citizens. Their opinion is reflected in the opinion polls. In accordance with one of these polls, citizens think most of the civil servants are corrupt. The Government also admitted that 44% of the civil servants are corrupt (a 2002 poll). An assessment of the phenomenon is also made by the state according to the economy results. Very important are the assessments made by international organizations or by other governments (the EU governments and the American one). The most recent EU Report on Romania considers corruption is still a big impediment for foreigner investments.

An assessment of how the fighting corruption program is put in practice is made by the interests groups. They may also help solving problems that may occur. They can also stop a public policy before it came true. That happens because for resolving a public policy all must reach a joint, but for stopping one only one person with veto right must be against.

As a closing I may say that corruption is an “endemic” phenomenon with a fluctuating evolution. Stopping it is a priority for our country and progresses have been made. We now have a pretty good law package in this domain, we have the structures to apply it and citizens are more than ever decided to fight against it. Although the results are not always the best we must continue and we must also follow the other countries example if they had better results. The consequences of corruption are differently perceived by companies depending on provenience. Western area companies consider the main consequence of corruption is in fact that it poses a threat to state security. Moldavian companies’ representatives believe the main consequence in this respect is decreasing living standard. Southern companies consider to a larger extent that the main consequence of corruption is investors losing interest in Romania and Bucharest companies consider to a larger extent that the development process is slowed down by corruption.

Table 1: Which, in your opinion, is the main consequence of corruption?

Region	West	South	East	Bucharest
Poses a threat to state security	17	11	4	7
Leads to a decrease in standards of living	16	15	35	15
Slows down the private sector development	14	11	12	16
Slows down the development process	5	0	6	15
Poses a threat to human rights	4	4	6	1
Poor people become poorer	8	7	8	5
Increasing criminality	0	7	10	0
Foreign investors loose interest in Romania	18	22	16	11
Decreases the number of those believing in honesty	8	11	0	12
The moral decline of society	10	7	4	14
Other	0	4	0	3

The consequences of corruption are differently perceived by companies also depending on their size by number of employees. Small companies consider to a larger extent that the main consequence of corruption is the moral; decline of society. Medium companies believe losing foreign investments is the main consequence in this respect and large companies consider to a larger extent that the development process is slowed down by corruption. The consequences of corruption are differently perceived by companies also depending on the source of capital Joint companies believe to the same extent with foreign companies that losing foreign investments is a consequence together with a decrease in the number of those believing in honesty.

Table 2: Which, in your opinion, is the main consequence of corruption?

Source of capital	Romanian	Joint	Foreign
Poses a threat to state security	6	14	0
Leads to a decrease in standards of living	20	19	21
Slows down the private sector development	16	8	7
Slows down the development process	13	5	14
Poses a threat to human rights	2	0	0
Poor people become poorer	6	5	7

Increasing criminality	2	3	0
Foreign investors loose interest in Romania	7	22	36
Decreases the number of those believing in honesty	8	22	7
The moral decline of society	16	3	7
Other	2	0	0

Bucharest and Southern region companies are more willing to invest on a percentage basis in programs fighting corruption. In the same time, Western region companies are less willing to do so.

Table 3: What percentage of your company revenue would you be willing to invest in financing programs fighting corruption?

Region	West	South	East	Bucharest
Less than de 1%	67	57	46	43
1-5%	20	19	46	35
6-10%	11	24	6	17
11-25%	2	0	2	4
26-50%	0	0	0	1
More than 50%	0	0	0	1

Large companies are willing to invest more in programs fighting corruption comparing to small companies. The majority of small companies would invest less than 1% while 175 of large companies would invest 6-10%. We should remember that the percentage of the revenue used for informal payments by large companies was smaller than small companies' equivalent. Medium companies also are willing to invest more in programs fighting corruption.

Table 4: What percentage of your company revenue would you be willing to invest in financing programs fighting corruption?

Number of employees	1-10	11-250	Over 251
Less than 1%	52	53	43
1-5%	35	26	37
6-10%	11	16	17
11-25%	2	4	2
26-50%	0	1	0
More than 50%	1	0	0

Obviously, domestic capital companies are more willing to invest in programs fighting corruption comparing to joint and foreign capital companies. 15% of Romanian companies would be willing to invest 6 to 10% out of the total revenue in programs fighting corruption. On the other hand, foreign companies are less affected by corruption.

Table 5: What percentage of your company revenue would you be willing to invest in financing programs fighting corruption?

Source of capital	Romanian	Joint	Foreign
Less than 1%	42	52	54
1-5%	41	33	38
6-10%	15	9	8
11-25%	1	3	0
26-50%	0	3	0
More than 50%	1	0	0

There is a relation between the percentage paid by companies accounting for corruption and the percentage companies would be willing to invest in fighting corruption. The statistic trend nevertheless is towards paying less for programs fighting corruption than for actual corruption. This is the natural choice of the entrepreneur if to choose from financing a public good and make it on his own. It is certain that some corruption practices put some companies at an advantageous position comparing to the others. The wish for personal profits is to a higher degree seen as a cause of corruption in Moldavia (over 53% of the subjects) while low salaries are considered a more significant cause in the Western region and Bucharest comparing to the other regions. Too much bureaucracy seems to be seen as the main corruption cause in the Southern area and legislative problems are seen as tied to corruption to a larger extent in Bucharest. Differences of perception of corruption causes can also be seen as for the size of company by number of employees. The wish for personal profit is to a larger extent seen as a cause of corruption by small companies (10 employees or under) while medium and large companies tend to causally explain corruption through faulty legislation

and weak law enforcement. Moreover, small companies believe to a higher degree high bureaucracy is a cause for corruption in Romania.

Foreign capital companies' representatives consider to a larger extent that the main cause of corruption is faulty legislation and weak law enforcement (29%) while joint capital companies believe the wish for personal profit causes corruption. Domestic capital companies believe low salaries largely account for corruption in Romania. Personal experience seems to be a more important information source for corruption in case of companies from Moldavia. Mass-media as well seems to be an important source in this region. For Western companies representatives, relatives, friends, acquaintances represent a more important information source comparing to other regions.

Table 6: What percentage of your company revenue would you be willing to invest in financing programs fighting corruption?

	Percentage of revenue used for informal payments				
	Less than 1%	1-5%	6-10%	11-25%	26-50%
Less than 1%	65	32	18	0	100
1-5%	24	52	50	25	0
6-10%	10	14	27	38	0
11-25%	0	2	5	25	0
26-50%	1	0	0	0	0
More than 50%	0	0	0	13	0

From the economic point of view additional taxation in order to finance the reduction of corruption should be oriented towards reducing bureaucracy (investments in technology to replace bureaucracy clerks) rather than towards increased quality of services. Barriers when dealing with public institutions are generally related to cumbersome procedures and to a smaller extend to low quality of services. As it may be observed from the table below financial losses generated by corrupting behaviors in relation with public institutions is smaller in the Western region and bigger in the Southern region. While 75% of Western region companies report less than 1% of the turnover spent on informal payments, in the Southern region almost one third of the companies' representatives

report informal payments up to 10%. In Bucharest roughly 1/10 of the interviewed companies report informal payments that may reach 25% of the company turnover.

Table 7: Percentage of turnover spent on informal payments to civil servants

Region	West	South	East	Bucharest
Less than 1%	75	53	63	47
1-5%	20	20	26	30
6-10%	5	27	9	15
11-25%	0	0	2	8
26-50%	0	0	0	1

The size of informal payments in the company turnover is bigger in case of small companies. 7% of these companies report 11 to 25% of turnover spent on corruption. In case of large companies the majority of informal payments are under 1%. One must give consideration to the fact that large companies' turnover is also higher. In absolute terms the value of financial losses generated by corruption could be higher with companies with over 250 employees comparing to small companies. Nevertheless on a percentage basis the portion of turnover spent on informal payments has a greater impact on small companies' activities. While for a large company 1% or under may not cause serious economic dysfunctions, in case of small companies 11 to 25% may barely allow the company maintain a normal course of business. The fact that large companies pay less on a percentage basis for informal contacts with public institutions while small companies pay a bigger portion in this respect means there is a trend towards leveling the price of informal payments for certain services. In other words corruption does not function as a redistributive mechanism, in which case informal payments should have been proportional to companies' wealth but more like robbery in which taxes are flat in view reducing bureaucracy.

Table 8: Percentage of company's revenue used for informal payments to civil servants

Number of employees	1-10	11-250	over 251
Less than 1%	53	60	63
1-5%	27	21	31
6-10%	12	16	6
11-25%	7	3	0
26-50%	1	0	0

Table 9: Percentage of company's revenue used for informal payments to civil servants

Source of capital	Romanian	Joint	Foreign
Less than de 1%	51	59	89
1-5%	29	30	11
6-10%	15	4	0
11-25%	5	4	0
26-50%	0	4	0

As the table below shows, foreign capital companies usually pay lower informal taxes. Roughly 89% of foreign companies report under 1% of turnover as informal payments, while 15% of Romanian capital companies report 6-10% of turnover as informal payments. The difference between Romanian and joint capital companies stays still, even if 30% of the latter reports 1-5% of turnover spent on informal payments, comparing to only 11% of the foreign capital companies. 25 institutional barriers were suggested in the questionnaire and companies' representatives assessed the extent to which these are negatively affecting their activity. An average of 12 institutional barriers was identified as such in Moldavia, comparing to 8.8% in Bucharest.

Institutional barriers by region

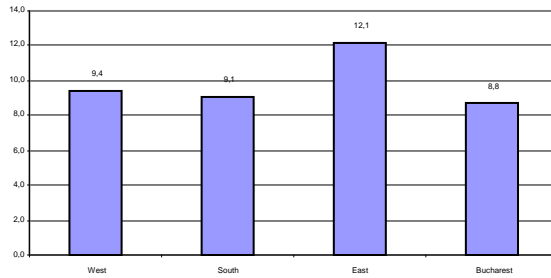


Figure 1

The graph below shows that large companies (over 250 employees) have to deal with less institutional barriers comparing to small companies which report an average number of 10 barriers to large extent negatively affecting their activity, out of the total 25.

Institutional barriers by size of companies

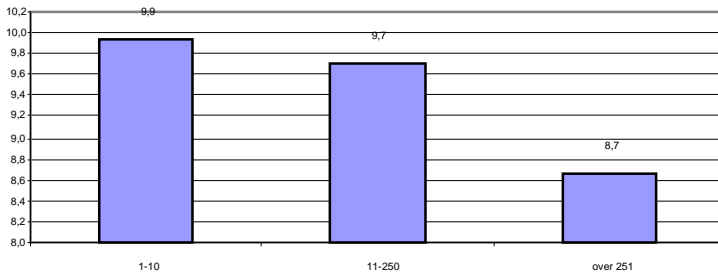


Figure 2

Foreign capital companies deal with less institutional barriers than Romanian or joint capital companies. While foreign companies

report an average of 8 institutional barriers to large extent negatively affecting their activity, Romanian companies report a 10 in this respect.

Institutional barriers by source of capital

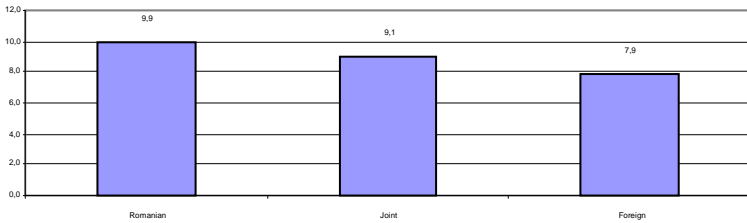


Figure 3

Corruption culture is showcased by the mentalities of corruptors within the business environment. 14% of Bucharest companies’ representatives consider that bribe is always justified in order to speed-up a transaction. Meanwhile, in the Western region 60% consider bribe is never justified in order to speed-up a transaction. In Moldavia, 71% of the companies’ representatives believe such behavior is sometimes justified.

Table 10: Are informal payments justified in order to speed-up transactions?

Region	West	South	East	Bucharest
Never	60	52	20	41
Sometimes	31	41	71	45
Always	9	7	10	14

Likewise, 7% of Bucharest companies consider bribe is always justified in order to avoid paying taxes, while 91% of Western region companies consider such behavior is never justified.

Table 11: Are informal payments justified in order to avoid paying taxes?

Region	West	South	East	Bucharest
Never	91	81	90	81
Sometimes	4	11	10	12
Always	5	7	0	7

62% of large companies consider bribe is never justified in order to speed-up a transaction, while 13% of small and medium size companies consider this behavior is always justified.

Table 12: Are informal payments justified in order to speed-up transactions?

Number of employees	1-10	11-250	over 251
never	38	39	62
sometimes	49	48	34
always	13	13	4

There is a clear tendency for Romanian or joint companies to justify corruption by means of speeding-up transactions or avoid paying taxes, while foreign companies are rather against such justifications.

Conclusions

Informal payments companies in Romania make in case of various institutions do not necessarily lead to arise in satisfaction towards services ordered. As some researches show the level of satisfaction decreases while corrupting behavior spread. In other words, satisfaction towards services offered by public institutions appears in case of companies which do not make informal payments whereas complaints appear at companies making such payments.

According to the survey 68% of those who did not paid informal taxes to customs authorities are happy with services offered where as 75% of those who paid bribe to customs authorities are complain about services offered. The same situation applies in case of services offered by the roadway police. 60% of those who did not paid bribe are satisfied about the services offered while 66% of those who paid bribe complain about the services offered. Same distribution applies to fiscal inspectors: 70% of those who did not paid bribe where satisfied while 71% of those who paid bribe complain about services offered.

When asked whether paying informal taxes to public institutions problems are expedited faster entrepreneurs answered on an overwhelming majority yes. A positive correlation may be observed between informal payments and a decrease in time spent/ bureaucracy needed to expedite a certain problem at different institutions.

As a conclusion informal payments do not lead to increased quality in services, but may reduce bureaucracy or time spent. This satisfaction towards services offered by public institutions to which informal payments are made is probably a quality/ price based assessment. In case of those paying informal taxes the price is bigger for the same quality of services which determines a lower satisfaction comparing to those not making informal payments.

References

- [1] CProject “Initiatives for Reduction of Corruption and Development of Ethical Practices” is supported by the Center for International Private Enterprise (CIPE) in Washington D.C. CIPE is an affiliate of US Chamber of Commerce, International Center for entrepreneurial studies Bucharest University
- [2] <http://www.transparency.org.ro>
- [3] http://www.transparency.org.ro/politici_si_studii/studii/national_coruptie/2008/RNC_2008_electronic.pdf
- [4] www.euractiv.ro.

-
- [5] <http://www.globalintegrity.org>.
 - [6] <http://report.globalintegrity.org/Romania/2007>
 - [7] http://www.pna.ro/bilant_activitate.jsp?id=12#cap5.
 - [8] http://ec.europa.eu/dgs/secretariat_general/cvm/index_ro.htm
 - [9] http://www.csm1909.ro/csm/linkuri/25.07.2008_15314_ro.pdf