



The corruption risks at regional and local level

-a common anticorruption policy-

*The biggest economic crisis since the Great Depression
is not a natural phenomenon, but a man-made disaster,
in which we all play a part.*

(The Guardian, 29 January 2009)

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Abstract

This article highlights important aspects of corruption, the way they interact with the formal economy, how is this complex phenomenon propagated and the multi-structural consequences of not treating this disease. Corruption undermines public confidence in state institutions, has negative consequences on the living standards of honest citizens, creates mistrust, promotes a selfish attitude, inclination towards greed and also social disorder. More visible because of the financial crisis we are facing, serious phenomenon such as corruption tends to be present at every step, in every circumstance and feels increasingly, becoming for the citizen an aggression, a cost that must be taken into consideration permanently and a cause of additional stress. In the end the effect transposes on one hand in sums that will never become incomes at the general consolidated budget or in the operation of some inefficient and inappropriate expenses, which captures the economy and by their major significance, important resources of the budget are "lost sight of" state, generating discredit in the economy. Thus, that fact's consequences are seriously: it can only significantly reduce the state's ability to borrow or the loans's extremely high costs, due to the risk posed to donors, will generate distrust of repayment ability. Hence the distrust in the economy is due to the ability of the state to combat the funds outflow from the budget on account of widespread corruption, endemic and pervasive, and can not lead to ensure a decent living standard nor to foster a climate of social peace. The permanent limitation of this phenomenon can be done by using a special available tool, respectively the budget, by which can



be reduced drastically the uncollected amounts and using the funds more carefully based on principles as economy, efficiency and effectiveness. Such a struggle can be carried by young people with exceptional preparation that we have available and which followed an exceptional training in the most prestigious universities in the world, being very well appreciated there, but wick in our country find very hard an employment in a making-decision position because of the endemic corruption.

Key-words: trust, economic crisis, corruption, constructions, economy.

1. Introduction

The evolution of human society for its origins until today shows that the corruption phenomenon is not new, it is in all kind of less developed companies, in developing countries, but also in advanced countries, representing a constant threat to any economy, because it is a constant of human existence and it is present where power is exercised.

Corruption is a phenomenon that seriously undermine the economy and society as a whole. This destructive phenomenon affects worldwide countries, that suffer from a deep-rooted corruption that hinders the economic development, undermines democracy and harms social justice and the rule of law.

Although the nature and extent of corruption varies, they harm both the Member States of the European Union and the integer Union. The corruption causes financial damage by lowering investment levels, hindering the proper functioning of the internal market and reducing public finances. Corruption also causes social harm by the fact that the criminal organized groups resort to corruption to accomplish other serious crimes, such as drugs and human beings traffick. In addition, if not countered, corruption can undermine trust in democratic institutions and weaken the accountability of political leaders.

In the recent years, approximately the last decade, some efforts were made at national, EU's and international level to reduce corruption¹. The EU legal framework for combating corruption developed by adopting a combat corruption legislation, in the private sector² and by the European Union's adherence to the United Nations Convention against Corruption (UNCAC)³.

So the Treaty on the Functioning of the European Union recognizes corruption as a serious crime with a transboundary dimensions, that the Member States are not able to fight on

¹ Commission requested the submission of such efforts in 2003, COM (2003) 317 final.

² The Council Framework Decision 2003/568 / JHA on combating corruption in the private sector (OJ L 192, 31.7.2003, p. 54).

³ Council Decision 2008/801 / EC (OJ L 287, 25.9., 2008, p. 1).



their own⁴. To some extent, combating corruption actions were integrated into a set of EU policies⁵.

However, the application of the legal framework for the fight against corruption is difficult, is unevenly performed in the Member States and unsatisfactory overall. EU legislation on the fight against corruption is not transposed in all Member States⁶.

Some countries have not ratified the main international anti-corruption instruments. More importantly, even where there are institutions and legislation to combat corruption, in practice the implementation is often insufficient.

This reflects the absence of a strong political commitment from leaders and decision makers in the fight against corruption in all its forms - political corruption, corrupt activities committed by and with criminal organized groups, individual corruption and the so-called petty corruption. Therefore a clear need to stimulate political will in the fight against corruption exists and also to increase the coherence of policies and anti-corruption efforts undertaken by Member States.

So the European Union member states are not sheltered by this disease and the consequences in the absence of a firm action will quickly lead to a phenomenon's propagation, affecting credibility but what's worse will affect objectives and goals.

Corruption varies from one country to another, by nature and intensity, but it affects all Member States. Mainly it alters principles, that affects the economic's sustainable development, such as good governance, proper management of public funds and competitive markets.

The most severe form of corruption undermines public confidence in democratic institutions and processes. An analysis of corruption in the European Union Member States of the measures taken to prevent and combat this phenomenon, should have the aim to launch a discussion involving the Commission, Member States, European Parliament and other stakeholders, support the activity against corruption and identify ways in which the European dimension can contribute to this endeavor.

Though EU member states have in most part the legal instruments and institutions to prevent and combat corruption, the results are not satisfactory overall. Anticorruption rules are not always strictly applied, systemic issues are not effectively addressed and competent institutions do not always have a plentiful capacity to ensure the compliance with laws.

For the intentions declared to be followed by concrete results, further efforts should be made but the real political will to eradicate this phenomenon seems to be missing often.

In reality, the political will is an important pillar of a national integrity system development, which ensures appropriate economic policies that reduce the possibility of

⁴ Article 83 (1) of the Treaty on European Union mentions corruption among the offenses for which directives may establish minimum rules requiring the definition of criminal offenses and sanctions, as corruption often has implications well beyond the internal and external borders of the EU. Both cross-border corruption and other forms of corruption, such as corruption in the judiciary, may adversely affect competition and investment flows.

⁵ Judicial and police cooperation, procurement, cohesion policy to support capacity building administrative, accounting standards and statutory audit for EU companies, etc.

⁶ The Commission has no power to bring an action in court against Member States with the reason they have not transposed the ground that measures taken under the third pillar of the Treaty, before the entry into force of the TFEU. Such actions will be possible on 1 December 2014 under Article 10 of Protocol 36 on transitional provisions of the Treaty of Lisbon.



recoursing to corrupt practices and can be regarded as a precondition to effectively combat corruption⁷.

In this sense, to corruption initiative to be effective, it needs to be a leader sufficiently engaged in this struggle, with vision and aware of the high costs of corrupt government. However, the management of the state should bring peace and political stability. It is essential that leaders initiating and implementing a range of policies and programs in the economic and governmental policy to bring by them democracy and the constitutional order.

In many cases, a single person who enjoys a great popularity can lead the country towards an equilibrium in which corruption is a criminal and unpatriotic act. The commitment of a leader is an important key to effective anti-corruption policies. In addition to political commitment at the highest level, anti-corruption efforts should include the commitment of other state officials, mainly heads of the authorities of a rule of law. The fight against corruption depends on the willingness of political leaders to recognize that corruption is a problem.

At European level was taken a significant political commitment to combat corruption effectively, which must be followed at national level, respectively in Romania.

To materialize the European Union's contribution was taken a decision to monitor and assess Member States' efforts in this area to a stronger political commitment to combat corruption effectively, so in June 2011, the Commission adopted a Communication on combating corruption by developing anti-corruption report to be published periodically.

In accordance with international legal instruments⁸, the corruption in broad sense can be defined as any "abuse of power seeking to obtain benefits for their own benefit."

Thus, this definition covers specific corruption acts measures taken by Member States to prevent or to punish acts as defined by legislation, targeting a number of areas and measures that have an impact on the risk of corruption that can occur on the ability to control it.

Corruption is a complex phenomenon whose economic, social, political and cultural dimensions can not be removed easily. An effective policy response can not be reduced to a set of standard measures; comprising at least these dimensions can be appreciated that there is no one "universally valid solution". It is therefore necessary to examine corruption in the national context of each Member State and suggest the most relevant issues for each Member State to be addressed in a national context.

2. The Connection With The Financial Crisis

Wider political context

The current financial crisis has created an additional pressure on European citizens and on their governments, through the effects of decreasing purchase power, worsening living standards, increasing social tensions, worsening life quality in general. Taking into account the

⁷ Matei, Adrian-Ducu - Corruption in transition economies, Bucharest: Expert, 2013.

⁸ In particular, the UN Convention against Corruption and anti-corruption legal instruments of the Council of Europe, including Resolution (97) 24 on the twenty guiding principles for the fight against corruption and Recommendation. R (2000) 10 on codes of conduct to be followed by officials and Recommendation. R (2003) 4 on common rules against corruption in the funding of political parties and electoral campaigns.



economic challenges facing both Europe and other parts of the world, it is imperative that the highest level leaders to give a signal of solidarity with citizens by providing enhancing guarantees, integrity and transparency of public costs that demonstrate the citizens' effort to bear the costs of the current crisis are accompanied of politicians' efforts. In this regard people can be recruited to overcome the crisis if the European Union is determined to play an important role respectively by taking measures to demonstrate that Member States have the capacity to protect the licit economy against organized crime and tax evasion, the money laundering and corruption, especially in times of economic crisis and budget austerity. According to estimates, only corruption charges involves for the EU economy charges of a 120 billion € a year, which represents a sum only slightly less than the annual budget of the European Union⁹.

Europe 2020 is the EU's growth strategy for the ongoing decade to promote a smart, sustainable economy, thus helping the EU and its Member States in their efforts to ensure high levels of employment of labor productivity and social cohesion. The investigations carried out in this regard shows that Europe 2020's success depends also by some institutional factors, more important as good governance, rule of law and keeping under control the corruption¹⁰. The fight against corruption contribute to the strengthening of competitive markets, competitive entrepreneurs, efficient use of resources, the strong economic performance to the EU's competitiveness in the global economy. In this context, anticorruption measures have been identified for a number of Member States in the European Semester - annual cycle of economic policy coordination which involves a detailed analysis of Member States programs relating economic and structural reform, and specific recommendations to each country. More generally, the improvement of the public administration efficiency can contribute, particularly if accompanied by greater transparency, to mitigate corruption risks. Therefore, in January 2014 the Commission Communication entitled "European industrial revival" emphasizes the quality of public administration as an important aspect of the EU's growth strategy¹¹.

3. Local And Regional Corruption Risks

The risks of corruption are found to be higher at the regional and local, where the system of checks and balances and internal controls tend to be weaker than those of central level. There is considerable variation within some Member States regarding the proper governance and the effectiveness of anti-corruption policies. In many Member States wide discretionary powers conferred on regional governments or local government (which manages also considerable resources) are not correlated with an appropriate level of accountability and control mechanisms.

⁹ The total economic cost of corruption is difficult to calculate. The figure quoted is based on estimates made by institutions and specialized bodies such as the International Chamber of Commerce, Transparency International, the "Global Compact" the UN World Economic Forum, "Clean Business is Good Business", 2009, under which corruption 5% of global GDP. See also Commission Communication DIN6 June 2011 on combating corruption in the EU: <http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0308:FIN:RO:PDF>.

¹⁰ See report for Excellence in Public Administration Competitiveness in EU Member States (2011-2012) ["Excellence in Public Administration for the competitiveness of EU Member States (2011-2012)"] <http://ec.europa.eu/enterprise/policies/industrial-competitiveness/monitoring-member-states/improving-publicadministration/>.

¹¹ COM(2014)14.



Conflicts of interest raises serious local issues. More efforts are needed to disseminate good practices of some regions or local governments and to create a level playing field for both elected officials and those appointed locally, especially in terms of standards of transparency, declaration of assets, the prevention and punishment of conflicts of interest, and public expenditure control.

The positive side is that it was found the existence of effective prevention practices at local or regional level. In a Member State was established a network of over 200 regional governments, municipal and provincial, working together to prevent corruption and mafia infiltration in public structures.

Some vulnerable sectors

In several Member States, the analysis highlighted some areas that seem particularly vulnerable to corruption and require specific solutions. Urban Development (public works) including the buildings is an area where usually vulnerability to corruption is high across the European Union. In order to face the inherent risks in this phenomenon, in each Member State was decided to think a specialized prosecutor designed to combat corruption and crime, relating to the environment and urban planning, aimed at a wide range of offenses, the more it impose a national struggle against negative phenomena such as underground economy, tax evasion and corruption.

Health, another sector where corruption vulnerability is widespread, particularly in public procurement and pharmaceutical industry was the subject of a more detailed assessment in several Member States. These countries currently develop strategies and reforms to combat corruption in the healthcare sector. However, to date, have not been too many tangible results in this regard. Informal payments and corruption in public procurement in the pharmaceutical sector continues to be matters of concern.

Corruption in tax administration, which has been highlighted as a serious problem in a Member State requires a well targeted strategic response. In general, most of the Member States do not have consistent risk assessment mechanisms or sectoral strategies to combat corruption in vulnerable sectors.

4. Vulnerable Areas To Corruption In Romania: Public Works, Construction

Corruption in Romania has struggled intensely our society undergoing a long process of transition from centralized economy that existed until the end of 1989, to market economy, in a continuous development today. Generally corruption occurs due to development problems and finds a fertile ground in transition situations from one form of organization to another, indicating



the existence of a malfunction. More complicated are the cases where political corruption meets the administrative and bureaucratic one, and they become most visible and dangerous when are supported by specific conditions of political competition, of a slow and uneven economic development and an underdeveloped civil society.

Political and administrative or bureaucratic corruption have slightly different characteristics, but both are in fact serious cases, becoming extremely destructive phenomenon when are combined and when they meet an organized, ubiquitous and monopolistic form.

In the administrative corruption a vulnerable is the public works one, particularly the constructions, here it is envisaged inclusively the land on which buildings are being edified. An increased vulnerability is how the way to acquire that land respectively purchasing some of them dishonestly, transactions illegal, of which we mention the restitution of properties based on false documents, by buying disputed entitlements by individuals with the complicity of state officials from the public administration.

Actually corruption phenomenon in public works is ubiquitous, with a major impact on public perceptions regarding the state's ability to fight corruption. So are found several situations with approved projects, where although were drawn opportunity studies, approved by officials in public administration, for public works of roads rehabilitation (pavement), bridges rehabilitation, public buildings consolidation artificially affecting their price, with the most serious consequences for the budgets that were settled, unnecessarily increasing public expenditure in these sectors due to the reduction of allocations to other particularly important areas such as education, health, quality of life, but with implications for consumers.



The picture no. 1¹² The construction sector leads on this ranking, over 300,000 workers do not have a legal form of employment

¹² Photo Source: <http://www.evz.ro/top-areas-in-that-works-illegal.html>.



Three aspects need to be mentioned showing the vulnerability in public works, especially the new or upgraded constructions namely: 1) the application and settlement of greater amounts than actually executed with the connivance of state officials who make superficial checks about the reality of the works required to deconare; 2) the use of materials of a questionable quality with the consequence of performing the same work after a relatively short period; 3) the use of a workforce for which taxes and contributions to general government are not being payed, while through the tender documents, and payment documents are provided and registered persons for which taxes and contributions are collected to the consolidated budget but are no longer being payed becoming a profit for providers.

So building ranks first among those areas where illegal employment is the most common, followed by trade, transportation and textile industry as results from an assessment of the Fiscal Council in Romania, so that tax evasion connected with the underground economy and corruption affects this category of public works.

We appreciate that tax evasion is increased if across the economy are 4.4 million workers with documents, according to the Ministry of Labour in Romania, and another million were legal income paid in other forms than salaries. In the gray economy (not taxed economy, the underground economy) are still working at least 1.5 million people, estimates the Fiscal Council, in the year 2012, as shown in Table one.

The calculations were made based on the National Institute of Statistics' data for 2012 and their processing. There were faced reports made by enterprises regarding the number of legal employees LFS surveys made on the street where citizens answered if they have a documented or undocumented job.

Table no. 1 The areas most affected by illegal employment

Area	Number of persons
Constructions	327.164
Trade	316.967
Transportation	143.371
Textile industry	111.670
Services	55.085
The repair and installation of machinery	50.357
Metal structures made	45.345
Wholesale trade	36.650
Metallurgical Industry	35.698



Manufacturing of electrical equipment	30.529
Total economy	1.568.628

Source: Fiscal Council, 2012

This phenomenon of tax evasion through illegal labor creates beside the unsettlement and non-collection of taxes and contributions to consolidated state budget coupled with an inaction of state officials, an attitude among citizens, which is extremely damaging. The consequences are extremely serious for the general consolidated budget because the deprivation of large sums of money leads to underfunding some of the most important areas as health and education, which in reality are priority areas in Europe.

The gravity of the illegal labor phenomenon is observed at European level according to Mr László Andor statement¹³, EU Commissioner for Employment, Social Affairs and Inclusion "illegal labor consequences is not just that workers are exposed to hazardous working conditions and lower earnings, but also that it deprives governments of revenue and undermines our social protection systems. It is necessary that Member States implement policies to discourage illegal employment or encourage its transformation into legal forms employment and to work more closely to combat this scourge. This is why, in April, the European Commission proposes to launch an European platform to prevent and discourage illegal labor, which would improve cooperation between labor inspectorates responsables for ensuring compliance across Europe ".

5. Conclusions And Recommendations

It is easy to see that through failure to fulfill strong measures to fight corruption, tax evasion, underground economy is affected the state's ability to borrow on foreign markets, are affected foreign relations of the country, the social and economic development capacity is influenced.

The rules and procedures development, regarding the possibility of an independent verify of construction workers in an electronic and effective form, to ensure that they effectively worked in these works and that they were paying taxes and contributions for workit is absolutely crucial.

Actually not taking strong measures brings us into the situation to face undermining the citizens welfare ability, growing risk by international donors so we can understand the current financial and economic crisis as a significant interaction between institutions and their rules, general policies and venue - markets.

¹³ http://ec.europa.eu/romania/news/24032014_munca_la_negru_un_fenomen_larg_raspadit_ro.htm.



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