THE PUBLIC SECTOR EFFICIENCY FROM PERSPECTIVE OF THE CORRUPTION PHENOMENON

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Abstract

Corruption in the public sector has adverse effects over the efficiency of the public spending, over the public sector's performance; it also undermines the confidence in the public institutions and leads to an unnecessarily increase of the cost of the public transactions. The high level of corruption in Romania is the main factor that has a negative impact over the effectiveness of the public actions. The economic consequences are related to the lower foreign investments and to the slow development of the private sector, the development of the underground economy, the irrational use of the public financial resources that affect the public sector's performance. In 2011, Romania occupies the last position among the EU analyzed countries in terms of corruption control, at an insignificant distance from Italy, Greece and Bulgaria. In the fight against corruption, an increased attention should be given to proactive measures; to the prevention measures of such acts, once committed will trigger a chain reaction. It must also be kept in mind that corruption doesn't only have economic and political causes, but it is primarily found in human nature. For Romania, in the context of the financial and economic crisis, the only solution is to combat corruption, namely protecting the public resources from the risks associated to corruption.

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1. Introduction

Corruption is a phenomenon that is found both in developed countries and in the developing countries, but at different levels and it can be noticed a higher inclination of the poorer countries towards corruption acts than the one present in the developed countries. Corruption is a worldwide spread phenomenon, with which both the developed and those in developing countries, market and centralized economies are faced with and does not have its roots in the current period.

Since 1983, David J. Gould and Jose A. Amaro Reyes, in a World Bank study "The Effects of Corruption on Administrative Performance. Illustrations from Developing Countries" found that "corruption has a deleterious, often devastating, effect on administrative performance and economic and political development." (Gould, Reyes, 1983)

Defining this concept and measuring the phenomenon still leaves room for many debates, despite the attention paid to this phenomenon both by international organizations and by renowned scientists.

U. Myint, in his paper "Corruption: Causes, Consequences And Cures" defines corruption as the use of public function for private gain, or in other words, the use of the official position, rank or status for its own benefit. Following this definition, examples of corrupt behavior would include: (a) bribery, (b) extortion, (c) fraud, (d) embezzlement, (e) nepotism (f) use of public assets and property public for private use, and (g) influence peddling. Some corruption acts such as fraud and embezzlement can be undertaken by a single officer without involving any other party. While others, such as bribery, fund extortion and influence peddling involve two parties – the corrupted person and the corruptive person. The corruption acts that involve two parts derive from various circumstances, such as (Myint, 2000):

- In the case of the public procurement contracts: bribery can influence the award of the contract, the terms of the contract;

- In the case of granting some state benefits: bribery can influence the allocation of the monetary benefits, such as credit subsidies, the favored prices and the exchange rates. The bribe can also be important in obtaining licenses and permits needed to engage in certain strategic economic activities. Additionally, bribe may be used to obtain benefits in kind, such as access to

privileged schools, to subsidized medical care, subsidized housing and also to privatization processes;

- In cases involving levies to the state budget: bribe can be used to reduce taxes, fees, custom taxes owed to the state budget by the private sector actors;

- In cases where it is desired to save time and avoid regulations: bribery can accelerate granting of permits and licenses needed to conduct certain activities, even if these activities are perfectly legal;

- In cases where it is intended to influence the legal consequences of an action: bribery can be used to provide incentives for the legal authorities in order not to apply sanctions when the private partner is illegal.

The Organization of the United Nations, in the paper "Prevention: An Effective Tool to Reduce Corruption" identifies the types of corruption according to the size of the phenomenon, an aspect which is important to know when designing the anti-corruption measures (ONU, 1999):

- Low level corruption, practiced by the public officials who can basically be decent and honest as individuals, but who are extremely underpaid and depend on bribery from the public to maintain.
- High-level corruption, seen in the situation of some public officials and politicians who make decisions that involve public procurement contracts or large projects financed from external funds. This corruption is motivated by personal greed. Money or assets acquired from the corruption acts are usually transferred to individuals or to certain political parties.
- Episodic corruption, "honest behavior is the norm, the corruption is the exception and the dishonest public official is disciplined when it is caught".
- Systemic corruption is a strong form of corruption, which raises chain implications, and the system in question can only survive through further corruption acts.

A research direction is assigned to identifying the apparition causes of this phenomenon. Matei A., Andrei T. and Rosca I.G. in the paper "The Corruption. An Economic and Social Analysis " identifies four factors that are the direct causes of the corruption acts incidence, namely (Andrei, Matei and Rosca, 2009):

1. Political and legislative factors that relate to the quality of the political system in general, the quality and rigor of the legal regulations, building and organizing institutions with the role of fighting corruption, the existence of a democratic regime in fact, the decentralization level.
2. Historical, traditional factors, which usually influences the propagation of the intergenerational phenomenon.
3. Social and cultural factors.
4. Economic factors, which refer to the openness degree of the national economy, to the size of the public sector and to the public sector payroll.

2. The Level of the Corruption versus the Efficiency of the Public Sector in Romania

Corruption in the public sector has adverse effects over the efficiency of the public spending, over the public sector's performance; it also undermines the confidence in the public institutions and leads to an unnecessarily increase of the cost of the public transactions. Corruption is a scourge that has spread to all the public sector activities: in the control activity of collecting and using the public funds, in the activity regarding public acquisitions, in the privatization process and in the whole public sector area. I believe that the high level of corruption in Romania is the main factor that has a negative impact over the effectiveness of the public actions. A series of national priorities, a series of efficiency and recovery measures, of reforming the system, are all set in vain, they will all remain in words without having any concrete result or in the measure of the effort involved if there is no conscious towards the management of public assets, if sincere efforts will not be made in order to eradicate corruption surrounding the public sector and between the relations between the public and private sectors.

Corruption is generally linked to the state activities and involves serious consequences, of social and economic nature. It exacerbates poverty, either directly through lowering the living standard, or indirectly through accentuating income inequality; it can have negative influences over the quality of life. The economic consequences are related to the lower foreign investments and to the slow development of the private sector, the

development of the underground economy, the irrational use of the public financial resources that affect the public sector's performance.

For these reasons, the measurement of corruption and the analysis of its consequences are crucial in the current researches. In recent years, more and more studies aimed at identifying the causes of corruption, at estimating the effects of corruption acts over the economic and social development of the nations. The importance of corruption as a factor that prevents a sustainable economic development, which constitutes as an obstacle to the national competitiveness, has also been acknowledged by international bodies such as the International Monetary Fund, the World Bank, the Organization for Cooperation and Economical Development which support a series of active measures that combat corruption acts. For the same reasons the non-governmental organization, Transparency International, which advocates for transparency of the decisions made in the public sector, and monitors the level of the corruption worldwide and nationally through some indices.

Considerable efforts are being made in order to measure the level of corruption, thus in the literature several indicators for measuring corruption are being identified, each expressing aspects of the phenomenon, being calculated for some countries and for different periods of time.

According to the **Corruption Perception Index** released by **Transparency International**, which monitors corruption in the public sector, in 2009 Romania gets 3.8 points out of 10 and ranks position 71, so Romania is in the last place in the ranking of the EU member states, together with Bulgaria and Greece. In 2010, Romania ascends 2 steps in the ranking getting on position 69, but in 2011 we can see, according to this index, a worsening of the situation in Romania, ranking 75 out of the 183 countries analyzed and position 25 among the EU Member States, being followed only by Greece and Bulgaria. The year 2012 brings for Romania position 66 out of the 176 countries analyzed by Transparency International for this year, which means position 24 among the EU countries, followed by Italy, Bulgaria and Greece. The year 2012 is the first year in which Romania records a significant increase of the score and position. The EU countries that manage to keep the level of the corruption under control are: Denmark, Finland, Sweden, Netherland and Luxembourg.

Transparency International Romania considers that these results derive from the lack of strategic coordination regarding the legislative and

institutional measures, which led to an excessive vulnerability of all pillars of integrity and to damaging the credibility of reforms and of Romania in general. One of the worst affected pillars was the judiciary system, for which there is no coherent strategy for further reforms. Another pillar that was seriously affected was the public procurement one and the one that generally uses public resources, a pillar that had the greatest impact on the business environment. Dismantling the safety mechanisms in the domain of spending public resources, under the conditions of the economic crisis and of the increasing indebtedness of the country, has led to a higher reduction of Romania's competitiveness on the European public funds market, funds that could compensate some of the effects of the financial crisis and which could support the efforts to regulate and fulfill the obligations assumed (Alistar, 2009).

According to the **Global Corruption Barometer**, another index elaborated by **Transparency International, Romanian** people perceive the measures taken against corruption as ineffective. In 2009, 59% of the population, 8 percent more than in 2008, appreciate that the government's anti-corruption efforts are ineffective, and in 2010 83% of the population believes this. Political parties and the Parliament still occupy the top positions among the institutions that are most affected by corruption, third place being occupied by justice. The barometer reveals, however, that Romanians have given bribes especially for health care services, about 22% from respondents admitting paying a certain amount of bribe in the health system in the past 12 months. Meanwhile, 13 percent say they have bribed police officers and 6% admit to have given bribe in the judiciary system.

Transparency International Romania recommends that the authorities increase the transparency degree in planning and using of the public resources in order to remove suspicions of politicization of the resource distribution criteria and to stop the excessive politicization of the public administration and of appointing to public positions based on political clientele, which affects the fairness and integrity in subsequently exerting the function by those appointed in this way.

World Economic Forum, in the report from 2009 over global competitiveness, estimated the level of corruption in the analyzed states with the help of the "**Ethics and corruption**" indicator included in pillar no.1 of competitiveness and which takes into consideration trusting in politicians by the population and the misappropriation of public funds. Romania ranks 92 in

this chapter about corruption, out of the 133 analyzed countries, and the place 22 out of the EU countries with a score of 2.6 (World Economic Forum, 2009). Ranking first among the EU countries is Denmark, with the lowest level of corruption according to this methodology, and on the last position is situated Bulgaria, on position 114 out of all the countries analyzed in the report.

Figure 1: The relation corruption-inefficiency of the public sector in the EU 27 (2009)
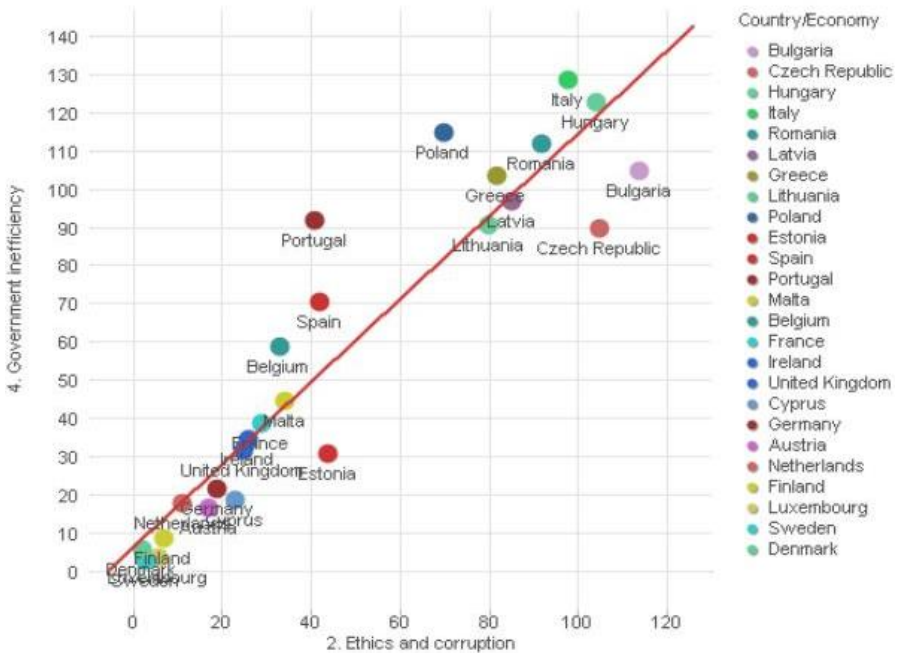
Source: The interactiv report of the „The Global Competitiveness Report", available at http://gcr.weforum.org/gcr09/

In figure no. 1 two indicators created by the World Economic Forum are analyzed and used in building the global competitiveness score, namely: Ethics and corruption, versus the inefficiency of the public sector. **The Ethics and Corruption indicator** has been presented above, and the indicator that measures the inefficiency of the public sector takes into consideration the following national issues: waste of public expenditure, the efficiency of the

legal framework in settling disputes, transparency of public decisions. It can be noticed that there is a strong and direct connection between the two indicators, meaning the countries that have a high corruption degree have also shown inefficiency in public administration. Denmark, Finland, Luxembourg, Netherlands, Austria, Germany are situated on the first position in the ranking of the EU member states in terms of the public sector efficiency and in terms of the low corruption level. In contrast, with a high corruption level and a low efficiency of the public sector are situated the following: Bulgaria, Italy, Hungary, Romania, and Greece. Romania ranks 22 in the corruption level, among the EU countries, a position that indicates a high degree of corruption, and ranks on the 24th place at the inefficiency of the public sector. Relating to all of the 133 countries analyzed, Romania ranks 92 on corruption and 112 on public sector inefficiency.

The World Bank, in the paper "Governance Matters VIII Aggregate and Individual Governance Indicators 1996-2008" it's authors being: Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, includes **corruption control** among the analyses indicators of the governance quality, along with: voice and responsibility; political stability and the absence of violence, government effectiveness, the quality of regulations, rule of law (Kaufmann, Kraay, Mastruzzi, 2009).

Figure 2 : A comparison between corruption control and government effectivenes in 2011 at the level of some EU member states
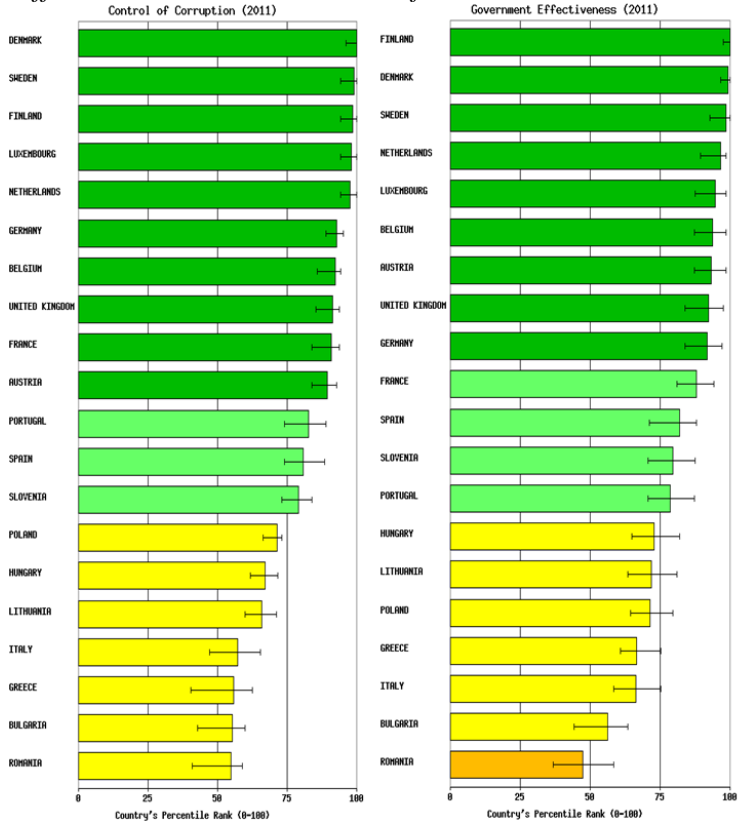
Source: Kaufmann, Kraay, Mastruzzi (2010)

As you can see from the chart above (figure no.2), Romania occupies the last position among the EU countries analyzed in 2011 in terms of corruption control, at an insignificant distance from Italy, Greece and Bulgaria. Following the analyzing all of the 6 indicators of the World Bank that characterizes the governance quality at national level has been observed that there is a strong correlation between them, and Romania occupies the following positions among the analyzed EU countries: the last place at the control of corruption; the last place at the voice and accountability indicator;

penultimate place, before Greece at the political stability and absence of violence, at the indicator regulatory quality it is located at a superior position, being followed by Slovenia, Bulgaria, Greece, and the penultimate position, before Bulgaria, at the rule of law.

According to the **European Commission**'s publication from February 2012, Special Eurobarometer 374 – Corruption Report, „corruption continues to be one of the biggest challenges facing Europe, it harms the EU as a whole in terms of reducing levels of investment, obstructing the fair operation of the Internal Market and having a negative impact on public finances. The economic costs incurred by corruption in the EU are estimated to amount to around EUR 120 billion per year.(European Comission, 2012)"

Although these indices listed above bring an important contribution to the analysis of the phenomenon, there are critics who argue that these indices provide only one dimension of the perception on corruption by citizens, by the private sector, being useful for comparative analysis between countries but over time they do not allow the direct measurement of the phenomenon, taking into account its components. In this regard there were developed a series of econometric models that allow a direct, quantitative measurement of the corruption. A Romanian reference paper work in the field is "The Corruption. An Economic and Social Analysis " having as authors: Andrew T., Matthew A., Rosca I. G, and which presents a number of models that allow the direct quantification of the global corruption, but also on certain areas, and also an estimation of the corruption acts consequences.

3. Conclusions

Corruption is a widely seen phenomenon, but from the studies mentioned throughout the paper we can notice a higher inclination of the poorer countries towards corruption acts than the one present in the developed countries. In the fight against corruption, an increased attention should be given to proactive measures; to the prevention measures of such acts, once committed will trigger a chain reaction. It must also be kept in mind that corruption doesn't only have economic and political causes, but it is primarily found in human nature. In Romania, the corruption prevention measures should be focused on the following areas: improving the service delivery in the public sector, focusing on the responsibility from the public sector and on the legal form in order to reintroduce the law supremacy, promoting

transparency in the use of the public resource, building a reliable anti-corruption system, including at the level of the Parliament, enforcement agencies, the judiciary system and also at the level of the civil society, in particular by strengthening the non-governmental organizations (NGOs) and of the media; expanding the role of the performance audit in the public sector (Amwar, 2007).

For Romania, in the context of the financial and economic crisis, the only solution is to combat corruption, namely protecting the public resources from the risks associated to corruption. There is a direct link between corruption and poverty, between corruption and the low development level of a country and between corruption and the lack of democracy. Increasing transparency in managing Romania's resources can be a mechanism that would ensure a positive response to the existent global challenges. In this context, the only chance for Romania's development is combating corruption and securing the public resources (Chirac, 2012).

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