

CORRUPTION IN THE PUBLIC ORGANIZATIONS. TOWARDS A MODEL OF COST- BENEFIT ANALYSIS FOR THE ANTICORRUPTION STRATEGIES

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Abstract

The paper aims to evaluate how the anticorruption strategies contribute towards minimizing the corruption phenomenon in the public organizations, with special reference to the strategies used in the Romanian public administration and health system. Based on some essential features stated by Banfield (1975) with regard to the capacity of public organizations to minimize corruption inside the organizations, the authors conducted two parallel researches in the public administration system and in the health system in Romania. Thus, the researches revealed a paradox in the finality of the analyzed public organizations, which focus either exclusively on ethical behavior or on other objectives such as: effectiveness, flexibility, dynamics etc. In the context of some very interesting studies, such as those conducted by Rose-Ackerman (1975, 1999), the premises of our research are based on the idea that "the anticorruption strategies should orient firstly towards the improvement of the economic, technical and operational efficiency" of the public organization. Therefore, the authors speak about "optimal" level of corruption rather than "zero" level of corruption. The authors justify this fact through the costs of supporting the anticorruption strategies, their direct impact on organizational effectiveness and performance.

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Section 1. Anticorruption strategies in public organizations

Corruption, through extended and diversified forms of expression, has become an object of study and analysis for experts, analysts and public administrators. The latter, concerned with the effects of corruption on the social and economic development, have developed a series of anticorruption strategies focused on combating and eliminating the causes and the consequences of corruption. Theories that have been formulated aimed at minimizing the corruption phenomena for the public organizations and generally for the public sector.

1.1. Fundamental issues of anticorruption strategies

The governance processes and the corruption phenomena are in direct connection, and under profound scrutiny. Rose-Ackerman studied corruption from the economic, cultural and political perspective, and she revealed the following aspects regarding the anticorruption strategies (Rose-Ackerman, 1999, pp. 4-5):

- The first one is carried out on the background of public organizations, state and society, where corruption could create inefficiency and inequity. The purpose of reforms is not to eliminate corruption but to improve state efficiency, fairness and legitimacy. In this context, it is worth to mention a fundamental idea for the anticorruption strategies: “the total elimination of corruption will never be worthwhile, but steps can be taken to limit its reach and to reduce the harms it causes”.
- Corruption has different meanings in different societies. It is difficult to establish a clear border between legal and illegal, between merit and bribe in different cultural settings.
- The basic structures of the public and private sector can produce or repress corruption. The prospect of a reform will change both the constitutional structures and the fundamental relation between market and state.
- The internal reform policy is essential, and, between various, even international organizations, valuable lessons can be transferred even if the conditions are not always similar.

Although the author asserted that the work she conducted does not present a blueprint for the anticorruption reforms, she suggested a range of alternatives that reforms must tailor to in the context of different conditions specific to individual countries (Rose-Ackerman, 1999). However, “reforms should not be limited to the creation of integrity systems” and “their primary goal should be to reduce the underlying incentives for paying and receiving bribes, not to tighten systems of ex/post control”.

Previously to Rose-Ackerman’s assertions, Banfield (1975, p. 593) analyzed the key measures that a public organization should undertake in order to minimize corruption. Briefly, these measures are:

- The executive agents should be selected based on probity and institutional loyalty.

- There should be a complete set of positive motivations for the loyal civil servants (including a high salary).
- Additionally, there should be a complete set of negative motivations, applied compulsory when corrupt acts are identified.
- The director should formulate the goals and the missions for each job clearly.
- The agents should hold the necessary discretion for executing the job tasks.
- No ambiguities should exist with regard to the rules.
- The director should monitor the agent's performance.
- If there is the smallest doubt about the agent's probity, he/she should be dismissed.
- The director should also be monitored.

The preoccupations of international organizations added value to the above contributions, substantiating anticorruption strategies at the level of government or specific public organizations. In this respect, the World Bank had an important contribution to the studies concerning the causes and the consequences of corruption. The control of corruption has become a core indicator of governance and the strategies grounded on this indicator represent pillars for national authorities. The World Bank promotes good governance and anticorruption actions as important pillars for reducing the poverty. The World Bank sustains the national or regional efforts for public integrity, minimization of corruption, as well as awarding assistance to countries in view of governance improvement and control of corruption, by means of the World Bank Institute (WBI).

The European Union, OECD or other transnational bodies such as the International Monetary Fund, USAID, Transparency International and Heritage Foundation are also interested in designing and promoting anticorruption policies as well as evaluating the causes and the consequences of the corruption phenomenon.

1.1.1. "State capture" vs. "administrative corruption"

The relation between "state capture" and "administrative corruption" represents the basis for the conception of many anticorruption strategies. Joel and Kaufmann (2001) define state capture as the actions of individuals, groups or firms, both in the public and the private sectors, to influence the process of elaborating laws, regulations, decrees, and other government policies to their own advantage as a result of the illicit and non-transparent provision of private benefits to public officials. The institutions that are subject to capture are the legislative, the executive, the judicial and the regulatory agencies. The actors that tend to engage in the capturing process are private firms, political leaders or narrow interest groups.

Yet, all forms of state capture are directed toward extracting rents from the state for a narrow range of individuals, firms or sectors through distorting the basic legal and regulatory framework with potentially enormous losses for the society. They thrive where economic power is highly concentrated, countervailing social interests that are weak, and where the formal channels of political influence and interest intermediation are underdeveloped.

On the other hand, administrative corruption refers to the intentional imposition of distortions in the prescribed implementation of existing laws, rules and regulations to provide advantages to either state or non-state actors because of the illicit and non-transparent provision of private gains to the public officials. Examples of administrative corruption include bribes offered to a seemingly endless stream of official inspectors to overlook minor (or possibly major) crimes of existing regulations. “Grease payments” offered as bribes to gain licenses, to smooth procedures, to win public procurement contracts or to get priority in the provision of a variety of other government services, represent other forms of administrative corruption. In addition, state officials can simply misdirect public funds under their control for their own or their family’s direct financial benefit. At the root of this form of corruption is the discretion on the part of public officials to grant selective exemptions, to prioritize the delivery of public services or to discriminate in the application of rules and regulations (Figure 1.1).

To be effective a multi-pronged approach requires some guidelines for the selection and the sequencing of reform priorities tailored to the particular contours of the corruption problems in each country.



Figure 1.1: Multi-pronged Strategy: Addressing State Capture and Administrative Corruption. Source: World Bank, 2000, p. 39.

The typology of corruption can be divided into four spheres determined by the relative levels of state capture and administrative corruption:

- Countries within the **medium-medium** category have been able to contain both types of corruption to more manageable levels, though serious challenges remain.

- In the **medium-high** category are countries where the problem of administrative corruption remains the central problem, while the state has been less subject to capture by the private sector than other transition countries.
- The **high-medium** category includes countries that have been able to contain the level of administrative corruption relative to other transition countries, but have done so in a context of high state capture.
- In the **high-high** category, a serious problem of administrative corruption—and hence, weak state capacity—is nested in a state highly subject to capture.

In the context of the above documentary sources, Figure 1.2 presents a synthesis of the key focus, challenges and priorities for each typology of the relation state capture-administrative corruption.

1.2. World Bank: Designing effective anticorruption strategies (World Bank, 2000, pp. 58-78)

The anticorruption strategies on which we founded our research are based on the studies and field analyses carried out by the World Bank or other prestigious authors on this topic. The actual strategy offers “a framework for self-assessment of corruption within each country rather than a device for providing a fixed reform blueprint for each country in the region”. At the same time, “a key argument embedded in the typology is that an anticorruption strategy should be designed not only in response to the level of either state capture or administrative corruption alone in a given country, but to the interaction of these forms of corruption as well” (World Bank, 2000, p. 59).

1.3. Fighting corruption in the European Union

As a safeguard instrument for ensuring a common area of freedom, security and justice, fighting corruption is one of the priorities of the European Union, stated as early as in the Treaty on European Union:

“[...] the Union’s objective shall be to provide citizens with a high level of safety within an area of freedom, security and justice by [...] preventing and combating crime, organized or otherwise, in particular terrorism, trafficking in persons and offences against children, illicit drug trafficking and illicit arms trafficking, corruption and fraud, through:

- *closer cooperation between police forces, customs authorities and other competent authorities in the Member States, both directly and through the European Police Office (Europol), in accordance with the provisions of Articles 30 and 32;*
- *closer cooperation between judicial and other competent authorities of the Member States including cooperation through the European Judicial Cooperation Unit (“Eurojust”), in accordance with the provisions of Articles 31 and 32;*
- *approximation, where necessary, of rules on criminal matters in the Member States, in accordance with the provisions of Article 31(e)” (Article 29, Consolidated version, Official Journal C 325, 24 December 2002).*

State Capture Administrative Corruption	Medium			High		
Medium	<p>Key Focus: Capitalizing on favorable conditions for strengthening political accountability and transparency through further institutional reforms</p>	<p>Challenges</p> <ul style="list-style-type: none"> • Risk of compliance and back stepping • Close ties between economic interests and political institutions • Cronyism and conflict of interest in public sector appointments 	<p>Priorities</p> <ul style="list-style-type: none"> • Promote further reforms in civil service, public finance, procurement, and judiciary system • Introduce greater transparency into political financing • Develop strong partnerships with civil society 	<p>Key Focus: Enhancing political accountability and promoting new entry to take maximum advantage of a stronger legacy of state capacity</p>	<p>Challenges</p> <ul style="list-style-type: none"> • High concentration of power by vested interests • Weak structures for monitoring and accountability • Powerful groups block further reforms to preserve their advantages 	<p>Priorities</p> <ul style="list-style-type: none"> • Broaden formal channels of access to the state • Deconcentrate economic power through competition and entry • Enhance oversight through participatory structures
High	<p>Key Focus: Enhancing state capacity to improve the provision of basic public goods</p>	<p>Challenges</p> <ul style="list-style-type: none"> • Highly underdeveloped public administration • Lack of control and accountability within the state • Nascent civil society 	<p>Priorities</p> <ul style="list-style-type: none"> • Build the capacity of public administration • Develop instruments for financial management • Encourage civil society development 	<p>Key Focus: Breaking the hold of vested interests on the process of policy and institutional reform</p>	<p>Challenges</p> <ul style="list-style-type: none"> • Highly concentrated economic interests that can block reforms • Limited implementation capacity of Government • Poorly organized anticorruption constituencies • Restricted channels of access for countervailing interests 	<p>Priorities</p> <ul style="list-style-type: none"> • Deconcentrate economic interests through restructuring, competition and enhanced entry • Build accountability and oversight mechanisms • Promote collective action among countervailing interests • Stand-alone technocratic reforms will have limited impact

Figure 1.2: Intensity of the relation between state capture-administrative corruption and structure of anticorruption strategies

Since then, the European institutions regularly underlined the necessity for developing and enhancing prevention measures against corruption phenomenon. The Action Plan to Combat Organized Crime (Official Journal C 251, 15 August 1997) offers in this regard an overall picture of the European Union's concrete plans and measures for fighting corruption. According to it, for instance, the Member States, the European Council and the Commission, should develop:

"[...] a comprehensive policy to tackle corruption, including appropriate and efficient sanctions, but also tackling all aspects linked with the proper functioning of the internal market and other internal policies, as well as external assistance and cooperation (political guideline 13). [...] This policy should primarily focus on elements of prevention, addressing such issues as the impact of defective legislation, public-private relationships, transparency of financial management, rules on participation in public procurement, and criteria for appointments to positions of public responsibility, etc. It should also cover the area of sanctions, be they of a penal, administrative or civil character, as well as the impact of the Union's policy on relations with third States."

In 2000 "The Prevention and Control of Organized Crime: A European Union Strategy for the Beginning of the New Millennium" (Official Journal C124, 3 May 2000) became a reality. In this document, the European Communities reiterated the need for instruments aimed at the approximation of national legislation and developing a more general (multi-disciplinary) EU policy towards corruption, taking into account that the appropriate work should be carried out by international organizations. Furthermore, the same document urged those Member States, which had not yet ratified the relevant EU and Council of Europe anti-corruption legal instruments, to speed the ratification process within a clear timeframe.

Finally, in 2003, the Communication from the Commission to the Council, the European Parliament and the European and Social Committee on a Comprehensive EU Policy against Corruption (COM (2003) 317 final, 28 May 2003) reaffirmed that tackling corruption and fraud within the EU institutions and bodies had become an absolute priority for the EU. In addition, it stated that:

"The crisis triggered by the Commission's resignation in March 1999 revealed the necessity to set up more effective measures for the protection of the integrity of the European Public Administration. In order to improve the legal framework in that field, the Commission had defined various initiatives in its overall strategy for the protection of the Community financial interests of 2000, its action plan 2001-2003, and more recently, its evaluation report on the OLAF activities" (Chapter 5, p.13).

The above Communication enumerated among the actions to be developed to better fight corruption, *inter alia*, raising integrity in the public and private sectors, amending national legislation in order to exclude any tax deductibility of bribes, ensuring transparency and non-discriminatory access to procurement opportunities, organizing bodies of special nature between the public and the private sector for fighting corruption, encouraging anti-corruption policies in the acceding, candidate and other third countries on the basis of ten general principles.

1. To ensure credibility, a clear stance against corruption is essential from leaders and decision-makers. Bearing in mind that no universally applicable recipes exist, national anti-corruption strategies or programs, covering both preventive and repressive measures, should be drawn up and implemented. These strategies should be subject to broad consultation at all levels.
2. Current and future EU Members shall fully align with the EU *acquis* and ratify and implement all main international anti-corruption instruments they are part to (UN, Council of Europe and OECD Conventions). Third countries should sign and ratify as well as implement relevant international anti-corruption instruments.
3. Anti-corruption laws are important, but their implementation by competent and visible anti-corruption bodies (i.e. well-trained and specialized services such as anti-corruption prosecutors) is more important. Targeted investigative techniques, statistics and indicators should be developed. The role of law enforcement bodies should be strengthened, and they should be concerned not only with corruption, but in addition with fraud, tax offences and money laundering.
4. Access to public offices must be open to every citizen. Recruitment and promotion should be based on objective and merit-based criteria. Salaries and social rights must be adequate. Civil servants should be required to disclose their assets. Sensitive posts should be subject to rotation.
5. Integrity, accountability and transparency in public administration (judiciary, police, customs, tax administration, health sector, public procurement) should be raised through employing quality management tools and auditing and monitoring standards, such as the Common Assessment Framework of EU Heads of Public Administrations and the Strasbourg Resolution. Increased transparency is important in order to develop confidence between the citizens and public administration.
6. Codes of conduct in the public sector should be established and monitored.
7. Clear rules should be established in both the public and the private sector with regard to whistle blowing (given that corruption is an offence without direct victims who could witness and report it) and reporting corrupt practices.
8. Public intolerance to corruption should be increased through awareness-raising campaigns in the media and through continuous training. The central message must be that corruption is not a tolerable phenomenon, but a criminal offence. Civil society has an important role to play in preventing and fighting the problem.
9. Clear and transparent rules on party financing, and external financial control of political parties should be introduced to avoid covert links between politicians and (illicit) business interests. Political parties evidently have strong influence on decision-makers, but are often immune to anti-bribery laws.
10. Incentives should be developed for the private sector to refrain from corrupt practices, such as codes of conduct or “white lists” for integer companies.

1.4. OECD - Policy paper and principles on anticorruption

In 2007, continuing and enhancing its efforts in fighting corruption, OECD designed and formulated a “program of collective action”, comprising directions and principles

for fighting this issue (OECD, 2007). This publication, which is based on proposals and broad guiding principles approved by the Development Assistance Committee (DAC), comprises a DAC Policy Paper on Anti-Corruption: “Setting an Agenda for Collective Action” and the DAC Principles for Donor Action in Anti-Corruption. It argues that political leadership and enhanced accountability can accelerate collective efforts in fighting corruption through better governance. It highlights a number of frontiers for collective action where coordinated political leadership is needed if the multiple risks associated with corruption are to be successfully managed.

1.4.1. Actions proposed by the DAC (OECD, 2007, pp. 12-15)

To promote a concerted approach to anti-corruption work at country level ... is proposed, and DAC should:

- Facilitate joint assessments of corruption and the wider governance context in high-risk countries in close cooperation with other organizations, beginning with pilot exercises in selected countries, which build on any existing work.
- Signal its support for anticorruption benchmarks and targets that can be agreed jointly by donors and partners at country level and used to monitor progress.
- Endorse as good practice the close coordination of donor governance and anti-corruption work at country level.
- Develop a set of good-practice principles (a “voluntary code of conduct”) to be endorsed by ministers and rolled out at country level, on coordinated donor responses to deteriorating corruption contexts.

To tackle the global incentive environment for corruption ... is proposed, and DAC should:

- Encourage its members to advocate more concerted and systematic action within their own governments to implement and enforce international conventions to tackle the supply side of corruption (e.g. the offering of bribes by the private sector).
- Support UN-led processes and efforts to encourage members to ratify and implement UNCAC while also encouraging DAC members to combine and integrate their joint anti-corruption initiatives with other ongoing efforts to implement and monitor UNCAC on the ground.
- Emphasize the interest to the donor community of proposals at the UNCAC Conference of the States Parties in December 2006 for information-gathering with respect to compliance and related needs for technical assistance.
- Support international initiatives such as the proposed Global Integrity Alliance as a positive way forward in transforming the international incentive environment for integrity and good governance.

1.4.2. The principles for donor actions in anticorruption (OECD, 2007, pp. 41-47)

The Principles reflected best practices and their widespread application would enhance donor effectiveness in combating corruption. The Principles were given final endorsement by the DAC at its September 22, 2006 meeting. The Principles embrace

the key areas and activities where donors should work together on anticorruption. They emphasize the need to support and strengthen the capacity of civil society, and underline the need for OECD donors to undertake work in their own countries on areas such as repatriation of assets, money laundering and the ratification and implementation of the United Nations Convention against Corruption (2003). The Principles are:

i) Collectively foster, follow and fit into the local vision

At the country level, donors should:

Collectively:

- Promote with government the development of a shared government-donor vision/strategy and collaborative mechanism(s) for anticorruption dialogue and action, ideally based on government commitment to implement the UNCAC (or other relevant instrument).
- Share diagnostics, knowledge and analysis through such mechanism(s) as identifying gaps and reviewing progress.
- Engage with other key actors through such mechanism(s) (e.g. civil society, media and the private sector).
- Support and strengthen the capacity of civil society for strengthening the demand for reform, and promoting and monitoring transparency and accountability in the fight against corruption.
- Work, where government commitment is weak, with local and international civil society and private sector actors as the primary alternative, but recognizing that strengthening government commitment is the essential objective in the long term.
- Take time to understand local political, economic, social and historical contexts and challenges and develop responses that are appropriate to them.
- Favor long-term responses over short-term, reaction-driven inputs, but without losing the capacity for responding quickly to support new initiatives and emerging reformers where these opportunities arise.

As individual donors:

- Agree to present anticorruption assistance explicitly as being contributions to the shared vision/strategy and the collective donor approach.

ii) Acknowledge and respond to the supply side of corruption

Development agencies should:

- Foster stronger action by relevant domestic departments in their own countries against the supply-side of corruption in areas such as bribery by donor country companies, money laundering, repatriation of assets or the ratification and implementation of major international conventions such as the OECD Anti-Bribery Convention.

- Inform counterparts in other development agencies of this engagement.
- Engage proactively with the private sector in partner countries.
- Ensure that accountability and transparency measures are included in all areas of donor assistance.
- Contribute to strengthening inter-country cooperation (mutual legal assistance, mechanisms for asset recovery) both by strengthening capacity in developing countries for making requests for international legal cooperation and by collaborating with domestic departments where appropriate.

iii) Marshal knowledge and lessons systematically and measure progress

At country level, donors should:

- Collectively foster knowledge gathering to inform policy and operational action, drawing, wherever possible, on local capacity.
- Encourage government to develop systems that better connect evidence with policy development.
- Foster the systemization and publication by government of the measurement and the report of progress on anti-corruption efforts.

At the global level, donors should:

- Develop a systematic approach to dividing up efforts for undertaking strategic research/knowledge gathering and synthesis and in sharing results.

1.5. Anticorruption strategies in Romania

Romania's preoccupations to become a European, democratic state, with an efficient administration are reflected especially in the last decade in "the impressive arsenal of legal instruments for transparency, responsibility and anticorruption" (Freedom House, 2005). These documents aim to develop standards and best practices at the level of administration and other key sectors, such as the sanitary system, bodies to maintain public order, justice and strengthening internal and international cooperation in the field of preventing and fighting corruption. They, represent the three priority areas stated in the National Anticorruption Strategy 2005-2007 adopted by the Romanian Government (Table 1.1).

The mission of the Strategy 2005-2007 was to prevent and counter corruption by refining and rigorously implementing the legal framework, through legislative coherence and stability, and by institutional strengthening of the entities with important tasks in the field. The National Anticorruption Strategy 2005-2007 adopted by the Romanian Government had a complex structure, with an integrated approach. The public policies on anticorruption (Governing Programme 2005-2008) were elaborated taking into consideration GRECO recommendations (in order to improve the compliance level according to the provisions subject to examinations) and Anticorruption Manual, drawn up by United Nations in 2003. The actions sustaining the achievement of the 10 objectives of the strategy (as presented in Table 1.1) had to respect the following principles: rule

**Table 1.1: Priority areas and objectives
of the National Anticorruption Strategy 2005- 2007**

Priority area	Objectives
Priority area I PREVENTION, TRANSPARENCY, EDUCATION	<i>Objective 1</i> Increasing the transparency and the integrity of public administration
	<i>Objective 2</i> Preventing corruption in the business environment
	<i>Objective 3</i> Information campaigns and educational measures
Priority area II COMBATING CORRUPTION	<i>Objective 4</i> Increasing the integrity and the resistance to corruption of the judiciary system
	<i>Objective 5</i> Reducing the number of structures that have tasks in the fight against corruption
	<i>Objective 6</i> Strengthening the institutional capacity of the National Anticorruption Prosecutors Office (NAPO)
	<i>Objective 7</i> Increasing the celerity of criminal prosecution and criminal trials
Priority area III INTERNAL COOPERATION AND COORDINATION	<i>Objective 8</i> Combating corruption through administrative means_
	<i>Objective 9</i> Coordinating and monitoring the implementation of Strategy and Action Plan
	<i>Objective 10</i> Fully implementing all the anticorruption instruments of UE, UN, CoE and OECD

Source: Romanian Government Decision no. 231/2005

of law, good governance, responsibility, prevention of corruption acts, efficiency in countering corruption, cooperation and coherence, transparency, consultation of the civil society and social dialogue and public-private partnerships.

The analyses and monitoring actions conducted by the European Commission (European Commission Monitoring Reports of 2006 and 2007), Transparency International and the reports of GRECO-Council of Europe comprise recommendations concerning the elaboration of a coherent anticorruption strategy at national and local level, which should aim the most vulnerable sectors, as well as monitoring its implementation.

Thus, a new strategy was adopted, called the *National Strategy on preventing and combating corruption in vulnerable sectors and local government (2008-2010)*. This strategy aims to design and implement new measures for combating or reducing corruption in vulnerable sectors and local government, based on the internal and external assessments of the previous strategy during the period of its application, as well as to continue the efforts in fighting against corruption. In order to achieve the objectives of the new strategy (Table 1.2.) four conditional elements (benchmarks - BM) were identified by the European Commission and they were included in the Commission Decision no. 2006/928/EC on 13th December 2006. It should be remarked the conditional element number 4, referring to „adoption of additional measures for preventing and fighting against corruption, especially in local government”.

Table 1.2: Priority areas and objectives of the National Strategy on Preventing and Combating Corruption in Vulnerable Sectors and Local Government (2008-2010)

Priority area	Objectives
Priority area I ANALYSES, STUDIES, RESEARCHES ON THE CORRUPTION PHENOMENON	<i>Objective:</i> Supporting public administration in order to evaluate the size of the corruption phenomenon
Priority area II COOPERATION, TRANSPARENCY, INTEGRITY, SIMPLIFICATION OF THE ADMINISTRATIVE PROCEDURES	<i>Objective 1:</i> Increasing the information degree and awareness on the risks associated to corruption
	<i>Objective 2:</i> Increasing the transparency in the public services
	<i>Objective 3:</i> Developing the human resource management system in order to diminish the risks associated with the corruption phenomenon
	<i>Objective 4:</i> Simplifying the administrative procedures to improve the public services

Taking into account the schedule, the strategy covers the period 2008-2010. The representatives of the central government and the representatives of associations of local governments are the actors who elaborated the strategy. In order to implement the strategy the measures adopted at administrative level aimed mainly to harmonize legislation and to coordinate the legal framework in specific fields. For example, in the sanitary system, the most important normative acts regulating the specific medical activities are as follows:

- Law no. 95/2006 on the reform in the field of health (collection of laws for reform in health);
- Government Decision no. 862 / 2006 on organization of the Ministry of Public Health;
- Government Decision no 1842/2006 (for approving the Framework Contract regarding the conditions for medical assistance inside the social security system for health for 2007);
- Order no. 840/2003 on the Methodological Rules for internal public audit in the Ministry of Health;
- Order no. 1136/2005 on the Program for development of the management control system of the Ministry of Public Health and creation of the working group for monitoring, coordinating and methodological guidance concerning the management control systems in the Ministry of Public Health, transposing the Order no. 946/2005 (Code on the internal control) of the Ministry of Public Finance;
- Order of the National Chamber of Health Insurance no. 328/2006, on monitoring and controlling the health social insurance systems;
- Order of the Minister of Public Health no. 880/2006, on the Regulation regarding the organization and the functioning of the Public Health Authority (inquiries and complaints);

- Order of the Minister of Public Health no. 922 from July 27, 2006, on approving the model for the management contract of the public hospital;
- Order of the Minister of Public Health no. 921/2006, on the attributions of the steering committee of the hospitals;
- Order no. 1781/558 from December 27, 2006 (for approving the Methodological rules to apply Framework Contract concerning the conditions for providing medical assistance in the health social insurance systems for 2007);
- Order of the Minister of Public Health no. 320/2007 on the Contract of administrating the department/laboratory or medical service in the public hospital;
- The Governing Program of Romania 2009-2012 in Chapter 22: Reform of public administration, and Chapter 23: Justice and anticorruption policies, states the fight against corruption, simplification of administrative procedures, increasing the transparency of public services as governing objectives.

Section 2. Corruption in Romania. Empirical researches

2.1. Social perception of corruption in public administration

For the time being, public administration (PA) in Romania is subject to an intense reforming process, defined as “the ensemble of measures for reform at the level of civil service and local government through continuing the decentralization process and improving the public policy-making” (Romanian Government, Strategy for the public administration reform, 2004). In the vision of the above strategy, the decentralization process becomes an important lever in the fight against corruption. However, we should take into consideration that “deficient implementation of the decentralization process could generate an increase in corruption at local level, with negative consequences on economic and social level, both on short and long term” (Andrei, Matei and Rosca, 2008).

Based on several empirical researches aimed at assessing how the reforming process in public administration contributed to reducing corruption, Andrei, Matei and Rosca (2008) determined factors generating corruption, grouping them in four categories:

- i) political factors, including maturity of the democratic system, quality of the judicial and electoral system, level of administrative decentralization, tradition of the public administration system etc.;
- ii) economic factors, such as openness level of the economy, size of the public sector, economic competitiveness, volume of the foreign investments in economy etc.;
- iii) social and cultural factors;
- iv) historical factors.

2.1.1. Organization of the empirical research

In May 2008, in order to determine the characteristics of the reform process in public administration, a research based on statistic survey was conducted at the level of public administration. For this research, a representative sample was constructed at the level of civil servants from public administration. A sampling technique in 2 phases was used to create the sample. It included 971 civil servants from central

government, county councils, prefectures and decentralized public services. The error of estimating the parameters represents 1.2% and the probability of guaranteeing the results represents 97%.

The questionnaire addressed the following major topics: internal organization of the public institutions, pressure of the political system over the institutions from central and local government, the administrative decentralization process, civil service, gender discrimination in public institutions, corruption and its implications for the economic-social development at national and local level. The questionnaire also comprised a series of questions about the respondents, such as gender of the person, age, education level, the type of institution where he/she works etc.

2.1.2. Empirical results

The economic literature pays special attention to the studies on evaluating corruption and its impact on the economy in general and in specific sectors of activity. In this respect, we mention a series of journal articles estimating the impact of corruption on the economic growth (Schleifer and Vishny, 1993; Mauro, 1995), on the military expenditure (Gupta, Mello and Sharan, 2001), on the public health and education system (Gupta, Davoodi and Tiongson, 2000), on direct foreign investments (Wei, 1997) and on life quality and poverty.

2.1.2.1. Level of corruption on sectors of activity

In order to analyze the corruption phenomenon, the questionnaire comprised a series of questions for evaluating the civil servants' opinion about the level of corruption, factors generating corruption and the economic and social consequences of this phenomenon.

In this respect, we constructed the variable C_1 measured on a scale with values ranking from 1 – corresponding to the cases when corruption is at a low level – and 5 – corresponding to the situation when corruption is at a generalized level. We asked PA employees' opinion with regard to the level of corruption in education, health, politics, local government, central government and corruption in their own institution.

The average value obtained for this variable is 3.20, and the standard deviation is 0.80. If we transform the above value according to the Transparency International Index (TCI), we obtain a value of 3.6, revealing relative similar results for the two measurements. Generally, the values of this corruption index for Romania over time were between 3.0 and 3.4, situating Romania among the countries with the highest level of corruption at the European level. We used the following formula to pass from the measurement scale used in this study to TCI scale:

$$(5 - 3.2) \frac{10}{5} = 3.6$$

Table 2.1: Level of corruption on sectors of activity

	Education	Health	Politics	Local government	Central government	In your institution
No corruption	5.7	4.1	3.9	7.4	6.6	30.7
Corruption at an insignificant extent	22.0	11.5	8.2	20.6	16.0	35.8
Corruption at moderate level	41.6	30.7	16.3	37.0	31.1	22.5
Corruption at a large extent	24.4	38.1	41.0	26.4	33.7	7.2
Generalized corruption	6.3	15.6	30.6	8.6	12.6	3.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
Average	3.03	3.49	3.86	3.08	3.29	2.17
Median	3.00	4.00	4.00	3.00	3.00	2.00
Standard deviation	0.972	1.021	1.064	1.050	1.085	1.064
Pearson coefficient						
	1	0.634(*)	0.500 (*)	0.594 (*)	0.504 (*)	0.474 (*)
		1	0.601 (*)	0.494 (*)	0.451 (*)	0.350 (*)
			1	0.543 (*)	0.622 (*)	0.280 (*)
				1	0.745 (*)	0.571 (*)
					1	0.452 (*)
						1

* Correlation is significant for 1%

2.1.2.2. Elements favoring corruption

In order to analyze the causes of corruption in public administration, the following elements were taken into consideration: legal framework, payment system, morality of the civil servants, pressure on behalf of the economic environment, pressure of the political system and citizens' behavior. The influence of each element was measured on a scale from 1 (the element has influence on a large extent) to 5 (the element is not at all influencing corruption) (Table 2.2).

Table 2.2: Elements favoring corruption in public administration

	Legal framework	Payment system	Civil servants' morality	Pressure on the behalf of the economic environment	Pressure of the political system	Citizens' behavior
To a large extent	17.4	37.7	21.7	13.6	27.0	11.4
Quite large	27.1	35.9	29.7	34.4	27.7	24.4
Moderate	28.8	15.9	30.9	30.1	26.5	34.8
Insignificant extent	16.8	6.3	12.7	15.3	11.2	18.7
Not at all	9.9	4.2	5.0	6.6	7.6	10.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
Average	2.74	2.03	2.49	2.67	2.44	2.92
Median	3.00	2.00	2.00	3.00	2.00	3.00
Standard deviation	1.21	1.08	1.11	1.09	1.21	1.14

2.1.2.3. The effect of corruption on the economic and social environment

In order to evaluate PA employees' opinion concerning the negative effect of corruption on the economic and social environment, we included in the questionnaire a series of questions, defining the primary variables for quantifying the negative effect of corruption on the local and national development, quality of education, public health system, quality of the political environment, quality and image of local and central government. C_2 represents the variable measuring the negative effects of corruption on the economic and social environment. It is evaluated on a scale ranking from -2, corresponding to a pronounced negative effect of corruption to 2, case when the respondents consider that the corruption phenomenon has positive effects on the economic and social environment.

The value of the average level of the aggregated variable is -1.06, revealing a negative effect of corruption on the economic and social environment in Romania. The standard deviation of this variable equals 0.91 (Table 2.3).

Table 2.3: How the results in various fields influence the level of corruption

	Development of your town	National development	Education	Health	Political field	Local government	Central government
Negative	33.7	38.4	36.9	44.2	52.2	37.0	41.7
Moderate negative	40.5	43.0	39.0	36	30.1	42.1	38.3
No influence	15.4	7.3	14.1	9.6	6.4	11.1	9.4
Moderate positive	9.3	9.1	7.0	7.4	6.7	7.6	7.6
Positive	1.1	2.2	3.0	2.8	4.6	2.2	3.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average	-0.96	-1.06	-0.99	-1.11	-1.19	-1.04	-1.08
Standard deviation	0.981	1.009	1.031	1.035	1.110	0.993	1.040

2.1.2.4. Contribution of some factors to reducing corruption

In order to reduce the level of corruption in a country, various strategies are developed to create new institutional structures and improve the legal framework for combating corruption, enhancing the efficiency of the state structures. The mechanisms used to achieve these goals are: the creation of efficient institutions at central and local level, modernization of the civil service, reforming the political environment and setting up and developing nongovernmental institutions, aiming to support the fight against corruption. Media plays an important role in countering corruption and increasing the transparency of the policy-making. The cultural factors and mentalities of the population in a country or certain geographical region contribute directly to maintaining the level of corruption.

To evaluate the influence of some factors in reducing corruption, variables were defined based on the questions included in the questionnaire. These variables quantify

the PA employees' opinion regarding the influence of media, school, church, political environment and the representatives of state/civil servants from central and local government in combating corruption. In order to measure the above variables, a scale ranking from -2 (corresponding to the case when the effect of the factor encourages the corruption phenomenon) to 2 (value assigned when the factor contributes to reducing corruption). C_3 represents the aggregated variable measuring the efficiency of the factors for reducing corruption.

The average level of C_3 variable is 0.22 and the standard deviation is 0.82. The average value of this characteristic reveals insignificant influence of the factors for the fight against corruption at the Romanian society level. Average values and average square deviations were calculated for the eight factors (see Table 2.4).

Table 2.4: Characteristics of the factors that contribute to reducing corruption

	Media	School	Church	Behavior of politicians at central level	Behavior of politicians at local level	Behavior of the state representatives/civil servants in central government	Behavior of the civil servants at local level	Citizens' behavior
Negative (-2)	5.3	1.7	1.8	28.9	19.4	11.8	7.2	8
Moderate negative (-1)	7.4	5.5	4.9	26.0	32.7	30.7	30.0	27.2
No influence (0)	10.0	33.6	35.0	15.1	16.0	17.1	19.2	22.5
Moderate positive (1)	48.5	41.9	34.5	20.3	22.4	29.6	31.0	28.7
Positive (2)	28.8	17.3	23.8	9.7	9.5	10.8	12.6	13.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average	0.87	0.67	0.73	-0.44	-0.30	-0.03	0.11	0.15
Standard deviation	1.138	0.884	0.936	1.347	1.272	1.229	1.178	1.169

2.2. Social perception on corruption in the public health system

The national authorities and the international organizations are concerned with evaluating social perception on corruption in the public health systems. Without insisting on the extension and the results of the above studies, we remark some important assertions in this field. Thus, Transparency International (2006) reviews the main causes of corruption in the health care systems. The conclusions reveal both "the propensity to corruption in health systems" (Sayedoff and Hussmann, 2005, p. 6), providing examples about the specific modalities for this field concerning the "agent principal" theory and the "state capture" theory. Emphasizing five main actors in the health systems, the core causes of corruption are uncertainty, asymmetry of information and high number of actors (Transparency International, 2006, p. 5).

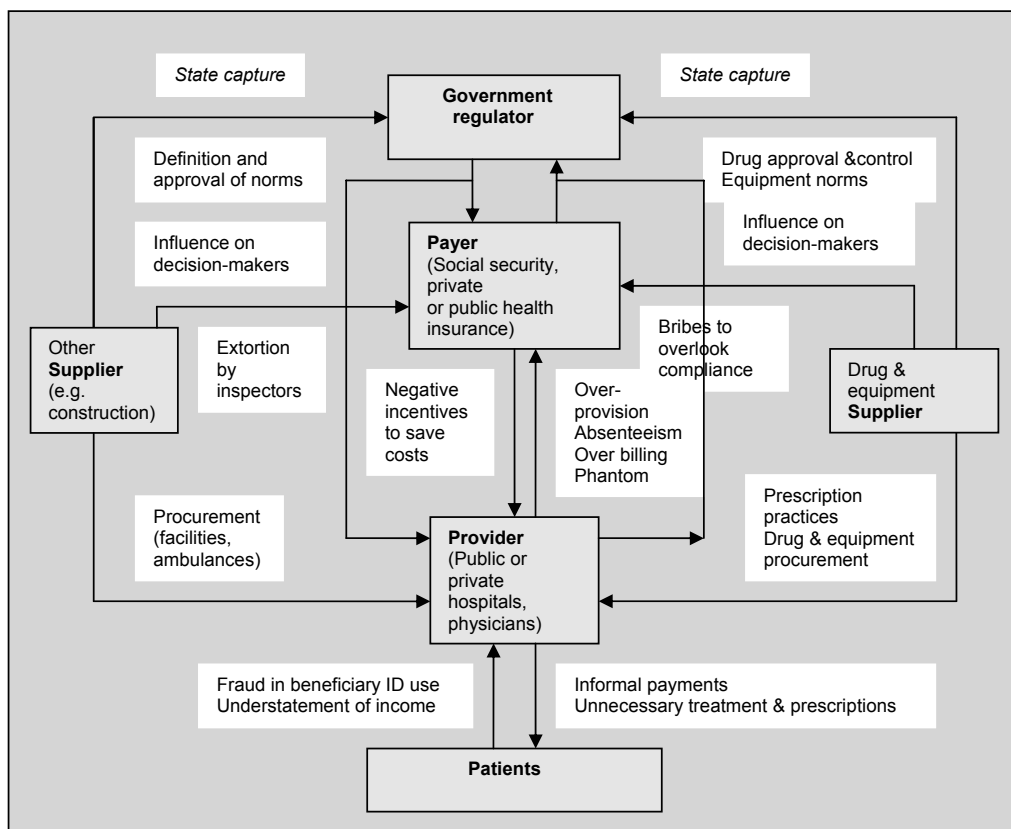


Figure 2.1: Five key actors in the health system.
Source: Savedoff and Husmann (2006), p. 7.

The modalities of corruption aim mainly issues of regulation, social security organizations, health insurance organizations, providers of health care, patients and equipment suppliers. The study emphasizes, concretely, for each actor, the possibilities of fraud or corruption. Corruption in health systems has an endemic character, being expressed in relation to the national and universal specificity, as many causes and modalities are similar in several states.

It is worth to mention other papers, relevant for the topic approached by us, namely, Arrow (1963), Lewis (2006), Andrei, Matei, Stancu and Andrei (2009). At the same time, Andrei, Matei and Oancea (2009) conducted a statistical processing and analysis on the relations between corruption and performance in the health public system in Romania.

2.2.1. Generalities

We aimed to identify several aspects concerning the measurement of the opinion of medical staff with higher education on issues related to the level of corruption, and the role of factors and institutions in favoring corruption inside the public health system.

The literature identified a series of channels for propagating corruption inside the system, among which we can mention the following:

- the system of changing the managing staff from the medical institutions based on political criteria;
- the existence and application of a defective legal framework, encouraging the occurrence of corruption acts in the public health system;
- deficiencies in the payment system of the medical staff, which do not motivate the medical staff in achieving a quality medical act;
- pressures from the economic and the business environment on the administrators of the medical units;
- patients' behavior, encouraging the non-academic behavior for the medical staff.

2.2.2. Empirical results

2.2.2.1. Evaluating the corruption level

A measurement scale with five values was used to evaluate the doctors' perception concerning the level of corruption: value 1 – there is no corruption for this field; value 2 – there is corruption on insignificant extent; value 3 – there is corruption at moderate level; value 4 – there is corruption on a large extent; value 5 – there is generalized corruption in this field.

The questionnaire included five questions for measuring the opinion regarding the level of corruption on different fields of activity. These fields are education, health, politics, public administration and the institution where the respondent worked. For a global evaluation of the level of corruption, an aggregated variable of level one is defined taking into consideration the level of corruption in education, health, administration and the institution where the doctor responding to the questionnaire worked. In order to evaluate the level of corruption, the data concerning the politics were not taken in consideration, as the inadequate behavior of the politicians generates corruption in other fields. The opinion of the medical staff with higher education with regard to the level of corruption is presented in Table 2.5.1. Only valid questionnaires (with answers on all five items) have been taken into consideration. The total number of questionnaires analyzed was, in this regard, 375.

Table 2.5.1: Level of corruption on different fields

Education	Health	Politics	Public administration	Institution of employment for the doctor
3.16 (0.975)	3.28 (0.992)	4.29 (0.840)	4.02 (0.866)	2.47 (1.081)

Note: Below every average, there is the square average.

For ensuring the compatibility of the data collected through this research with those employed by the Corruption Perception Index as calculated by Transparency International, we used the following conversion:

$$\text{Corruption Index (TI)} = 2 (5 - \text{Corruption index}) \quad [1]$$

In Transparency International case, a low value may show a high level of corruption within the system. The domain of values for the indicator is 1 to 10. When interpreting the results, we must take into consideration that, according to Transparency International, in 2007 corruption in Romania was 3.7. This puts Romania on the 30th place in Europe in 2007. The trust interval estimated for that is (3.4 4.1). In a world ranking, Romania is situated on the 69th place. Applying the transformation [1], we obtain the following equivalent for the table 2.5.1:

Table 2.5.2: Level of corruption on areas (compatible to TI)

Education	Health	Politics	Public administration	Institution of employment for the doctor
3.78	3.44	1.42	1.96	5.06

The corruption index, calculated for our sample, based on the results provided by five institutions, presents the following characteristics:

- The value of corruption index is equal to 3.23, and the standard deviation is 0.759. This average value was calculated based on the collected questionnaires (375 in number), with valid answers to all items representative for the primary variables.
- Corruption Index calculated based on the transformation [1] is equal to 3.52, a value which is in the trust interval of the Corruption Perception Index as calculated by Transparency International.
- The distribution of corruption, as is defined based on the data series, is symmetrical.
- Relatively similar profiles are recorded in the case of data series for education and health, respectively administration and politics. Actually, the values are almost equal.

2.2.2.2. *Factors for reducing or favoring corruption*

To estimate the influence of factors that favor maintaining corruption inside the system, the questionnaire includes five questions. The study took into consideration five factors: legal framework, payment system, pressure on behalf of the economic environment, pressure of the political system, patients' behavior. It is important to identify the factors maintaining corruption inside the public health system and to measure their influence. In order to measure the doctors' opinion concerning the influence of the five factors in propagating corruption in the public health system, a scale with five values is used: 1 – the factor has a large influence in propagating corruption inside the system; 2- the factor has quite a large influence; 3- the influence is moderate; 4 – the factor influences to an insignificant extent the level of corruption in the public health system; 5 – the factor has no influence on the level of corruption at the system level.

Table 2.6: Distribution of responses concerning the contribution of factors favoring corruption (%)

	Non-response	To a large extent	Quite large	Moderate	To an insignificant extent	Not at all
1. Legal framework	5.7	22.9	18.2	25.3	20.4	7.5
2. Payment system	2.9	64.9	21.6	6.6	2.2	1.8
3. Pressure on behalf of the economic environment	5.4	33.7	29.2	19.9	9.3	2.5
4. Pressure of the political system	6.4	24.6	22.1	20.6	19.4	6.9
5. Patients' behavior	4.9	16.7	19.4	26.8	20.9	11.3

Also, Table 2.7 presents the distribution of responses concerning the contribution of other institutions to reducing corruption.

Table 2.7: Distribution of responses concerning the contribution of other institutions to reducing corruption (%)

	Non response	Negative	Moderate negative	No influence	Moderate positive	Positive
1. Media	3.2	12.3	9.8	17.9	44.5	12.3
2. School	3.4	5.4	5.7	38.3	35.4	11.8
3. Church	3.9	4.2	3.7	50.1	26.3	11.8
4. Politics	3.2	42.8	25.6	10.6	9.8	8
5. State representatives/civil servants	3.2	34.6	29.0	12.8	11.8	8.6

Section 3. Towards a model of cost-benefit analysis for the anticorruption strategies

3.1. Fundamental issues in the literature

Several papers approached the application of the economic mechanisms in evaluating the costs and benefits of corruption and combating corruption; even if they did not refer explicitly to the cost-benefit analysis, they revealed how fundamental notions and concepts could adapt to this topic. In this respect, we mention Arrow (1963), Savedoff (2004), Getzen (1997), Mueller (1997), Persson and Tabellini (2002) and Ades and Di Tella (1999), etc.

Fundamental notions and concepts concerning the uncertainty of decisions, informational asymmetry, moral hazard or public choice gain analyzed in the above papers show the appropriate significance in evaluating the measures and anticorruption strategies. If we add "agent principal" theory or "state capture" theory, we shape a fully framework for analyzing the anticorruption strategies. Rose-Ackerman (1999) concludes: "the empirical research in various states confirms the negative influence of

corruption on the economic growth and productivity, but this is not helpful in shaping the anticorruption strategies". She states that corruption is harmful but she does not identify the mechanisms for influencing the economic performance (Rose-Ackerman, 1999, p. 3). The World Bank (2007) also identifies the main costs of corruption, namely poverty and inequality with consequences on fiscal stability, economic growth, investment growth, development assistance or environment. The direct effects consist in "administrative corruption" and the indirect effects on "state capture". In fact, Rose-Ackerman (1999), in the introductory part, approaches the costs of corruption and in Chapter 2, she distinguishes the most important situations where widespread corruption can determine who obtains the benefits and who bears the costs of government action.

- The government may be charged with allocating scarce benefits to individuals and firms using legal criteria other than willingness to pay. *Bribes clear the market.*
- Officials in the public sector may have little incentive to do their jobs well, given official pay scales and the level of internal monitoring. They may impose delays and other roadblocks. *Bribes act as incentive bonuses.*
- Those engaged in legal pursuits seek to reduce the costs imposed on them by government in the form of taxes, customs duties, regulations. *Bribes lower costs.*
- Illegal businesses frequently purchase corrupt benefits from the state. In extreme cases, illegal businesses and organized crime bosses dominate the police and other parts of the state through corruption and intimidation. *Bribes permit criminal activity.*

These categories are not mutually exclusive. A bribe that acts as an incentive payment, for example, might also allocate a scarce benefit or provide a tax exemption. Nevertheless, each raises enough distinctive issues so that it is worth considering each one separately (Rose-Ackerman, 1999, pp. 9-10).

3.2. Effects and mechanisms

Structuring the economic effects of corruption on several categories, Prohnițchi (2003) also identified the economic mechanisms that are used in corrupt practices.

3.3. Conclusions

Cost-benefit analysis should begin with identification of the costs of the corrupt practices and the anticorruption strategies will propose specific measures to diminish them. In the expression "cost-benefit analysis", the "benefits" will occur after implementing the anticorruption strategies.

Table 3.1: Economic implications of corruption

Category	Effect	Mechanism
Macroeconomic effects	Aggravating the gap between effective and potential economic growth	Reducing the current assets, corruption pushes down the curve of production and influences labor market.
	Reducing the direct internal investments and the foreign investments	The increase of the risk bonus leads to eliminating investment projects with low return on investment, which would be acceptable in normal conditions.
	Increasing the risk of financial crisis or even financial chaos	The banks could be obliged by corrupt civil servants and officials to award non-qualitative preferential credits.
	Higher risk of inflation	The mechanism of influence is not clear but the connection is powerful and significant.
Structural effects	Aggravating the budgetary deficit	Corruption reduces the possibilities to accumulate fiscal revenues by bribing the tax inspectors or custom officers.
	High weight of unofficial economy	High bribes, associated with the necessity to avoid coercitive or prohibitive regulations, determine the enterprises to transfer resources in the unofficial sector of economy.
	Reducing the social expenses	The fiscal multiplier decreases.
	Negative effects on public investments, like: launching great investment projects, but inefficient and insufficient social expenses	Corrupt civil servants promote large, complex projects, providing higher opportunities for further withdrawal of the funds.
	Insufficient allocation for operation and maintenance	Operation and maintenance do not provide so many possibilities for fraud of funds (embezzlement).
	The effect of the above two consists in reducing the quality of current infrastructure.	
	Exaggerated allocation for purchasing new equipment, technically sophisticated, above the country needs.	The corrupt civil servant notifies the importance of purchasing new equipment at an exaggerated price, which is transferred back to civil servant (kickback).
Economic efficiency of the production factors	Increasing the relative cost of capital Increasing the transaction costs	The rate of the bribes paid should be added to the total lent capital and to the bank's interest rate. The corrupt transaction involve high transaction costs under the form of bribes, moral costs, monetary value of the risks, lost time, etc.
	Increasing the costs to enter the market	The enterprises already in the market afford to pay higher bribes than the enterprises intending to enter the market.
	Inefficient allocation of the public procurement contracts	Contracts are signed with the firms paying the highest bribe, not necessary with those that are most efficient.
	Inefficient allocation of the property rights	Privatization in the transition countries was accompanied not only by owners who got rich, but also by civil servants who distributed the patrimony in a corrupt manner.
	Distortions of competition	The competitor with personal connections has a competitive advantage and not the efficient competitor.

Inequalities and efficiency	Favoring the inequality of revenues	The corrupt networks are resistant to starting up new businesses. Along with directly reducing the rates of economic growth, it reduces the economic opportunities for large social categories.
	Favoring the tax inequality	The honest firms pay legal taxes and they are disadvantaged against those paying smaller bribes than the legal taxes.
	Redistribution of wealth	For corruption that involves theft, the public patrimony is tenebrous evaded and misappropriated by corrupt civil servants.
	Decreasing the consumer's utility	Example: how do customers feel in the maxi taxi running under the indifferent watch of the traffic agents on the municipal routes, without proper equipment, exceeding the speed, breaking the traffic rules?
	Insufficient delivery of public services and goods (fresh air, pure drinking water)	Example: some firms in industry and agriculture, the owners of the transport means pay bribes for the right to break the ecological regulations concerning waste, smog etc.

Source: Prohițchi, 2003, pp. 37-38

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