
Diagnostic Surveys of Corruption in Romania

Analysis prepared by the World Bank
at the request of the Government of Romania



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Executive Summary

1. Introduction

Recognizing the need for information on the profile of corruption, the Government of Romania requested the preparation of this diagnostic study of corruption. This report summarizes the results of three large-scale governance and corruption surveys undertaken in 2000 by the World Bank and Management Systems International (MSI), an implementing partner of the United States Agency for International Development. Although this diagnostic study was requested by the previous Government and is being released by a different one, the findings stress the institutional nature of the problem and remain applicable today.

Survey-oriented diagnostic studies help identify the pattern and profile of corruption and facilitate analysis into the institutional weaknesses at the heart of the problem. Survey data reflect the opinions and real experiences of the people who interact with the state and implement state policies—opinions and experiences that are essential for the development of a well-informed anticorruption strategy. This report is based on the opinions and experiences of more than 1,700 households, enterprises, and public officials.

As awareness of the difficulties corruption is posing for development became clearer in recent years, both Governmental and non-governmental bodies have become more active in the effort to find solutions. Government efforts have centered on improving legislation and strengthening enforcement. Non-governmental groups have aimed at awareness raising using, among other tools, surveys similar to the one on which this report is based. The objectives of this diagnostic assessment report are to support the efforts of the Government of Romania and Romanian civil society organizations to promote development of an effective and well-informed strategy against corruption: focusing attention on evidence of performance and the relationship between institutional characteristics and outcomes, focusing the debate on institutions, rather than individuals.

2. Perceptions of Corruption

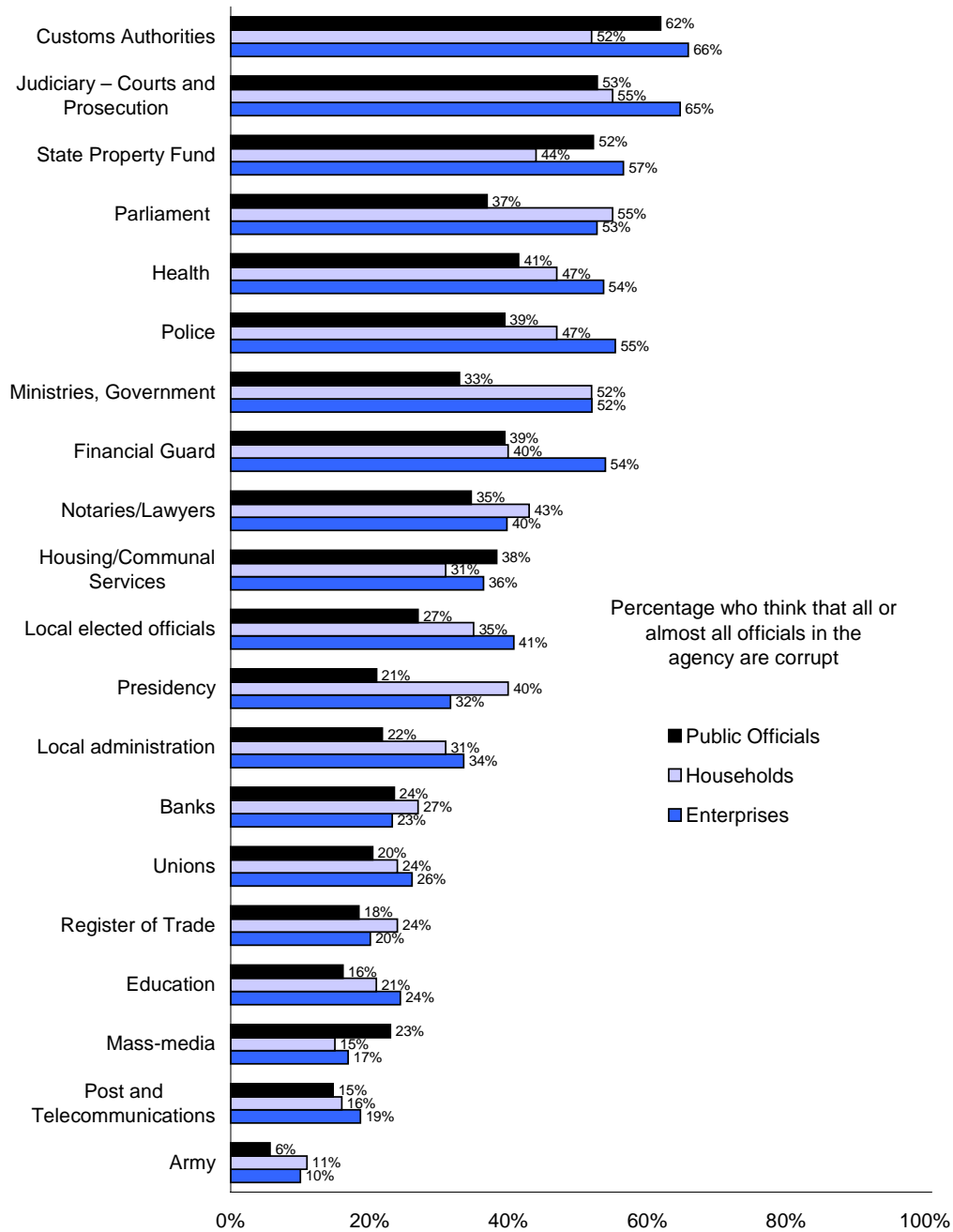
The surveys provide information on both actual *experiences* with corruption and on *perceptions* of the level of corruption. The patterns of corruption as perceived by households, enterprises, and public officials will be explored in this Section, and the patterns of actual experiences in the next. Even though perceptions of the level of corruption may be different from the reality, an understanding of these perceptions is still important since perceptions form the basis for decision-making.

The survey results show that corruption is perceived by the public to be widespread. About two-thirds of the Romanian public believes that “all” or “most” officials are corrupt. Public officials reported lower perceived levels of corruption, although still high: 44 percent reported that all or most officials are engaged in corruption. While the perception of widespread corruption is clear, it is also clear that many people believe that corruption has achieved a state of normalcy. Half of households reported that bribery is part of everyday life, while only one in eleven reported bribes to be completely unnecessary. Enterprise managers and public officials were less negative with four tenths and a third, respectively, reporting corruption to be a part of everyday life.

Romanians from all three sample groups were asked to provide their opinions about the overall levels of corruption in various sectors and bodies, and the results are presented in

Figure A. More than half of the respondents from all three sample groups have the opinion that all or most of the officials in Customs and the Judiciary engage in corruption. The State

Figure A. The Perceived Level of Corruption in Various State Agencies

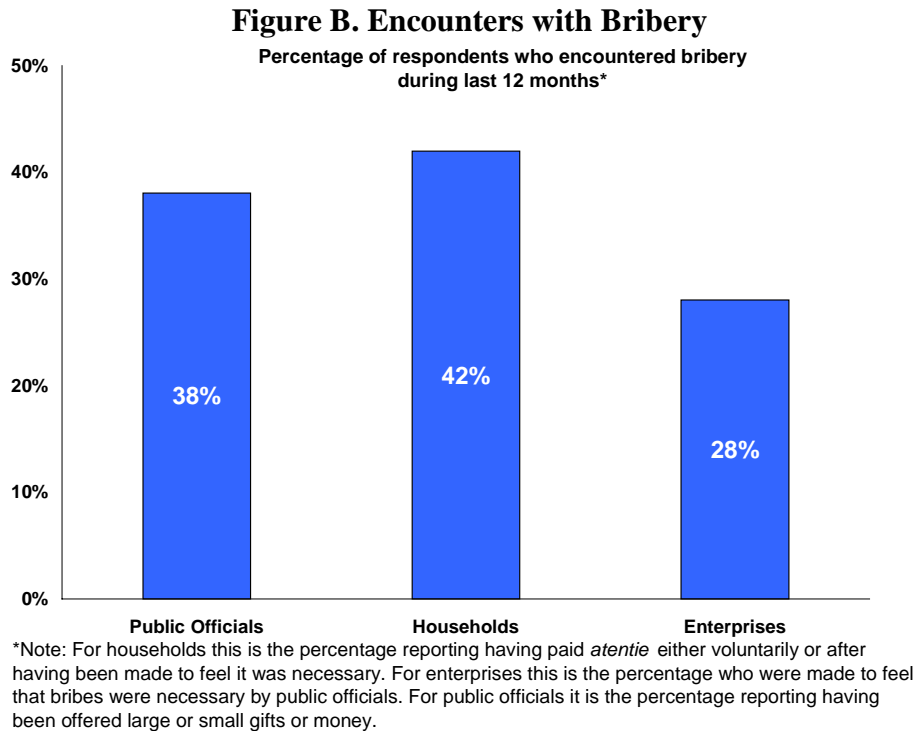


Property Fund, Parliament, health, and police are also perceived by many to have widespread corruption. On a positive note, most respondents believe corruption is not widespread in the army, post and telecommunications, and the mass media.

Survey respondents made it clear that while many people get their information from the media (television, radio, and newspapers), many also base their understanding of corruption on the experiences of family and friends, and their own personal experiences. Twenty-four percent of households said that their primary source of information about corruption was personal experience, and a further 16 percent said personal experience was a secondary source. Over half of the enterprises surveyed listed personal experience as either their primary or secondary source of information about corruption.

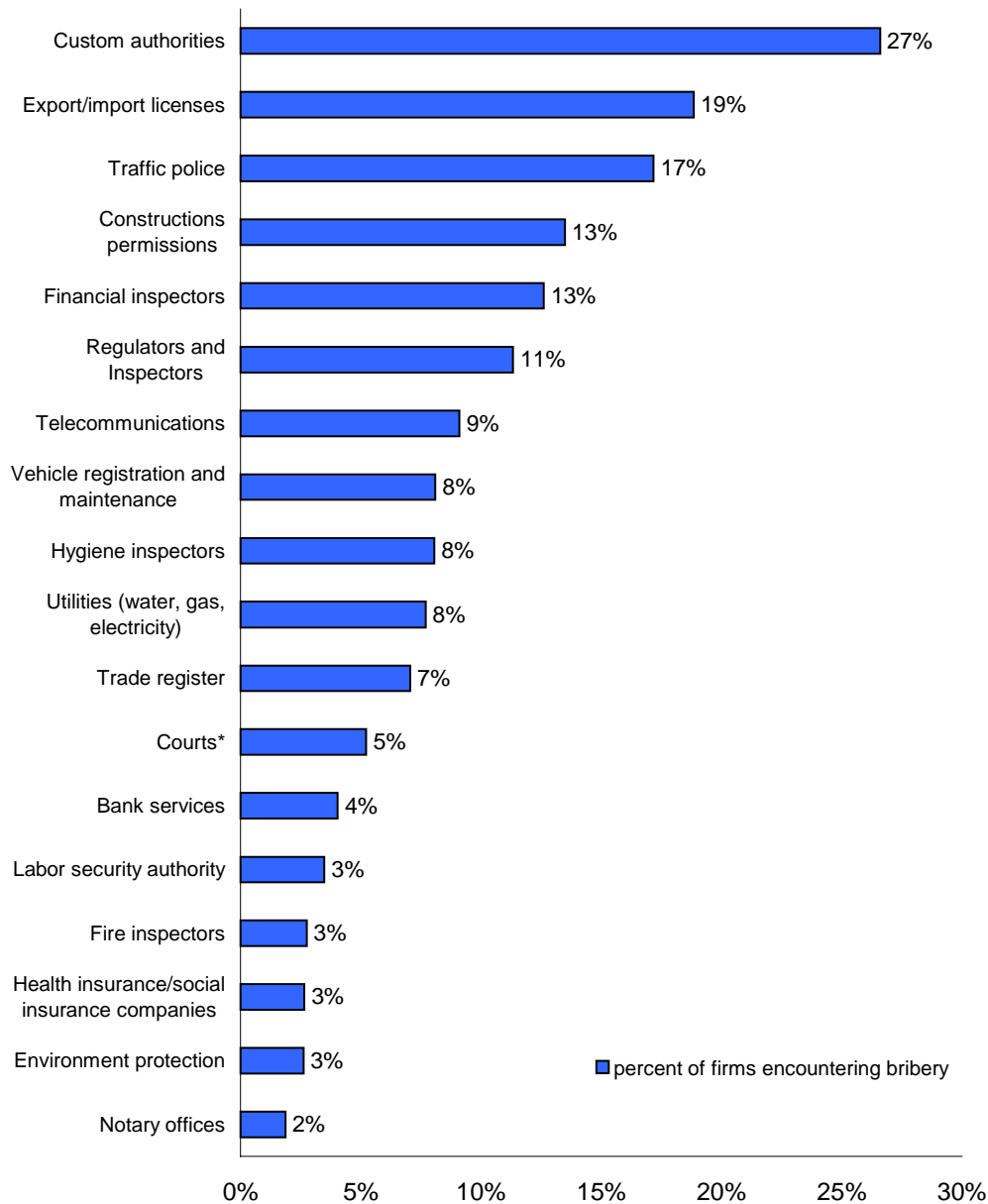
3. Experiences with Corruption and Public Sector Performance

Although it is important to understand perceptions on the pattern of corruption, it is equally important to understand how corruption directly impacts people, the business community, and the public officials themselves. Thirty-eight percent of public officials reported that they had been offered a gift or money during the previous year. Twenty-eight percent and 42 percent of enterprises and households, respectively, reported that they either were made to feel that a bribe was necessary or directly offered bribes or *atentie* (“attention”)



to various public officials during the previous 12 months (Figure B). This section examines the level and pattern of corruption as reflected in the actual experiences of firms, as well as assessments of the quality of services, problems doing business, and the types of corruption and poor governance reported to impact on firms. A similar discussion of the patterns of corruption and satisfaction with services as reported by households then follows.

In the enterprise survey, managers were asked how many times they had visited each of 18 different governmental bodies, mostly state, and on how many of those visits it was made known to them that they should pay a bribe or that they felt before-hand that they should pay a bribe. Figure C shows the overall percentage of firms that encountered bribery among those that interacted with a given agency. Based on these measures, encounters with customs offices, import and export licenses, traffic police, construction permissions, financial inspectors, and regulators are the state services and bodies at which firms are most likely to encounter bribery.

Figure C. Firm Experiences with Bribery

*Responses to other survey questions suggest that most payments to the courts are channeled through intermediaries. See the discussion of the judicial system in Section 3.

The enterprise questionnaire asked enterprises to evaluate their satisfaction with the level of service provided by the various bodies with which they had official contact. Most enterprises reported being satisfied with the quality of services they received from the various governmental bodies. For many inspectors and regulators such as fire and hygiene inspectors, and providers of business services such as notaries and banks, the majority of enterprises reported being satisfied with the quality of service they received. By contrast, several bodies received less favorable evaluations: courts, customs, traffic police, and telecommunications were the bodies and sectors with which enterprises were least satisfied.

Administrative corruption refers to corruption surrounding the *implementation* of laws, rules, and regulations.

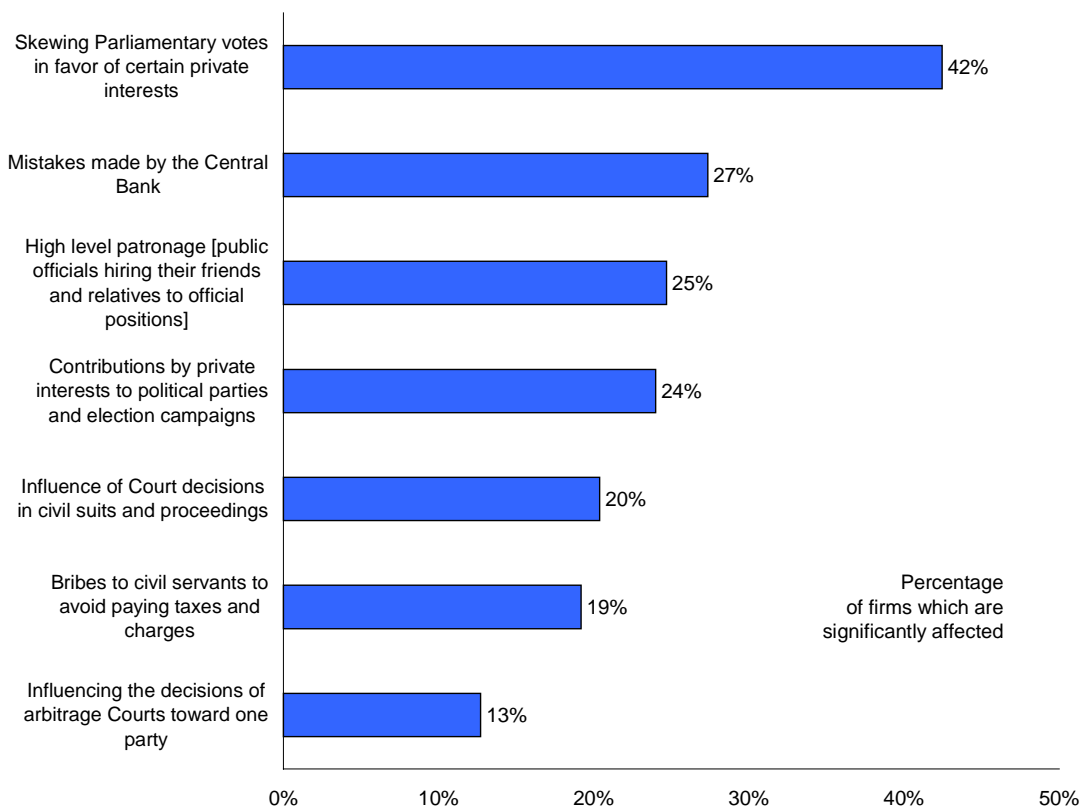
State capture describes corruption that affects the *formation* of the laws and regulations.

Currency depreciation and inflation were reported by enterprises to be the two biggest constraints on business development, reflecting the importance that firms place on

macroeconomic stability. Corruption also poses a significant constraint on firms, with almost two out of three firms reporting that corruption is an obstacle. Other related ills, such as bureaucracy, red tape, clientelism, and sluggish courts also pose significant problems for businesses. Many of the most important obstacles for business development are significantly correlated with state capture, corruption surrounding the formation of laws, rules, and decrees. Firms that find instability of legislation problematic, for instance, are the most likely to report the problem of private interests capture of Parliamentary votes. Similarly, firms that report problems with courts are the most likely to report that capture of court decisions affect their businesses.

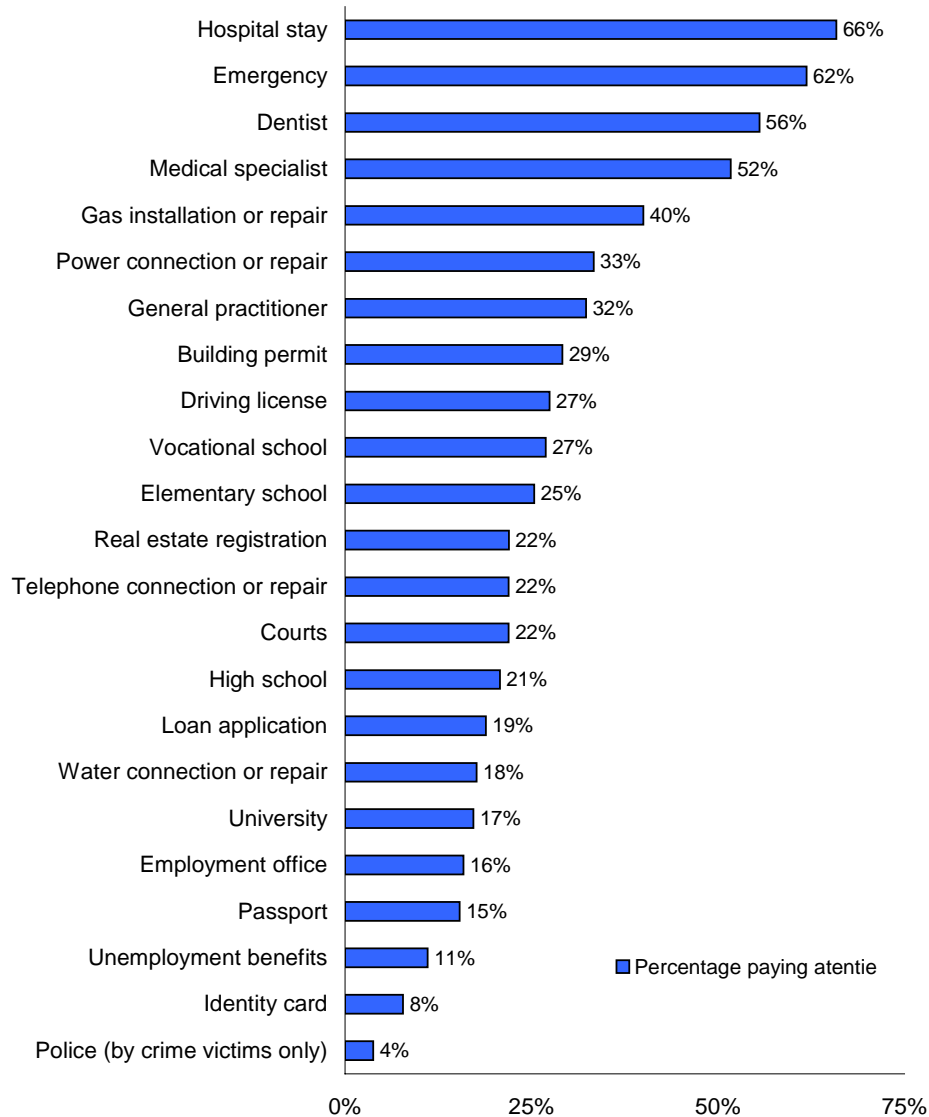
Figure D shows the percentage of enterprises that reported being affected by various forms of corruption, state capture, and poor governance. The misdirection of parliamentary votes on laws to support private interests was identified by the largest proportion of respondents, with more than 4 in 10 reporting being affected by the practice. Several other forms of corruption affect as many or more firms than simple bribery. Indeed, while the effects of bribery may resonate most strongly with firms that are engaged in bribery, capture of the state by private economic interests may alter the very environment in which all firms—even the completely honest ones—must operate.

Figure D. Types of Corruption, State Capture, and Poor Governance Affecting Business



In the households survey, respondents were asked about their experiences in dealing with various governmental bodies, particularly in health and education, but including the police, the courts, various civil registrations, and others. The ratings, presented in Figure E, are based only on the experiences of the subset of households that actually sought the respective services, sample sizes varied, and the ordering of bodies is approximate. At least some respondents reported paying some *atentie* at every one of the twenty-three bodies and services. Visits in the health sector, in particular, were reported to frequently involve such unofficial payments (including gifts).

Figure E. Likelihood that Households Would Pay an *Atentie* while Using Service



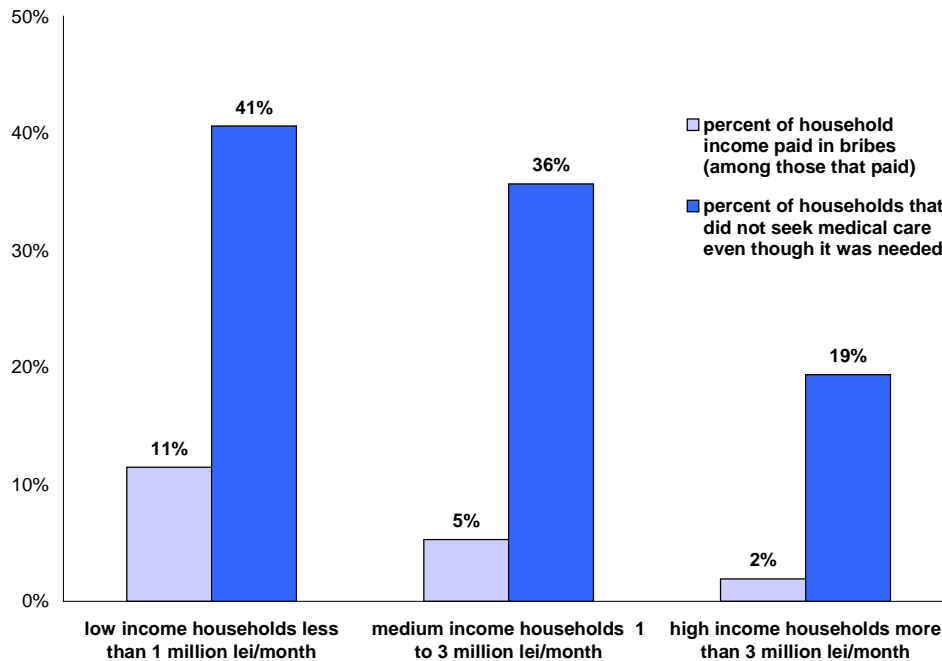
Each bar is based on respondents that actually interacted with the body. There were 18-265 observations for each bar.

Although many households reported providing some *atentie* for services from state institutions, the levels of satisfaction that they reported were high for many of these same institutions. More than half of the households that had received most services reported that they were satisfied with the experience. Satisfaction ratings were lowest for police investigations and the courts. As described in the previous paragraph, these estimates are based only on the experiences of the subset of households that actually sought the respective services.

4. Consequences of Corruption

In the opinion of those surveyed, particularly households but enterprise managers as well, corruption exacerbates poverty, either directly (though a decline in the standard of living) or indirectly (through worsening income inequality). Enterprises also emphasized economic consequences such as lower foreign investment and slower development of the private sector.

Figure F. The Regressive Impact of Bribe Payments



Note: The left bar includes only those households which reported paying bribes and reported the amounts of those bribes and overall household income. Sample sizes were 19, 68, and 54 households. The right bar shows the percentage of households that did not seek medical care even though it was required. Sample sizes were 96, 143, and 62.

The burden of informal payments is regressive, with poorer households paying a larger portion of their income in the form of bribes. Poor households pay twice as much as medium-income households, which in turn pay twice as much (in percentage terms) as the rich households. Costly unofficial payments appear to be exerting an even more deleterious effect on the poor, as many seem to find health care inaccessible. The Romanian data for health care provides support for the conjecture that poor households may not seek public services because of their inability to make unofficial payments. The cost that corruption poses by effectively restricting access to health care would not be captured by statistics on the frequency of unofficial payments, yet such a cost is probably more damaging for the poor and for the social equity that comprehensive health care systems seek to provide.

The costs that corruption exerts on business development are many. Even firms that do not engage in corruption must suffer the consequences of a nebulous and uncertain business environment and services weakened by corruption, to name just a few of the costs. Many enterprises expressed a willingness to pay in order to reduce the burdens that excessive regulations, crime and corruption impose on them: 50 percent of enterprises expressed a willingness to pay for the elimination of corruption; 46 for the elimination of crime and 46 for the elimination of excessive regulations. The amounts that enterprises were willing to pay followed a similar pattern, from 5 percent of their revenues for the elimination of corruption to around 4 percent each for the elimination of crime and excessive regulations. These figures clearly demonstrate that corruption imposes a significant net cost on firms. The willingness of enterprises to pay for the elimination of corruption also provides an indication of the indirect impact that corruption has on the state's fiscal position. Corruption serves as an implicit tax

on firms. The significant sums that firms are willing to pay to eliminate corruption could flow into the state's coffers, if only the burden imposed by corruption could be eliminated. In the state's hand these resources could be used to fight poverty, crime, and other social ills.

5. Causes of Corruption

A climate of excessive or poorly implemented regulation opens the door for corruption among the public officials called to implement and verify the regulations. The links between regulation and state capture and administrative corruption are clear from the survey responses. Firms that spend more time in bureaucracy are more likely to engage in state capture and much more likely to be affected by capture. Such firms are also more likely to have bribed a public official in the previous three years.

Studies in other countries suggest that several broad sets of institutional issues are associated with better governance and lower levels of corruption. The data from the public officials survey in Romania help illustrate the aspects of public administration that are associated with corruption. Among the most important are the effective implementation of sound personnel policies based on merit. The strength of enforcement and overall quality of rules and procedures are also important. Reported salary levels and variations in the use of extrasalary premia do not appear to be statistically important for explaining variations in corruption across Romanian institutions. Transparency in salary levels and structures is apparently more important than the levels and structures themselves.

6. Reducing Corruption

The challenge of reducing corruption and state capture is formidable. Any society faced with such a challenge must implement reforms in defiance of powerful vested interests. Indeed, although reducing corruption has risen in prominence in the stated objectives of governments throughout the former communist world, successes seem far overshadowed by the sense of frustration voiced by citizens and public officials alike. The complexity of systemic corruption, and the difficulty overcoming those that benefit from the *status quo*, make the problem seem insurmountable.

Yet sustainable programs have taken root in several transition countries, largely because the programs unbundle the complex into its constituent parts. Themes that an anticorruption strategy should include:

- *Transparency and accountability in political life.* Clear prohibitions on conflict of interest made monitorable by public income and asset declarations and transparency in party financing.
- *Transparency, accountability, and efficiency of public administration.* Improvements in recruiting and merit-oriented promotions, and insulation of the civil service from political changes; Clear guidelines for what is and is not acceptable behavior by public officials, as often found in a civil service code of ethics; Performance monitoring and evaluation.
- *Sound business environment.* Reducing the regulatory burden and making more transparent and open the process of developing new regulations.
- *Openness in society.* Freedom of information laws that provide for open access to all information unless there is a compelling reason for it to remain secret; A proactive approach that invites oversight by civil society and the media, as well as active participation in many formal decision making processes.

Corruption is not just a matter of strong enforcement, but also hinges directly on the incentives facing public officials, enterprises, and households. Many reforms that are important in their own right—regulatory, civil service, open government, and health sector reforms, to name a few—can also be viewed as elements of an anticorruption agenda.

Although the process of elaborating and implementing an anticorruption strategy depends on the politics and priorities of a particular country—there is no single recipe for success—sustained efforts generally adopt variants of a three pronged strategy focusing on *enforcement* of anticorruption statutes, *education* of the population about their rights when dealing with the public sector and the harm corruption causes, and *prevention* of corruption by improving public sector governance. A *high-level steering committee*, supported by a *professional secretariat*, can help to bring together representatives of governmental bodies, both central and local, to develop the specific action plans that will implement the anticorruption strategy. By explicitly including *representatives from outside government*, the steering committees can further build credibility while mobilizing an important ally for reducing corruption. Requiring *detailed action plans* for reducing corruption and improving quality from across the state sector, and monitoring their implementation, helps ensure that progress is made. When progress isn't made, external monitoring brings accountability—but only if the action plans are formal and public.

The climate for reform is favorable. There is broad-based support among all three of the groups surveyed for many types of reforms that may help reduce both state capture and administrative corruption, as well as strong sanctions for violators. With the need for action and the support of the populace clearly present, the key now is to capitalize on the growing momentum by developing and implementing a broad-based action plan—one that reflects the ideas of stakeholders both inside and outside of government and recognizes not only the enforcement aspects of anticorruption, but the preventive aspects as well. Only by squarely addressing the systemic institutional weaknesses that facilitate corruption can progress be made.

Table A. Select Findings and Recommendations

| Problem | Survey Indication | Suggested Approach |
|--|--|--|
| Corruption is contributing to poverty and weakening delivering of services | <p>Informal payments were reported for many government services including health and education, utility connections, civil registrations, and others.</p> <p>Informal payments comprise a larger share of income of the poor.</p> <p>The poor lose access to key services such as health.</p> | <p>Introduce a code of ethics that clearly defines appropriate and inappropriate behavior.</p> <p>Sector-specific reforms that address the structural problems (financing and mandate) making informal payments for service delivery inevitable.</p> |
| State capture is tainting the very formation of laws, rules and regulations | <p>A large number of enterprises report being affected by state capture, especially by the misdirection of Parliamentary votes in favor of select private interests.</p> <p>Firms that actively engage in state capture are much more likely to make political contributions; firms that make political contributions are also more likely to participate in administrative corruption.</p> <p>State capture is highly correlated with many of the problems that enterprises face doing business.</p> | <p>Bring transparency to political life through public income and assets declarations, disclosures of conflict of interest, and transparency in party financing.</p> <p>Institute a regime of openness in government: pass a freedom of information law requiring that all information not defined to be secret be made freely available to the public, and train civil servants on how to comply with such a law.</p> <p>Invite civil society oversight of important privatizations and procurements.</p> <p>Give firms voice in the regulatory process through public hearings of proposed laws and regulations.</p> |
| Corruption in the regulatory environment represents a significant burden for firms | <p>Firms report making unofficial payments to all sorts of government regulators and inspectors</p> <p>State bodies with the lowest assessments of quality are those for which enterprises think it is useless to complain.</p> <p>The implicit cost of regulations and corruption is high enough that many firms would be willing to pay significant portions of their revenues to have the burden eased.</p> | <p>Reduce the regulatory burden on firms by removing unnecessary regulations.</p> <p>Ensure transparent implementation and speedy processing, and clarify appeals processes.</p> <p>Build capacity to undertake regulatory impact assessments and introduce such assessments as routine elements of the regulatory process.</p> |
| Corruption is fed by weaknesses in public administration | <p>Within the state sector, bodies with better systems of public administration have lower levels of corruption.</p> | <p>Elaborate and implement public administration reforms related to civil service recruiting and promotions, insulation of the civil service from political changes, budget and financial management with independent audit and oversight.</p> |
| There is the perception of widespread corruption, and little faith in the credibility of anticorruption reforms | <p>All sample groups report the perception of widespread corruption. Many report getting their information through media reports, as well as through personal experiences.</p> <p>Survey respondents expressed concern about the important societal consequences of corruption: a decline in the standard of living and worsening of the distribution of income.</p> <p>Although there is widespread support for many measures for reducing corruption, there is very little confidence that political structures are serious about reducing corruption.</p> | <p>Prepare a comprehensive strategy emphasizing institutional reforms aimed at preventing corruption; education about the causes and consequences and a citizen's rights when corruption is encountered; and enforcement of anticorruption statutes through strong and fair enforcement.</p> <p>Map out and implement the strategy through an inclusive process led by a high-level steering committee with representation from a broad spectrum of governmental and non-governmental leaders.</p> <p>Prepare monitorable action plans for reducing corruption and improving quality.</p> |

1. Introduction

1. Public sector corruption, commonly understood as the misuse of public office for private gain, exists throughout the world, and is widespread in many places. While corruption has always been known to exist, our understanding of the harmful effects of corruption has grown substantially in the past decade. Corruption has been shown to be very costly to economic growth and investment as it increases the cost of doing public and private business, clouds the business environment with uncertainty, and distorts the regulatory and legal framework on which businesses rely. Corruption warps the intent and implementation of laws and regulations, and limits the delivery and quality of government services. Corruption is associated with closed, non-transparent processes, excluding citizens from open participation in their government, leaving politicians and bureaucrats less accountable. Not surprisingly, corruption seems to have expanded during the decade of transition when the institutions of restraint were weak and the rules governing society and businesses were being rewritten wholesale.

2. Over the past years, Romania has begun to develop the foundation for an effective fight against corruption, targeting the development of a legal framework and institutional structure and stressing enforcement approaches.¹ The institutional infrastructure being developed has focused on a multi-agency approach to ensure that relevant investigative and enforcement bodies are engaged—a protocol to facilitate coordination, cooperation, and information exchange on anti-corruption strategies was finalized in late 1998 between many of the relevant ministries and executive bodies.² Acknowledging the importance of cross-border cooperation and learning from the experience of other countries, Romania has also focused on building international and regional cooperation, housing regional centers and hosting international conferences on reducing corruption.³ The increasing activity of the state in developing the institutions for repression of corruption has coincided with the growth of civil society activities aimed at reducing corruption.⁴

3. Recognizing the need for information on the profile of corruption in Romania, the Government requested the preparation of this diagnostic study of corruption. This report summarizes the results of three large-scale governance and corruption surveys⁵ undertaken in 2000 by the World Bank and Management Systems International (MSI), an implementing partner of the United States Agency for International Development. Survey-oriented diagnostic studies help identify the pattern and profile of corruption and facilitate analysis into the institutional weaknesses at the heart of the problem. Survey data reflect the opinions and real experiences of the people who interact with the state and implement state policies—opinions and experiences that are essential for the development of a well-informed anticorruption strategy. This report is based on the opinions and experiences of more than 1,700 households, enterprises, and public officials.⁶

4. This diagnostic assessment report seeks to support the efforts of the Government of Romania and Romanian civil society organizations to promote development of an effective and well-informed strategy against corruption. A neutral factually-based discussion involving both Government and civil society will help de-politicize discussions about concrete reforms by focusing attention on evidence of performance and the relationship between institutional characteristics and outcomes, focusing the debate on institutions, rather than individuals. Indeed, although this report was requested by the previous Government and is being released by the newly elected one, the findings stress the institutional nature of the problem and remain applicable.

5. The story told by the surveys underscores both the importance of addressing corruption in Romania and the complexity of the task. Firms and households alike report frequent unofficial

payments for a wide variety of state services, and public officials likewise report that many forms of corruption are present in state structures. As in many transition countries, corruption involving the implementation of laws (administrative corruption) is only part of the problem. Many firms reported being significantly affected by corruption surrounding the very formation of the laws and regulations, the capture of the state by concentrated economic interests. One recent cross-country study, described in Box 1, finds that Romania has relatively high levels of both administrative corruption and state capture.

Box 1. Anticorruption in Transition

Corruption in transition countries has proven to be very persistent in part due to approaches that treat all corruption the same. Unbundling corruption along conceptual lines helps clarify the complex interactions that make corruption so difficult to tame. Recent research unbundles corruption into two conceptually distinct forms of corruption. *Administrative corruption* refers to corruption surrounding the implementation of laws, rules, and regulations, while *state capture* describes corruption that affects the actual design of the laws and regulations themselves. Both forms of corruption have pernicious effects on growth and equity alike.

The transition countries of Central and Eastern Europe and the Former Soviet Union have faced persistent difficulties with both state capture and administrative corruption. Estimates of the levels of both forms of corruption across countries have relied on a cross-country survey carried out in 1999, known as the Business Environment and Enterprise Performance Survey (BEEPS). This survey of over 3,000 enterprises in 22 former communist countries asked managers to what degree they are affected by other firms' use of corruption to influence laws, rules, and regulations (state capture), and the impact that unofficial payments have on their firm's revenues.

The 125 firms in Romania that provided interviews for the 1999 BEEPS reported relatively high levels of both state capture and administrative corruption, a finding supported by the 400 enterprises interviewed for the 2000 surveys. A country with high levels of both forms of corruption faces the particular challenge of restraining concentrated economic interests and disentangling politics from business—or at least making the links transparent—while at the same time building the capacity of the state to provide high quality services for enterprises and the population. These challenges will not be overcome easily. Yet the costs of not addressing both forms of corruption are extremely high. Reform and progress are possible, but only through concerted efforts that treat the underlying weaknesses that feed state capture and administrative corruption.

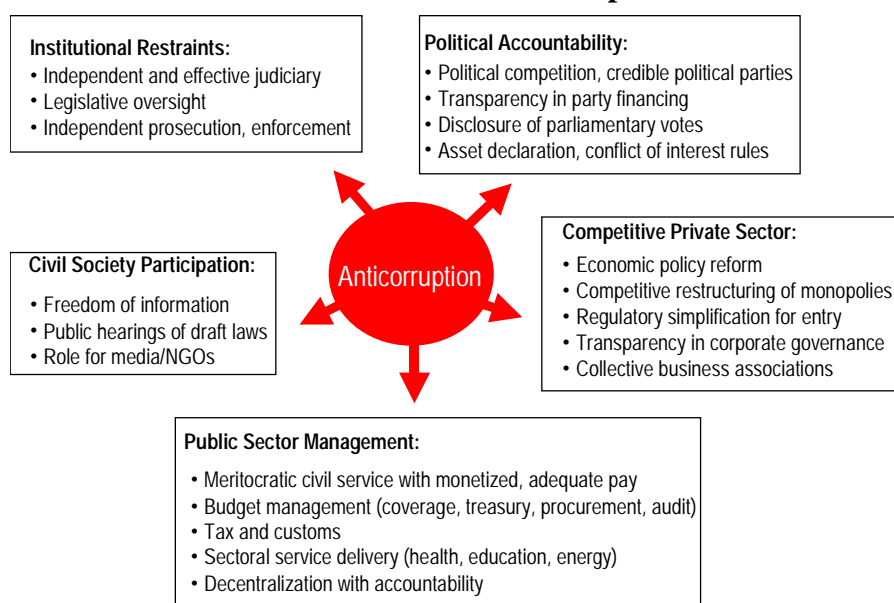
Sources: World Bank, 2000, *Anticorruption in Transition—A Contribution to the Policy Debate*; and Joel Hellman, Geraint Jones, and Daniel Kaufmann, 2000, *Seize the State, Seize the Day: State Capture, Corruption and Influence in Transition Economies*, World Bank Policy Research Working Paper 2444. The BEEPS was a joint initiative of the World Bank and the European Bank for Reconstruction and

6. This report highlights the fact that reducing corruption is more than just a matter of law enforcement—it requires institutional reforms and societal changes, as well. A multipronged strategy that addresses both state capture and administrative corruption must address political accountability, build a competitive private sector, strengthen institutional restraints, improve public sector management, and embrace civil society participation. A schematic illustrating these ideas is provided in Figure 1.

7. Reducing corruption involves challenging vested interests that benefit from the *status quo*. However, as the survey results make clear, the costs of not meeting this challenge are high. A well-articulated strategy, developed by a broad-based coalition of governmental and non-governmental leaders and backed up by specific, monitorable, action plans, can help Romania move from its current state of affairs toward the transparent one that so many Romanians desire.

8. Section 2 outlines the perceptions of corruption in Romania: the overall level of corruption, the state bodies perceived to have the worst problems, and the information on which people base their perceptions. Section 3 turns from perceptions to the actual experiences of enterprises and households. Section 4 introduces some of the consequences of corruption as perceived and experienced by Romanians. Section 5 discusses the institutional weaknesses that are contributing to corruption. Section 6 examines the level of support for various types of reforms and suggests key elements of a comprehensive strategy. Annexes describe sample selection and methodology, and the analysis underlying certain conclusions.

Figure 1. A Multi-pronged Strategy for Addressing State Capture and Administrative Corruption



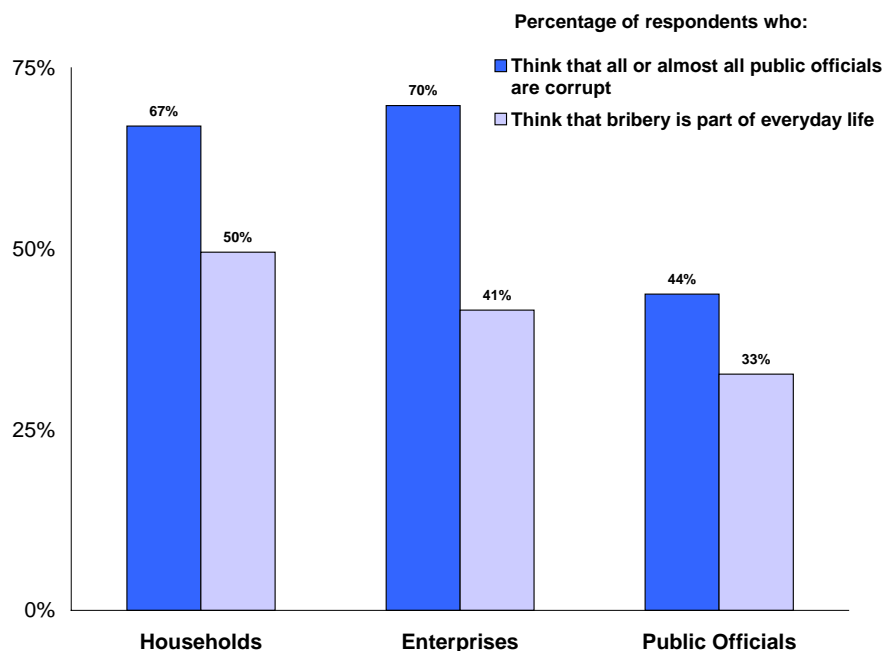
Source: World Bank, 2000, *Anticorruption in Transition—A Contribution to the Policy Debate*.

2. Perceptions of Corruption

The perceived level of corruption in Romania

9. The diagnostic surveys of corruption provide a view of the level of corruption as perceived by, and as experienced by, households and enterprises. The public official survey provides further information from the “insider’s” perspective. In this section of the report, the level of corruption as *perceived* by households, enterprises, and public officials will be explored; the real *experiences* of the respondents will be reviewed in Section 3. An understanding of these perceptions is important for a number of reasons. (Annex 3 investigates the factors that influence the perceptions of corruption.) First, perceptions form the basis for decision-making. When business enterprises, both foreign and domestic, make decisions about whether and where to invest, they do so on the basis of their perceptions of the business environment they will encounter, including perceptions of the levels of corruption. When a person decides whether to visit a state health facility, it is their perception of the quality of care and cost of treatment, both official and unofficial, on which the decision will be based. When a person decides whether to pursue disputes in court, as opposed to other means of dispute resolution, the decision is based on the perception of the fairness of the process, the time to resolution, and costs, both official and unofficial. Most importantly, it is perceptions upon which people base their faith in the credibility of state institutions. Second, perceptions are often based on experiences (as will be discussed in Section 3 and in Annex 3) and may therefore provide a useful lens through which to examine the actual levels of

Figure 2. Perceptions of the Overall Level of Corruption

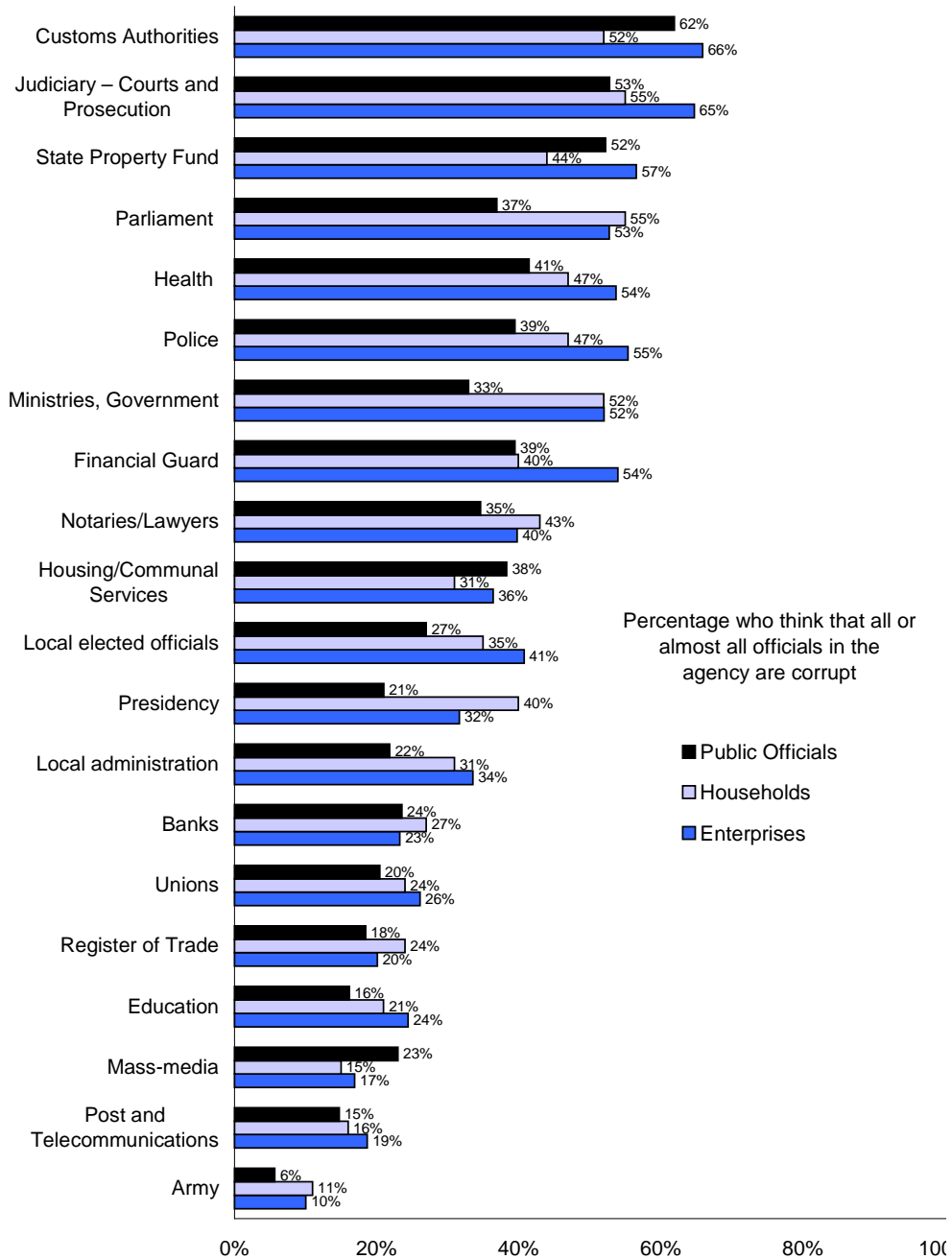


corruption.

10. The survey results show that corruption is perceived by the public to be widespread. About two-thirds of the Romanian public believes that “all” or “most” officials are corrupt (Figure 2). Public officials reported lower perceived levels of corruption, although still high: 44 percent reported that all or most officials are engaged in corruption.

11. While the perception of widespread corruption is clear, it is also clear that many people believe that corruption has achieved a state of normalcy. Half of households reported that bribery is part of everyday life, while only one in eleven reported bribes to be completely unnecessary.⁷ Enterprise managers and public officials were less cynical of the level of corruption in everyday life, with four tenths and a third, respectively, reporting corruption to be a part of everyday life (Figure 2).

Figure 3. The Perceived Level of Corruption in Various State Agencies



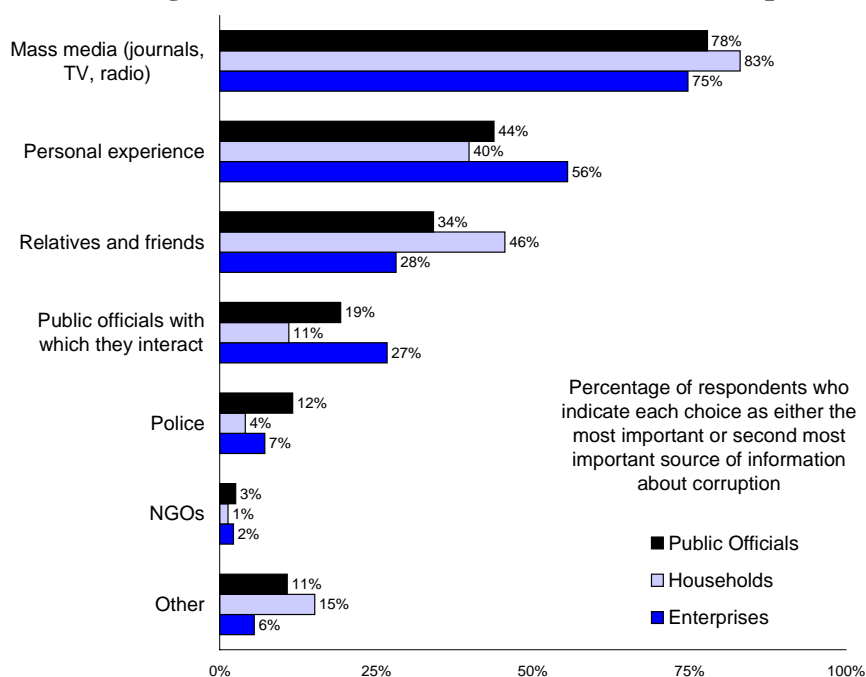
Institutions perceived to have widespread corruption

12. Romanians from all three sample groups were asked to provide their opinions about the overall levels of corruption in various sectors and bodies, and the results are presented in Figure 3. More than half of the respondents from all three sample groups have the opinion that all or most of the officials in customs and the judiciary engage in corruption. The State

Property Fund, Parliament, health, and police are also perceived by many to have widespread corruption. On a positive note, most respondents believe corruption is not widespread in the army, post and telecommunications, and the mass media.

13. Public officials generally reported lower levels of corruption than either enterprises or households. Particularly for the broad categories of state – the Presidency, Parliament, and the Government – public officials reported levels of corruption markedly lower than reported by the public.

Figure 4. Sources of Information about Corruption



Sources of information about corruption

14. An understanding of where people get their information about corruption is useful for the design of anticorruption public information campaigns. Survey respondents made it clear that while many people get their information from the media (television, radio, and newspapers), many also base their understanding of corruption on the experiences of family and friends, and their own personal experiences (see Figure 4). Twenty-four percent of households said that their primary source of information about corruption was personal experience, and a further 16 percent said personal experience was a secondary source. Over half of the enterprises surveyed listed personal experience as either their primary or secondary source of information about corruption.⁸

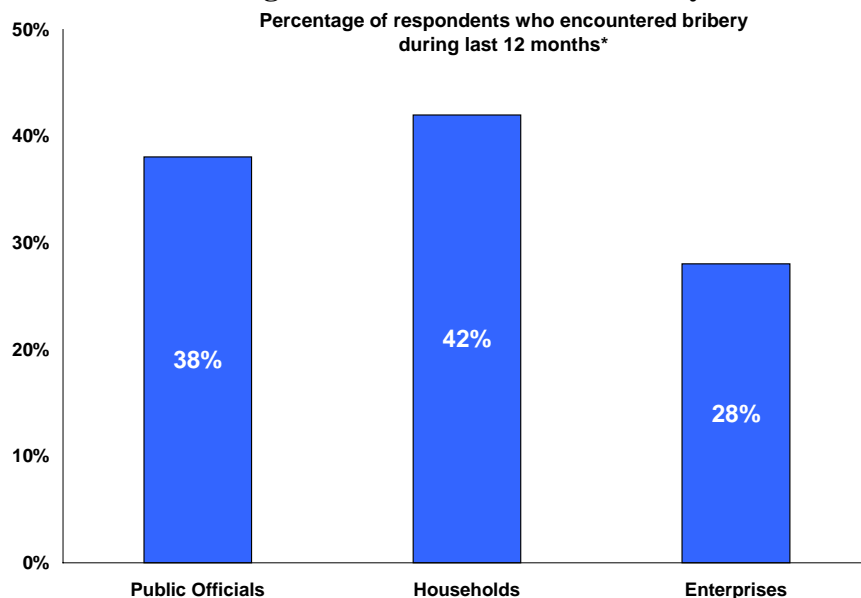
15. The survey results also show that personal experiences with corruption lead the public to accept corruption as “normal.” While only 25 percent of public officials who have no personal experience with corruption believe that “corruption is a part of everyday life,” 41 percent of officials who have experienced corruption believe this to be so. Among officials without personal experience of corruption, 38 percent believe that all or most officials are corrupt, while among those that do have personal experience with corruption, 51 percent believe all or most officials are corrupt. These statistics make it clear that while public information campaigns may help to restore faith in the honesty of state institutions, if the campaigns are not backed up by real progress in reducing the levels of corruption that people encounter, negative perceptions about the overall levels of corruption will persist.

3. Experiences with Corruption and Public Sector Performance

Frequency of bribery in Romania

16. The public's perceptions about corruption suggest that many feel corruption is widespread. Apparently their own personal experiences, as reported in the surveys, suggests likewise. Thirty-eight percent of public officials reported that they had been offered a gift or money during the previous year. Twenty-eight percent and 42 percent of enterprises and households, respectively, reported that they either were made to feel that a bribe was necessary or directly offered bribes or *atentie* ("attention") to various public officials during the previous 12 months (Figure 5).

Figure 5. Encounters with Bribery

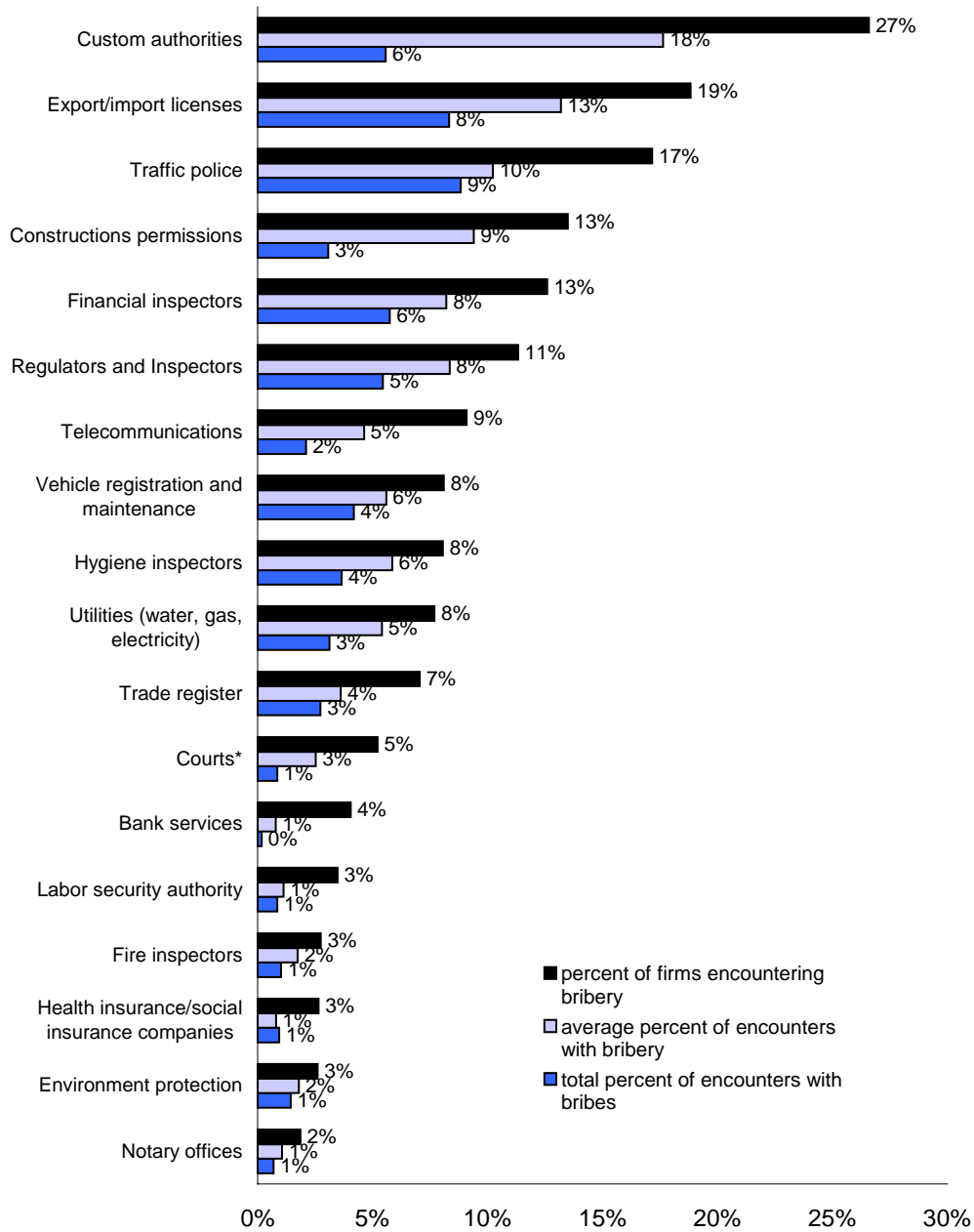


*Note: For households this is the percentage reporting having paid *atentie* either voluntarily or after having been made to feel it was necessary. For enterprises this is the percentage who were made to feel that bribes were necessary by public officials. For public officials it is the percentage reporting having been offered large or small gifts or money.

Enterprise experience with bribery

17. Statistics on the overall levels of corruption tend to mask the diversity of experience among state institutions. In this section, evaluations provided by survey respondents will provide an agency-by-agency indication of the levels of bribery in each institution as reported by the enterprises that deal with them.

Figure 6. Indicators of Firm Experiences with Bribery



*Responses to other survey questions suggest that most payments to the courts are channeled through intermediaries. See the discussion of the judicial system in Section 3.

18. In the enterprise survey, managers were asked how many times they had visited each of 18 different governmental bodies, mostly state, and on how many of those visits it was made known to them that they should pay a bribe or that they felt before-hand that they should pay a bribe. Figure 6 provides several indicators of firm experiences with bribery at each of these bodies.⁹ Each of the bars is an estimate, subject to statistical sampling error, and therefore rank orderings should be considered approximate.¹⁰

19. The top bar shows the overall percentage of firms that encountered bribery among those that interacted with a given agency. For example, more than 25 percent of firms that interacted with customs reported encountering bribery on at least one of those occasions. The second bar shows the estimated likelihood (probability) that a firm which needs a particular service would encounter bribery in dealing with the body. In other words, it is the percent of interactions at which a firm would encounter bribery, averaged across firms. (With repeated interactions, the probability that a single firm will end up paying a bribe on at least one

occasion is higher. This explains why the top bar is consistently larger than the other two.) The third bar shows the total percentage of all encounters at which bribery was encountered. While the second bar gives each firm an equal weight in the calculation, the third bar gives a greater weight to firms that interact frequently with an agency.

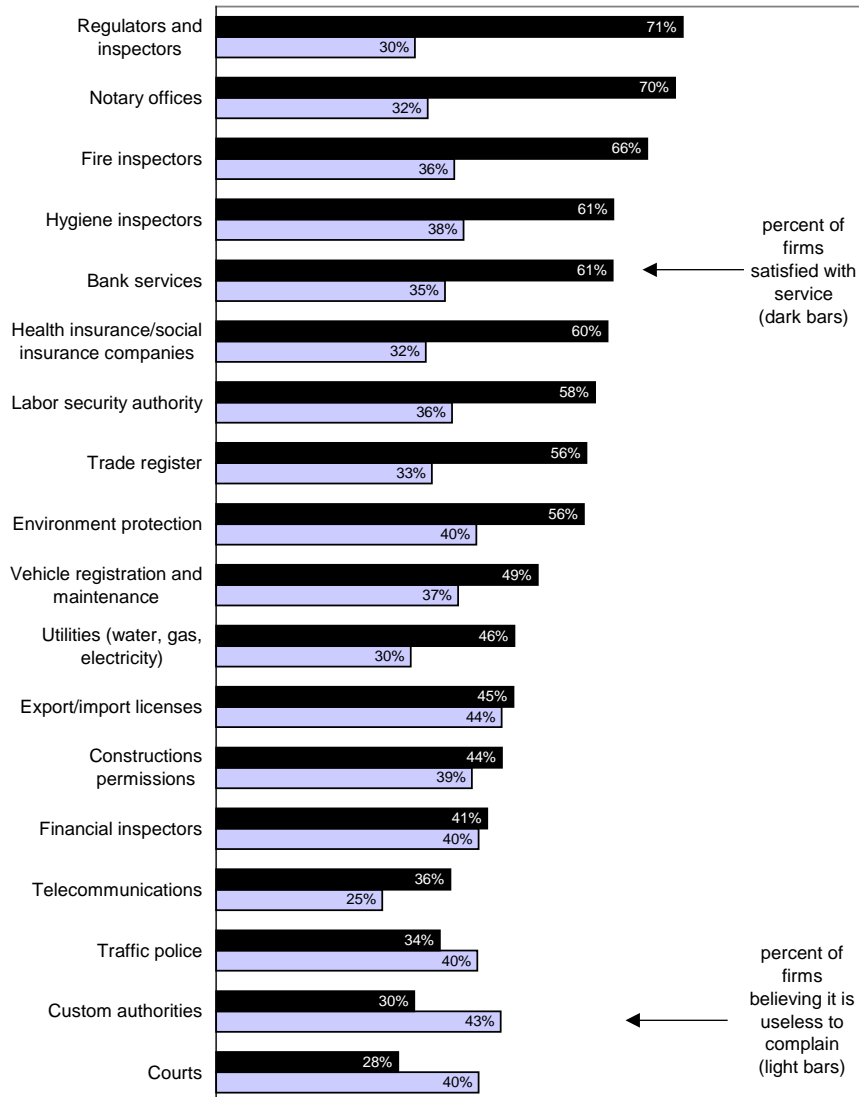
20. Based on these measures, encounters with customs offices, import and export licenses, traffic police, construction permissions, financial inspectors, and regulators are the state services and bodies at which firms are most likely to encounter unofficial payments. A closer look at the second and third bars of Figure 6 reveals an interesting aspect of corruption in the customs and construction permissions. Firms that interact with customs frequently were less likely to encounter bribery on a single occasion than firms that deal with customs less frequently. One interpretation of this fact is that firms with experience have better information on proper channels and procedures and are less susceptible to bribery than firms that are inexperienced in dealing with customs. A second, more worrisome, interpretation is that repeat players negotiate long-term arrangements or make more use of facilitators that serve merely as intermediaries for bribery. By contrast, the second and third bars for the traffic police are nearly identical, and relatively high. Apparently, experience helps little when dealing with the traffic police.

Enterprise evaluations of the quality of government services

21. The enterprise questionnaire asked enterprises to evaluate their satisfaction with the level of service provided by the various bodies with which they had official contact. Most enterprises reported being satisfied with the quality of services they received from the various governmental bodies (Figure 7). For many inspectors and regulators such as fire and hygiene inspectors, and providers of business services such as notaries and banks, the majority of enterprises reported being satisfied with the quality of service they received.¹¹ By contrast, several bodies received less favorable evaluations: courts, customs, traffic police, and telecommunications were the bodies and sectors with which enterprises were least satisfied.

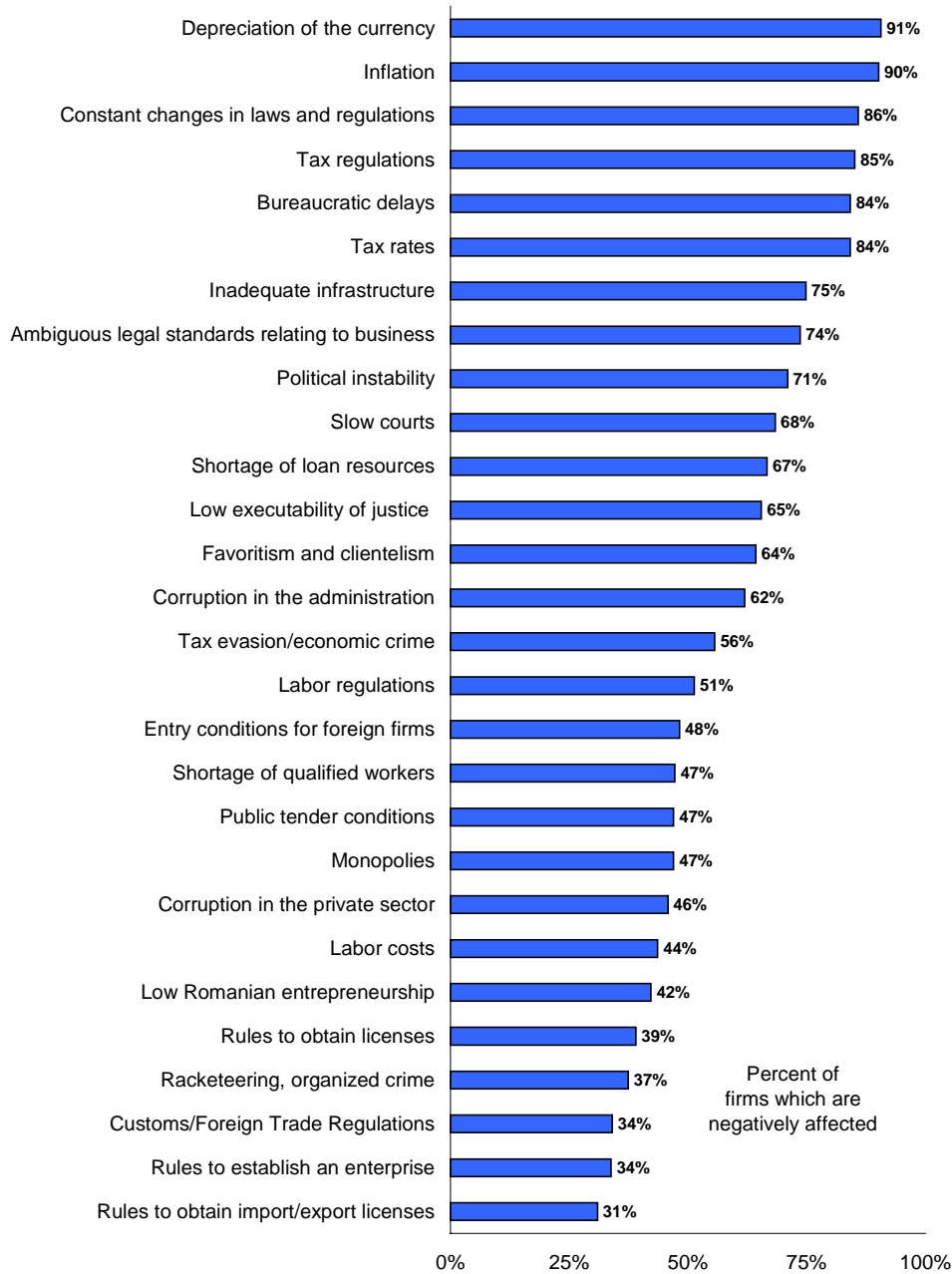
22. Enterprises were also asked whether they would be willing to file formal complaints if they (hypothetically) had reason to be dissatisfied with the services they received. The second bar in Figure 7 provides the results. For most state bodies, firms expressed a willingness to file a formal complaint, but for some bodies the majority of firms reported that it would be useless to complain. It is notable that the bodies for which respondents reported the least willingness to complain were also bodies for which enterprises reported frequent encounters with corruption (Figure 6).¹²

Figure 7. Enterprise Evaluations of the Quality of Government Services and the Uselessness of Complaints



Obstacles to doing business

23. Although many enterprises reported encountering corruption, it is useful to keep the problem in perspective relative to the other problems enterprises face. Figure 8 shows how strong various obstacles are to doing business. Currency depreciation and inflation are the two biggest constraints on business development, reflecting the importance that firms place on macroeconomic stability. Corruption also poses a significant constraint on firms, with almost two out of three firms reporting that corruption is an obstacle. Other related ills, such as bureaucracy, red tape, clientelism, and sluggish courts also pose significant problems for businesses. Indeed, as discussed in Section 4, state capture (corruption surrounding the formation of laws, rules, and regulations) has ominous consequences for the ability of the state to govern. State capture is closely associated with many of the more important obstacles—depreciation of the currency, inflation, and instability in laws and regulations—that firms face.

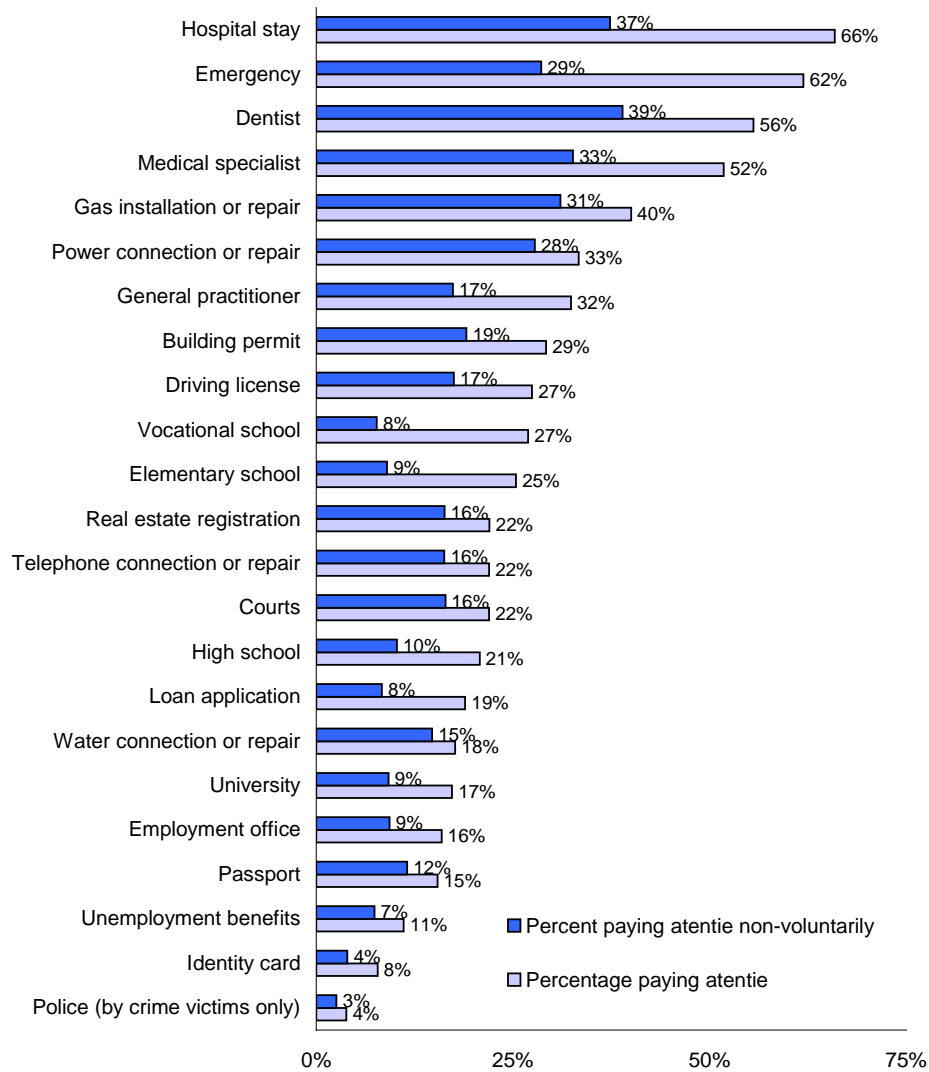
Figure 8. Obstacles to Doing Business

24. It is important to stress that Figure 8 displays the overall percentage of enterprises that reported being negatively affected by each of the categories of problems. For example, while only 31 percent of the overall sample reported problems with the rules to obtain import/export licenses, over 50 percent of firms that actually tried to obtain an import or export license reported that the rules presented obstacles to their business. Moreover, firms that encountered bribery in the process were much more likely to report that the rules were obstacles: of the firms that encountered bribery in the process, more than 75 percent reported that the rules for obtaining import and export licenses hinder the activities of their enterprise. Thus, the fact that import and export licensing, the rules to establish an enterprise, and customs and foreign trade regulations have a negative impact on relatively few firms does not imply the lack of problems. Rather the statistics reflect the fact that such problems are only relevant for a subset of enterprises.

Households’ experiences with bribery and *atentie*

25. In the households survey, respondents were asked about their experiences in dealing with various governmental bodies, particularly in health and education, but including the police, the courts, various civil registrations, and others. The percentage of households that reported paying *atentie* for each of 23 bodies and services are reported in Figure 9. Since these ratings are based only on the experiences of the subset of households that actually sought the respective services, sample sizes varied.¹³ The ordering, therefore, is approximate, since there is a margin of error for each estimate. Moreover, the statistics reported in Figure 9 reflect only the payments made by the respondents. Payments by others, even if they involve the same

Figure 9. Likelihood that Households Would Pay an *Atentie* while Using Service



For the purposes of this chart, "non-voluntary" payments mean those that were requested or for which the respondent "just knows this is the way it goes." Each bar is based on respondents that actually interacted with the body. There were 18-265 observations for each bar.

case, would not be reflected in Figure 9.¹⁴

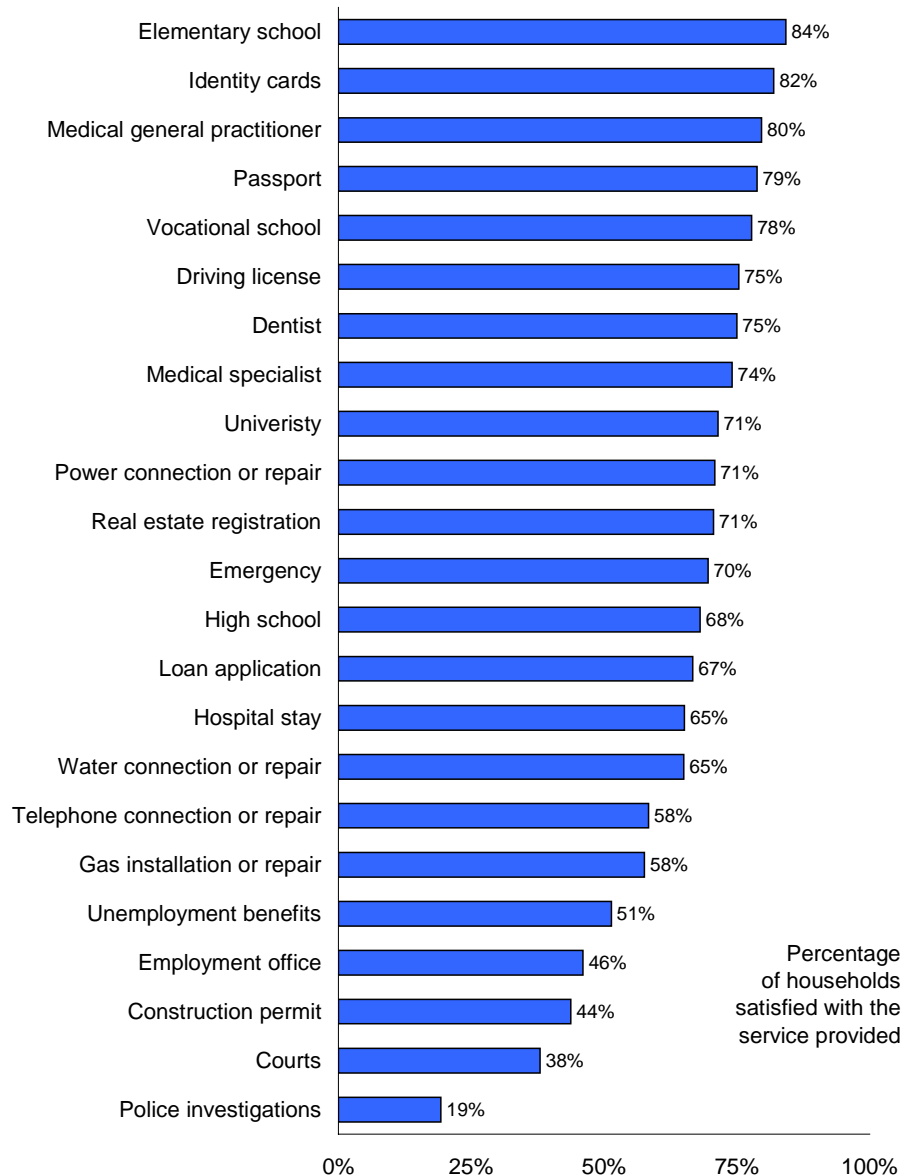
26. At least some respondents reported paying some *atentie*¹⁵ at every one of the twenty-three bodies and services. Visits in the health sector, in particular, were reported to frequently involve such unofficial payments (including gifts). Many such payments were small gifts and many were reported to be voluntary. Since it is often difficult to distinguish between unofficial payments for service from simple expressions of gratitude, a second bar depicting

payments that were made either because they were explicitly requested, or because the respondent “just knew this is the way it goes.” Moreover, many of the payments of *atentie*, particularly for hospital visits, were reported to be motivated by the desire to improve quality, characteristic of unofficial payments more so than expressions of gratitude. (See the section on the Health Sector, below.)

Household evaluations of the quality of services

27. Although many households reported providing some *atentie* for services from state

Figure 10. Satisfaction Ratings of Households



institutions, the levels of satisfaction that they reported were high for many of these same institutions. More than half of the households that had received most services reported that they were satisfied with the experience (Figure 10). Satisfaction ratings were lowest for police investigations and the courts. As described in the previous paragraph, these estimates are based only on the experiences of the subset of households that actually sought the respective services. The ordering in Figure 10 is approximate since there is a margin of error for each estimate.

Experiences with bribery in key sectors

Health Care System

28. A sector that touches nearly all Romanians is the health sector. As is clear from Figure 3, many people believe corruption to be widespread in this sector—47 percent of households reported their belief that all or most officials in the health sector were corrupt. Their experiences also suggest that the use of unofficial payments in the health sector is common (Figure 9). *Atentie* was paid by 2 out of 3 respondents that had recent visits to the hospital, and between 32 and 57 percent who had visited other types of medial facilities. Many of the payments were indeed small,¹⁶ ranging from 10,000 Lei¹⁷ to 3,000,000, and many came in the form of gifts, rather than money. While some of the *atentie* are simply given according to tradition or to express appreciation, it is clear that often the *atentie* have the characteristics of bribes. Hospital stays, with the most frequent and largest payments, are equally likely to involve money as gifts, whereas gifts are the norm for the other forms of medical facility. When asked the reasons for unofficial payments for health care, the most important reason, cited by 45 percent of respondents, is to receive proper or speedy care; 21 percent said it is done out of tradition; and only 11 percent reported that unofficial payments are made to express gratitude.

Box 2. Unofficial Payments for Health Care

Throughout the former communist world, unofficial payments in the health sector have emerged as a fundamental aspect of health care financing and a serious impediment to reform. Such payments for health care are too often viewed as acceptable systems of funding an under-funded sector. Yet unofficial payments to public employees in any sector are unacceptable. Rather than perpetuating a regime of unofficial payments, it is better to improve management and address the fundamental imbalances in the funding of health care:

- The inherited public health systems are bloated and inefficient. Strategies for downsizing may include voluntary severance packages and the introduction of standards for modern medical practices.
- Comprehensive, free services cannot persist in a budget constrained environment. Limiting the range of free services, and introducing user fees can add to the realism of the health care system.
- Health care systems require basic oversight and accountability for all providers and swift punishment for violations.
- Private alternatives need to be allowed (with appropriate regulation) and promoted for those who chose to use them.

Abstracted from Maureen Lewis, *Who is Paying for Health Care in Eastern Europe and Central Asia*, World Bank, 2000, Washington, DC.

29. As discussed in Section 4, the most serious damage caused by corruption in health care may not be the unofficial payments themselves, but the effect that corruption has on decisions of whether or not to be treated at all. Poor households were twice as likely as rich households to say they had not sought medical assistance even though it was needed. And those that did not seek care were also significantly more likely to believe that corruption in healthcare is widespread.

Education

30. Like the health sector, the education sector is one which touches everyone at some point in their lives. Also similar to the health sector, most households reported being satisfied with the service they receive. Two thirds of respondents with a child in high school – larger percentages for other levels of school – reported being satisfied with the quality of teachers and staff. Satisfaction levels with school equipment, however, was much lower – as low as one third of households with students in high school were satisfied. Although levels of satisfaction are similar between health and education, the levels of corruption, as perceived and as experienced by households is very different between the two sectors. While up to one fourth of respondents said they had provided some unofficial payment in the previous year,

these payments were largely in the form of gifts, ranging from 10,000 to 800,000 Lei¹⁸ in value. Unofficial payments were least frequent at the university level, however the sizes were the largest on average. More than half of the respondents that paid unofficial payments in education said that “nobody required it, they just wanted to give it,” suggesting that many of these payments were in fact expressions of gratitude.¹⁹ These findings from actual experiences are consistent with the reported perceptions, which place the education system among the institutions that are not widely perceived (in relative terms) as corrupt. (See Figure 3.)

Judiciary System

31. In terms of overall perceptions, the court system is among the institutions that are perceived by many to have widespread corruption (see Figure 3). More than half of all respondents, and nearly two thirds of enterprises, believe that all or most in the judiciary are corrupt. Households, as well, reported that in their experiences with the courts, many pay bribes. One in five households that had been involved in a case reported paying a bribe; roughly half paid in the form of gifts and half in cash. Few of those that paid bribes said it was completely voluntary. The vast majority of the bribes were paid to attorneys, who may act as intermediaries, rather than to a judge or clerk directly. While it is possible that many of these “bribes” never in fact reached a court employee, this illustrates that corruption should be treated in a systemic way, including the legal profession, and legal education, in addition to the courts system *per se*. The most often cited reasons for bribery in the courts system is to speed up the trial or to assure that a certain person would be assigned to the case. Respondents also said that the most important reason that people avoid using courts is that the official trial fees are very high and that the process takes too long from start to finish.²⁰ Improving efficiency in the operation of the courts will be a necessary component on any attempt to clean up corruption in the judiciary.

Police

32. The household survey also asked respondents about their experiences with the police. Thirty to 40 percent of those who were victims of crime said they had not reported it to the police. Most said the process was too complicated or that they were sure the investigation would fail. One in eight of those who did not report the crime said that they don’t trust the police. Levels of satisfaction were low for police investigations, with only one in five crime-victims reporting being satisfied with the investigation. However, the level of bribery was also reported to be relatively low, with 3 to 7 percent of crime victims providing some unofficial payment to facilitate the investigation. It should be stressed that the reported level of bribery is based only on the experiences of crime victims. Bribes paid by criminals themselves would not be reported.

33. Although the level of bribery during police investigations is reported to be small, payments to the traffic police were reported to be much more frequent. Fifteen percent of the respondents who had official contact with the traffic police reported paying a bribe.

Customs

34. A key attraction of membership in the European Union is the open access to markets. The well known gains from trade depend, however, on the efficiency and transparency of border crossings. In virtually every country, customs is perceived and reported to be a sector (relatively) susceptible to corruption. The large amounts of money involved, combined with the level of administrative discretion inherent in the work of customs officers make anticorruption in customs administration particularly challenging.

35. In Romania, the perception that corruption is widespread in customs was reported by all three sample groups. (Figure 3.) Enterprise managers further reported that they frequently encountered bribery in their dealings with customs: 27 percent of firms that had official dealings with customs reported that they had encountered bribery. (Figure 6.) Although these perceptions and experiences highlight the challenge of reducing corruption in customs, positive progress is possible as described in Box 3.

State procurement

36. The procurement of goods and services by the state requires special care to avoid corruption. In Romania, 47 percent of firms that had participated in state tenders in the previous 12 months reported that an important not to participate in tenders was that participants had to make unofficial payments. Sixty-seven percent said that unfair competition was an important reason not to participate in tenders.

Box 3. Reducing Corruption in Customs

The project on Trade and Transport Facilitation in Southeast Europe (TTFSE) has as its key objective reducing non-tariff costs of transport and reducing corruption at borders. The project combines modernization of customs administration with institutional reform and aims to bring transparency to border crossing procedures. Key aspects of the project are the focus on performance monitoring through user surveys and the use of an inclusive approach, involving customs and other border agencies and key stakeholders, as well as firms and business associations in consultations.

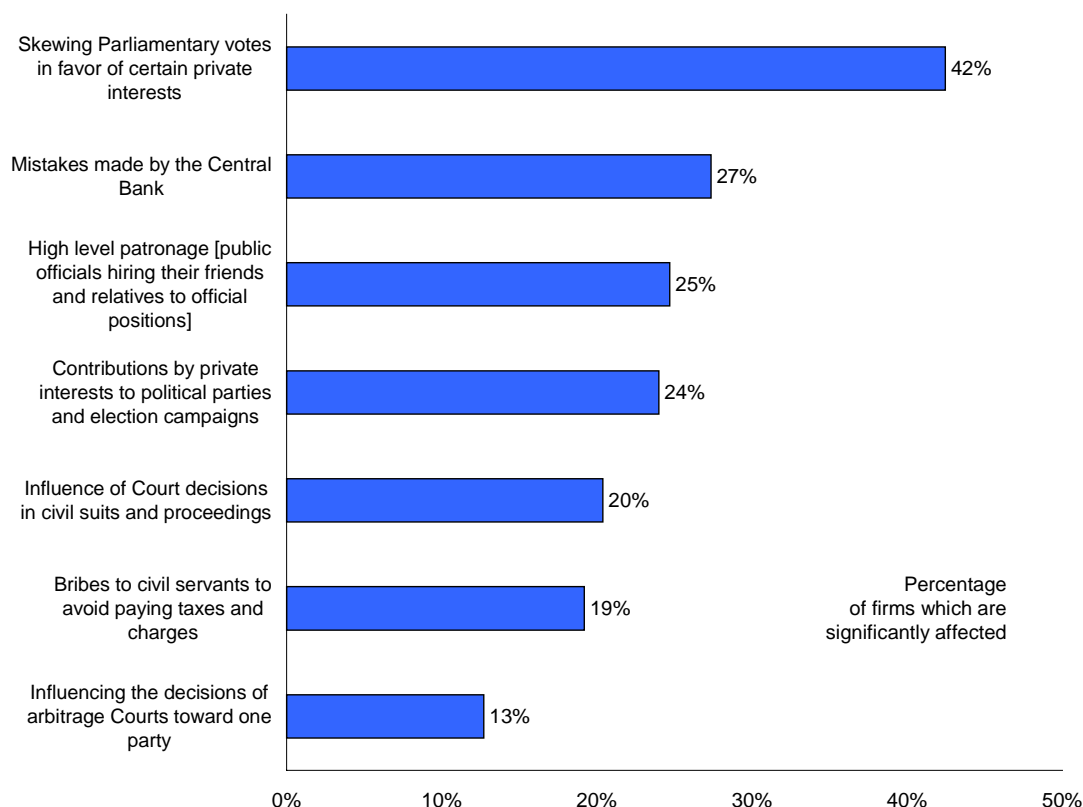
Source: World Bank, 2000, press release “World Bank supports more efficient trade flows in Southeast Europe.” The TTFSE is a collaborative effort of the Governments, the World Bank, the European Union, and the United States.

Corruption in the Formation of Laws and Regulations—State Capture

37. Most of the previous discussion has centered on bribery. However, there are many other forms of corruption, and some of these other forms may be as or more pernicious. Figure 11 shows the percentage of enterprises that reported being affected by various forms of corruption and poor governance.²¹ The corrupt influence over parliamentary votes on laws to support private interests was identified by the largest proportion of respondents, with more than 4 in 10 reporting being affected by the practice. Several other forms of corruption affect as many or more firms than simple bribery. Indeed, while the effects of bribery may resonate most strongly with firms that are engaged in bribery, capture of the state by private economic interests may alter the very environment in which all firms—even the completely honest ones—must operate.

38. While the outright payment of a bribe to a politician is recognized around the world as illegal and improper, exchanges of money for government decisions often work implicitly through donations to political parties. The individual politician may not necessarily profit directly, but the incentive to remain in the favor of political donors is undeniable and questions about the difference between donations and bribes are inevitable. Yet, influencing politicians through party and campaign contributions exists in free societies throughout the world and is a normal element of the democratic process. A system should at a minimum make the links transparent and rigorously control the worst abuses and conflicts of interest that may arise.

Figure 11. Types of Corruption, State Capture, and Poor Governance Affecting Business



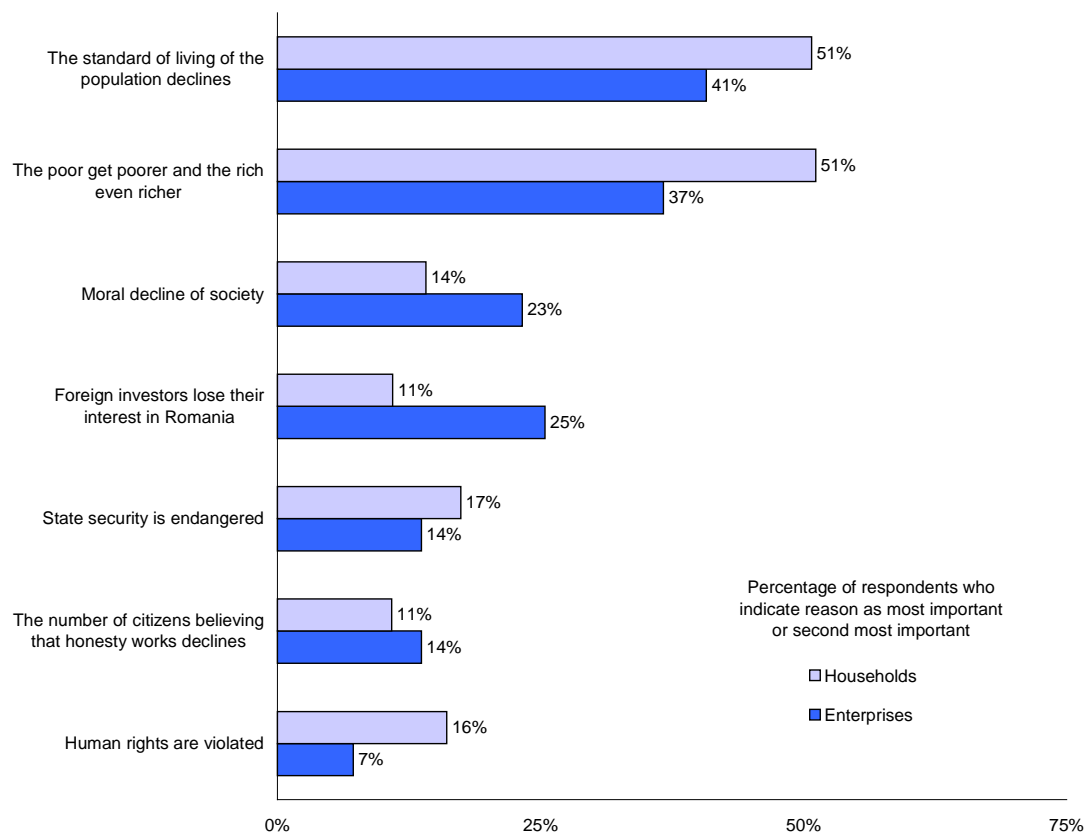
39. Nearly one in four enterprises reported being significantly affected by corruption in party financing. Of those that do not make party contributions, 30 percent had made unofficial payments (of any sort) in the previous three years, while among those that had made party contributions, 64 percent had also made unofficial payments. Moreover, the use of political contributions as a means of influence is especially popular among firms that report actively capturing the state. Among firms that do not make contributions to political parties, 26 percent reported that firms like theirs make unofficial payments to public officials to influence the content of new laws and regulations, while among those that do make political party contributions 42 percent reported that firms like theirs engage in state capture.

4. Consequences of Corruption

Common opinions about the consequences of corruption

40. An understanding of the consequences of corruption is useful for building consensus on the need for change. In the opinion of those surveyed, particularly households but enterprise managers as well, corruption exacerbate poverty, either directly (through a decline in the standard of living) or indirectly (through worsening income inequality). (Figure 12.) Enterprises also emphasized economic consequences such as lower foreign investment and slower development of the private sector.

**Figure 12. Opinions on the Consequences of Corruption
(top seven reasons)**

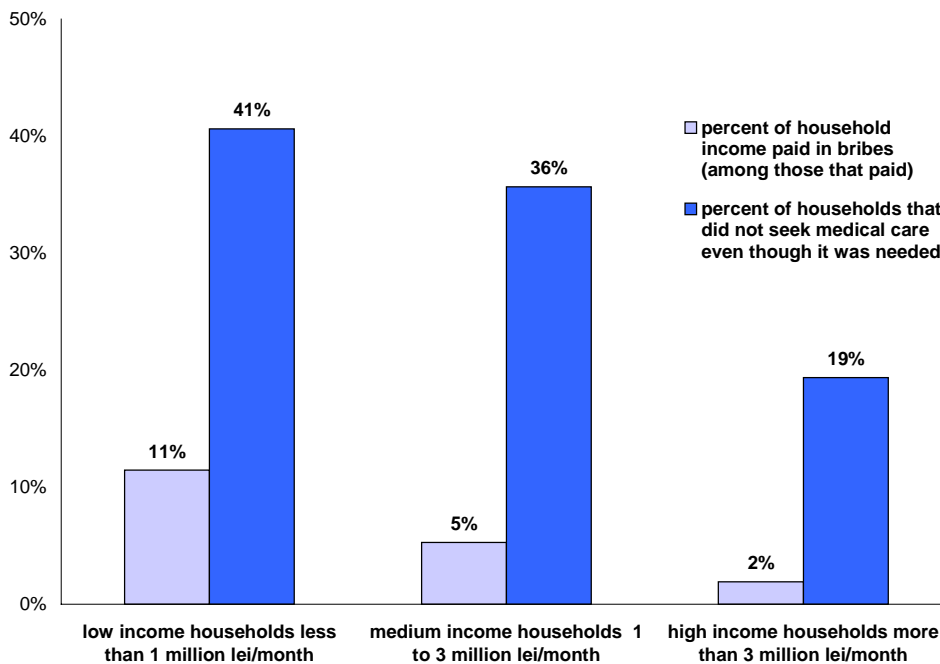


Poverty and Inequality

41. Enterprises and household alike recognize that corruption is harmful for the standard of living and the distribution of income. (Figure 12.) These perceptions are supported by a growing body of cross-country research.²² There are several mechanisms through which corruption exacerbates poverty and inequality. Capture, by its nature, affords selective benefits to the few at the expense of the rest of society and can only feed inequality. Corruption has also been shown empirically to reduce investment and growth. Since sustained growth generally provides rising incomes for the poor, the retardation of growth due to corruption limits opportunities for countries to grow out of poverty. It has been argued that the rent-seeking associated with corruption leads to distortions in budget allocations, for example away from pro-poor investments such as primary education and in favor of large-scale, and arguably more corruptible, public works projects.²³ Corruption has also been linked to the unofficial economy²⁴ and both directly and indirectly results in lower tax revenues which the state might otherwise use for stimulating economic development or direct poverty reduction measures. (The fiscal cost of corruption will be discussed in the next section.)

42. Beyond the macroeconomic effects that work through reduced growth and investment and the government budget, there are microeconomic mechanisms that also explain how corruption has a disproportionate impact on the poor. The burden of informal payments is regressive, with poorer households paying a larger portion of their income in the form of bribes (see the left bar of Figure 13).²⁵ The regressive nature of bribes is not surprising since many bribes behave as a flat “fee” that costs households of all income levels the same. While Figure 13 is based on the relatively few households which actually reported the level of bribes they paid during the previous year, these results are consistent with findings in other countries. In Romania, poor households pay twice as much as medium-income households,

Figure 13. The Regressive Impact of Bribe Payments



Note: The left bar includes only those households which reported paying bribes and reported the amounts of those bribes and overall household income. Sample sizes were 19, 68, and 54 households. The right bar shows the percentage of households that did not seek medical care even though it was required. Sample sizes were 96, 143, and 62.

which in turn pay twice as much (in percentage terms) as the rich households.

43. The incidence of bribery is but one of the ways that corruption hurts the poor. Studies in other countries suggest that the more damaging effect may be that poor households do not even seek public services because of their inability to make unofficial payments. The Romanian data for health care provides a clear example. The household survey asks respondents that had not been to a health facility in the previous 12 months whether they had been sick to the point of needing medical attention, but did not see a physician. (See the right bar of Figure 13.) Poor households were more than twice as likely to say they had not sought medical attention even though it was needed.²⁶ While the questionnaires did not inquire as to the reasons for the lack of treatment, responses to other questions suggest a clear link to the perception of corruption. Those that perceive corruption to be widespread in health care were significantly more likely to avoid medical attention even though it was needed. The cost that corruption poses by effectively restricting access to health care would not be captured by statistics on the frequency of unofficial payments. Yet such a cost is probably more damaging for the poor and for the social equity that comprehensive health care systems seek to provide.

Box 4. Poverty in Transition

World Bank poverty assessments in Europe and Central Asia are full of references to state corruption, government failure, and the poor's sense of abandonment by their leaders. Poor individuals have little reason to believe that the state represents their interests, and they feel hopeless, voiceless, and powerless, feeding their alienation and disengagement from civil society and political life. "The state steals from us all the time," complained a person in the Ukraine, "so deceiving the state is not a sin" (Narayan 2000, 92). "They have been plundering everything and eating so much that they cannot carry their own stomachs," a Latvian reported (Narayan 2000, 82).

The poor often blame the government for their impoverishment and report widespread corruption and helplessness. In Georgia, poor farmers equate privatization with theft and complain that the best land is distributed to those who work for the police, courts, school directors, and business people. In Moldova poor people equate independence, democracy, and the transition to market with lack of social justice. Workers on collective farms report being cheated out of their share of grains and denied access to equipment by those in control.

Sources: World Bank, 2000, *Making Transition Work for Everyone—Poverty and Inequality in Europe and Central Asia*, Washington, DC; and Deepa Narayan and others, 2000, *Can Anyone Hear Us? Voices of the Poor*, New York: Oxford University Press.

The impact on enterprises

44. The survey of enterprises provides some useful illustrations of the negative effect that corruption exerts on firms. Firms that are expecting to invest in the future, in particular firms with foreign investment, report being more affected by state capture. By contrast, firms that actively engage in state capture are less likely to be planning to invest. This is not surprising since capture subverts the market mechanism and skews policy in favor of laggards to the detriment of sound business development.

45. Yet firms are impacted by corruption in many ways. They are impacted directly when they are required to make unofficial payments for government services, and indirectly when the business environment becomes clouded by the non-transparency associated with corruption and state capture. Gauging the net cost to firms, therefore, requires looking beyond the simple payment of bribes.

46. Enterprise managers were asked whether they would be willing to pay if corruption, crime and excessive regulations could be eliminated. This question provides a rough gauge by which to measure the costs that each of these phenomena impose on firms. Many enterprises

expressed a willingness to pay in order to reduce the burdens imposed on them: 50 percent of enterprises were willing to pay for the elimination of corruption; 46 for the elimination of crime and 46 for the elimination of excessive regulations. The amounts that enterprises were willing to pay were often striking, and followed a similar pattern. Among the firms willing to pay, firms reported an average willingness to pay 5.0 percent of their revenues for the elimination of corruption, 4.1 percent for the elimination of crime, and 3.8 percent for the elimination of excessive regulations. These figures clearly demonstrate that corruption imposes a significant net cost on firms.

47. Cross-country studies show that state capture, with its nefarious ability to pervert the way that society is governed, is associated with ills such as weak macroeconomic governance that affect all firms.²⁷ Indeed, the enterprise survey provides strong evidence that many of the most important obstacles that firms face (Figure 8) are closely associated with specific forms of state capture. Firms that reported being affected by central bank mishandling of funds were likely to report shortage of credit and currency depreciation as important obstacles. Firms that reported being affected by Parliamentary capture were most likely to say that instability of laws, rules, and regulations posed problems. Firms that reported being affected by capture involving court decisions were the most likely to report slow courts and low executability of justice to be obstacles for business development.²⁸

48. The costs that corruption imposes on firms have cascading effects on the rest of society, as well. Corruption in customs, for example, erodes the gains from trade. The implicit and non-transparent tax on trade affects not just firms, but households as well in the forms of higher prices or even, perhaps, substandard quality goods and services or even the trade of illegal goods. The cost to society is certainly much higher than just the unofficial payments made by the firms.

The fiscal cost to the state

49. Budget revenues suffer from corruption both directly and indirectly. Direct effects include the payments to tax inspectors and customs officers in lieu of taxes—27 and 13 percent of firms that had interacted with customs and financial inspections reported encountering bribery—the payments to other inspectors and regulators in lieu of fines, and overpriced goods and services procured by the state.

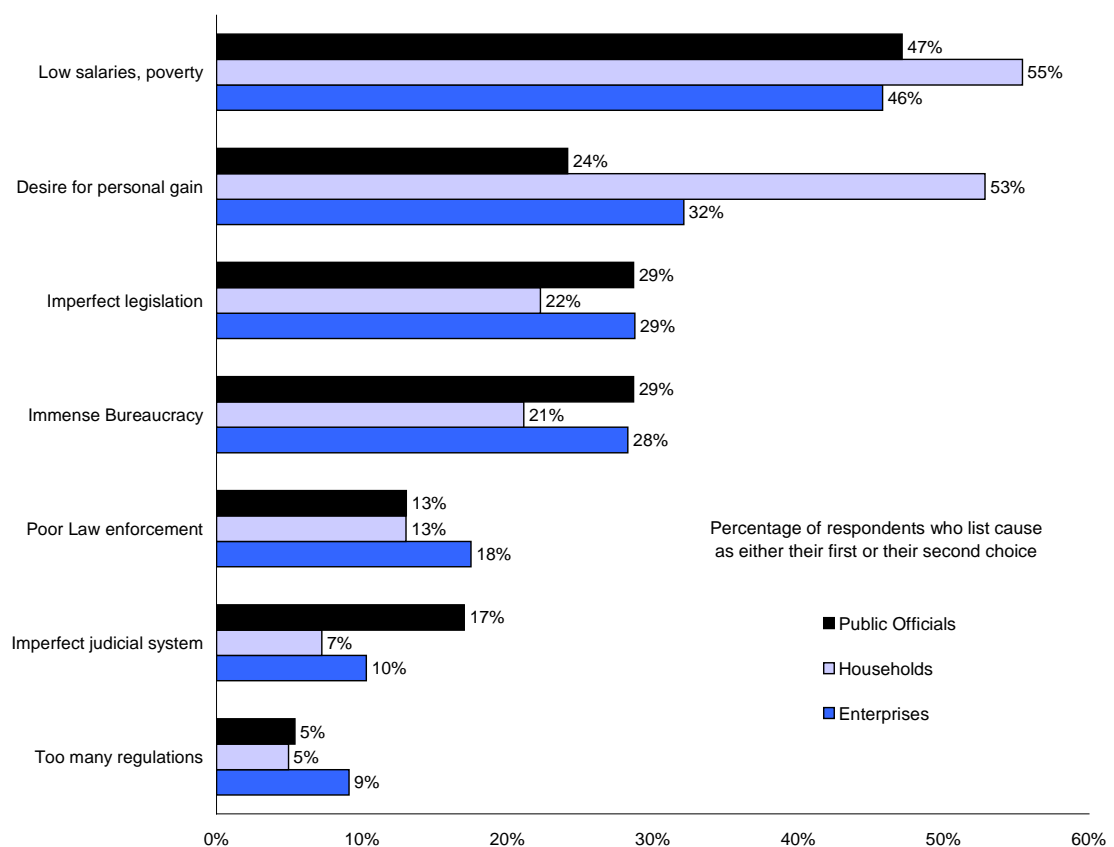
50. The willingness of enterprises to pay for the elimination of corruption provides an indication of the indirect impact that corruption has on the state's fiscal position. Corruption serves as an implicit tax on firms. The significant sums—5 percent of firm revenues—that firms are willing to pay to eliminate corruption could flow into the state's coffers, if only the burden imposed by corruption could be eliminated. In the state's hand these resources could be used to fight poverty, crime, and other social ills.

5. Causes of Corruption

Common opinions about the causes of corruption

51. The surveys of enterprises, households, and public officials provide useful information on the causes of corruption. Responses highlight the opinions of all three sample groups and the public officials' survey facilitates an analysis of the institutional weaknesses that are making corruption more likely. (Figure 14.) While the previous section (see Figure 12) showed that many perceive declining living standards to be an important consequence of corruption, the surveys also demonstrate that the causality is circular: opinions about causes of corruption

Figure 14. Popular Opinions on the Causes of Corruption (top seven reasons)



highlight the perceived link between corruption and poverty (see Figure 14). Low salaries and the desire for personal gain are also viewed as factors by many respondents. All sample groups, particularly enterprises and officials, recognize the importance of institutional factors such as bureaucracy or poor law enforcement. At the same time, households are more likely to attribute corruption to personal characteristics of those involved (desire for personal gain).

Regulatory and Bureaucratic Influences

52. Enterprises and public officials were likely to cite “imperfect legislation” and “immense bureaucracy” as important causes of corruption.²⁹ (Figure 14.) The cost to firms is also clear from the survey responses. Excessive and unstable regulations³⁰ tend to be among the factors

which most negatively affect firm performance, the third most important factor after inflation and currency devaluation (see Figure 8).

53. The administrative burden faced by firms is formidable. More than half of enterprise managers said they spend at least 10 percent of their time dealing with state bureaucracy. The vast majority of firms, 84 percent, said bureaucratic delays are important obstacles to their development.

54. A climate of excessive regulation leaves place for corruption among the public officials called to implement and verify the regulations. Not surprisingly, firms report that interactions with financial regulators (the financial guard) and with non-financial regulators and inspectors result in bribery experiences (see Figure 6). Fifty percent of all firms would be willing to pay some percentage of their revenues to eliminate corruption, and 46% would be willing to pay to eliminate some of the regulatory burden.

Box 5. The Burden of Regulations, Licenses, and Inspections

A 1999 survey of firms by the IRIS Center confirmed the seriousness of the regulatory burden faced by Romanian firms. They report that a ‘typical’ firm in Romania was required to obtain between 23 and 29 different approvals, authorizations, licenses, permits, from a range of state bodies. Such approvals cost the typical firm between 10 and 60 million Lei, and completing the paperwork required 49 to 102 days. Inspections also posed a significant burden. Firms spent 14 to 38 days preparing documentation for inspections, and had to wait two to three weeks for official certifications after the inspections were completed.

Source: IRIS, *Red Tape Analysis—Regulation and Bureaucracy in Romania*, May 2000.

55. The links between regulation and both state capture and administrative corruption are also clear. Firms that spend more time in bureaucracy are more likely to engage in state capture and much more likely to be affected by capture. Such firms are also more likely to have bribed a public official in the previous three years.

Institutional and Public Administration Influences

56. Studies in other countries suggest that several broad sets of institutional qualities are associated with better governance and lower levels of corruption. The data from the public officials survey in Romania makes it possible to examine the relationship between various aspects of public administration and the levels of corruption reported by the same public officials. Since many institutional features are centrally determined, one might expect that there would be little variation across public sector bodies. However, the questions on the public official’s survey focused not just on the existence and quality of the official rules, but on the actual implementation of those rules, as well.

57. Underlying the discussion in this section are a series of organization- and respondent-level analyses that relate corruption to indices of the various aspects of public administration. Corruption has been defined both in terms of self-assessments and the external assessments provided by other public officials. Annex 2 provides a detailed discussion of the methodology underlying this section, including definitions of all of the variables that appear in the charts in this section.

Impact of salary levels

58. When a public official finds himself faced with the decision of whether to maintain a high level of integrity or enrich himself through corruption, one factor on which that decision will be based is the level of the official salary. For this reason, it is often argued, countries in which public officials are paid poorly are more prone to corruption—employees have little

choice, so the argument goes, but to enhance their official earnings through the collection of unofficial payments.

59. Whatever the merits of such an argument for describing the reasons for corruption in the country as a whole, there are good reasons to argue that salary levels *per se* can only be one part of the story. First, while low salaries may indeed push someone toward receiving unofficial payments that he or she would otherwise decline, salaries cannot explain large-scale corruption involving enormous sums of money. Second, there is wide variation in the levels of corruption across state bodies despite the fact that salary scales may not vary greatly between them.

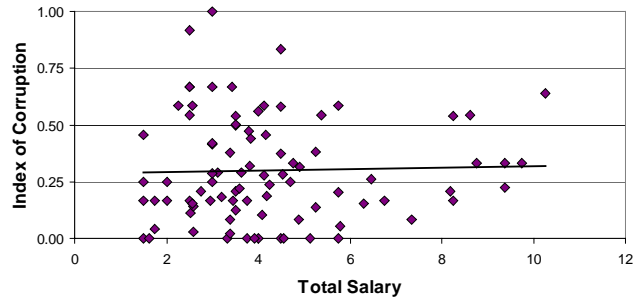
60. The public official’s survey does not support the contention that the level of salaries is a leading contributor to corruption. At the level of the individual respondent and at the level of the state institution there is no statistical relationship between the level of corruption and the average level of salaries. (Figure 15 depicts the simple relationship between organization-level assessments of corruption and average salaries at those organizations.) Indeed, when comparing the external assessments of the levels of corruption in broadly defined state sectors to the average salaries in those sector, the exact opposite relationship is found—sectors with higher average wages tends to have higher levels of (externally assessed) corruption.³¹ This result does not mean that increasing salaries would have no impact—rather it makes clear that increasing salaries alone, in the absense of more systemic reforms, will do little to reduce corruption.

Impact of extra-salary premia

61. An oft-cited difference between the public and private sectors is that the private sector, with competitive market pressures and the profit motive, is better equipped to reward superior performance on the part of its employees. Public sectors, by contrast, are constrained by legislated mandates and centrally determined compensation systems. Following this logic, efforts to improve public sector performance frequently include measures aimed at rewarding high-performing employees through the use of bonuses.³²

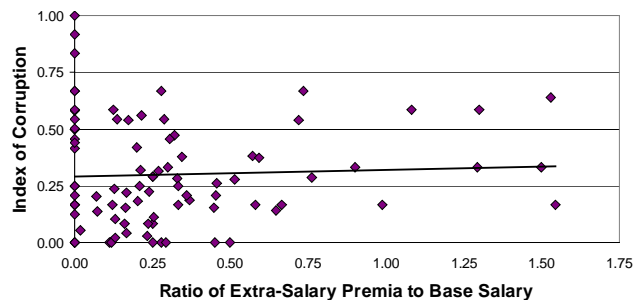
62. To the extent that better public sector performance could be expected to be associated with lower levels of corruption, one might surmise that the use of bonuses and other extra-salary premia would be associated with lower levels of corruption. The public official’s survey does not support this view. At the level of the individual respondent, and at the level of the state institution there is no statistical relationship between the level of corruption and the degree to which non-salary

Figure 15.
Corruption and Salary Level



Each point represents the mean response for a single body. See Annex 2 for details.

Figure 16.
Corruption and the Use of Premia



Each point represents the mean response for a single body. See Annex 2 for details.

premia are used in compensation. (Figure 16 depicts the simple relationship between organization-level assessments of corruption and the degree of reliance on non-salary premia at those organizations.) Again we find that when comparing the external assessments of the levels of corruption in broadly defined state sectors to the degree of reliance on non-salary premia, sectors which make greater use of such premia tend to have higher levels of (externally assessed) corruption. A regime of performance awards may indeed provide good incentives that enhance productivity, but only if implemented in a consistent and transparent manner.

Impact of personnel policies

63. The scope of personnel policies includes much more than just degree and manner of compensation. A positive framework for hiring and firing, promotions and transfers of public sector employees may also provide managers with the tools they need to reward good performance and limit corrupt behavior. On the other hand, if the institutions for personnel decisions are opaque or poorly implemented, they may lead to more corruption, not less.

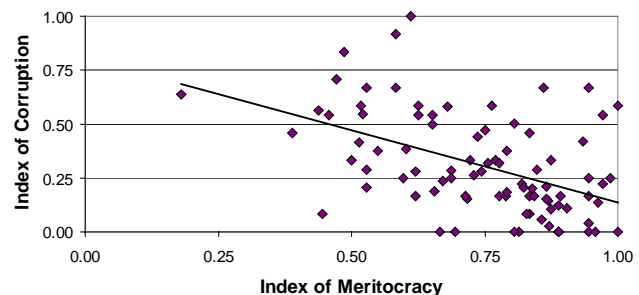
64. When asked the main causes of corruption in their own institutions, the public officials that responded to the survey clearly indicated the importance of recruiting and retaining honest employees. The most oft-cited reason for corruption as the respondent's institution was "personal qualities of the employees," cited by 27 percent of respondent, more even than replied "salaries are too low or are not paid on time," which was selected by 17 percent of respondents.

65. Many public officials described personnel policies at their institution in positive terms, and few respondents assigned the lowest scores to the dimensions of personnel policies. For example, two thirds of respondents said that personnel policies are based on specific written policies "often or always," while only 9 percent said "never or rarely." Yet the data also show reason for concern. Only about half of the respondents expressed confidence that personnel decisions were never based on unofficial payments, and more than a third believe that such decisions are at least sometimes based on political, personal or other "connections." Of the many dimensions of personnel policy, the clarity with which personnel decisions are explained in the institution is the measure that is most closely associated with low levels of corruption.³³

66. The public officials survey strongly supports the idea that transparent and meritocratic personnel policies are not merely elements of good public administration reforms but should also be considered important elements of an anticorruption strategy. Of all the aspects of public administration examined for this report, the meritocratic qualities of public administration are the most consistent for explaining the levels of corruption from the perspective of the individual public official, as well as at the level of the institution and broadly defined state sector. (See Annex 2 for details.) Figure 17 shows the relationship between corruption and the degree of meritocracy in personnel decisions across institutions. It should be stressed that the relationship focuses on the actual implementation of personnel decisions as perceived by the officials themselves, rather than the formal rules that exist on paper. These findings are consistent with cross-country studies that show that the degree to

Figure 17.

Corruption and Meritocracy



Each point represents the mean response for a single body. See Annex 2 for details.

which civil service decisions are based on merit is an important determinant of the level of corruption.³⁴

Impact of organization mission and strategy

67. Organizations in both the private and public sectors perform best when the mission and objectives of the organization are widely known and internalized. Romanian public officials professed modest support for the depth of identification with mission. Most generally agreed that the public officials where they work understand and identify with the institution's objectives and strategy and that the general public are their clients. However, few felt strongly so, and most public officials reported that incentives for delivering quality services are not present.

68. Similar to the other dimensions of public administration, identification with the organizational mission and strategy is an important determinant of corruption from the perspective of the individual respondent and at the level of the institution. It is particularly important that identification with the mission be widespread and that the general public be widely viewed as the client. (See Annex 2 for details.) Figure 18 shows the relationship between corruption and the degree of identification with organizational mission and strategies across state bodies.³⁵

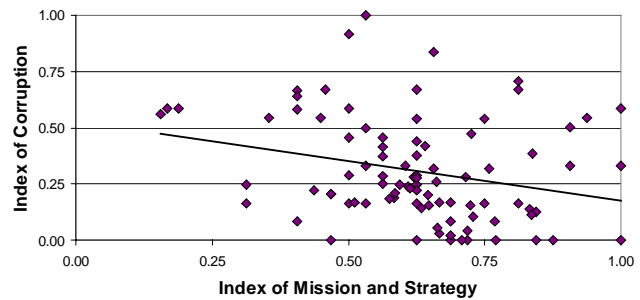
Information flows

69. The free flow of information within organizations is essential for efficient operation. A strong majority of public officials reported that they know the correct steps to take to solve the problems they face in their duties. However, fewer believe they have sufficient information to do their jobs well, and many report that managers usually do not take into account the opinions of subordinates when making decisions.

70. The quality of information flows is a strong predictor of the level of corruption within an institution. This is true from the perspective of the individual respondent at the level of the institution. The aspects of information flow that were most strongly correlated with the level of corruption in an institution were the flows of information between managers and employees. In particular, bodies in which “those affected by decisions are informed first” and those in which “managers take into account the opinions of subordinates” tend to have lower levels of (self-assessed) corruption. (See Annex 2 for details.)

Figure 18.

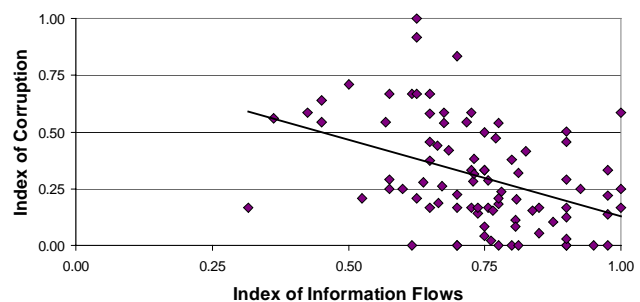
Corruption and Mission



Each point represents the mean response for a single body. See Annex 2 for details.

Figure 19.

Corruption and Information Flows



Each point represents the mean response for a single body. See Annex 2 for details.

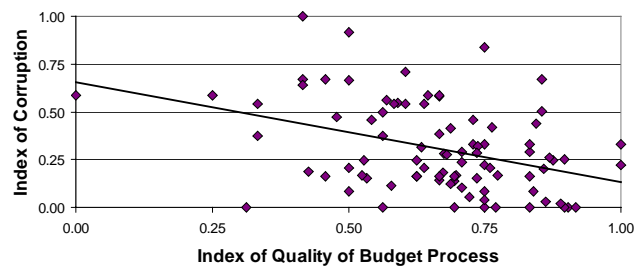
Figure 19 shows the relationship between corruption and the quality of information flows within the organization.³⁶

Budget preparation

71. Organizations with stable budgets, generated by transparent processes, are usually assumed to be better equipped to provide quality services, with the transparency in process evident in interactions with the public, as well. Responses to the public officials survey in Romania provide modest support for this position. At both the level of the individual respondent and the institution, bodies with more open transparent budget preparation processes were also the ones with lower levels of corruption. The aspects of budget preparation most closely associated with corruption are the degree of specificity of written principles of budget management, the transparency of the process, and the regularity with which budget management decisions are audited. Figure 20 shows the relationship between the self-assessed levels of corruption and an index of the quality of procedures for budget management. Bodies with the most developed budget management procedures were also those with the lowest levels of corruption.³⁷

Figure 20.

Corruption and Quality of Budget Process



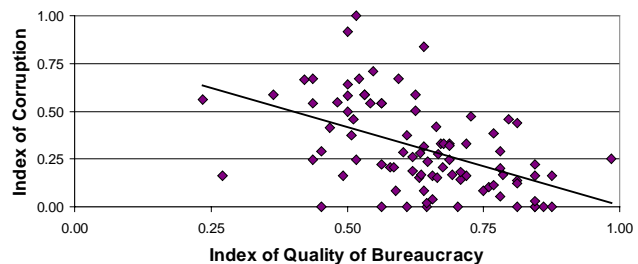
Each point represents the mean response for a single body. See Annex 2 for details.

Quality of rules and procedures for public administration

72. The quality of the rules of internal organization are strong predictors of the level of corruption in an organization. Bodies in which internal rules and procedures are simple and clear, well monitored and do not excessively add to bureaucracy are those with the lowest level of corruption, both from the perspective of the individual respondent and when comparing the institutions themselves, as is shown visually in Figure 21.³⁸ (See Annex 2 for details.)

Figure 21.

Corruption and Quality of Bureaucracy



Each point represents the mean response for a single body. See Annex 2 for details.

Strong enforcement

73. Of all of the approaches to anticorruption that tend to be discussed by reforming governments, the one mentioned most often is the strong enforcement of anticorruption statutes through investigations and prosecutions. Indeed, for many leaders the term “anticorruption” is synonymous with strong enforcement. The population in Romania is clearly sympathetic to this view. In an open-ended question on the respondents’ top priorities for fighting corruption, many indicated strong enforcement as the top priority, often resorting

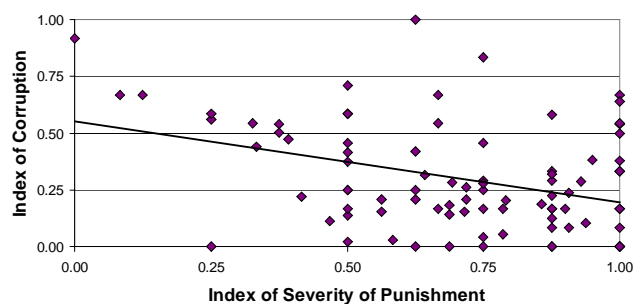
to colorful (violent) descriptions of how they would like the corrupt to be dealt with. These responses make evident the depth of frustration that many Romanians feel toward the problem of corruption.³⁹

74. Most public officials also described strong levels of enforcement within the institutions where they work. When asked the probable sanction for an official caught accepting a bribe at the respondent's institution, 35 percent said he would be referred to the prosecutor, and another 26 percent said the guilty party would be fired – 10 percent predicted that someone caught accepting a bribe would likely not be punished at all.⁴⁰

75. As a whole, the strength of enforcement does help explain the level of corruption at an institution. Public officials who describe enforcement as strongest in their institutions also reported lower levels of corruption. The simple relationship between corruption and enforcement across institutions is plotted in Figure 22. (See Annex 2 for details.)

Figure 22.

Corruption and Enforcement



Each point represents the mean response for a single body. See Annex 2 for details.

6. Reducing Corruption

76. The challenge of reducing corruption and state capture is formidable. Any society faced with such a challenge must implement reforms in defiance of powerful vested interests. Indeed, though reducing corruption has risen in prominence in the stated objectives of governments throughout the former communist world, successes seem far overshadowed by the sense of frustration voiced by citizens and public officials alike. The complexity of the problem and the difficulty overcoming those that benefit from the *status quo* make the problem seem insurmountable.

77. Yet sustainable programs have taken root in several transition countries, largely because the programs unbundle the complex into its constituent parts. A recent World Bank report, described in Boxes 1 and 6, provides practical guidance for approaches that decrease state capture and administration corruption, including the priorities for countries with various typologies of corruption. Many of the prescriptive anticorruption reforms described in this section draw on the regional-based lessons of *Anticorruption in Transition*.

Box 6. Confronting the Challenge State Capture and Administrative Corruption

In countries where state institutions with weak administrative capacity coexist with a high concentration of vested interests and a state highly susceptible to capture, the challenge of combating corruption is particularly difficult. Powerful private interests have the capacity to block institutional reforms that would limit their capacity to extract rents from the state and eliminate market distortions that work to their advantage. Governments in such countries often lack sufficient mechanisms of control and accountability needed to implement institutional and policy reforms. Nascent civil societies and intermediary associations do not have sufficient power to counterbalance the weight of concentrated vested interests. This is the most difficult environment in which to design an effective anticorruption program.

Targeting state capture requires measures on two fronts: decreasing the gains to firms that engage in state capture and increasing the costs to politicians of state capture. Decreasing the gains to captors entails deconcentrating vested economic interests through competitive restructuring of monopolies, reducing barriers to entry, and increasing transparency in corporate governance. Increasing the costs to politicians requires efforts to foster collective action among potential countervailing interests, such as “second-tier” companies and small- and medium-sized enterprises, to obtain political access. This could entail the development of business and trade associations and formal (well-regulated) lobby groups to increase the range of interests with access to government, to foster competition in an effort to reduce the concentration of existing rent streams, and to strengthen formal and transparent channels of political influence. The goal is to promote a greater number and diversity of economic actors competing through more transparent and open conduits of political access for a limited pool of rents.

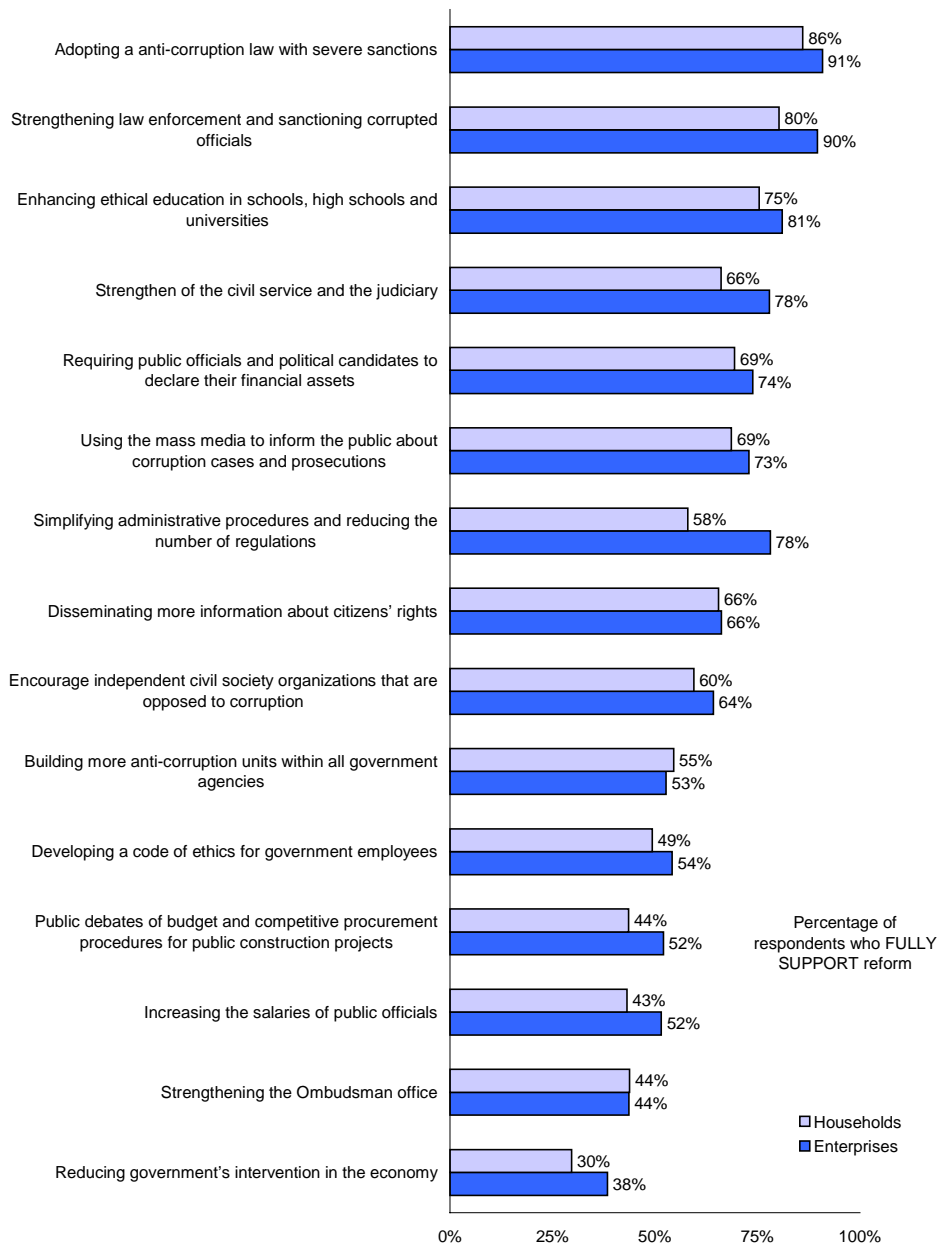
Finally, it is essential to build credible constituencies in and outside the government to bring the very issue of corruption to the forefront. Without such constituencies, serious institutional reforms to enhance accountability and to strengthen civil society participation are unlikely to have a sustainable impact.

Abstracted from: World Bank. 2000. *Anticorruption in Transition: A Contribution to the Policy Debate*. World Bank, Washington, DC.

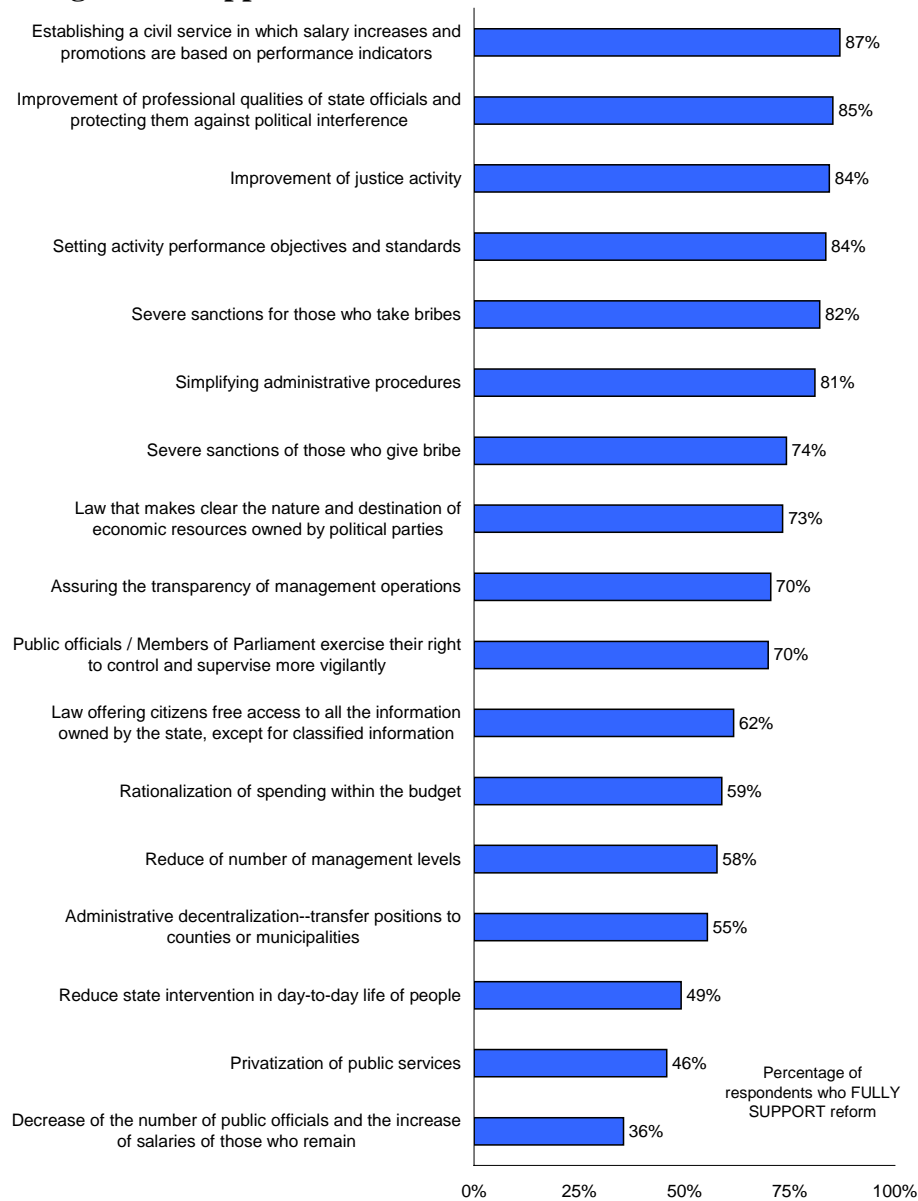
The climate for reforms

78. Design of an anticorruption strategy is facilitated when there is a good understanding of the levels of resistance that will likely be encountered. Respondents on all three surveys were asked about their levels of support for various reforms. The responses for households and enterprises are provided in Figure 23, and those of public officials are in Figure 24. The clearest finding is that there is a high level of support among all three sample groups for many types of reform. Enterprises and households tend to favor strong enforcement of anticorruption laws, but also express support for enhancing ethics education in schools, building transparency, and strengthening the efficiency of public administration. Public officials also favor strengthening public administration, in terms of both professional qualities

Figure 23. Support for Reforms—Households’ and Enterprises’ View



and administrative procedures. The most striking feature of Figure 24, however, is the overwhelming level of support that public officials expressed for many sorts of reforms.

Figure 24. Support for Reforms—The Public Official’s View

Transparency and accountability in political life

79. The separation of political and economic interests is a challenge facing governments everywhere. When the two are woven together through unseen channels the gains from state capture may be irresistible. Building transparency and accountability into political life helps reduce the potential gains for captor firms and politicians alike.

80. Clear prohibitions on **conflict of interest**, for both political and civil service positions, are essential. While most countries’ laws prohibit conflicts of interest, enforcement is difficult. When the **income and assets** of high ranking politicians are **publicly disclosed**, however, the media and the general public may act as allies in uncovering conflicts of interest and openly question politicians who cannot explain their wealth.⁴¹ Although such measures do not guarantee that politicians will not engage in corruption, they have a deterrent effect as they increase the probability that a corrupt politician will be caught.⁴²

81. The public officials survey shows that unofficial financing of political parties is associated with both state capture and bribery. Every country wrestles with the difficulty of ensuring the separation of political and economic interests while preserving the essential dialogue between business entities and the state. Although no political system can claim to have completely solved this difficult issue, the principle of transparency is certainly an essential first step. Demanding **transparency of the financing of political parties and campaigns** makes clear the links, both explicit and implicit, between politicians and the interests that support them. Mandating and publicizing detailed reports on the finances of all political organizations, identifying contributors and beneficiaries, provides the civil society, the media, and the general public with tools they can use to identify the sources of state capture.⁴³

82. Although transparency in party financing is considered a necessary first step toward disentangling political from economic interests, some countries are moving beyond transparency. **Banning the use of state resources** (funds, postal services, cars, etc.) for political purposes and building **public sector neutrality** help ensure that public officials serve society's interests rather than those of politicians or specific business interests. Other measures include limiting the amount that can be spent on political campaigns, providing public funding, and prohibiting certain types of entities from contributing to political campaigns.⁴⁴

Public administration imperatives

83. The public officials survey shows clearly the link between a strong open system of public administration and low levels of corruption. It is especially important to build upon the new Civil Service Law to ensure complete implementation and monitoring. The consequent improvements in **recruiting** and **merit-oriented promotions** will strengthen the ability of the public bodies to provide high-quality services. The clarity with which personnel decisions are explained in the institution was shown in the data to be closely associated with corruption. Widespread dissemination of and adherence to personnel procedures should be viewed as an anticorruption imperative, rather than just good public administration. Similarly, **insulation of the civil service from political changes** will help limit the scope of state capture.⁴⁵ Clearly delineating, and strictly adhering to, classifications of employment between career and political positions is essential for maintaining a professional, non-corrupt, public service. As is evident in Figure 24, public officials strongly support reforms which protect civil servants from political interference.

84. The public officials survey also provides a strong rationale for clarifying and widely disseminating the **rules and procedures of internal administration** generally. State bodies in which the rules and procedures are clear, well-monitored and do not excessively add to bureaucracy have the lowest levels of corruption. Although strong enforcement is usually associated with criminal sanctions in Romania, a transparent system of administrative sanctions with appropriate appeals and due process would provide a deterrent without necessarily resorting to the criminal justice system.

85. Although building meritocracy and strengthening the rules of internal administration received the strongest support from the analysis of the public officials data, other elements of public administration reform were also supported and should proceed apace. Strengthening systems of **budget management**, ensuring that civil servants have the **information** they need to do their jobs, and fostering a strong sense of **organizational mission** and **client orientation** can all be expected to stimulate the development of a professional, non-corrupt public sector.

86. The surveys show that many offers of gifts to public officials are viewed as traditional or merely expressions of gratitude. And while the Civil Service Law prohibits public officials

from accepting gifts⁴⁶, such a blanket prohibition will likely be resisted by those who believe it interferes with tradition. Clear guidelines for be what is and is not acceptable behavior by public officials, as often found in a civil service **code of ethics**, would help to clarify the situation for both civil servants and the general public.⁴⁷

Sound business environment

87. The enterprise survey shows that firms are hindered by a bureaucracy that imposes a significant implicit tax. Since every bureaucratic and regulatory intervention creates an opportunity for corruption, **reducing the regulatory burden** on firms should be viewed as a key element of an anticorruption strategy. Indeed, firms whose managers spend more time dealing with government bureaucracy are much more likely to pay bribes and more likely to engage in state capture, as well.

88. While reducing the number of regulations and inspections and building transparency into their implementation are key components of regulatory reform, the **process of developing and implementing new regulations** should also be addressed.⁴⁸ Clear rules defining when regulation is appropriate, sound analysis of a regulation's impact on firms and constant, mandated, dialogue with the business community will increasingly be required to make regulatory reform sustainable, and to ensure that regulations are not passed only to be immediately repealed because they are overly burdensome on firms that had not been earlier consulted.⁴⁹

Openness in society

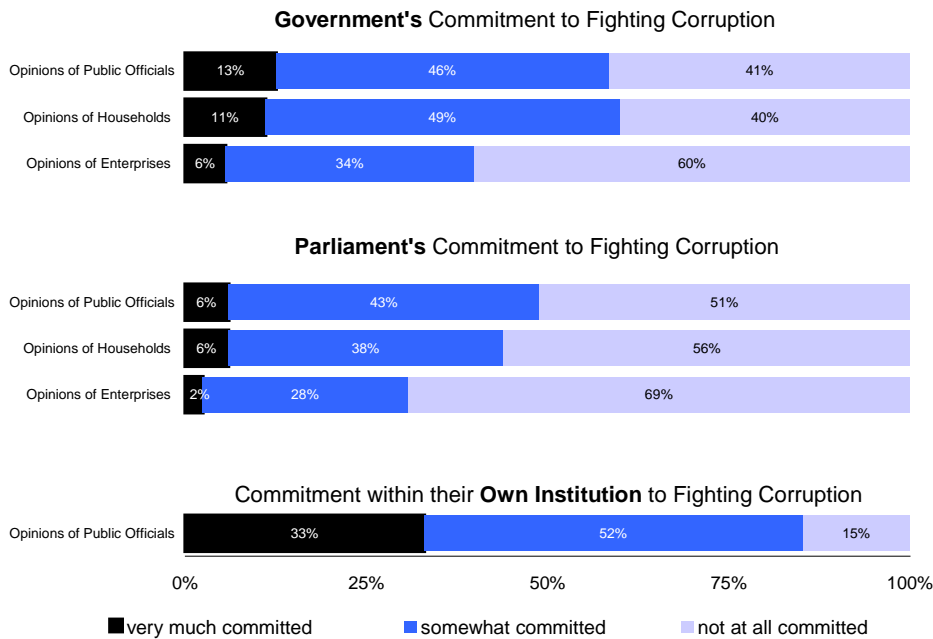
89. Transparency in government is synonymous with openness. Introducing transparency requires that government provide the public—civil society organizations, the media, or anyone else who is interested—sufficient information about their activities in order for the public to serve as an effective check on abuses by government and public officials. Many countries have enacted **freedom of information laws** that require governments to provide information to the public unless there is a valid reason (such as threat to national security) for the information to remain secret. Clear guidelines prescribing when information can remain secret, and sufficient investment in training civil servants are essential.⁵⁰

90. More generally, openness should not be limited to providing information. Civil society and the media could serve as effective allies of the state in reducing corruption and stimulating efficient government. A proactive approach that invites open **oversight by civil society and the media**, for example with respect to large privatizations or important tenders, will be the most effective at introducing true transparency and openness into government and reducing corruption. Openness in the very process of making the law also limits the scope for state capture and other forms of corruption. **Public hearings**, such as those that have been held regarding certain proposed tax legislation⁵¹, should be made the rule rather than the exception, and should be held for proposed regulations, as well.

The need to build credibility and show progress

91. The level of support for reforms is high. But the survey data also makes clear that the public will not believe in the seriousness of an anticorruption campaign until they see strong progress. Few officials expressed confidence that either the Government or the Parliament

Figure 25. Perceptions of the Commitment to Fight Corruption



was serious about fighting corruption (Figure 25). A **credible, rationally articulated anticorruption strategy**, followed by steady progress in implementation and monitoring, will help to restore public trust in the anticorruption campaign. Follow up surveys on key services can help track progress.

A comprehensive and inclusive approach

92. This report has sought to provide information for the design of an anticorruption strategy. However, this report is just one of many inputs into the information base for the design of that strategy. Analyses and investigations by state institutions, civil society, academics and others also have key roles to play.

93. The results presented in this report highlight that reducing corruption is not just a matter of strong enforcement, but also hinges directly on the incentives facing public officials, enterprises, and households. Many reforms that are important in their own right—regulatory reform, civil service development, health sector reforms, and openness in government to name a few—can also be viewed as elements of an anticorruption agenda.

94. Although the process of elaborating and implementing an anticorruption strategy depends on the politics and priorities of a particular country—there is no single recipe for success—sustained efforts generally have two features in common. First, the strategies recognize that reducing corruption involves not just strong enforcement, but improvements in public sector governance and societal change, as well. Several countries have adopted variants of a three pronged strategy focusing on **enforcement** of anticorruption statutes, **education** of the population about their rights when dealing with the public sector and the harm corruption causes, and **prevention** of corruption by improving public sector governance.

95. Secondly, sustainable anticorruption strategies endorse an inclusive approach. Since reducing corruption is more than just law enforcement, a comprehensive approach to the problem must involve input and decision making from a broad spectrum of governmental and non-governmental leaders. A **high-level steering committee**, supported by a **professional secretariat**, can help to bring together representatives of governmental bodies, both central and local, to develop the specific action plans that will implement the anticorruption strategy. By explicitly including **representatives from outside government**, the steering committees can further build credibility while mobilizing an important ally for reducing corruption. (In Slovakia, for example, the local representative of Transparency International and other local non-governmental organizations, are members of the Anticorruption Steering Committee.)

96. Although broad-based support and articulation of the principles of an anticorruption strategy that includes prevention, education, and enforcement are important first steps, implementation of the strategy may prove the most formidable challenge. Requiring **detailed action plans** for reducing corruption and improving quality from across the state sector, and monitoring their implementation, helps ensure that progress is made. When progress isn't made, external monitoring brings accountability—but only if the action plans are formal and public.

97. Although the challenge may seem daunting, many reforms suggested here have been implemented in the former Communist world: Latvia and Slovakia both established anticorruption programs focused on prevention, education and enforcement—Latvia's has sustained several changes in government and Slovakia's anticorruption steering committee includes representatives of Transparency International and other local non-governmental organizations; Poland's new civil service law is designed to eliminate politicization of appointments and build a professional civil service of integrity; Lithuania's system of income and assets declarations has been used to remove officials from office; Slovakia passed a freedom of information law that makes all information public unless otherwise dictated by law—an NGO has assisted with implementation of this law by preparing a brochure on the procedures used to file a request.

98. The climate for reform is favorable. There is broad-based support among all three of the groups surveyed for many types of reforms that may help reduce both state capture and administrative corruption, as well as strong sanctions for violators. With the need for action and the support of the populace clearly present, the key now is to capitalize on the growing momentum by developing and implementing a broad-based action plan—one that reflects the ideas of stakeholders both inside and outside of government and recognizes not only the enforcement aspects of anticorruption, but the preventive aspects as well. Only by squarely addressing the systemic institutional weaknesses that facilitate corruption can progress be made.

Annex 1. Sample Description and Methodology

Households

99. The sample size was 1,050. The sample of settlements includes a total of 74: 40 towns (including 6 administrative districts of Bucharest city) and 34 villages. They were selected according to a stratification matrix of regions and type of settlement. The sub-sample of 40 urban settlements was selected out of the CURS Master Sample of about 500 settlements and 60,000 households. The rural 34-settlement sample was randomly selected according to the same matrix out of the rural settlement list of 18 regions. Furthermore, 570 households were selected from the 40 urban settlements using the statistical interval based on the CURS Master Sample built from Voting Lists. This method was used instead of the Voting Lists because those were being updated for local elections during the survey period. Next, 480 households were selected from the 34 rural settlements using the Agriculture Register which covers all households in each village of the settlement. The method used for selection was the statistical interval computed as the ratio of the total number of households in the settlement and the planned number of households to be interviewed. For both urban and rural households, 30 percent extra-households were selected in order to correct for the non-response rate. Below is a summary of respondents' characteristics:

| Gender | | Education | |
|--------------------------|-------|-------------------------------|-------|
| Male | 54.2% | Elementary school | 31.2% |
| Female | 45.8% | Vocational school | 21.7% |
| | | High school | 35.2% |
| | | College | 11.7% |
| Age | | Region | |
| Under 20 | 0.8% | Moldova | 21.4% |
| 20-30 | 12.1% | Muntenia | 19.6% |
| 30-40 | 17.1% | Transilvania | 29.0% |
| 40-50 | 21.7% | Oltenia | 10.9% |
| 50-60 | 20.1% | Dobrogea | 4.3% |
| Over 60 | 28.2% | Banat | 4.7% |
| Nationality | | Bucuresti | 10.1% |
| Romanian | 92.2% | Occupation | |
| Hungarian | 6.5% | Unemployed, retired, student | 51.3% |
| Roma | 0.4% | Farmer | 7.0% |
| Other | 1.0% | Unqualified, qualified worker | 16.2% |
| Size of Community | | White collar, technician | 12.7% |
| City over 200,000 | 24.7% | Professional employee | 7.2% |
| City 100-200,000 | 9.5% | Company head, manager | 1.2% |
| City 30-100,000 | 11.3% | Private entrepreneur | 3.1% |
| City under 30,000 | 9.1% | Other | 1.1% |
| Village | 45.3% | | |

Enterprises

100. The sample size was 417. The selection of enterprises was done using the stratification matrix with three criteria: 4 regions – West, East, South and Bucharest, 3 types of enterprise: state, private and foreign and residence: urban, rural. Managers from 417 enterprises were

interviewed. Some mixed enterprises are present in the sample, besides state owned, private or foreign. They are the so-called cooperatives or shareholders companies where nobody owns a majority. The selection of private enterprises was accomplished using the County Trade Register for private companies and the direct experience of interviewers for the state and foreign companies. The interviewers used CURS methodological instructions for selecting the type of state enterprise in each settlement. The structure of the interviewed enterprises is given below:

| Ownership | | Sector | |
|------------------------------|-------|-------------------|-------|
| State | 30.2% | Agriculture | 5.3% |
| Private, domestic | 57.6% | Mining | 1.2% |
| Cooperative | 1.0% | Industry | 20.6% |
| Mixed, domestic | 1.0% | Construction | 5.5% |
| Mixed, foreign participation | 10.3% | Retail | 39.1% |
| | | Tourism, services | 13.9% |
| | | Other | 14.4% |
| Legal Form | | Employees | |
| State monopoly | 15.3% | 1 to 10 | 34.3% |
| Shareholding | 30.5% | 11 to 30 | 15.6% |
| Limited | 46.8% | 31 to 100 | 15.8% |
| Entrepreneur | 5.3% | 101 to 200 | 7.0% |
| Other | 2.2% | Over 200 | 27.3% |
| Region | | | |
| West | 30.2% | | |
| East | 14.6% | | |
| South | 21.3% | | |
| Bucharest | 33.8% | | |

Public Officials

101. The sample size was 353. The sample of public officials was drawn according to the matrix shown below: elected and appointed officials; type of institution and level of institution (local, county, national). Finally, 353 public officials were interviewed. CURS' staff and fieldwork coordinators who carried on the interviews had a letter approved by the Prime Minister for conducting this survey.

Table 3. Public Officials Sample

| Level | Central | County | Local |
|---------------------------|------------------------------------|---------------|--------------|
| Elected | 5.1% | 0.0% | 24.6% |
| Appointed | 21.2% | 28.9% | 20.1% |
| Agencies | Percent of Sample in Agency | | |
| Parliament | 4.5% | | |
| Presidency | 0.6% | | |
| Local & County Council | 12.5% | | |
| Mayor | 12.2% | | |
| Prime Minister's Office | 1.1% | | |
| Ministry of Public Office | 3.4% | | |
| Ministry of Interior | 4.2% | | |
| Ministry of Health | 3.4% | | |
| Ministry of Education | 3.4% | | |
| State Property Fund | 3.4% | | |
| Ministry of Justice | 4.5% | | |
| Ministry of Labor | 3.4% | | |
| Ministry of Industry | 3.4% | | |
| Ministry of Agriculture | 3.4% | | |
| Transportation Ministry | 3.4% | | |
| Ministry of Public Work | 2.8% | | |
| Commercial Banks | 3.4% | | |
| Ministry of Finance | 4.5% | | |
| Department of Customs | 3.7% | | |
| Post and Telecom | 3.4% | | |
| Ministry of Environment | 3.1% | | |
| Trade Register | 3.4% | | |
| Notaries / Lawyers | 2.5% | | |
| Labor Union | 2.8% | | |
| National Radio and TV | 3.4% | | |

Annex 2. Linking Corruption with the Quality of Public Administration

102. The purpose of this Annex is to outline the results of a detailed analysis of the relationship between corruption levels and practices of public administration at institutions in Romania. Section I defines the approach and the main variables used in the analysis. Section II presents the basic evidence on the relationships between corruption and dimensions of public administration, based entirely on self-assessments of both. Section III analyzes these relationships based on a cross-section of state institutions. Section IV presents a more robust respondent-level analysis, controlling for biases of individual respondents. Section V analyzes the cross section of state sectors, using external evaluations of corruption as a control for the possibility of institution-wide biases in perceptions. Section VI summarizes the main results.

I. Approach and Definitions

103. The approach used in this Annex is to describe the strength of the statistical relationships between the level of corruption at an institution, on the one hand, and indices of the character of public administration, on the other. In particular, corruption will be examined in relation to the staff's identification with the mission, strategies, and objectives, the degree to which personnel decisions are based on merit, the level of bureaucracy and quality of administrative procedures, the clarity of information channels in the institution, the quality of budget preparation, the overall salary level, the proportion of salary paid in the form of bonuses, and the severity of punishment for those involved in corruption. The basic variables to be used in the analysis are outlined below.

- CORRUPT is an index of the self-assessed level of corruption at an institution. It is based on questions about the (i) frequency of unofficial payments for better quality public services or (ii) faster service delivery, (iii) for the influence of administrative or legal decisions, and (iv) for the purchase of licenses, permissions, etc.
- EXTASS is an external assessment of the overall level of corruption in each broadly defined state sector. The external assessment is provided by the public officials in the sample that do not work in the sector being assessed. This variable will only be used in Section V.
- MISSION is based on the degree to which the respondent's institution (i) makes known to employees the objectives and strategy, (ii) has widespread conviction that the public is the client, (iii) has widespread identification and involvement with objectives and strategies by employees, and (iv) has incentives for delivering high quality services to the public.
- MERIT is based on degree to which personnel decisions are (i) clearly explained, (ii) based on written criteria, (iii) regularly audited, and based on (iv) merit and performance, (v) education, (vi) professional seniority, as opposed to (vii) kinship, (viii) personal connections, or (ix) political connections.⁵²
- BUROC is the index of the quality of bureaucratic and administrative procedures. It is based on the degree to which an institution's procedures are (i) standardized and in writing, (ii) simple, clear and easy to understand, (iii) leaving little room for subjective discretion, (iv) stable, (v) well monitored, and (vi) strictly enforced, without (vii) imposing excessive bureaucratic steps or (viii) causing delays in service delivery.
- INFO is an index of the quality of information channels within the institution. It is based on (i) the existence of sufficient information channels, (ii) whether those who are affected by decisions are first informed, (iii) whether managers consider subordinates' opinions before making decisions that affect them, (iv) whether the respondent has access to the information needed to work efficiently, and (v) whether the respondent knows the steps that should be followed for solving problems in their realm of responsibility.
- BUDGET is an index of the quality of budget preparation. It is based on (i) the degree of consultation between budget managers and department managers, (ii) the degree to which written principles are implemented, (iii) the respondent's assessment of the quality of written budget

principles, (iv) the degree of specificity in written budget principles, (v) the degree of bureaucracy in the budget process, (vi) the degree of transparency in the budget decision process, (vii) the degree to which budget decisions are audited.

- TOTSAL is the respondent's total salary including both base salary and additions such as bonuses, awards, financial incentives, bonuses due to vacant positions, etc.
- PREMIA is the ratio of non-base salary remuneration to base salary.
- ENFORCE is an index of the degree to which corruption violations are punished at an institution, ranging from prosecution in court, to firing, to lesser penalties, to no penalty at all.

104. Each of these variables was scaled from 0 to 1 with the exception of TOTSAL and PREMIA. The sample means and number of observations are presented in Table 4.

| Variable | Number of Observations | Sample Mean |
|----------|------------------------|-------------|
| CORRUPT | 268 | 0.28 |
| MISSION | 315 | 0.62 |
| MERIT | 262 | 0.74 |
| BUROC | 306 | 0.63 |
| INFO | 328 | 0.73 |
| BUDGET | 273 | 0.68 |
| ENFORCE | 321 | 0.69 |
| TOTSAL | 301 | 4.53 |
| PREMIA | 301 | 0.33 |

105. The basic form of regression that is presented in this Annex relates corruption to aspects of public administration, salary levels and salary structure. These regressions were supplemented by the addition of a limited number of control variables that were also placed on the right-hand side. First, dummies were included indicating the level of government to which the organization belongs (LOCAL and REGIONAL, with CENTRAL as the base case). Second, an index of the degree to which the institution interacts with business enterprises and the general public was created. This index (INTERACT) helps to capture the effect of institution-specific rents. For the sake of brevity, the regressions with these control variables will not be presented in the tables, but they will be discussed in the text. The regressions in this Annex are not based on fully specified causal models. The goal is to examine the robustness and relative strengths of the correlations, rather than show causation.

106. In Sections II and IV the basic unit of analysis will be the individual respondent, while Section III will employ an analysis of the average responses for officials at the level of the institution. In Section V the unit of observation will be the broad sector of the state apparatus.

II. Respondent-level relationship between corruption and public administration

107. After constructing each of the indices described above, CORRUPT was regressed on each of the right-hand side variables, both individually and collectively. The results are presented in Table 5.

| Eq. | MISSION | MERIT | BUROC | INFO | BUDGET | ENFORCE | TOTSAL | PREMIA | R-sq | Adj R-sq | N |
|-----|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|-----------------|----------------|-------|----------|-----|
| 2.1 | -0.47*** (7.19) | | | | | | | | 0.168 | 0.164 | 259 |
| 2.2 | | -0.65*** (9.38) | | | | | | | 0.280 | 0.277 | 228 |
| 2.3 | | | -0.61*** (8.05) | | | | | | 0.137 | 0.134 | 252 |
| 2.4 | | | | -0.52*** (7.73) | | | | | 0.183 | 0.180 | 269 |
| 2.5 | | | | | -0.51*** (7.00) | | | | 0.177 | 0.173 | 230 |
| 2.6 | | | | | | -0.32*** (6.97) | | | 0.155 | 0.151 | 268 |
| 2.7 | | | | | | | 0.01 (0.88) | | 0.003 | -0.001 | 254 |
| 2.8 | | | | | | | | 0.03 (0.94) | 0.004 | -0.001 | 254 |
| 2.9 | -0.15 (1.39) | -0.29** (2.28) | -0.14 (1.06) | -0.05 (0.41) | -0.24*** (2.67) | -0.10* (1.71) | -0.00 (0.36) | 0.05 (1.18) | 0.382 | 0.348 | 155 |

t-statistics are in parentheses. Significance levels are marked by asterisks: *10 percent, **5 percent, and ***1 percent levels of significance.

108. Each of the indices of public administration is individually highly associated with the self-assessed level of corruption. Not surprisingly, each of the right-hand side variables is also strongly correlated with each other. The purpose of the final regression, which includes all of the right-hand side variables, is to discern which among the independent variables has the strongest correlation with the level of corruption, after controlling for the other aspects of public administration. The results suggest that MERIT, BUDGET and ENFORCE are the variables with the strongest relationship to CORRUPT, based on simple respondent-level regressions.

109. Controlling for the level of government and the degree to which the institution interacts with the public added explanatory power to the regressions but did not greatly change the results. In Equation 2.9, MERIT and BUDGET remain significant at the 5 percent level. INTERACT was not generally significant except at weak levels. In several of the equations, REGIONAL and LOCAL were significantly negative, implying lower levels of corruption than in the base case of the CENTRAL government. REGIONAL was especially powerful in this regard, often with coefficients significant at the 1 percent level with economically significant coefficients, as well.

III. Institution-level regressions

110. The previous section outlined the simple relationship between a respondent's assessment of the level of corruption at his or her institution and the respondent's assessment of the character and practices of various aspects of public administration. One weakness of such an approach is that it may be susceptible to particular respondent-specific biases that affect both the right-hand side and left-hand side variables. For example, an optimist might report low levels of corruption and high levels of meritocracy, while a pessimist at the same institution might report high levels of corruption and a low level of meritocracy. A negative relationship between corruption and meritocracy might therefore be generated in the respondent-level regressions, despite the fact that both respondents were reporting on the same institution.

111. To address the possibility of this respondent-specific perception bias, two additional sets of regressions were run and will be presented in this and the subsequent sections. In this section, the unit of observation is an individual institution within government. This may alleviate the respondent-specific perception bias since such biases tend to wash out when averaged across all respondents in an institution. (The possibility of an institution-wide bias remains and will be addressed in Section V.)

112. The institution-level regressions are based on the mean response for each of the relevant variables over all employees at a particular institution. The mean responses will be labeled MCORRUPT, MMISSION, etc. The definition of an “institution” varies depending on the level of aggregation that is sought. For the purposes of this and the following section, an institution is defined as the body (e.g., the ministry) and the level of government (central, regional, or local). For local government officials, the institution is further defined by the particular county in which the respondent is located. This aggregation provides observations for 91 institutions, with one to sixteen observations per institution. Table 6 presents the results of regressing the institution-level average level of corruption (MCORRUPT) on institution-level averages for each of the right-hand side variables (MMISSION, etc.).

Table 6. Institution-level Regressions of Corruption on Indices of Public Administration

| Eq. | MMISSION | MMERIT | MBUROC | MINFO | MBUDGET | MENFORCE | MTOTAL | MPREMIA | R-sq | Adj R-sq | N |
|-----|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|-----------------|----------------|-------|----------|----|
| 3.1 | -0.35** (2.58) | | | | | | | | 0.071 | 0.060 | 89 |
| 3.2 | | -0.67*** (5.13) | | | | | | | 0.235 | 0.226 | 88 |
| 3.3 | | | -0.81*** (5.30) | | | | | | 0.242 | 0.233 | 90 |
| 3.4 | | | | -0.68*** (4.30) | | | | | 0.175 | 0.166 | 89 |
| 3.5 | | | | | -0.52*** (3.97) | | | | 0.153 | 0.143 | 89 |
| 3.6 | | | | | | -0.35*** (3.69) | | | 0.135 | 0.126 | 89 |
| 3.7 | | | | | | | 0.00 (0.27) | | 0.001 | -0.011 | 89 |
| 3.8 | | | | | | | | 0.03 (0.49) | 0.003 | -0.009 | 89 |
| 3.9 | 0.09 (0.58) | -0.41** (2.33) | -0.24 (1.04) | -0.03 (0.14) | -0.23* (1.59) | -0.31*** (3.28) | -0.00 (0.18) | 0.00 (0.07) | 0.400 | 0.336 | 83 |

t-statistics are in parentheses. Significance levels are marked by asterisks: *10 percent, **5 percent, and ***1 percent levels of significance.

113. The results presented in Table 6 confirm that at the level of an individual institution, each of the indicators of the quality of public administration are individually highly negatively correlated with the average level of corruption, as assessed by the respondents within the institution. Again we find that neither the level nor the structure of salaries is important for explaining the level of corruption at a state institution. When all of the explanatory variables are included in a single regression, the indicator of meritocracy and the level of enforcement remain highly significant; the indicator for the quality of budget preparation marginally so.

114. Again we find that controlling for the level of government and the degree to which the institution interacts with the public added explanatory power to the regressions but did not greatly change the results. In Equation 3.9, MMERIT and MENFORCE remain significant at the 5 percent level. MINTERACT was in some equations significant and positive, consistent with the intuition that institutions interacting with enterprises and the public are likely privy to greater opportunities for corruption. The dummy for REGIONAL bodies of the central

government were significantly negative in several equations, implying lower levels of corruption than in the base case of the CENTRAL government.

IV. Respondent-level relationships, controlling for respondent-specific biases

115. This section addresses the respondent-specific perception bias in a quite different, and more robust, way. The approach taken here is to use respondent-level regressions, but to correct for the respondent-specific perception bias. To do so, the mean response for each of the relevant variables was calculated over all employees at a particular institution, *except for that particular respondent*. These will be called JCORRUPT, JMISSION, etc. Respondent *j*'s assessment of the level of corruption at the institution is regressed on the average assessments of the quality of various aspects of public administration according to everyone else *except j*.⁵³ Table 7 presents the results of regressing CORRUPT on JMISSION, JMERIT, etc.

Table 7. Respondent-level Regressions of Corruption as Perceived by Individual Respondent On Indices of Public Administration as Perceived by Others at the Institution

| Eq. | JMISSION | JMERIT | JBUROC | JINFO | JBUDGET | JENFORCE | JTOTSAL | JPREMIA | R-sq | Adj R-sq | N |
|-----|------------------|--------------------|--------------------|--------------------|------------------|--------------------|------------------|-----------------|-------|----------|-----|
| 4.1 | -0.20* (1.92) | | | | | | | | 0.015 | 0.011 | 248 |
| 4.2 | | -0.38*** (3.45) | | | | | | | 0.054 | 0.050 | 209 |
| 4.3 | | | -0.38*** (3.33) | | | | | | 0.045 | 0.041 | 240 |
| 4.4 | | | | -0.36*** (3.06) | | | | | 0.035 | 0.031 | 261 |
| 4.5 | | | | | -0.24* (1.96) | | | | 0.018 | 0.013 | 217 |
| 4.6 | | | | | | -0.19*** (2.73) | | | 0.028 | 0.025 | 257 |
| 4.7 | | | | | | | 0.02** (2.10) | | 0.018 | 0.014 | 240 |
| 4.8 | | | | | | | 0.01 (0.26) | | 0.000 | -0.004 | 240 |
| 4.9 | -0.03 (0.15) | -0.41* (1.72) | -0.42* (1.72) | 0.65** (2.31) | -0.04 (0.22) | -0.09 (0.94) | 0.03** (2.02) | -0.06 (0.88) | 0.142 | 0.088 | 136 |

t-statistics are in parentheses. Significance levels are marked by asterisks: *10 percent, **5 percent, and ***1 percent levels of significance.

116. In the simple regressions with a single right-hand side variable, all of the indicators of public administration quality are significant at least at the 10 percent level, JMERIT, JINFO, JBUROC, and JENFORCE significant at much higher levels. JTOTSAL is also significant, however the sign of the coefficient is *positive* indicating that state bodies with higher levels of corruption tend to have higher salaries rather than lower. When all of the dimensions of public administration quality are placed on the right-hand side at the same time (Equation 4.9), JMERIT, JBUROC, and JINFO however remain significant. Again we find a positive coefficient on JTOTSAL.

117. Although the individual explanatory variables drop in significance when all are placed together on the right-hand side, this does not imply that public administration is unimportant for explaining corruption. It simply reflects the fact that each of the aspects of public administration is highly correlated with the others and the effect washes out when all are placed on the right-hand side of the regression. Equation 4.9 is significant at the 5 percent level in a standard F-test.

118. Controlling for the level of government and the degree to which the institution interacts with the public added led to a general decline in the explanatory power of several right-hand side variables. In the univariate regressions, JMERIT and JBUCROC remain significant at the 5 percent level, while JINFO falls to the 10 percent level and the others (including TOTSAL) drop out of significance altogether. In Equation 4.9, only JBUCROC and JINFO remain significant at conventional levels. Consistent with the findings of the earlier sections of this Annex, REGIONAL and LOCAL were significantly negative, implying lower levels of corruption than in the base case of the CENTRAL government. The dummy REGIONAL had the most powerful coefficients, both economically and statistically. INTERACT was significant in some equations, always with a positive sign.

V. State sector-level regressions, using external evaluations of the level of corruption

119. While the empirical approach used in the previous two sections alleviates biases arising from the perceptions of the individual respondent, one might conjecture that an institution-wide bias in perceptions might remain a problem. What if, the skeptic asks, the officials at a particular institution collectively underreport the level of corruption at that institution, perhaps out of fear or perhaps as a reflection of collective delusion?

120. To address this perplexing issue the analysis in the current section uses external evaluations (perceptions) of the level corruption in each state sector. The data for the new left-hand side variable comes from a survey question that probes the perceived level of corruption for twenty broadly defined state sectors and institutions (e.g., health, education, parliament, army, etc.). These broadly defined state sectors do not map one-to-one with the institutions at which the respondents work, but in most cases the mapping is close. Since the state sectors are broadly defined, the level of aggregation for the right-hand side variables will also be broadly defined as simply the state body, without further disaggregating by level of government as was done in the previous section. Moreover, the broadness of the state sectors and the wide range of experience in local governments across the country, suggest focusing on bodies of the central government. The unit of observation for this section is the broadly defined state sector, of which there are 15. (Some of the sectors, such as the army, had to be dropped since the survey did not include respondents from these sector.) It should be noted that the external assessments of corruption are correlated with the self-assessments provided by the officials that work in those sectors, but not remarkably so—the correlation coefficient between CORRUPT and EXTASS is 0.44.

121. Table 8 presents the regression results. The left-hand side variable is the average perception of the level of corruption for a state sector, as perceived by public officials who do not work in that sector. The right-hand side variables are the average assessments of the dimensions of public administration according to the officials who do work in those sectors, and the average salaries and proportion of salary paid in bonuses. These regressions, therefore, map external assessments of perceived corruption against indices of public administration provided by those who work in the state sectors, and therefore are not susceptible to institution-wide bias in perception of corruption.

Table 8. State Sector-level Regressions of External Assessments of Corruption on Indices of Public Administration

| Eq. | MMISSION | MMERIT | MBUROC | MINFO | MBUDGET | MENFORCE | MTOTSAL | MPREMIA | R-sq | Adj R-sq | N |
|-----|----------------|------------------|------------------|-----------------|-----------------|----------------|----------------|------------------|-------|----------|----|
| 5.1 | 0.14 (0.61) | | | | | | | | 0.027 | -0.047 | 15 |
| 5.2 | | -0.34* (2.00) | | | | | | | 0.235 | 0.176 | 15 |
| 5.3 | | | -0.44* (2.12) | | | | | | 0.257 | 0.199 | 15 |
| 5.4 | | | | -0.30 (0.95) | | | | | 0.065 | -0.007 | 15 |
| 5.5 | | | | | -0.04 (0.21) | | | | 0.003 | -0.073 | 15 |
| 5.6 | | | | | | 0.08 (0.66) | | | 0.033 | -0.042 | 15 |
| 5.7 | | | | | | | 0.00 (0.07) | | 0.000 | -0.077 | 15 |
| 5.8 | | | | | | | | 0.19** (2.58) | 0.339 | 0.289 | 15 |

t-statistics are in parentheses. Significance levels are marked by asterisks: *10 percent, **5 percent, and ***1 percent levels of significance.

122. Since the number of observation is so small, results of regressing the external assessment of corruption on the entire array of public administration and salary indicators will not be presented here. The results of the univariate regressions find that MMERIT and MBUROC are both significant at the 10 percent level, both with the expected sign. MPREMIA, the average percent of salary paid in bonuses is also significant, but with a positive sign, indicating that state institutions that pay a larger fraction of salaries in bonuses tend to have higher levels of (externally assessed) corruption.

123. In the regressions of this section it was not possible to control for the level of government since a single broadly defined sector may include bodies at all levels of government. However, MINTERACT, the average index of interaction with the enterprises and the general public, was used as a control variable. There was no notable change in the substantive conclusions of Table 8.

VI. Summary of Annex 2

124. This Annex has presented the results of regression analyses aimed at identifying aspects of public administration that are most closely associated with the level of corruption. Various approaches have been used to control for the possibility of respondent-specific perception biases and institution wide perception biases. Five sets of conclusions are warranted.

125. First, most of the analyses lend strong support to the notion that the quality of public administration is important for determining the level of corruption at individual institutions. Individually, each of the aspects of public administration are highly correlated with the self-assessed level of corruption in analyses at both the respondent and institutional level. Even in the regressions purged of respondent-specific and institution-wide perception biases, several dimensions of public administration quality remain important for explaining the self- and externally-assessed levels of corruption.

126. Second, the aspects of public administration that receives the most consistent support are the degree of meritocracy and the quality of bureaucracy and administrative procedures. The quality of information flows is important in some regressions but changes sign in others. Identification with the institution's mission, objectives and strategies, while important some simple regressions, loses significance in every multiple regression. The quality and transparency of the budget preparation process is similarly associated with lower levels of corruption, but drops out of significance when other variables are placed on the right-hand side in several equations.

127. Third, the level of state salaries does not seem to be correlated with corruption, except perhaps in a positive way. The data find no support for the notion that raising state salaries will reduce corruption. Similarly, the proportion of salary paid in bonuses is either not significant, or with a positive sign. While bonuses may, in the appropriate institutional environment, provide a positive incentive for public employees to work hard and deliver high quality services, without the transparency and appropriate audit such discretionary compensation may yield perverse results. The implication from the final set of regressions, that bonuses are positively related with corruption, seems to provide some confirmation for this notion.

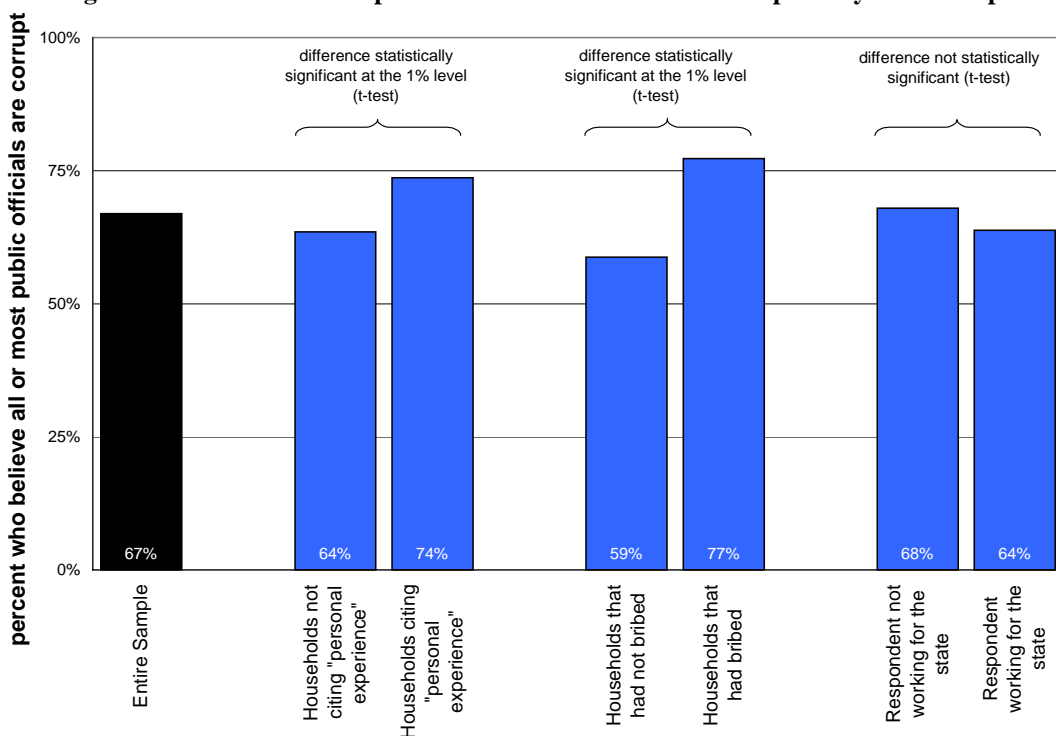
128. Fourth, the dummies for level of government were fairly consistent in the ordering of their magnitudes. The conclusion to be drawn from the regressions is that the level of corruption is highest at bodies of the central government and lowest among the regional bodies of the central government, with the local government bodies somewhere in between.

129. Fifth, strong enforcement and punishment of corrupt officials is important for explaining corruption, but not as important as the many other variables investigated. Although tough enforcement of anticorruption statutes may be important for reducing the overall level of corruption, reforms that improve the quality of public administration, especially reforms that build meritocracy and sound procedures for public administration, must also be key elements of a strategy to reduce corruption.

Annex 3. Perceptions of Corruption by Sub-Groups

130. The purpose of this Annex is to explore whether the perceptions of corruption seem to reflect experiences as opposed to unfounded rumor or cliché's. The approach will be to use survey responses to indicate whether a respondent is informed or uninformed, to split the sample along those lines, and to test for differences. Two sets of perceptions will be examined: the overall perception of the level of corruption in Romania as presented in Figure 2, and the perceptions of the levels of corruption in specific sectors or bodies as presented in Figure 3. For the sectoral perceptions it should be noted at the outset that the sample will not provide “informed” responses for certain bodies such as the Presidency, Government, and Parliament, or at least too few to allow a test of the degree to which perceptions reflect reality. For these bodies the perceptions of corruption in Figure 3 are clearly not going to be robust reflections of personal experience or information.

Figure 26. Household Perception of the Overall Level of Corruption by Sub-Group

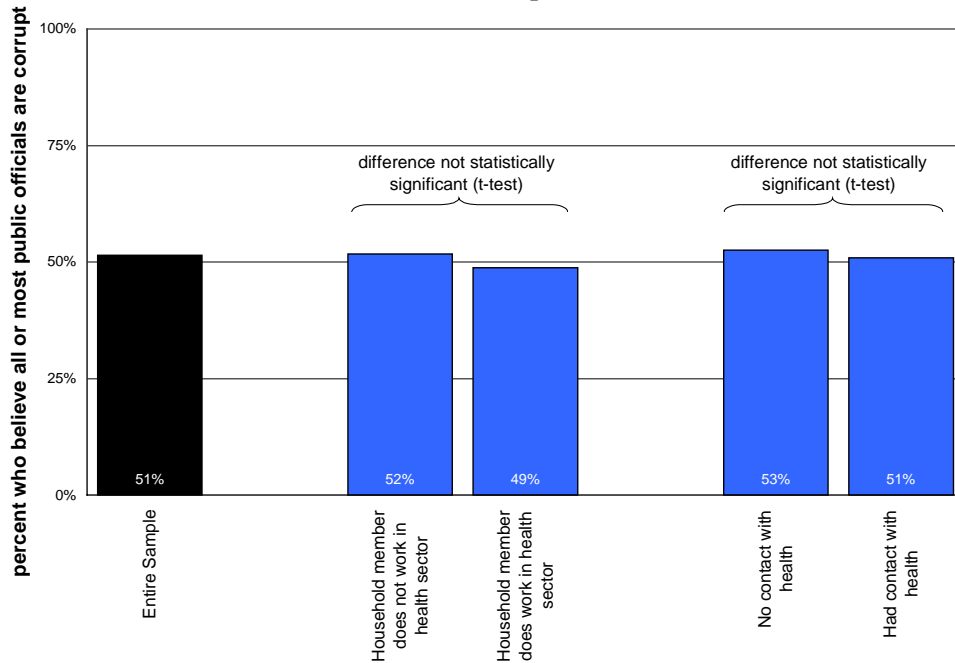


Household Perceptions

131. The overall household perception of the level of corruption is presented in Figure 26. The sample has been split into subgroups depending on (i) whether or not “personal experience” is one of two leading sources of information about corruption, (ii) whether or not the household has paid a bribe or *atentie*, and (iii) whether or not the respondent works for a state institution.

132. Two of the three splits are statistically significant. Those that reported learning about corruption through “personal experience” were more likely to say that all or most public officials are corrupt. Those that had paid a bribe or *atentie* were also more likely to say that all or most public officials are corrupt. Both differences are significant at the 1 percent level.

Figure 27. Household Perception of the Level of Corruption in the Health Sector by Sub-Group



133. Four broad sectors were chosen for the sectoral analysis: health, education, justice and the courts, and the police. These four were chosen because a second question on the survey focused on whether the household had any member working in these four sectors.

134. The statistics for perception in the “Entire Sample” in the charts that follow do not match exactly the statistics presented in Figure 3. The reason is that Figure 3 shows the absolute percentage that said that all or most officials in a given sector are corrupt, whereas in the figures that follow, only the responses of those who expressed an opinion are included. For example, if 450 respondents said all or most were corrupt, 450 said less than most are corrupt, and 100 said they didn’t know, the bar in Figure 3 would report 45 percent, whereas the bar in the analysis below would report 50 percent. Since sub-groups are specifically

Figure 28. Household Perception of the Level of Corruption in the Education Sector by Sub-Group

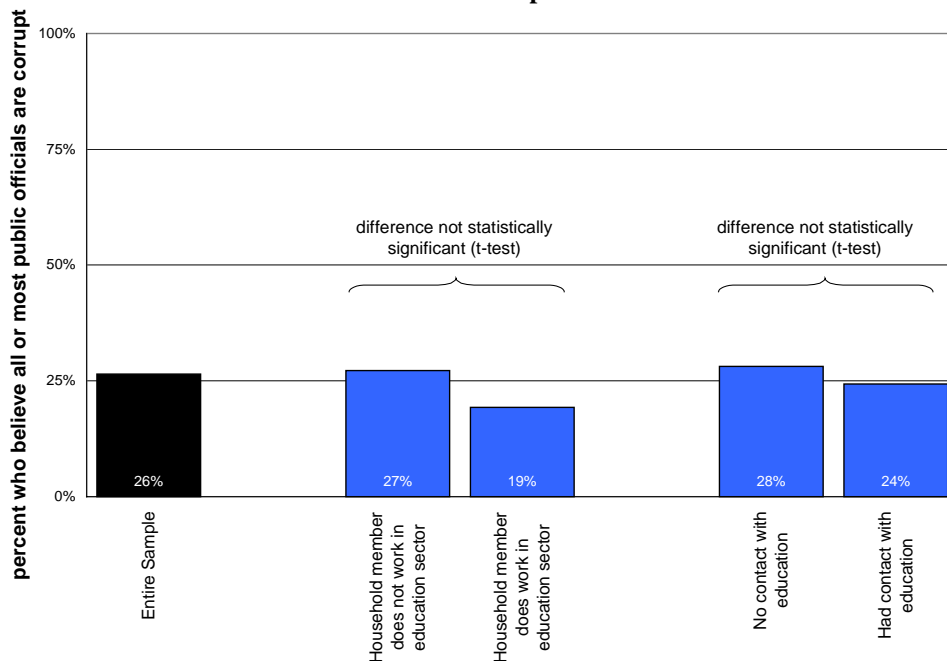
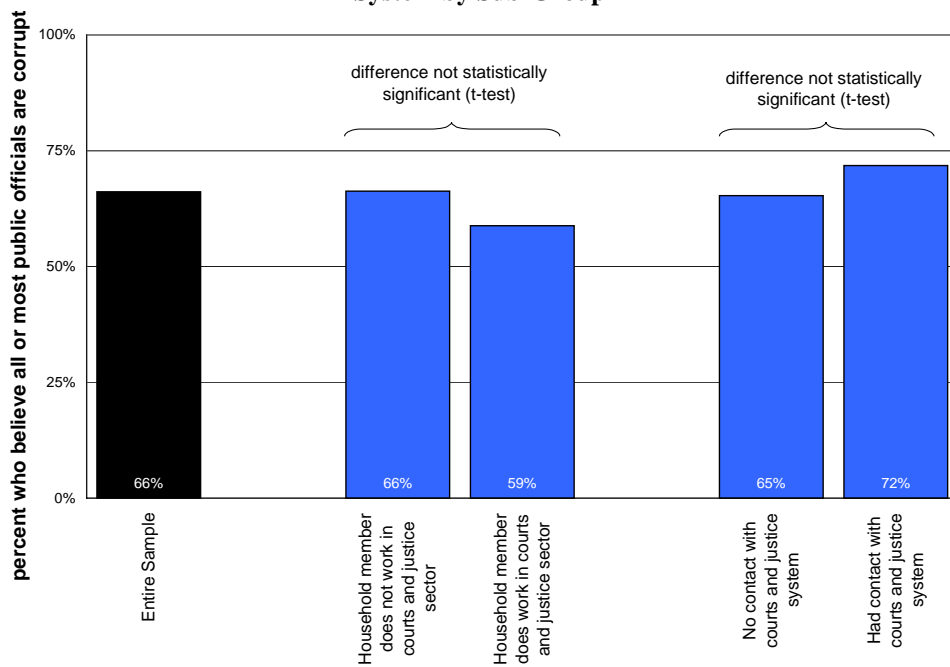


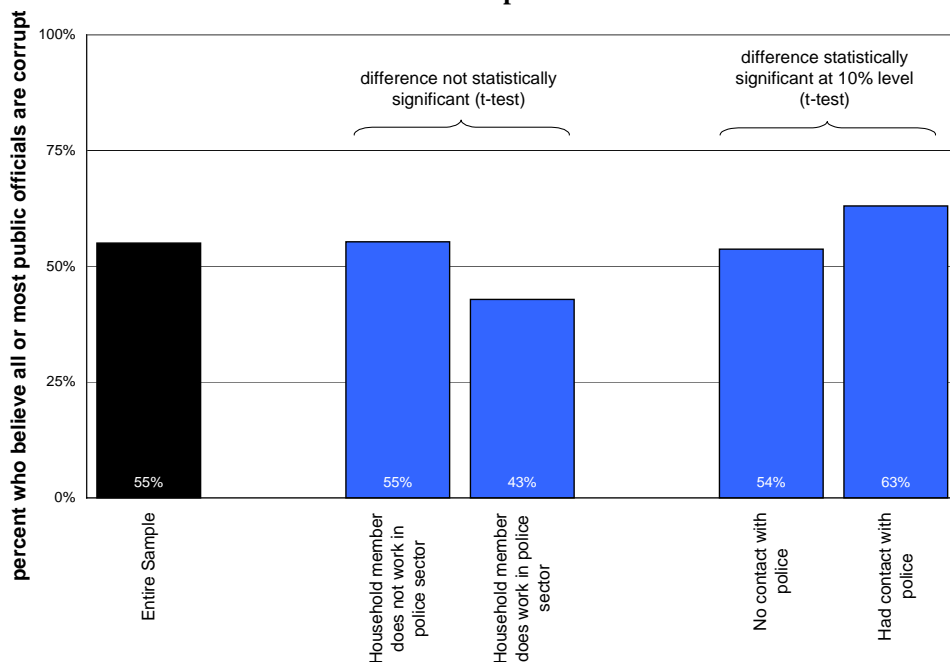
Figure 29. Household Perception of the Level of Corruption in the Justice and Court System by Sub-Group



chosen to try to identify informed versus uninformed perception, the likelihood of a response of “don’t know” would be much higher for the uninformed sub-group and the uninformed sub-groups would have lower perceptions of corruption simply because of the treatment of such responses. For this reason, responses of “don’t know” are dropped entirely from the analysis that follows.

135. The perception of corruption in the health sector was evaluated for the sample as a whole, and for subgroups split according to: (i) whether or not there is a household member working in the health sector, (ii) whether or not the household reported having official contact with the health sector. (Figure 27.) The perception of the level of corruption in the health sector is not statistically different between these sub-groups.

Figure 30. Household Perception of the Level of Corruption in the Police by Sub-Group



136. The perception of corruption in the education sector was evaluated for the sample as a whole, and for subgroups split according to: (i) whether or not there is a household member working in the education sector, (ii) whether or not the household reported having a child in school. (Figure 28.) The perception of the level of corruption in the education sector is not statistically different between these sub-groups.

137. The perception of corruption in the justice and courts system sector was evaluated for the sample as a whole, and for subgroups split according to: (i) whether or not there is a household member working in the justice system sector, (ii) whether or not the respondent reported having been involved in a court case. (Figure 29.) The perception of the level of corruption in the justice and courts sector is not statistically different between these sub-groups.

138. The perception of corruption in the police sector was evaluated for the sample as a whole, and for subgroups split according to: (i) whether or not there is a household member working for the police, (ii) whether or not the respondent reported having been a victim of a crime. (Figure 30.) The perception of the level of corruption in the police is not statistically different between those that do and do not work for the police, but is statistically significant between those that have and have not been a victim of a crime.

Enterprise Perceptions

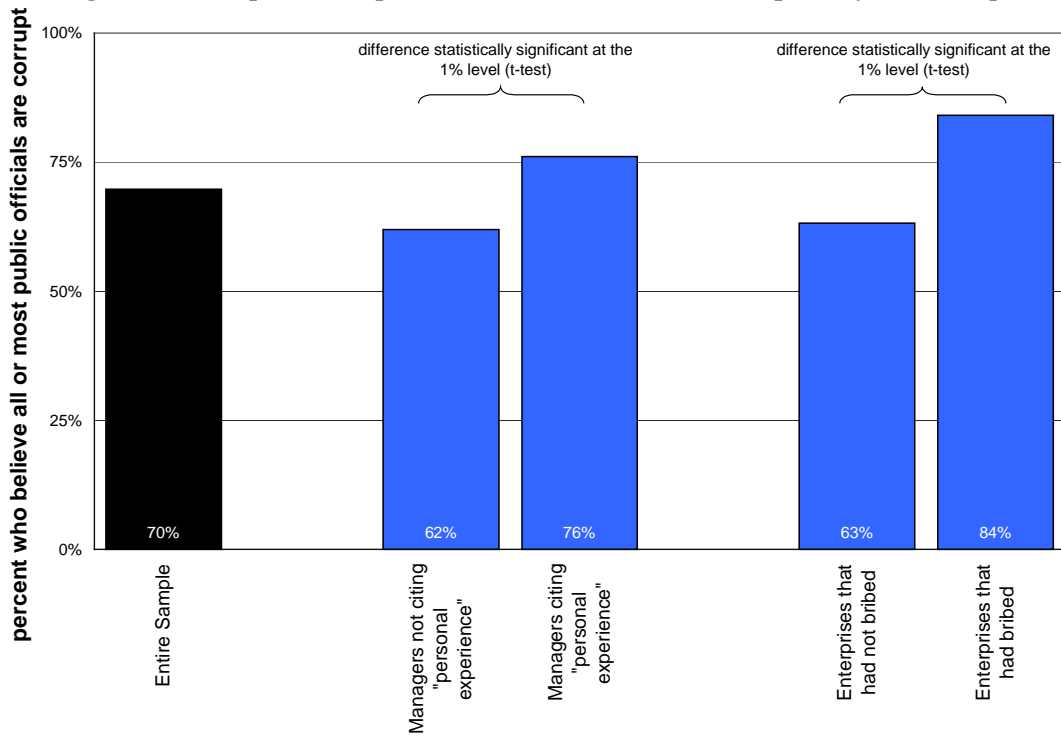
139. The overall enterprise perception of the level of corruption is presented in Figure 31. The sample has been split into subgroups depending on (i) whether or not “personal experience” is one of two leading sources of information about corruption, and (ii) whether or not the enterprise has paid a bribe.

140. Both of the splits are statistically significant. Managers that reported learning about corruption through “personal experience” were more likely to say that all or most public officials are corrupt. Enterprises that had paid a bribe were also more likely to say that all or most public officials are corrupt. Both differences are significant at the 1 percent level.

141. Three broad sectors were chosen for the sectoral analysis of enterprise perceptions: customs, justice and the courts, and the register of trade. These three were chosen because the names of the broad sectors mapped closely to the names of specific sectors or bodies about which firms described their experiences. The statistics for perception in the “Entire Sample” in the charts that follow do not match exactly the statistics presented in Figure 3. See the description earlier in this Annex for an explanation of the reason.

142. The perception of corruption in customs was evaluated for the sample as a whole, and for subgroups split according to whether or not the enterprise reported having had official contact with the customs administration. (Figure 32.) The perception of the level of corruption in customs is not statistically different between these sub-groups.

Figure 31. Enterprise Perception of the Overall Level of Corruption by Sub-Group



143. The enterprise perception of corruption in the courts was evaluated for the sample as a whole, and for subgroups split according to whether or not the enterprise reported having had official contact with the courts. (Figure 33.) The perception of the level of corruption in customs is not statistically different between these sub-groups.

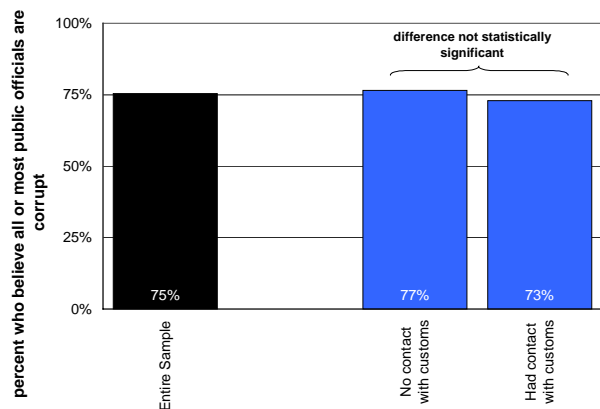
144. The enterprise perception of corruption in the trade registry was evaluated for the sample as a whole, and for subgroups split according to whether or not the enterprise reported having had official contact with the trade registry. (Figure 34.) The perception of the level of corruption in customs is not statistically different between these sub-groups.

145. For both households and enterprises, respondents that said they had personal experience with corruption gave significantly worse assessments of the overall level of corruption in Romania. Similarly, respondents that reported having paid a bribe gave significantly worse assessments.

Summary—household and enterprise perceptions

146. The results of the sectoral analysis are similar. While respondents who work in a sector generally have more favorable assessments of the level of corruption in that sector than those who don't work there, the differences are not statistically significant. Second, for education and health respondents that had contact gave slightly more favorable assessments, and for justice and the police respondents that had contact gave less favorable assessments, but the difference was not statistically significant except for the case of the police. Households that had been crime

Figure 32. Enterprise Perception of the Level of Corruption in Customs by Sub-Group



victims gave worse assessments of the level of corruption in the police, significant at the 10 percent level.

Figure 33. Enterprise Perception of the Level of Corruption in Courts by Sub-Group

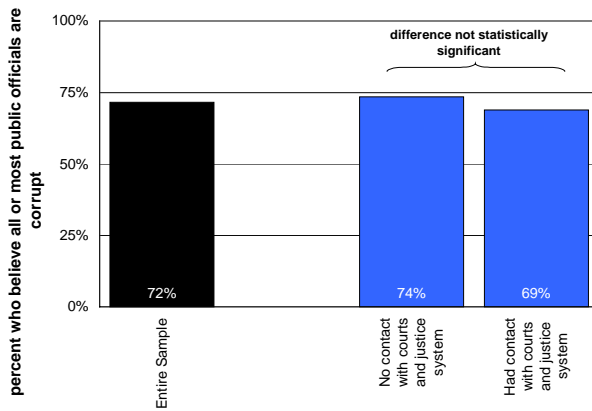
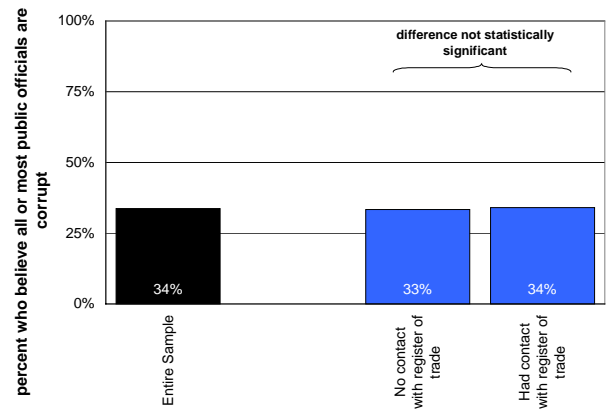


Figure 34. Enterprise Perception of the Level of Corruption in the Register of Trade by Sub-Group



147. This Annex finds that including “uninformed” perceptions of the levels of corruption does not bias the perceptions upward, and may even bias the estimates downward. This does not mean that the absolute percentages reported in Figures 2 and 3 are “correct.” Rather the implication is that the reported percentages are consistent with those found when restricting the sample to “informed” respondents who would have knowledge about the levels of corruption.

Sample generated influences

Households Sample

148. Half of the household sample reported their occupation to be “unemployed, retired, or student.” Although available statistics do not allow a perfect estimation of the actual proportion of the population that would fit in this category, a reasonable estimation is that roughly 40 percent of the overall Romanian population over 18 years of age would fit in this category.⁵⁴ One might argue, therefore, that people in this category were oversampled. If the unemployed were more critical of the current situation, the argument goes, the reported perception of the level of corruption would be overstated due to this sampling error. However, the survey data suggest this would not be true. Respondents in the “unemployed, retired, student” category were only slightly more critical in their perceptions, the difference not even statistically significant. On the other hand, those in the “unemployed, retired, student” category were significantly less likely to have actually paid a bribe. Thus, if the sample was rebalanced to have a smaller share of “unemployed, retired, student” respondents, there would be little impact on the reported perception of the persasiveness of corruption, and the estimates of the frequency of experiences with corruption would be higher yet.

149. Similarly, only 7 percent of the sample were farmers, while the percentage of the actual population in agriculture is surely much higher.⁵⁵ If the sample was rebalanced to afford farmers a larger weight, would this have any effect on the reported perceptions of corruption? The opposite is true. Farmers were the most critical, with 18 percent saying that “all” public officials were corrupt, versus 10 percent for the rest of the population. Farmers were slightly less likely to have actually paid a bribe, but the difference was not significant. Thus, re-weighting the sample to give a larger weight for farmers would have negligible impact on the reported experiences with bribery, and would result in a larger percentage of respondents believing that all or most public officials are corrupt.

150. Although rebalancing the household sample with larger shares for the unemployed, retirees, students, and farmers would probably result in similar (or perhaps higher) reported overall perceptions and experience, there could reasonably be shifting in the relative importance of various types of bribery.

Enterprise Sample

151. A reasonable argument could be made that the sample of enterprises, with a large geographical proportion in Bucharest (34 percent) and a large proportion of firms in trade (39 percent), might lead to perceptions of corruption that are biased upward since market competition in Bucharest and in trade, generally, is fierce. The problems that firms face competing may lead them to blame their competitors' corruption, thus exaggerating the perceptions of the level of corruption in the data.

152. Since sample proportions reflect the proportions in the actual population, the heavy weight for Bucharest and trade firms is entirely appropriate. However, the possibility that adverse firm performance might be unfairly blamed on corruption when market competition is the real culprit is interesting and should be examined.

153. The data show that firm income growth is indeed lower in Bucharest—59 percent of Bucharest firms reported growth in 1999, compared to 69 percent for the rest of the country—and firm income growth is lower for trade firms than others—53 percent of trade firms reported growth compared to 72 percent of firms in other sectors. The data further show that the economic fortunes of the firm is highly correlated with perceptions of the level of corruption. The perception that all or most public officials are corrupt is held by 64 percent of growing firms, and by 80 percent of firms that are not growing, a difference that is statistically highly significant.

154. However, an alternative explanation for these correlations fits the data even better. While firms in Bucharest are more likely to express the perception of widespread corruption, they are also more likely to report having actually paid bribes than firms elsewhere (38 versus 28 percent), the difference significant at the 5 percent level. Similarly, trade firms are slightly more likely to have paid a bribe (35 versus 30 percent), although the difference is not statistically significant. Thus, a second explanation is that it is the high levels of corruption faced by firms in Bucharest and in trade that is causing them to decline, rather than market competition, and that the experiences with corruption are leading to the higher perceptions of corruption among those firms.

155. A simple test of these two hypotheses is to conduct a probit regression. The left-hand side variable is the binary indicator for whether the firm believes that all or most public officials are corrupt. On the right-hand side are regional dummies, sector dummies, an indicator of firm growth, and an indicator of firm experience with corruption. Two variables were used for firm growth: the actual growth rate of income in 1999, and a dummy for positive versus negative growth. Two variables were used as indicators of experience with corruption: a dummy for firms that reported paying bribes, and a dummy for managers that say they get their information about corruption from personal experience.

156. Both measures of experience with bribery are consistently significant at high levels with signs suggesting that experience with corruption makes firms more likely to believe that all or most public officials are corrupt. When the actual level of firm growth is used on the right-hand side, it is never significant. However, when the dummy for positive firm growth is used on the right-hand side, it is significant with the expected sign—firms that were declining were more likely say that all or most public officials were corrupt. However, the pertinent point for the question at hand is whether the location and sector of the firm might be influencing perceptions simply because of market competition. The probit regressions provide

no support for this hypothesis. The regional dummy for Bucharest and the sector dummy for trade were not significant at any conventional level. The results suggest that it is profitability (through an as-yet unexplained mechanism) and experience with corruption that are driving firm perceptions of corruption, and the heavy sample weighting for Bucharest and trade are not resulting in unduly high perceptions of corruption.

End Notes

¹ See Raluca Alexandra Pruna, 2000, *Legal Anti-Corruption Measures in the Romanian Public Sector*, MSI, draft. Among the most critical legislative elements generated have been the Law on Preventing, Detecting and Punishing Acts of Corruption, the Law Regarding the Obligation for Public Officials to Declare Personal Wealth, the Law for the Prevention and Punishment of Money Laundering, and the Law on Ministerial Responsibility. Other laws with significant anti-corruption provisions include the laws on political parties, on trading companies, on combating tax evasion, on economic competition, on public procurement, on privatization of trading companies, on concessions, and on local public administration. Additional laws and orders regulate standards of conduct for public officials, including the Status of Civil Servants and the Status of Members of Parliament.

² The protocol included the Ministries of Justice, Interior and Finance, the Public Ministry, the Romanian Intelligence Service, and the External Intelligence Service. Each of these bodies performs particular anti-corruption functions. For example, the Ministry of Interior Police (to conduct investigations of criminal activities), the Ministry of Justice, Division for the Coordination of Strategies for the Prevention and Combating of Corruption and Criminality (to coordinate activities of the judiciary, evidence collection, and coordination of all strategies), the Public Ministry's Prosecutors Office (to initiate investigations into serious crimes and crimes committed by public officials), the Ministry of Finance's Financial Guard (to investigate tax evasion), the Ministry of Finance's Customs Office (to identify evidence of crime related to customs), the Romanian Intelligence Service (to organize and conduct activities, collect, verify and assess information useful in detecting, preventing and counteracting actions that might constitute a threat to national security which includes corruption), and the National Office for the Prevention and Control of Money Laundering. Several governmental oversight bodies provide a watchdog function: the Ombudsman, the High Court of Audit, the Prime Minister's Control Department, and Parliamentary committees.

³ The Government's proposal to house the Regional Center for Cooperation against Organized Crime and Corruption under the Southeast European Cooperative Initiative (SECI) was accepted and the Center inaugurated in late 1999. In March 2000, the Government hosted the Regional Conference of Central and East European Countries on Fighting Corruption as an interim regionally-focused session leading to the international gathering in The Hague scheduled for 2001. Romania is also participating in an anti-corruption program co-sponsored by the Council of Europe and the European Commission (OCTOPUS project), the Council of Europe's Group of States against Corruption (GRECO), and an institution and capacity building program in coordination with the United Nations Development Programme (UNDP) and the UN Center for International Crime Control (UNCICP).

⁴ Indeed, the Foundation for the Development of Civil Society and Gallup Romania, with funding from the Open Society Institute, conducted a survey similar to one on which this report is based in May-June 2000.

⁵ The questionnaires reflect the World Bank's experience in other countries, and the results of focus group sessions conducted in Romania in January 2000 by MSI with government, business, NGO, and mass media groups.

⁶ These sample sizes are large enough for the level of analysis presented in this report, but statistical margin of error may still be large for some analyses that focus on subsets of the sample.

⁷ A further 19 percent reported "bribery is common, but it is not as terrible as people say," 16 percent said "some give bribes but they do not have to—with a little patience one can survive without giving bribes." A further 6 percent did not answer or said they do not know.

⁸ Note that the information being asked in Figures 3 and 4 are different. Figure 5 focuses on experience with *bribery* and *atentie* over the previous 12 months, while Figure 4 asks about the two main sources of information about *corruption*. Since bribery is only one element of corruption, and since personal experience may stretch beyond 12 months, differences in the responses to the two questions are not surprising.

⁹ Sample sizes ranged from 69 to 246.

¹⁰ The Foundation for the Development of Civil Society and Gallup Romania, with funding from the Open Society Institute, conducted a survey similar to one on which this report is based in May-June 2000 centered in Bucharest. The correlation between the sector-specific estimates in that survey and those present in Figure 6—to the extent that one could be mapped to the other—is 0.93. Similarly, a cross-country survey by the United States Department of State in 1999 presented perceptions of corruption, by sector, in a similar way. The correlation between those estimates and the ones in Figure 6 is 0.89. (Dina S. Smeltz and Anna E. Sweeney, “On the Take: Central and East European Attitudes Toward Corruption,” 1999.)

¹¹ Since the bars in the chart are based on samples ranging in size from 62 to 294, they are merely estimates, subject to sampling error, and the rank orderings are only approximate.

¹² Regressing satisfaction on the percentage feeling it is useless to complain yielded a negative coefficient that is significant at the 15 percent level; regressing the level of bribery on the percentage feeling it is useless to complain yielded a negative coefficient that is significant at the 5 percent level. Both regressions use the governmental body as the unit of observation.

¹³ In all but three instances, the sample size was at least 30.

¹⁴ For example, while only a very small percentage of households that were crime victims reported paying *atentie* to the police, there is no way of knowing to what degree the criminals themselves engage in corruption with the police to escape punishment.

¹⁵ This report uses the Romanian word *atentie*, which includes bribes but may also be understood by some people as including tips, and expressions of gratitude.

¹⁶ Romanian criminal law does not provide for bribe takers to be punished in respect of the value of the bribe.

¹⁷ At the time of the survey in the spring of 2000 the exchange rate was roughly 20,000 Lei per dollar.

¹⁸ At the time of the survey in the spring of 2000 the exchange rate was roughly 20,000 Lei per dollar.

¹⁹ It should be noted, however, that at the higher levels of education, respondents were more likely to report that the payments were made as a matter of routine, or because the school workers required it.

²⁰ Survey questions do not provide any indication, however, of the merits of the cases that respondents report to be extensive and long. Some cases may be long or expensive precisely because they are without merit.

²¹ Since Figure 7 is based on a “closed-ended” question, it focuses only on a specific subset of types of corruption. Other forms of corruption that may be affecting enterprises were not covered by the survey question and therefore are not addressed in Figure 7.

²² For the relationship between corruption and poverty and inequality, Stephen Knack, and Gary Anderson, 1999, *Is “Good Governance” Progressive? Institutions, Inequality, and Poverty Reduction*, paper presented at the 1999 Annual Meeting of the American Political Science Association, Atlanta; Sanjeev Gupta, Hamid Davoodi, and Rosa Alonso-Terme, 1998, *Does Corruption Affect Income Inequality and Poverty?* IMF Working Paper; Daniel Kaufmann, Aart Kraay, and Pablo Zoido-Lobaton, 1999, *Governance Matters*, World Bank Policy Research Paper No. 2196.

²³ See Paolo Mauro, 1998, *Corruption and the Composition of Government Expenditure*, *Journal of Public Economics*, 69, pp. 263-279.

²⁴ For the relationship between corruption and the unofficial economy, see Simon Johnson, Daniel Kaufmann and Andrei Shleifer, 1997, *The Unofficial Economy in Transition*. Brookings Papers on Economic Activity, 2, pp. 159-239; Simon Johnson, Daniel Kaufmann, and Pablo Zoido-Lobaton, 1998, *Corruption, Public Finances and the Unofficial Economy*, Mimeo; Simon Johnson, Daniel Kaufmann, John McMillan, and Christopher Woodruff, 2000, *Why Do Firms Hide? Bribes and Unofficial Activity after Communism*. Journal of Public Economics, 76, pp. 495-520; and Eric Friedman, Simon Johnson, Daniel Kaufmann, and Pablo Zoido-Lobaton, 2000, *Dodging the Grabbing Hand: The Determinants of Unofficial Activity in 69 Countries*, Journal of Public Economics, 76, pp. 459-493.

²⁵ Regressing bribes as a share of income on the actual level of income yields a negative coefficient that is significant at the 10 percent level. When the log of income is placed on the right-hand side, the coefficient is significant at the 1 percent level.

²⁶ A probit regression of the decision not to seek medical attention on income and the perception of corruption in health care yields coefficients that are significant at the 10 and 5 percent levels, respectively.

²⁷ World Bank, 2000, *Anticorruption in Transition—A Contribution to the Policy Debate*, p. 22. The cross-country results show correlation but not necessarily causation.

²⁸ Indices of these obstacles were regressed on dummies for whether or not the firm is affected by each of the three forms of state capture described in the text. The macroeconomic obstacles were associated with capture of the central bank and Parliament, but not capture of the courts; Instability of laws was associated with capture of Parliament, but not capture of the central bank or courts; Problems with the courts was associated with capture of the court and Parliament, but not capture of the central bank. These results hold true with or without fixed firm effects for region, industry, age, origin, size, and ownership. The “low ability of the Romanian people to run a business” was also used as a dependent variable. Since this variable would not be expected to be associated with state capture *a priori*, it could help confirm that the other regressions reflect more than variations in firms’ proclivities to complain. Parliament capture was significant in the simple regressions, but not in the fixed effect regressions.

²⁹ Although less than 10 percent of enterprises cited “too many government regulations,” this is most likely due to the similarity to “immense bureaucracy.”

³⁰ The IRIS *Red Tape Analysis*, May 2000, similarly found that firms complained that the legal process is not stable and that legislation is subject to various interpretations. (p. 30.)

³¹ Although the reasons for this relationship are not clear, one possibility is that professional skills in sectors with discretion over large rents may command higher official wages. It should be mentioned however, that in most of the regressions the level of salaries was not significant at all.

³² Premia and allowances include across-the-board entitlements such as the 13th month salary and premia based on length of service, as well as merit bonuses. Barbara Nunberg, “Modernizing the Romanian State: The Go-Slow Administrative Transition,” in Barbara Nunberg, ed., *The State After Communism: Administrative Transitions in Central and Eastern Europe*. The World Bank, Washington, DC. 1999.

³³ When regressing the self-assessed level of corruption against the dimensions of meritocracy, the coefficient on “clearly explained personnel decisions” is significant at the 5 percent level, a result that holds true after controlling for institutional characteristics, as well. When the institution is used as the unit of observation, none of the individual dimensions of meritocracy stands out, but collectively they are significant at the one percent level.

³⁴ James E. Rauch and Peter B. Evans, *Bureaucratic structure and bureaucratic performance in less developed countries*, Journal of Public Economics 75, 2000, 49-71.

³⁵ When regressing the self-assessed level of corruption against the dimensions of organizational mission, the coefficient on “everyone is convinced that the citizen/public are our clients” is significant at the 5 percent level, and the coefficient on “everyone feels identified with and involved with the institutional objectives” is significant at the 1 percent level. Both results hold after controlling for institutional characteristics, as well. When the institution is used as the unit of observation, identification with mission remains significant at the 1 percent level.

³⁶ When regressing the self-assessed level of corruption against the dimensions of information flows, the coefficient on “those affected by decisions are informed first” is significant at the 5 percent level, and the coefficient on “managers take into account subordinate’s opinions” is significant at the 1 percent level. After controlling for institutional characteristics these results become even stronger. When the institution is used as the unit of observation, “managers take into account subordinate’s opinions” remains highly significant.

³⁷ When regressing the self-assessed level of corruption against the dimensions of budget management, the coefficient on the degree of control by audit departments is significant at the 1 percent level, while the coefficients on clarity and transparency of budget management and specificity of written guidelines are significant at the 10 percent level. After controlling for institutional characteristics these results weaken but remain significant at at least the 10 percent level. When the institution is used as the unit of observation, the degree of audit remains significant at the 10 percent level.

³⁸ When regressing the self-assessed level of corruption against the qualities of rules and procedures of internal administration, the coefficient on the degree of monitoring is significant at the 1 percent level, and the coefficient on the degree of bureaucracy is significant at the 5 percent level. Both results hold after controlling for institutional characteristics. When the institution is used as the unit of observation, the degree of bureaucracy remains significant at the 10 percent level, and the aspects of internal administration as a group continue to be significant at the 1 percent level.

³⁹ The open-ended question asked: “If you had the power to do something against corruption, what would be the first thing you would do?” Although such responses were in the minority, responses included: harder penalties; seize their assets; arrest them; throw them in jail; punch them; death penalty; shoot them; strangle them; torture them. Several invoked the name of Vlad Tepes (Dracula) in explaining their proposed solutions to the problem of corruption.

⁴⁰ As explained in Annex 2, the degree of enforcement is highly significant (1 percent level) in regressions based on individual respondents and institutions.

⁴¹ Lithuania has successfully used the asset declaration law to remove public officials from office.

⁴² For example, the income and asset declarations for politicians in the United States are scanned and are available on the world wide web. Disclosures for candidates for President, the Senate, and the House of Representatives are available at the <http://www.opensecrets.org>

⁴³ In the United States political organizations are required by law to submit detailed information on contributors and recipients of funds. These filings are publicly available at http://www.irs.gov/bus_info/eo/8871.html . Indeed, every individual contribution of more than \$200 must be identified and publicly disclosed: <http://www.fec.gov> , and <http://www.opensecrets.org> . States have similar requirements regarding state and local legislatures and political offices.

⁴⁴ See Box 4.2 in the World Bank report *Anticorruption in Transition—A Contribution to the Policy Debate*, 2000, from which this paragraph draws. That report, in turn, drew on Lieven De Winter, 2000, “Political Corruption in the Belgian Partitocracy: (Still) a Systemic Disease?” Robert Schuman Centre for Advanced Studies Working Paper No. 28; Linda Lee Kaid and Christina Holtz-Bacha, 1995, “Political Advertising in Western Democracies: Parties and Candidates on Television,” Sage Publications 1995; Anthony King, 2000, “Principles of Political Party Financing,” Paper for the conference of the Speaker of the Polish Parliament on *Corruption in Politics*, Parliament, Warsaw, April 26, 2000; Veronique Pujas and Martin Rhodes, 1999, “Party Finance and Political Scandal in Italy, Spain and France” *Western European Politics*, Vol. 22, No. 3, pp. 41-63; and Martin Rhodes, 1997, “Party Finance in Italy: A Case of Systemic Corruption,” *West European Politics*, 20, 1, pp. 54-80.

⁴⁵ However, insulation of the civil service without accountability and without practices to limit cronyism could have the opposite effect.

⁴⁶ Article 46.

⁴⁷ See OECD, 1996, *Ethics in the Public Sector: Current Issues and Practice*, Public Management Occasional Paper No. 14; and OECD, 2000, *Building Public Trust: Ethics Measures in OECD Countries*, PUMA Policy Brief No. 7.

⁴⁸ See *Anticorruption in Transition—A Contribution to the Policy Debate*, 2000, World Bank, Washington, DC., Box 4.7.

⁴⁹ One such episode was described in the IRIS *Red Tape Analysis*, May 2000, pp. 32-33.

⁵⁰ See Bart W. Edes, 2000, *The Role of Public Administration in Providing Information: Information Offices and Citizens Information Services*, presentation at the EIPA Seminar “An Efficient, Transparent Government and the Rights of Citizens to Information,” Maastricht, The Netherlands, May 2000.

⁵¹ According to the IRIS *Red Tape Analysis*, May 2000, public hearings have been held on tax legislation under Parliamentary review, and the participants “complained about time-consuming and frequent audits and bureaucracy in the tax payment procedure.” (p. 33)

⁵² The public officials survey also inquires about the degree to which such decisions are based on unofficial payments. However, this dimension is not used in the current analysis since the use of unofficial payments for government jobs this is itself a form of corruption.

⁵³ Institutions with only a single observation have been removed from the analysis in this section.

⁵⁴ This estimation is based on labor and demographic statistics from the World Development Indicators.

⁵⁵ The World Development Indicators suggest that 35-40 percent of employment is in agriculture, suggesting that around 20-25 percent of the population over 18 works in agriculture.