

3 LOCAL GOVERNANCE AND CORRUPTION OF A COUNTRY IN THE PROCESS OF JOINING THE EUROPEAN UNION*

Daniel TEODORESCU**,
Tudorel ANDREI***,
Ion Gh. ROȘCA****,
Marius PROFIROIU*****,
Mihai TURTUREANU*****

Abstract

Using data from a survey of mayors in Romania, this study analyzes some of the causes of corruption within a local public administration system of a country that joined the European Union structures as of January 1, 2007. The analysis is directly connected to the ongoing processes of decentralization and democratization. A logistic regression model was used to explain the mayors' perception of the influence of corruption in the reform process within local public administration structures, as well as the identification of the major causes of corruption.

Key words: Corruption, decentralization process, local governance, logistical model

JEL Clasification: C20, H83

1. Introduction

Due to its geopolitical situation in Europe and a sizable population of more than 22 million inhabitants, Romania plays the important role of an interface between the European Union (EU) and the Balkans, as well as the Black Sea regions. Soon after the 1989 Revolution and the emergence of a democratic regime, Romania established diplomatic relations with the EU by signing in 1990 a Trade and Cooperation

* Financed by CEEX program-PC-D08-PT00-724

** Emory University, Atlanta

*** Academy of Economic Studies Bucharest, e-mail: andreitudorel@yahoo.com

**** Academy of Economic Studies Bucharest

***** Academy of Economic Studies Bucharest

***** Ministry of Interior and Administration Reform Bucharest



Agreement. In 1993, the country's leaders signed a far-reaching Association Agreement entitled the "Europe Agreement," which already recognized Romania's goal of becoming a member of the EU. During the same year, the Member States decided in Copenhagen that associated countries in Central and Eastern Europe that so desired could become Members of the Europe Union once they met a set of necessary economic and political conditions. This led Romania to submit in 1995 its application for membership and accession negotiations began in February 2000 together with Bulgaria and with other countries that joined the Union in 2004. Accession negotiations were closed in 2004 with the objective of welcoming Romania as a Member State in January 2007. The Accession treaty was signed by the 25 Member States and Romania and Bulgaria in April 2005.

Like most countries that are undergoing a period of transition from a centralized system characterized by a quasitotalitarian influence of the state to a decentralized system, Romania was and still is affected by corruption. During the time of pre-accession to the European Union, corruption was monitored by EU special structures, nongovernmental local and foreign organizations. The effects of corruption were directly related to low levels of economic performance during this transitional period.

Numerous national and international organizations noted that corruption affected Romania's economic performance on a large scale. According to Transparency International, Romania had a high level of corruption during the period following the 1989 revolution. The Transparency Corruption Index value from that period was placed in the interval of [2.5, 3.2]. In 2005, of 159 countries¹ where the corruption indicator was calculated on a scale from 1 to 10, 117 countries scored less than 5, and these nations were also the poorest in the world. By scoring 3.0 in this hierarchy, Romania achieved progress compared to the previous years when it registered a score of 2.8, respectively 2.9.

Among the countries that recently joined the European Union, Slovenia and Estonia scored above 5. Hungary scored 5.0, Lithuania 4.8, Czech Republic and Slovakia 4.3. Bulgaria has a superior score to Romania. Fewer points than Romania were scored only by Russia, Macedonia, Serbia and Montenegro, Albania, Moldavia, Ukraine and Georgia.

The Romanian public administration reform aimed at decentralization and deconcentration includes three major elements: the continuation of the decentralization process through the transfer of financial and administrative competences and responsibilities from the level of central public administration authorities to the level of local authorities; the continuation of the deconcentration process through the delegation of responsibilities locally, focusing on the local level necessities within the same administrative structure (the ministry who delegated the responsibilities is accountable for the deconcentrated services), and; the conversion of the local deconcentrated services in decentralized ones in the responsibility of the local authorities for improving their efficiency and with respect to the citizens' needs.

According to the European Commission, "regarding decentralization and local administration, the warnings from last year's Country Report are still actual; the transfer of competences to the local authorities did not take place in accordance with

¹ See www.transparency.org



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the transfer of resources.”¹ Also, “the process of transferring powers to lower levels is far from ending: the competencies of different levels of government have not been adequately clarified and matched with corresponding transfers of property and fiscal resources or, at local level, decision-making rights. Local financial autonomy is limited by the local governments’ inadequate capacity to generate their own revenues and inability to manage their own employees as they have to count on permission from central government to recruit or to promote public servants and increase salaries.”²

The purpose of this study is to examine the extent to which the decentralization process and the improvement of local governance contribute to the decrease of corruption both on average and short term. Previous research in the field of corruption was focused mainly on measuring the level of corruption and its effects on GDP increase rates (Mauro [1995]³, Abed and Davoodi [2000]⁴), Krueger [1974]⁵), the effects on some sectors of the national economy (Tanzi [1998]⁶, Shang-Jin Wei [2001]⁷), or the effects on the decentralization process (Shah [2006]⁸). Romanian economists had carried out a series of studies aimed at identifying the causes of corruption at the local level and measuring the effects of corruption on the development of some sectors of the national economy (Profiroiu [2005]⁹, Andrei [2002]¹⁰).

Locally, corruption and the misapplied decentralization process could lead to significant negative effects at the social and economic levels, both in short and long term. The first step in measuring the level and impact of corruption on the society and the economy requires identifying the causes of corruption and defining the corresponding variables. Previous research studies have grouped the causes of corruption into the following four categories: i) political factors, including the level of democracy attained by each country, the quality of the judicial system, the voting system, and the level of decentralization Treisman [2000] and Fisman [2002]; ii) economic factors like the strength of the open economy and the public sector; iii) social and cultural factors like religion, the attitude of the individual towards family, ethical and linguistical fragmentation within society; and iv) historical factors. Dreher [2004], noted that it is difficult to split the political factors from the historical ones when

¹ 2004, Regular Report on Romania’s progress towards accession, p 17.

² *Romania 2005 Comprehensive Monitoring Report*, p. 8

³ Mauro P., “Corruption and growth”, *Quarterly Journal of Economics*, Vol. 110, n^o 3, 1995.

⁴ Abed, G., Davoodi, H., Corruption, Structural Reforms, and Economic Performance in the Transition Economies, *IMF, Working Paper No 00/132*, 2000.

⁵ Krueger A., The political economy of rent-seeking society, *American Economic Review*, vol. 64, N^o 3, june 1974

⁶ Tanzi, V., Corruption Around the World: Causes, Consequences, Scope and Cures, *IMF*, 1998.

⁷ Shang-Jin Wei, “Corruption in economic development:grease or sand?”, *Economic Survey of Europe*, No 2, United Nation, 2001.

⁸ Shah, A., Corruption and Decentralized Public Governance, *World Bank Policy Research Working Paper*, 3824/2006

⁹ Profiroiu, M. Et al., Public administration reform in Romania, *IER, Research Report*, 2005.

¹⁰ Andrei, T., “The cost of integration in NATO for aspiring countries - a quantitative model”, NATO (Brussels), *Working Paper*, 2002.



studying the causes of corruption. Nevertheless, Dreher cites a series of works that identify the contribution of historical factors to determining a nation's corruption levels.

2. The political and administrative contexts of undertaking the decentralization/deconcentration process

The process of deconcentration and decentralization of power, which requires the transfer or delegation of competences and new responsibilities, started with the adoption of the 1991 Romanian Constitution. A series of laws regarding important sectors of development like the organization of administration, the arrangement of the territory and urbanism, finance, taxes, healthcare services, social assistance services, education, were put into practice, regulating at the moment both the decentralization of some public services, and the territorial and administrative decentralization through the institution of the prefect. Subsequent regulations improved the provisions regarding public services and expanded responsibilities both at the county and local level to other domains including finance, real estate management, and infrastructure services. Moreover, a 1998 law regarding the local public finances and the last emergency ordinance regarding the local public finances considerably raised the resource allocation to local public administrations and also increased their financial autonomy. The decentralization process launched efforts to create and strengthen new forms of communication between the central and local administrations represented by the Federation of Local Authorities from Romania, and among the professional administrative structures or other associated structures of the local authorities.

Initiatives to delegate competences were not always coordinated among the ministries; for some of its responsibilities, the local administration had not been well prepared, and had encountered endless problems in the process of delivering quality services to the local communities. Under the pressure of scarce budgets, the central administration could not always finance the decentralized services with appropriate funding.

Although Romania took important steps in financial decentralization during the last ten years, the implementation process of this decentralization policy faced many problems, mainly because it lacked a national strategy. Within the decentralization process, four cycles can be identified. During the first cycle (1991-1994)¹, Romania initiated important changes in structuring and funding local authorities, including the introduction of local fees and taxes. During the second cycle of the reform policy (1998-2000), new steps had been taken with the purpose of fostering administrative and financial decentralization. New legislation regarding the finances of the local public authorities increased not only the part of the GDP allocated to the local budgets, but also the proportion corresponding to the local spending in total public spending (between 1998-2000 the percent of the GDP raised from 3.6% to 6.5% and

¹ *Local public administration Law no. 69/1991, E.O. no.15/1992 regarding the local taxes. Law no.27/1994 regarding the local taxes.*



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the local spending raised from 14.4% to 26.6%). During the third cycle (2001 - 2004), new legislation established new rules for certain functions of the local authorities, especially the public services/utilities. The fourth stage (2004 to the present) started with the design and approval of the Updated Strategy for Accelerating the Public Administration Reform. One of the most important components of this latest reform is the continuation of the decentralization and deconcentration processes. To implement this strategy, a first legislative package was drafted to support the entire process (the Framework Law of Decentralization, the Prefect's Institution Law, the Government Decision regarding the establishment of the Inter-ministerial Technical Committee and Working Groups on Decentralization).

During 2005, several working groups on decentralization issues have been created by the involved ministries. Following the political changes generated by the 2004 national elections, an extended process of reviewing and amending the existing legislation on decentralization was initiated. As a result of that process, a new legislative package on decentralization (amendments to the Framework Law of Decentralization, the Prefect's Institution Law, the Local Public Administration Law, the Emergency Ordinance regarding the Local Public Finance and the Statute of Civil Servants) was approved in by the Government and adopted by the Parliament in 2006.

3. Registered data at local public administration level

To examine the characteristics of corruption within the local public administration and analyze some essential parts of the reform process, a survey of local public administration officials was conducted in July-August, 2005. This research used a representative national sample encompassing local mayors. In creating the sample the researchers used a two-staged sampling technique, the final sample represents 9% of the target population. The parameter error for estimating results to the representative population was +/- 1.2%.

In creating the questionnaire, the focus was on understanding mayors' opinions about various issues related to the progress of the public administration reform: civil service management, continuous training of the civil servants, local public administration reform through continuing the decentralization process, training of the locally elected officials on specific topics related to local public administration, corruption, changes within technical structure of administration under political pressures, quality of communications related to undertaking the reform process, etc.. In the following sections, we examine the characteristics of the corruption phenomenon at the local level of public administration.

4. Causes of Corruption

For all countries undergoing a transition to market economies, corruption is a phenomenon that has profound negative effects on the developing of free markets. In Romania, corruption at the level of public administration was generated by many factors: (i) inconsistencies in applying reform measures, lack of coherence and mismanagement of the privatization process by the state and the lack of some



independent structures needed to ensure the transparency of this process; (ii) lack of an organizational culture specific to a democratic state which could encourage the market economy; (iii) resistance to change shown by the administrative system; iv) low salaries within the public sector; v) limited financial discipline within the state sector; (vi) high fluctuations in the numbers of civil servants due to political instability; (vii) misalignments between the public policies developed at the local and central level and their financing processes; (viii) the creation at the local level of some political “elites.”

A large number of mayors testified to the existence of corruption within local public administration structures. Results from analyzing answers to the question “Do you think corruption is a major problem for Romanian public administration?” are presented in Table 1.

Table 1

Do you think corruption is a major problem for Romanian public administration?

| Answer choice | (%) |
|---------------|-------|
| Yes | 66.0 |
| No | 30.4 |
| No answer | 3.6 |
| Total | 100.0 |

About two-thirds of the mayors surveyed in this study consider that corruption is one of the major problems facing Romanian public administration. In considering causes of this phenomenon, six elements were taken into account: a) legal framework, b) civil servants’ payment, c) civil servants’ morality, d) pressure from the business sector, e) pressures from the political environment (e) and citizens’ behavior (f). All these variables were defined as five-item Likert scales with the following response levels: 1- no influence (on the corruption within the public administration system), 2-low influence, 3-moderate influence, 4-important influence, and 5-high influence. Average ratings are presented in Table 2.

Table 2

| Variable | Mean | Std. Dev |
|--|------|----------|
| Legal framework | 3.69 | 1.15 |
| Civil servants’ payment | 4.62 | 0.62 |
| Civil servants’ morality | 3.33 | 1.13 |
| Pressures from the business sector | 3.31 | 1.15 |
| Pressures from the political environment | 3.37 | 1.37 |
| Citizens’ behavior | 2.99 | 1.08 |

The above results suggest the following:

1. The current legal framework still allows to a large degree the appearance and maintenance of corruption within the local public administration structures. This finding suggests the need for urgent revision of the current legislation. Legislative changes



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should be in line with the European Union integration process requirements and with other requests made by international donors regarding the local public administration.

2. According to the respondents' opinions, the pay system represents a key factor in the appearance and maintenance of corruption within the public administration system. The average of this variable is the highest (4.62), while the standard deviation is the smallest (0.62), proving a strong convergence of the opinions among mayors. This fact is more than obvious, as long as the level of the salaries is not in accordance with the civil servants' responsibilities. At the same time, changes in leading positions at the local public administration level are significantly related to the changes of the political spectrum. Of equal importance, this aspect is also generated by the lack of a sustainable strategy for the pay system and the development of a unitary pay system.

3. The morality of the civil servants, as viewed by mayors, represents another aspect that has a key role in generating corruption. Possible explanations for this finding include (i) reduced development of an organizational culture; (ii) civil servants' behavior that is not in accordance with the actual societal requirements and which is registered on a large scale in the Romanian public administration, and ; (iii) the pay system used in the local and public administration sector.

4. The pressures from the business sector have an important role in generating corruption. For an economy in transition, the enterprises' interest in doing business with the local public administration institutions is huge due to prices negotiated to their advantage, permissible contracts, guaranteed market, etc.

5. Pressures from the political system is also a significant factor. About half of respondents considered that the political influence is high and very high in generating corruption. Explanations for this finding can be offered by a large instability of civil service between electoral cycles, especially at the leading position level, and by the existence of a political clientele, especially in the distribution of the financial resources at local level;

6. Citizens' behavior has a moderate influence comparing to other factors, and therefore, it could be considered an effect rather than a cause for corruption.

5. Corruption and local governance

When analyzing the relationship among local governance, decentralization and corruption, one should consider that transparency and coherency of the decentralization process can lead to reduced corruption and improved use of public funds (Olowu [1993]¹, Fiszbein [1997]²). Nevertheless, a wrongly applied decentralization process is a factor that could lead to an increased level of the corruption in a country that undergoes a transitional process. In this situation, corruption could shift from central to local level. To reduce the corruption level, the decentralization process should be accompanied by a series of policies that ensure transparency and participation of citizens in the decision making process at the local level.

¹ Olowu, D., Roots and Remedies of Government Corruption in Africa, *Corruption and Reform*, 7/1993, p. 227-236.

² Fiszbein, A., Emergence of Local Capacity: Lessons from Colombia, *World Development*, 25/1997, p. 1029-1043.



Using data collected through the survey, the mayors' opinions about the corruption phenomenon were examined in relation to the following characteristics: (i) overall perception of the public administration reform process; (ii) understanding the application of democratic principles at the local level; (iii) motivation of civil servants; (iv) citizens' behavior, and; (v) mayors' personal background (age, education level, etc.). Next, we present the variables included in the statistical model and discuss the estimation of the parameters of the logistical models used.

The survey data suggest that the corruption phenomenon was signaled more by the mayors who consider that citizens should be directly involved in taking the relevant decisions at the local community level. Consequently, the Pearson correlation coefficient between the two variables is 0.31 ($p < .01$). This is evidence of a direct cause in the appearance and perpetuation of the corruption phenomenon, namely the lack of transparency in taking decisions within the institutions of local public administration.

At the level of localities, the proportions of mayors with high school and university education are equal. The distribution of answers for the question regarding corruption among the two groups as defined by education level (high school and university) are relatively the same, $\chi^2=34.96$. *These results prove that corruption is perceived in the same measure by the majority of mayors, regardless of level of education.*

Table 3

| | | Education level | | | Total |
|---|-----------|-----------------|--------------------|-----------|-------|
| | | High school | University studies | No answer | |
| Corruption is a real problem of the public administration | Yes | 64.7 | 67.9 | 52.9 | 65.3 |
| | No | 32.8 | 31.2 | 17.6 | 31.0 |
| | No answer | 2.5 | .9 | 29.4 | 3.7 |
| Total | | 100.0 | 100,0 | 100,0 | 100.0 |

Corruption and other factors contribute directly to the low quality of services offered to citizens by the local public administration. One of the variables defined in this study is "the degree to which local public administration fulfils its basic functions" (Q5). It is a mean of four variables: a) administration and management of goods and public funds at local level (Q1); b) ensuring the basic services at the local level (health, social assistance, education, culture, etc.) (Q2); c) predictions and socio-economical development (Q3) and d) organization (Q4). To quantify the mayors' opinions regarding the degree to which the local public administration fulfils each function, an ordinal scale was defined having the following values: 1-very low degree, 2-low degree, 3-high degree, 4-very high degree. The characteristics of the four primary variables are presented in Table 4.

Table 4

| Variable | Mean | Std. Deviation | Correlation Matrix on Primary Variables |
|----------|------|----------------|---|
|----------|------|----------------|---|



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| | | | Q1 | Q2 | Q3 | Q4 |
|----|------|-----|----|-------|-------|-------|
| Q1 | 2.79 | .70 | 1 | .55** | .32** | .52** |
| Q2 | 2.38 | .76 | | 1 | .53** | .56** |
| Q3 | 2.27 | .80 | | | 1 | .52** |
| Q4 | 2.70 | .78 | | | | 1 |
| Q5 | 2.53 | .60 | - | - | - | - |

** significant at $p < .01$

According to mayors' opinions, during the actual phase of decentralization, local public administrations can fulfill their basic functions only in a limited capacity. The most unfavorable situations are the low capacity of environmental assessment and economic-social development at the local level and providing the basic public services at locality level. The limited capacity of local administration in providing basic services is directly determined by inappropriate administration and management of the goods and public funds at the local level (Pearson coefficient is .55) and inadequate organizational capacity ($r=.56$). *The implementation of the decentralization process in a coherent and transparent manner could ensure the premises for strengthening the capacity of the local public administration in providing its basic functions.*

If it is continued and accelerated, the public administration reform process can represent one of the most important factors in reducing corruption. The present research, however, indicates that the reform process did not bring yet the expected changes. The questionnaire included three questions that solicit understanding the essential aspects of this process: "Do you think the reform process at the public administration level is comprehensive?" (QR1), "To what degree do the actual changes in public administration correspond to your expectations?" (QR2), "Do you consider that the public administration reform is the right path?" (QR3). The three variables were defined as Likert scales with 4 response choices: from 1- the most unfavorable situation, to 4 – the most favorable situation. Table 5 shows Pearson correlation coefficients for all pairs of variables as well as descriptive statistics.

Table 5

Pearson Coefficients and Descriptive Characteristics for Indicators Measuring Success of Public Administration Reform

| | Mean | Standard dev. | QR1 | QR2 | QR3 |
|-----|------|---------------|-----|-------|-------|
| QR1 | 2.51 | .72 | 1 | .63** | .42** |
| QR2 | 2.45 | .71 | | 1 | .42** |
| QR3 | 3.56 | 1.09 | | | 1 |

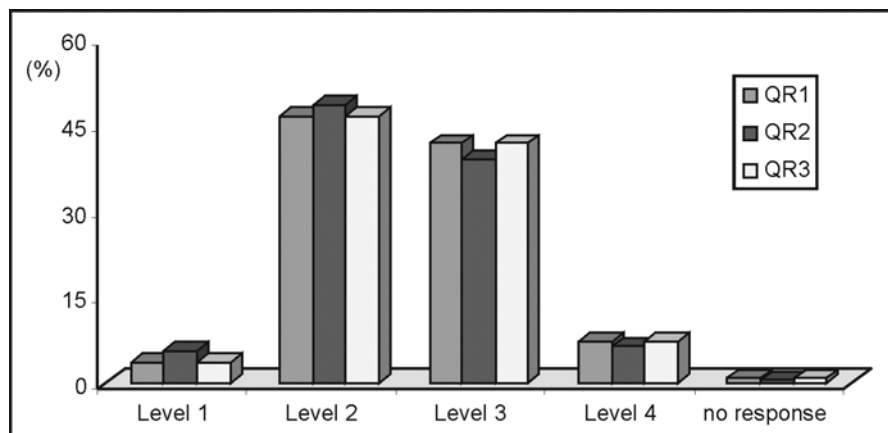
**significant at the $p < .01$ level (2-tailed)

Figure 1 presents the distribution of the responses on the four response categories for the questions QR1, QR2 and QR3.



Figure 1

**Indicators of Success for Public Administration Reform:
Distribution of Answers**



The results show that more than half of the mayors have a bad opinion about the changes within the local public administration; nevertheless the mayors agree that the public administration reform at the local level is on the right path. The answers to the three questions are almost similar. Thus, the interdependence among variables ad measured by Pearson correlation coefficients, is significant for all cases, for a level of confidence of .01.

Possible explanations of this situation are: a series of reform measures within the implementation process do not have yet significant effects at the locality level, reform process requires time; political message at government level is not accompanied by a proper information campaign and training programs for local elected people on concrete reform issues; local authorities are insufficiently involved in designing and establishing the main directions of the reform process, etc..

In this context, we consider that the lack of a promotion campaign for reform measures at the local public administration level could explain the limited correspondence between mayors' expectations and perceived changes. The lack of a proper promotion campaign for the reform measures at the local level slows down the implementation process.

6. Using the logistic model for analyzing corruption

To analyze perceptions about corruption, we used a binary logistic regression model. The model estimates the probability that a mayor considers corruption one of the real problems of public administration. The variable was based on the following question: "Do you think that corruption is a major problem for public administration in Romania?" Thus, the dependent variable is a dichotomous variable with two options: $y_1 = 1$ if a

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mayor considers corruption as a real problem for Romanian public administration, and $y_1 = 0$ otherwise.

Within this model the following independent variables were considered: existence at the city hall level of a person nominated directly to be in charge of implementing the reform measures (*PR*), mayor' education level (*NI*), the extent to which mayors think civil servants' pay system is a cause of corruption (*SS*), and the extent to which mayors think the pressure exerted by the political system is a cause of corruption (*PP*). The resulting B coefficients of the logistic regression are presented in Table 6.

Table 6

Estimated Parameters for the Logistic Regression Model

| | B | S.E. | Wald | Sig. |
|-----------------|--------|-------|--------|------|
| <i>PR</i> | 0.291 | 0.158 | 3.382 | 0.06 |
| <i>NI</i> | -0.235 | 0.144 | 2.676 | 0.10 |
| <i>SS</i> | -0.989 | 0.178 | 30.791 | 0.00 |
| <i>PP</i> | -0.680 | 0.172 | 15.709 | 0.00 |
| <i>Constant</i> | 11.548 | 1.593 | 52.576 | 0.00 |

The logistic regression model is defined in this case by the following formula:

$$P(y_i = 1) = \frac{1}{1 + \exp(-(11,548 + 0,291PR - 0,235NI - 0,989SS - 0,680PP))}$$

The high statistical score (χ^2) = 253.2 proves that the estimated logistical model is valid. Moreover, the model parameters are significant different from zero. The significance level for each parameter is presented in the table above. The B coefficients show the extent to which the probability of responding affirmative at the question on corruption increases/decreases as a function of a certain variables. The results indicate that the probability of recognizing corruption as a major problem increases is higher for those mayors who a person nominated directly to be in charge of implementing the reform measures

The probability of recognizing corruption decreases with civil servants' pay system (*SS*), political system pressure (*PP*). The most important predictor in the model was civil servants' pay system (B= -. 99).

7. Conclusions

The results of the descriptive analysis and the logistical model suggest several ways to reduce corruption at local public administration. Some of the most important ones include: 1) intensifying the reform process at the local public administration level focused on three important components: (i) civil service reform with all its aspects – civil servants pay system, human resources management, etc.; (ii) continuation of the decentralization and deconcentration process to strengthen the local autonomy and increase the fiscal capacity of local authorities through a better generation and management of their own revenues; (iii) improving the public policy formulation process in a close relation with the budgeting process. All these objectives are also in



accordance with the requirements for Romania's accession to the European Union structures. 2) a clearer assignment of responsibilities at the local level, especially at the city hall level, should be necessary, also including here specific tasks related to the reform process. By creating modernizing groups at the county council and prefecture level, the reform actions were perceived in a clearer and more coherent manner. 3) designing and implementing a sustainable strategy regarding the application of a unitary pay system for civil servants; 4) organizing specialized training sessions for local elected people on different topics of the reform; 5) reducing the fluctuations in the technical apparatus within city halls as result of political changes, etc.

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