

# CORRUPTION - AN INHIBITING FACTOR FOR THE EFFICIENT IMPLEMENTATION OF STRUCTURAL FUNDS IN ROMANIA

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**Abstract:** *The aim of this paper is to give an insight into the link between corruption and the implementation of structural and cohesion funds in Romania and the other Central and Eastern European states (CEE). Although there is a great interest within the mass-media and the civil society for this topic, very few in-depth analyses have been carried out on this subject by independent researchers. This article starts with an evaluation on the various indicators and indexes that quantify corruption, continuing with a comparison at a regional level. Afterwards, the analysis continues with a brief assessment on the implementation of structural funds in Romania and the other CEE states.*

*What we have found by analysing the corruption indices and absorption rates for 7 European Union member states is that there is a strong link between the two phenomena: states with high levels of corruption benefit less from structural and cohesion funds having lower absorption rates.*

**Keywords:** Structural funds, Cohesion Funds, Corruption in Romania

**JEL Classification:** D73, E61, O52, R11, R58

## 1. METHODS OF ASSESSING CORRUPTION

Corruption is a phenomenon that is today in the spotlight all across Europe and is often associated with slow growth, underdevelopment and even sovereign debt crisis. The current economic situation has focused the attention even more on European countries with high perceived corruption levels, such as the Mediterranean states or new member states from Central and Eastern Europe.

For the CEE countries corruption has been linked to the legacy of the communist regimes, where corruption was widespread within the administration and the transition to a market economy. The legacy is mainly related to the extensive use of bribes and personal connections to solve problems, to do business or to deal with the public administration. As long as many of the former communist party members remained in positions of power in politics, administration and business sectors, corruption levels remained high in the transition period.

For citizens in the CEE, in some areas more than others, corruption remains a fact of life, common knowledge and part of day to day routine. Thus, given the extent of the phenomenon, it is hard to accurately evaluate, measure and identify the most effective course of action.

It is very difficult to objectively assess corruption because of its hidden nature, the complicity of individuals associated with it and the virtual absence of tangible data, making perception indices the main method for quantification. As with any indicator based on perception, these indices can leave a gap between the real situation and the measured value. Much debate has been carried out over how accurate these measurements are but even with different sources of data, methodologies and tools, results for CEE states are similar. In order to better understand the nature of the evaluation, the measurements will be separated into two main categories related to the level that they are calculated at:

I. Global assessments:

1. Corruption Perceptions Index (CPI) released annually by Transparency International.
2. Business Environment and Enterprise Performance Survey (BEEPS), released annually by a joint venture comprising of the European Bank for Reconstruction and Development and the World Bank.
3. World Governance Indicators (WGI), released annually by the World Bank.

II. Regional assessments:

1. Eurobarometer (EB) 374, coordinated by the Directorate-General of Communication within the European Commission.

The most used indicator is the CPI, published annually since 1995 by Transparency International, an international non-governmental organization that concentrates its efforts mostly on corruption and related phenomena. The index covers 178 countries and it is based on surveys and assessments that measure the perception of corruption. Because the information collected is based on subjective evaluations and the topic is a sensitive one at the political level, a substantial amount of criticism has been addressed against the CPI on grounds such as: inaccuracy, inconsistent methods or the impossibility to assess the implication of corruption levels in a particular society. However, the CPI has proved to be a powerful tool, with wide acceptance (Urta, 2007).

Another indicator that we will analyse is BEEPS, elaborated by the World Bank starting in 1999 after a growing consensus on the idea that corruption and institutional weakness actively halted business and investment flows (Brunetti *et al.*, 1997). The indicator aims at evaluating the

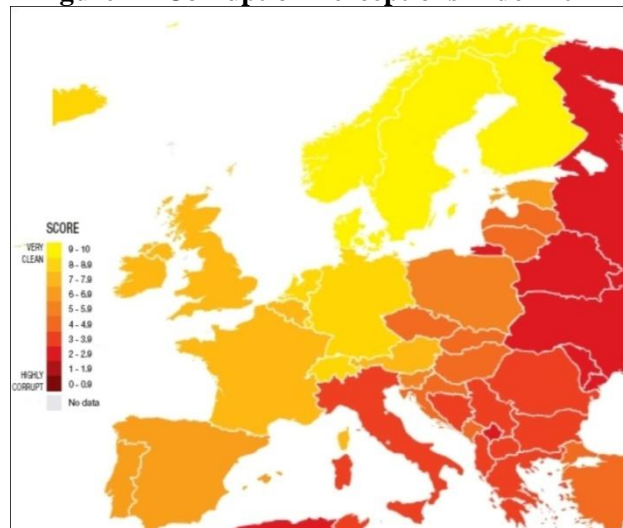
quality of governance from a private-sector viewpoint. This is not the only relevant indicator on this topic released by the World Bank as we also have the WGI that gives a more detailed picture, including details on topics such as voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality and Rule of Law.

As we have seen, there are a large number of data sources that will be analysed in order to insure a correct and accurate analysis of the phenomenon. The data from the various reports will be presented and confronted on a national level and the indicators for Romania will be compared to other Central and Eastern European (CEE) countries to see if there are significant differences between them.

## 2. CORRUPTION INDICATORS FOR ROMANIA

In order to get a global perspective we will start with the widely used CPI 2011. The report puts Romania on the 75<sup>th</sup> position out of 183 nations with a score of 3.6 (10 being the best and 0 the worst). The score reveals a high level of corruption at national level with peaks in political parties (4.5 out of 5), parliament and legislature (4.5 out of 5), police (3.9 out of 5), public officials and civil servants (3.8 out of 5). These levels have remained relatively constant with little to no improvement over the past 4 years: 87% of people interviewed feeling that corruption has increased from 2007 to 2010 and only 2% believing that it has decreased (Corruption Perceptions Index 2011, Transparency International).

**Figure 1 - Corruption Perceptions Index 2011**

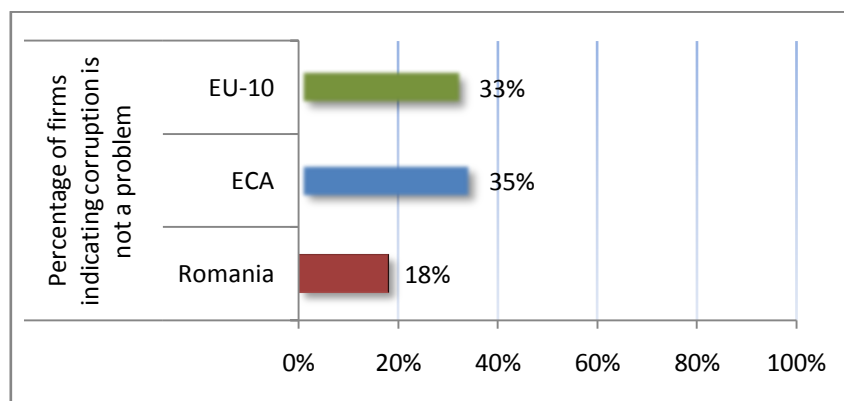


Source: Corruption Perceptions Index 2011, Transparency international

Within the European Union (EU), high corruption is concentrated in the southern and central-eastern states. Particularly high levels are found in Bulgaria (CPI of 3.3), Greece (CPI of 3.4), Romania (CPI of 3.6) and Italy (CPI of 3.9). The lowest corruption levels are found in the Scandinavian states, with a CPI of over 9, some of the lowest levels reported.

BEEPS, an indicator oriented more on the business sector covers a broad range of topics, and also includes an indicator on the business environments perception of corruption. BEEPS ranks corruption as the third determinant for problems when doing business in Romania in 2008.

**Figure 2 – Percentage of firms indicating corruption is a problem**

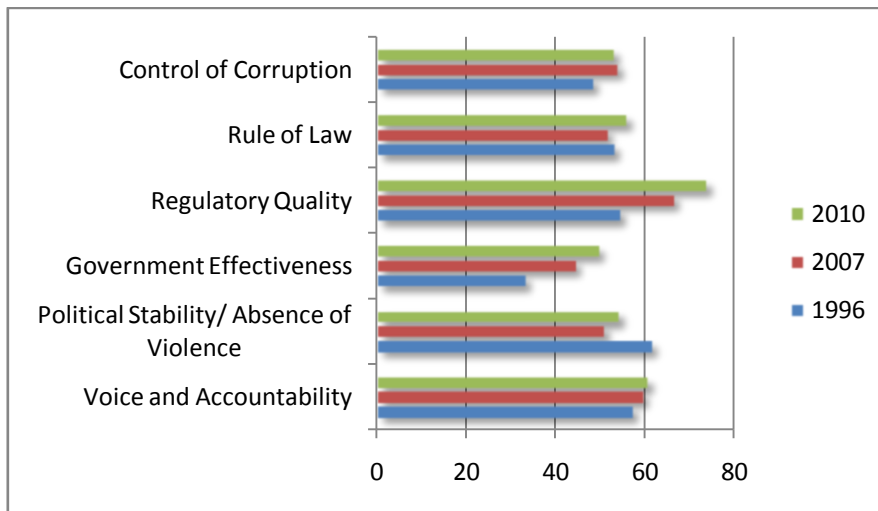


Source: Data collected from BEEPS At-A-Glance 2008, Romania

Even more worrying is the comparison to the Eastern and Central Europe and Central Asia (ECA) countries and the EU-10 states, only 18% of the companies interviewed believing that corruption is not a problem in Romania compared to an average of 35% in the ECA.

The data presented up to this point is concentrated only on corruption but in order to elaborate a correct image on the phenomenon we need to have a clear perspective and see an evolution in time. The WGI includes a list of 6 indicators that give insight into the social development of the surveyed countries. From the abundance of data we will take only the indices that present the situation for Romania. Also, in order to get an idea on the historic evolution we will present data from the first survey of 1996, seen here as a benchmark for the early transition period, 2007 and 2010.

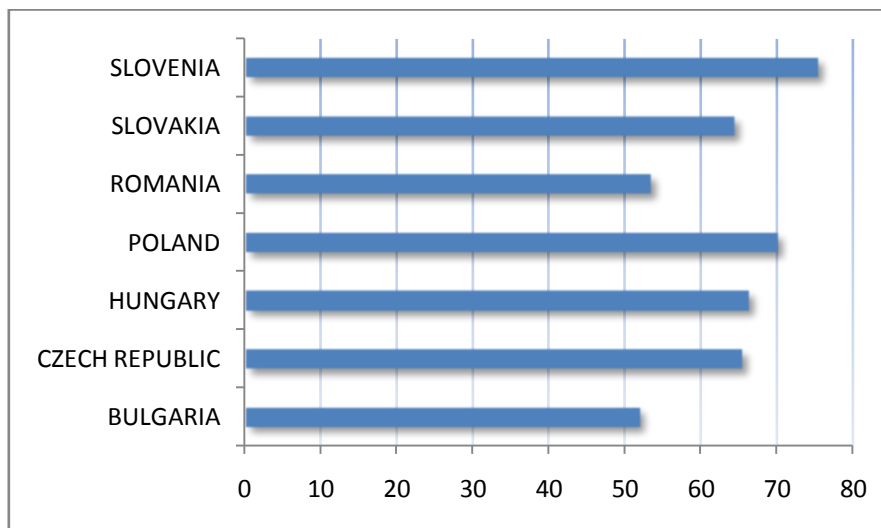
**Figure 3 – WGI indicators for Romania**



Source: Data collected from WGI, <http://info.worldbank.org/governance/wgi/>

As we can see Romania has made substantial progress in regulatory quality and government effectiveness but the rule of law and the control of corruption are still at low levels and little has changed.

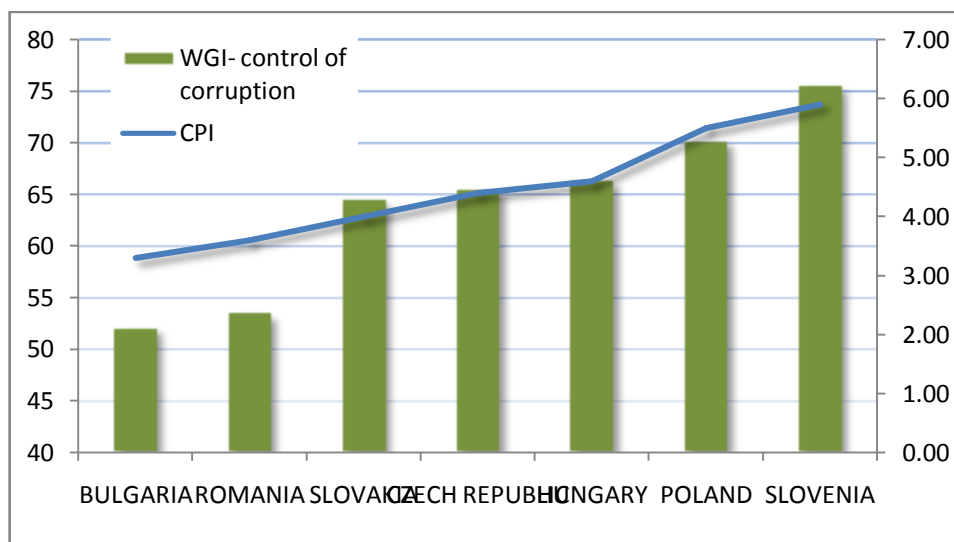
**Figure 4 - Control of corruption in Central and Eastern European new member states**



Source: Data collected from WGI, <http://info.worldbank.org/governance/wgi/>

When looking at a regional level, the WGI results on the topic of corruption are very similar to the ones presented by the CPI: Bulgaria and Romania are lagging behind the other CEE countries.

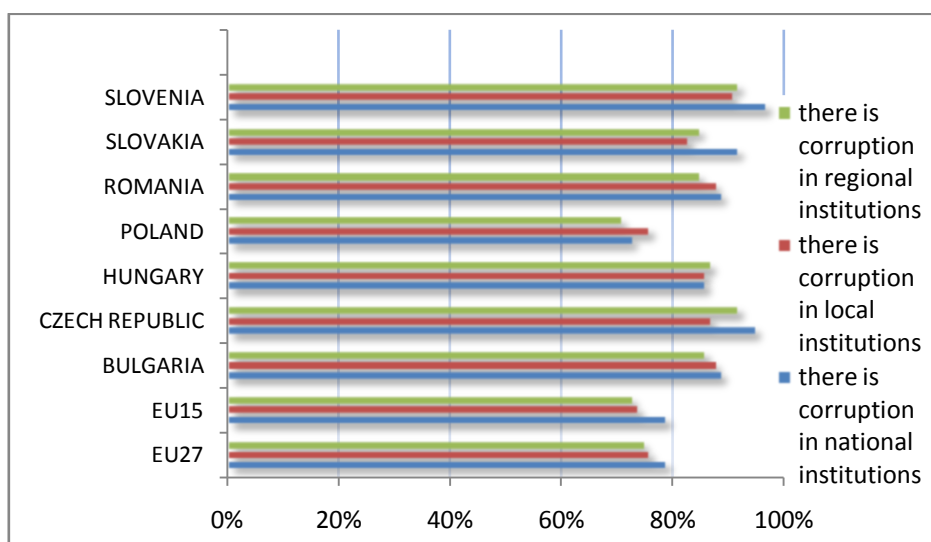
**Figure 5 - Comparison of WGI control of corruption and CPI**



Source: Data collected from WGI, <http://info.worldbank.org/governance/wgi> and Corruption Perceptions Index 2011, Transparency international/

At the EU level the subject of corruption has been evaluated most recently in two special Eurobarometers: EB72.2 Attitudes of Europeans towards Corruption (2009) and EB374 Corruption (2011). The differences at the EU27 level in assessments between the two polls are small but they show a slight improvement over the period but there are significant variations at the national level.

**Figure 6 - Corruption levels in CEE states institutions**



Source: Data collected from Eurobarometer 374

The methodology used is different from the CPI, WGI or BEEPS, the EB being a simpler opinion poll. This, together with a difference of one year between the global reports and the EB (EB covers 2009 while the data presented from the CPI or WGI cover 2010), has led to a change in the hierarchy of corruption levels.

In regard to the most affected areas, the majority (57%) of Europeans believe that bribery and the abuse of positions of power for personal gain are most widespread amongst national politicians, followed by regional and local politicians (48% and 46% respectively), officials awarding public tenders (47%) and building permits (46%) (Eurobarometer 374).

The most worrying issue is that an overwhelming majority of European citizens view all institutions as being corrupt. This fact shows that there is corruption at all levels and that the image of the local, regional and national institutions is especially tarnished.

A well-functioning national integrity system (NIS) is seen as the foundation of anti-corruption activities. However, when these institutions are characterised by a lack of appropriate regulations and by unaccountable behaviour, corruption is likely to thrive with negative ripple effects for the societal goals of equitable growth, sustainable development and social cohesion (National Integrity System Assessment Romania).

As we have previously seen, corruption in Romania is widespread and very little progress has been made in combating this phenomenon. Having illustrated the amplitude of corruption in Romania, placing it in a regional context and having seen its evolution we can now move forward to see what the effects on the implementation of structural funds are.

### **3. THE IMPLICATION OF CORRUPTION ON STRUCTURAL FUNDS IN ROMANIA**

The problem regarding the integration of Romania and Bulgaria in the EU fuelled fierce debates mainly concerning the great gap in economic development and the problems that this issue would raise in the integration process. As the two countries were at less than one third of the GDP per capita of the EU it was believed that this would bring divergence and a super national union could not survive with such a lack of economic and social cohesion. In order to put these fears at rest a development strategy was elaborated that formed the National Development Plans (NDP) for 2007-2013 and the National Strategic Reference Framework 2007-2013 (NSRF), based on funding from structural and cohesion funds. For Romania the objective set through the NSRF was “to

reduce the economic and social development disparities between Romania and the EU Member States, by generating a 15-20% additional growth of the GDP by 2015” (National Strategic Reference Framework 2007-2013).

The centre stage was taken by the structural and cohesion funds that fed the 7 operational plans defined in the strategies. Up to mid-2012, passed the middle of the implementation period, the results delivered are below the original expectations. The simplest and most used indicator in evaluating the implementation stage is the absorption rate. Although mid-term evaluations would give a more detailed picture, such reports have not been elaborated on all the operational plans. Thus, the absorption rate reveals the stage of implementation and is a good indicator on how the plans are progressing.

**Table 1 – Absorption rate in CEE countries**

| Country        | Absorption rate |
|----------------|-----------------|
| Romania        | 16,54%          |
| Poland         | 37,23%          |
| Hungary        | 35,25%          |
| Bulgaria       | 23,55%          |
| Slovenia       | 37,01%          |
| Czech Republic | 26,14%          |
| Slovakia       | 27,76%          |

Source: European Commission, Commission payments getting EU Cohesion Policy working on the ground, Absorption rate at the end of 2011 (European Regional Development Fund, European Social Fund, Cohesion Fund) calculated out of the total programming period 2007-2013

The data shown in the table above only gives information on the most important indicator of absorption: the amount reimbursed by the EC to member states as a result of approved reimbursements. As we can see Romania has the lowest absorption rate out of all CEE countries and also the lowest in the EU27.

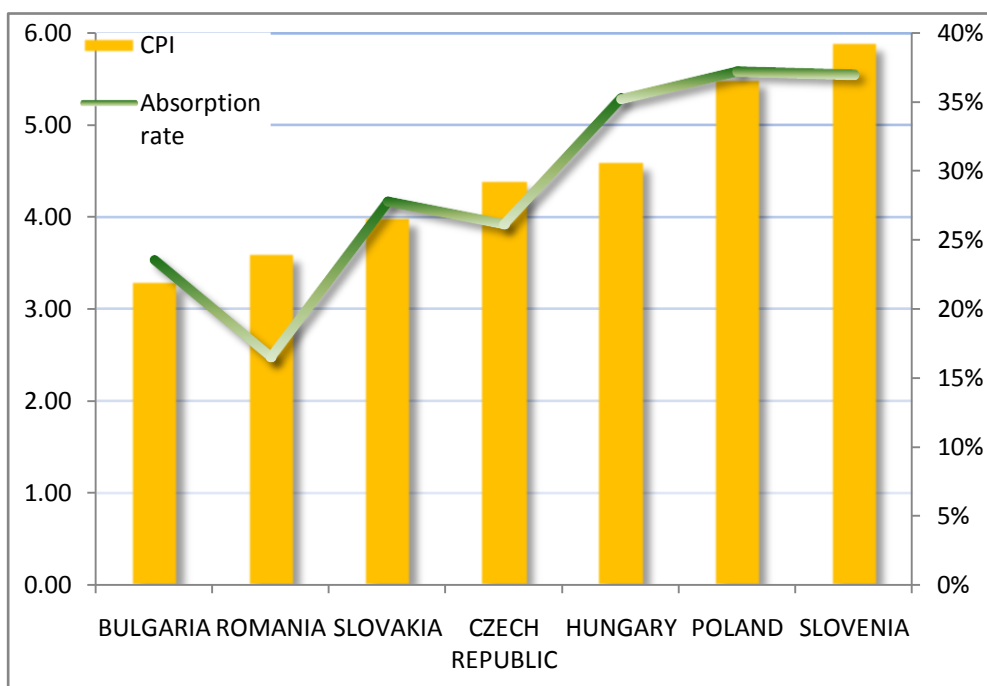
This low absorption rate has been empirically linked to poor institutions, the lack of specialists and expertise in project and program management and most of all corruption. These opinions are further confirmed by a study published in 2006 by Ederveen et al. that set out to identify the factors that influence the results attained by the spending of structural funds in the EU15. Analysing data from the ex-post evaluation the researchers found that *only member states with solid institutions, low levels of corruption and high degree of openness benefit from the*



*spending of structural funds* while states with high corruption and weak institutions will not only have reduced results but may even suffer real losses (Ederveen *et al.*, 2006).

As the implementation is still on-going and there are still at least 4 years until the ex-post reports are released, we tried to see if there was a link between corruption, measured by corruption indexes described above and the absorption rate.

**Figure 7 - Corruption and absorption rates in CEE states**



Source: Data collected from Corruption Perceptions Index 2011 and Inforegio, Commission payments getting EU Cohesion Policy working on the ground

Thus, we can see a strong link between corruption levels and the absorption rate: the countries with the lowest levels of corruption have the highest absorption rates. The anomaly that appears to be between Romania and Bulgaria can be attributed to a better government strategy that put emphasis on competitiveness and business development. Romania concentrated its efforts more on human resources development and although a large number of projects have been implemented or are currently on-going, few payment requests have been made leading to a lower absorption rate. Other institutional causes may have had decisive effects on this state of facts. As the WGI indicator “control of corruption” has a very similar relative values to CPI (as seen in graph X), the trend is the same.

## CONCLUSIONS

As we have seen in the previous chapters, countries with high corruption have lower absorption rates. Corruption, which is usually correlated with inefficient institutions and low accountability, is a significant factor in the implementation of structural funds. In the field of project management this translates into long periods of time for the elaboration of funding programs (many of the Ops have started late, in 2008 or even 2009), weaknesses in the project evaluation processes, long reimbursement periods for beneficiaries, a high amount of red-tape and ultimately a low number of reimbursements made by the European Commission.

This fact has serious consequences on socio-economic development as those countries, such as Romania and Bulgaria, have also the lowest GDP per capita levels in the EU. Thus, although they have allocated a substantial amount of funds to promote growth and reduce disparities, these countries are only going to be able to use a small portion of their allocation. The inability to absorb structural and cohesion funds means that the development objectives set through the NDPs and the NSRFs will be met only in a small measure. Along with a slow economic growth this implies that disparities between countries of the EU will at the very least remain high or even grow.

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