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PUBLIC ADMINISTRATION

EFFECT OF POLITICAL LEADERSHIP ON THE CORRUPTION IN THE STATE

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Abstract: *Globalization has led to the fact that corruption in one country can affect the situation in other states. A number of top managers worldwide who are willing to pay bribes to keep or expand their business is increasing. However, the most common and dangerous corruption is in the government structures and corruption that associated with the use of administrative resources. The level of corruption in Ukraine is very high and remained stable for the past ten years. One of the factors of increasing corruption in Ukraine is considered the problem of political leadership. Using the Y.Engvalya theory of corruption allows re-evaluating mass and rationality of what is happening, indicates the fallacy of traditionally definition of corruption as unacceptable for majority. Existing corruption model today can be recognized as a widespread one, which significantly increases the role of political leadership. Implementation of new management standards is an important task for many states.*

Keywords: *corruption, corporations, databases, leadership, corruption model.*

INTRODUCTION

Extending of view on corruption to the international level is extremely helpful for apologists of the fight against corruption, as well as for those who are trying to prove if not efficiency, but the need of many corrupt relations. The emergence of corruption as a phenomenon caused rapid growth of various kinds of publications and theoretical works devoted to this problem. With the time abstracts and later – electronic databases have begun to be created. One of the most authoritative abstract databases – Web of Science allows not only to significantly expand the thematic horizon, but also to assess the productivity of the research work, the interest of the academic community to the affected problem.

The first mention of corruption in Western media accounts for 1904. Comparing the situation in the UK and the USA, D. Ford raised the issue of political corruption which is most clearly manifested during the social transformation, when the newly arriving elites faced with unacceptable for them practices (Ford HJ, 1904).

In the second half of XX century, corruption becomes more and more inter-native problem. Corporations bribing of senior officials abroad acquired a mass character.

Globalization has led to the fact that corruption in one country became negatively affect the development of other countries. Herewith, countries with high levels of corruption confined no longer to the Third World: the process of liberalization in the former socialist countries in the 1990s was accompanied by egregious malfeasance. It should be noted that Ukraine for centuries (from XIII to XVIII century) lived in conditions of underdevelopment of market relations. Corruption is hampered by this underdevelopment. This largely explains the fact that in Ukraine during these centuries the mechanisms for fighting against corruption had not been developed: corruption as a phenomenon until the XIX century was not perceived too seriously, as it did not have any serious consequences. Unlike Ukraine, Western Europe from XII-XIII centuries and hitherto lived in a market economy and was forced to find ways to fight corruption that posed a serious threat to the very existence of a state and society (Herlihy D., 1971).

MODEL OF CORRUPTION AND POLITICAL LEADERSHIP

Building economic models of corruption spurred rapid growth of interest to this phenomenon by the academic community as a new approach allowed to proceed from moral and existential ratings (corruption as a necessary evil, mediated by human propensity for profit) to a pragmatic modeling and forecasting the consequences of corrupt practices. Without abandoning the condemnation of corruption and its identification with the criminal practice, economists have made in theoretical discourses presentations of economic rationality of political decisions that constitute corrupt environment. This allowed not only to describe the empirical relationships between statistically registrable signs, but also to develop the theory of corruption, that had much more heuristic power than any preceding moral or legal conceptualizations.

Today the issue of corruption is very crucial. An increasing number of top managers worldwide are ready to pay bribes to keep or expand their business. In this, desire to demonstrate economic growth outweighed concern about ethic, administrative and criminal penalties. Analysts of company «Ernst & Young» in May 2012 confirmed that the number of top managers who are ready to pay bribes, particularly in development of new markets, increased from 9% last year to 15% this one. "Growth and business ethics in today's market can be opposite concepts," - pointed the firm expert D.Stulb. Herewith, Colombia, Brazil and Ukraine are considered as the most corrupt countries. A third of interviewed 1600 top managers in 45 countries are confident that corruption is wide spread in their country. Of the 400 interviewed 15% financiers announced agreement to pay a bribe to secure your business. Another 4% are willing to pay in order to hide financial indicators. "This group of executives is not large in absolute terms, but when you consider the responsibility that they bear, they pose significant risks for their business and for boards of directors", - agency «Reuters» quotes the material researches of «Ernst & Young». More than half of contemporary managers believe that the boards of directors lack a detailed understanding of what their businesses are, and conniving and reluctance to apply sanctions to corruptors emasculates the principles of classical management.

The modern understanding of corruption emerged in the twentieth century, however, to date no in Ukrainian legislation or in international legal acts it is not given a clear definition. We present here the following definition: "**Corruption is an act or omission of it made by the decision-maker, in his own interests or in the selfish interests of another person associated with the use of public resources.**" This definition includes others more or less frequently used in the academic literature (SV Bondarenko, 2002). "The decision-maker" is a one natural person (official), or a group of individuals (competition commission), or legal entity (community organization, the Foundation that distributes grants). The public resource can act as budget funds, elective posts, deputy mandates, grants for community organizations.

The majority of researchers, representatives of international organizations reduce the definition of corruption to a bribe and abuse of official position.

The Code of Conduct for Law enforcement officials, adopted by the UN General Assembly Resolution №34/169 on December 17, 1979, defines corruption as "the abuse of official position to achieve personal or group benefits, as well as illegally obtaining benefits by state employees in connection with their official position" (Astafev LV, 1996). G.Myrdal and S.Rose-Ackerman noted the hidden nature of corruption as an its important feature: that which does not hidden from the public eye and is valid from the point of view of society, as a rule, has nothing in common with corruption.

There are the following forms of corruption: lower (small, everyday, household) and the highest (large, elite). The most extended and dangerous corruption is in the government which is related to the use of administrative resources (political corruption, which can act as a lower form of corruption – a bribe for registration of the company, and in the form of higher one – use of administrative resources for obtaining the "correct" election results).

In the end of 2011 the Ministry of Justice for the first time published the report on the level of corruption in the country (Ryabchun Yu, 2012). As "Kommersant-Ukraine" points out, the Ministry in the preparation of the report, which will now be published annually, based on information of law enforcement agencies, public and international organizations. The report says that in 2011 the prosecuting authorities and the Ministry of Internal Affairs identified about 17 thousand malfeasances – 25% more than in 2010, and the most common form of corruption is bribery. The level of corruption in Ukraine has very high indicators and remained stable for the past ten years.

GROWTH FACTORS OF CORRUPTION

As one of the growth factors of corruption in Ukraine the issue of political leadership should be considered. In 2005, the former President of Ukraine Viktor Yushchenko publicly boasted that from government service were dismissed tens of thousands of officials on political grounds. In fact, these people were politically repressed. Though part 2 of Art. 24 of the Constitution of Ukraine states: "There can be no privileges or restrictions based on race, color, political, religious or other beliefs...". In June 2012, at a press conference, V. Yushchenko said that the officials, whom he appointed to high public office, being the President of Ukraine, "took responsibility to

serve the party organization" ("Our Ukraine" – his party). The above confession of the ex-president V. Yushchenko is confirmed by objective facts. While he was the President and had the opportunity to select leading cadres, "Our Ukraine" had never experienced financing problems, and once he left this post and lost the right to distribute government positions, respectively, "Our Ukraine" was in debts.

What does it mean to be appointed to high government positions in burden with "responsibility" of financial "support" the presidential party organization? Is not that corruption, not the use of power and official position for personal gain? Thus, it appears that the public service under the President Yushchenko was a very profitable business allowing not only to "serve" financial obligations of "Our Ukraine" but also to benefit for them.

From this point of view the work of Swedish scientist J.Engvalya is interesting. He proposed a theoretical study of the phenomenon of trading by post as a process accompanying the privatization of public resources (on the example of the Kyrgyz Republic). Here it is possible to draw an analogy with the post-Soviet Ukraine. Comparing the manifestation of corruption with the investment market, Y.Engval emphasizes mass and rationality of what is happening, which, in his opinion, indicates the fallacy of the traditional definition of corruption as primarily a crime, namely, the phenomenon is unacceptable to the majority.

APPROACHES TO OVERCOMING CORRUPTION

Annually corruption causes damage to budget by 20 billion hryvnias, but today, the political leaders of Ukraine have a main remedy to fight corruption – political will. This was pointed out by the current President of Ukraine V. Yanukovych in his speeches, specifying 2014 as the year of active overcoming corruption.

On new approaches to overcoming corruption the Prime Minister of RF Dmitry Medvedev spoke on the second international legal forum held in May 2012 in St. Petersburg. He said: "We all understand the complexity of fighting against corruption, and the need to exploit new innovative ways, because the world is changing, there appear absolutely fantastic ways to move money, their legalization and laundering." To do this, it should change the legislation and set up collaboration between different countries." There must be a fundamental shift in control systems," - D. Medvedev underlined.

Thus, assessments of leading political leaders recognize the central role of political leadership in overcoming corruption and demonstrate the need for change in the habits of people because the existing corruption model can be recognized for today as a common one.

It became necessary of introduction the new corporate standards in state and private structures. "The crisis has proved it in full –we saw a lot of successful people, apparently have not lighted before in any suspicious transactions that, on the other hand, deceived a huge number of their fellow citizens, a large number of its customers" – D. Medvedev summed up. Thus, the introduction of new management standards is the "most important task" for many states.

CONCLUSIONS

The level of corruption in the state depends mainly on grand corruption and only slightly dependent on small one. For this phenomenon the following definition was formulated: grand corruption is selling or ignoring the interests of society by officials and state leaders in favor of the interests of individuals or foreign countries. As we can see, this definition considers the phenomenon of corruption is much broader than just bribery and illicit enrichment, and includes any ways of officials' enrichment, contrary to the public interest, and also includes of bureaucracy arbitrariness and, in general, any activity contrary to the public interest. This definition corresponds to the understanding of power that developed in democratic states: the government is hired by a society that is by people living on a given territory, in order to protect their interests, and any activity of this power with diverging interests of these people should be considered as the corruption of power.

It should be clarified that in this case (grand corruption) we are not talking about minor bureaucrats and public servants (inspectors of traffic patrol service, doctors, and teachers). They do not decide whether the policy of the government with the interests of the population, and they do not have opportunities at all desire for over enrichment. Such decisions are made, and such opportunities have only high officials and heads of state and government.

That is why the task of fighting large corruption, and therefore, generally corruption as a serious phenomenon that threatens the existence of the state, is largely reduced to the problem of forming an honest and incorruptible top of officials guided not by their personal interests, but welfare of the state and society.

From the standpoint of the theory of classes, this problem is formulated even shorter: the fight against corruption is reduced to prevent the transformation of the ruling elite into oligarchy – a group of persons whose interests do not match or contrary to the interests of majority of the population.

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**LAG-S – ASSOCIATION STRUCTURES FOR LOCAL AND MICRO-
REGIONAL DEVELOPMENT AND FOR ATTRACTING
EUROPEAN FUNDS**

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Abstract: *Local development, by means of attracting European funds, has become a priority for local authorities which, in the absence of sufficient financial resources for development, turn to partnerships with various actors in the economic and civil society to capitalize local and micro-regional potential in order to improve living conditions, to increase the quality of public services and to stimulate local initiatives. One of the partnership forms whose founding and functioning is supported by the European Union is the Local Action Group (henceforth called LAG), an associative, non-governmental form which brings together municipalities, businesses from the private sector and civil society entities within a particular geographic area. This public-private partnership is financially supported by the European Union through the National Rural Development, Axis IV, Leader, Measure 431 - Operation of Local Action Groups, acquiring skills and animating the territory.*

Keywords: *Local Action Group (LAG), public-private partnership, local development, European funds, association.*

GENERAL ASPECTS

Local development involves attracting financial resources that can be allocated, on the basis of a coherent development strategy resulting from public debate, to the sectors, areas or to the fields of local or regional interest by local government representatives democratically appointed by citizens' vote. The need of the residents from different municipalities of the country for comfort, for better quality public services can be achieved by means of designing and implementing economic, social or cultural projects for local development. As one states (Goigou, 1983), local development is the expression of local solidarity that creates new social relations and manifests the will of a micro-region to value their local resources, which leads to economic development.

Local development is a process of diversification and enrichment of economic and social activities within a territory which starts with mobilizing and coordinating their resources and energies. Therefore, local development is the result of the population efforts. By drawing up a development project that integrates economic, social and cultural components, local development will make from a proximity space a space of active solidarity” (Greffé, 1984). Literature (Ștefan, 2008) revealed that local development implies several dimensions, such as the economic dimension, the social dimension, urban and regional planning, public services, tourism dimension, the environmental dimension, the cultural, artistic or sport dimension.

One of the forms of implementing a development strategy is Local Action Group (LAG). The design of a development strategy mobilizes and involves the entire community to contribute to achieving the aims of the Europe 2020 strategy for a smart,

sustainable and inclusive development, thus placing local and regional development under the responsibility of the community (European Commission, 2010).

LAG is a form of public-private partnership consisting of bringing together local governments, economic agents, NGO-s and other civil society representatives of a micro-region. By means of Local Action Groups there can be attracted European and national funds to areas where these associative structures operate, funds that are distributed to various beneficiaries on project basis. In turn, LAG-s can be eligible beneficiaries of the various financing axes from European funds for rural development.

Through Common Agricultural Policy (CAP), the European Union aims, among others, to contribute to economic diversification of rural areas and to the application of strict standards of environmental protection, this policy being managed and financed at the European level by the European Union's annual budget.

CAP can be described as having three dimensions: market support measures, income support and rural development. Local Action Groups fall into the third dimension of the CAP, namely that of rural development. Within rural development programmes, "LEADER approach" encourages local population to find solutions to local problems (European Commission, 2013).

Based on the finding that almost half of the EU population lives in rural areas, the CAP aims at maintaining the vitality and unity of rural communities by means of creating new jobs, redevelopment of villages, protection of their cultural heritage and of the landscape, and of maintaining and improving local public services, such as schools, medical facilities, recreational facilities etc. In line with the European Strategy Development "2020", partnerships for innovation and development represent one of the most viable solutions for rural areas to become more attractive and competitive.

For the financial period 2014-2020, the European Commission proposed to allocate 89.9 billion euro for rural development. Regarding the normative perspective, the legislative package for cohesion policy, published on October 6th 2011, includes a general regulation establishing common rules for all funds that are part of the Common Strategic Framework: *Regional Development European Fund, Social European Fund, Cohesion Fund*, the *European Agricultural Fund for Rural Development (EAFRD)* and the *European Fund for Maritime and Fisheries Affairs*, regulation which allows a better fund combination for a stronger impact of the action (Romanian Ministry of Foreign Affairs, 2011).

Public-private partnership allows the design and implementation of innovative actions in a wider or more confine geographical area. By constituting Local Action Groups that bring together local authorities of several municipalities, businesses and NGOs, there can be generated, after having assessed regional needs, their strengths and weaknesses, as well as opportunities and risks involved, innovative actions in the form of infrastructure projects, projects to develop and support SME-s, as well as human resources development. Literature (Antonescu, 2011) specifies that experience has proven the following aspects:

- Small investments can have important, considerable effects on regional and micro-regional innovation;

- A thorough evaluation of these approaches demonstrates that their value and impact are necessary to convince at the political level, but also to mobilize regional or micro-regional actors;
- Requirements of a participatory system involve all stakeholders, as well as the transparency of the government to their partners and a strong sense of commitment and responsibility;
- Through this process, new arbitration of priorities within Operational Programmes can be provided in a regional or micro -regional consensus.

All development projects are included in the development strategy that allows the connected and integrated use of local, national and European funds, thus ensuring sustainable and inclusive development. Designing local and micro-regional development strategies is one of the most important steps that support processes of local and micro -regional development. This type of strategy clarifies, on medium and long term, the directions and areas towards which community effort development are to be oriented (Marton, 2003).

Development strategy provides the following: the analysis of the actual context in which the local community stands; establishing development targets and measures by means of which they can be achieved; establishing the most efficient projects leading to local development and to funds that can be accessed for these projects; encouraging local development and the identification of untapped potential within the community; stimulating community to participate and consolidating their sense of social involvement.

2. LOCAL ACTION GROUP – LEGAL STATUS, MODE OF OPERATION AND FINANCING

The trend of associating public and private actors in order to develop local or micro -regional projects was driven primarily by the limited financial resources and by the need to find solutions for increasing the share of these resources, as well as by the policy at the European level that encouraged, by means of OP-s, the association of public and private environments in order to attract European financial resources for local sustainable development.

In terms of legal status, Local Action Group is set up as an association established with the compliance of Government Ordinance no. 26/2000 (published in Official Gazette of Romania, Part I, no. 39/ 31st January 2000), further amended and supplemented an associative structure which has a goal, specific development and operational objectives and a management structure of its own. Based on the above-mentioned enactment, LAG includes the following structures: the General Assembly, Board of Directors, and Auditor or, where appropriate, the Board of Censors. The decisions of the General Assembly are implemented by the Board of Directors.

Even if the LAG structure includes both public and private entities, it is a legal entity of private law, with non-profit purpose. Therefore, even if the administrative units that fall in this association, namely local authorities, are legal entities of public law, the entity resulting from this association agreement is a legal entity of private law. In fact, the Law no. 215/2001 (republished in Official Gazette of Romania, Part I, no. 123/ 20th February

2007) on local government, republished, provides that, in case of the association of two or more municipalities in order to achieve objectives of common interest, the subject of law resulting from their association is a matter of private law. Thus, according to art.11, paragraph 1, "two or more municipalities have the right, within the limits of their deliberative and executive authorities' competences, to cooperate and associate, under the law, thus forming the IDA, with legal personality, under private law and public utility." Local Action Groups are set up and operate with financial support from the European Union through the National Rural Development, Axis IV, Leader, Measure 431 – The Operation of Local Action Groups, acquiring skills and animating the territory.

National Rural Development Programme (RDP) is funded, in turn, by the European Agricultural Fund for Rural Development and funds from the Government of Romania. European regulations (MARD, 2013) to support Measure 431 are: Article 63 (c) of the Council Regulation no. 1698/2005, on support for rural development provided by the EAFRD, Article 38 and point 5.3.4.3 of the Annex II of the Commission Regulation no. 1974/2006, Article 1, Section 1 B of Council Decision 664/2006 of adapting Annex VIII of the Treaty of Bulgaria and Romania Accession on 19th June 2006, Article 1, paragraph 3 of the Commission Regulation no. 434/2007 amending Commission Regulation no. 1974/2006 on rules for implementing Council Regulation no. 1698/2005, following the accession of Romania to the European Union.

Measure 431 is divided into two sub-measures, namely sub-measure 431.1, which supports the construction of public-private partnerships, local development strategies and local development plan preparation to participate in the selection of Local Action Groups, and sub-measure 431.2, which provides support to LAG-s for their operating expenses, animation and skills development, the beneficiaries of this sub-measure being the Local Action Groups selected by the Managing Authority of the Ministry of Agriculture and Rural Development. Selection is based on the local development plan proposed by each LAG, plan which becomes a mandatory document for the implementation. Therefore, Measure 431 aims to increase the capacity to implement local development strategies by means of (MARD, 2013):

- Institutional capacities at the local level;
- Providing human, financial and technical resources to support the activities of Local Action Groups;
- Training the staff of the Local Action Groups in order to develop and implement local development strategies.

In addition to the European Union funds, financing of Local Action Groups is also provided by state and local funds. When associating as LAG-s, the share of economic and social partners, as well as that of other representatives of civil society, must be higher than the share of public partners. To summarize, LAG takes the form of public-private partnership, consisting of representatives from the public sector, the private sector and from civil society, that, after being selected, on the basis of the Local Development Plan (LDP), by the Managing Authority for the National Rural Development, acquire legal personality under private law, in accordance with the Government Ordinance no. 26/2000, with subsequent amendments, and pursue the objectives set out in the Local Development Strategy for the development of rural communities.

LAG integrates within the European Union Member States to decentralize the management of structural instruments (Apostolache, 2013). After acquiring legal personality, the Local Action Group agrees with the Paying Agency for Rural Development and Fisheries (as the Contracting Authority) on the financing contract. In order to be eligible (MARD, 2013), the costs incurred by LAG should be within those of the territory eligible for the Local Development Plan implementation, with the exception of the costs implied by the transportation to the activities of the national and European network for rural development or by the participation in national and international seminars on Common Agricultural Policy, in national seminars on agriculture / Forestry / food industry and rural development, LEADER approach, knowledge of best practice examples of SAPARD projects and / or EAFRD GAL staff training and that of local leaders.

Once established, the Local Action Group has the responsibility to select projects and to initiate activities for acquiring skills and animating the territory. The LAG functions are the following:

- raising the level of local population awareness;
- designing the Local Development Plan;
- promoting the Local Development Plan in the territory;
- launching the selection calls and receiving projects from potential project beneficiaries;
- verifying the conformity and eligibility of the submitted projects;
- evaluating the submitted projects and establishing the score for each project;
- verifying the proper operation of interventions, by means of their monitoring;
- coordinating and supervising all activities;
- conducting activities in accordance with the established audit trails;
- continuous monitoring and expenses accounting.

These associative structures function as real management authorities at the local level, being the ones carrying calls for the submission of projects funded by the European Union by the entitled subjects within the geographic area in which LAG operates. After launching the call for proposals, these are to be submitted by public authorities, NGO-s, businesses and other administrative people across localities associated in the public-private partnership to the implementing unit within LAG.

As far as funding from LAG funds is concerned, this is possible for the following measures:

– *Axis I – Improving the competitiveness of agriculture and forestry:*

Measure 111 - Training, information and diffusion of knowledge;

Measure 112 - Setting up of young farmers;

Measure 121 - Modernizing agricultural holdings;

Measure 123 – Increasing the added value of agricultural and forestry products;

Measure 142 - Setting up producer groups;

Measure 143 - Providing counseling and consulting services to farmers.

– *Axis III – Improving the quality of life in rural areas and diversification of rural economy:*

Measure 312 - Supporting the creation and development of micro-enterprises;

Measure 322 - Village renewal and development, improving basic services for rural economy and population and promoting rural heritage;

Measure 313 - Encouraging tourism activities;

Measure 421 - Implementing cooperation projects.

Apart from this type of financial support (EAFRD), there is also a component of co-financing which, depending on the type of project, can be public or private (public - national or local contribution, private – NGO or private environment). In fact, co-financing is one of the basic principles of the Cohesion Policy and it assumes that Member States and beneficiaries of the Member States are to financially contribute, thus completing grant Community assistance, by means of co-financing being also developed the beneficiaries' sense of belonging to the projects promoted (Apostolache, 2013).

LAG-s put into practice the concept of Axis IV - LEADER within RDP on starting and operating initiatives of local interest, by using "bottom up" approach, which involves local stakeholders in developing their own territories.

The advantage of the Local Action Group selecting the projects is that the selection process is done in a much shorter time than the national selection, as LAG-s examine a small number of projects compared to the large volume of projects submitted at the national level that are to be reviewed by the managing authority.

After the projects being submitted, evaluated and selected by LAG-s, they are sent to APDRP which provides final verification. One can say that Local Action Groups are managing authorities that are the closest to citizens, their activity highlighting the principles of decentralization and subsidiarity.

3. LOCAL ACTION GROUP. CASE STUDY – PRAHOVA COUNTY

To understand exactly how Local Action Groups are constituted and operate, we shall exemplify with several examples of associative structures from Prahova County. The selected groups are: "Colinele Prahovei" LAG, "Valea Cricovului" LAG and "Treimea Colinelor" LAG.

"Colinele Prahovei" LAG is located in the commune Florești and it includes public and private partners from seven localities - Filipeștii de Târg, Măgureni, Florești, Bănești, Cocorăștii Mislii, Scorțeni și Vâlcănești (LAG "Colinele Prahovei", 2013).

"Valea Cricovului" LAG consists of 40 members (11 public authorities, 16 commercial companies, 1 agricultural society, 3 individual companies, 7 NGO-s and 2 parishes) coming from Bucov, Valea Călugărească, Urlați, Ceptura, Iordăcheanu, Gornet-Cricov, Albești Paleologu, Drăgănești, Ciorani, Sălciile and Jilavele - the last one from Ialomița County (LAG "Valea Cricovului", 2013).

"Treimea Colinelor" LAG includes a partnership of public, private and civil society from Brebu, Aluniș and Vărbilău. We shall focus in our presentation on "Treimea Colinelor" Local Action Group (LAG "Treimea colinelor", 2012). According to the website of the Group's presentation (LAG "Treimea colinelor", 2012), "Communes Brebu, Vărbilău and Aluniș merged into a public-private partnership in order to develop the territory occupied by the three communes, strategy which includes actions to be

initiated in the territory in order to create the necessary conditions for future development of the territory occupied by the partnership."

This partnership includes the following: BREBU COMMUNE - Local Public Authority, ALUNIȘ COMMUNE - Local Public Authority, VĂRBILĂU COMMUNE - Local Public Authority, S.C. ADRIDENT L.L.C. – Trading Company, NEAGA GH. MIHAELA – ACCOUNTANT - Expert Accountant Neaga Gh. Mihaela, TOCITU N. MAGDALENA (PFA) - Authorized Natural Person Tocitu N. Magdalena, S.C. FABY TRANS CAR L.L.C. – Trading Company, INTERETHNIC ASSOCIATION “ÎMPREUNĂ VĂRBILĂU” – Interethnic Association, S.C. SOEZ S.R.L. – Trading Company, „MATEI BASARAB“ FOUNDATION FOR CULTURE, SPORT, TOURISM - Foundation, “ASSOCIATION OF ANIMAL BREEDERS” FROM BREBU COMUNE, PIETRICEAUA VILLAGE, PRAHOVA COUNTY- N.G.O., PRIVATE MEDICAL CABINET DR. „MOGA IULIANA“ - Individual Private Medical Cabinet, FORESTRY DEPARTMENT PRAHOVA – Public Institution. It can be seen that, in terms of share of the two sectors, public and private, 75 % of LAG’s actors come from the private sector and the remaining 25 % - from the public.

The initiative to set up the LAG belongs to the mayor of Brebu, commune that also became the leader of the project. The Local Development Strategy of “Treimea Colinelor” LAG includes seven measures, related to the priorities and needs identified in the territory covered by this LAG, measures that comply with the goal of one of the measures in Council Regulation no. 1698/2005, and a development measure, other than the measures specified in the Council Regulation no. 1698/2005. These measures are:

1. Measure 112 - "Setting up young farmers"
2. Measure 121 - "Modernization of agricultural holdings"
3. Measure 125 - "Improving and developing the infrastructure related to the development and adaptation of agriculture"
4. Measure 141 - "Support for semi-subsistence farms"
5. Measure 313 - "Encouraging tourism activities"
6. Measure 322 - "Village renovation and development, improving basic services for rural economy and population and promoting rural heritage"
7. Measure 421 - "Implementing cooperation projects"
8. Measure 501 - "Territory development, preserving traditions and crafts and improving basic services for local economy and population"

Beneficiaries of these measures can be individuals or legal entities from both the public and private sectors. From the public sector, we mention as potential beneficiaries:

- Territorial administrative units, as defined in the national legislation, or their associations / partnerships, through their legal representatives;
- State institutions or their associations / partnerships that own or administrate investment objects.

From the private sector, beneficiaries may be primarily trading companies, freelancers, medical offices, NGO-s and religious institutions, as defined in the national legislation, but also natural and legal persons or their associations / partnerships that own or administrate investment objects, as well as producers or producer groups.

“Treimea Colinelor” Local Action Group launched on 6th June 2013 a selection call for the measure 411-112 – “Setting up young farmers” with the deadline for submitting 10th July 2013, at 12 hrs. Subsequently, the call has been extended until 24th July 2013, at 14 hrs. The financial resource available for this project session call was 120,000 Euros, and the maximum repayable funding granted for the project was 40,000 Euros (LAG ”Treimea colinelor”, 2012). Within this session, 4 projects were submitted for funding under measure 112, all four projects being selected for funding by “Treimea Colinelor” LAG selection committee. The submitted projects ranged between 12,000 and 40,000 Euros.

4. CONCLUSIONS

Local Action Groups have begun to make their presence felt more and more in the Romanian organizational landscape, more and more local authorities following this path of establishing associative structures based on public-private partnership, structures which, on the one hand, can be themselves the beneficiaries of grant European funds, but, on the other hand, may act as managing authority that are closest to citizens, as they are the ones to open selection calls for various projects falling under the measures presented above. Even if the process of establishing LAG-s was rather difficult, the existence of such associative structures which bring together local public administration authorities, private companies and civil society representatives that propose, based on a development strategy, to generate innovative actions to be financed from European funds, represent an important step forward in the field of institutional strengthening of grant EU funds absorption.

Therefore, we hope that the potential beneficiaries of EU funds will become more interested in these funds and will design as many projects leading to their local development as possible.

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METROPOLITAN DEVELOPMENT, PHASE IN THE URBAN DEVELOPMENT

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Abstract: *Metropolitan development succeeds chronologically, as well as structurally urban development, this means a new phase in the urban system development through the extension beyond its initial boundaries. Along with the cities' surrounding areas population growth, especially through emigration from the cities, but as well as through the attraction of population from other localities, the geographical and the administrative boundaries of the cities become inadequate for the definition of the urban agglomerations that emerge. This extension is generated as well by an ample endogenous process of local economic development that is forcing the association of several local communities around an urban center becoming a growth pole in order to develop its level of competitiveness. Metropolitan development represents thus an administrative and economical challenge regarding the management and the coordination of an increased palette of resources.*

Keywords: *Urban development, metropolitan development, metropolis*

URBAN DEVELOPMENT

The notion of urbanism was used it seems for the first time in the work of the Catalan engineer Ildefonso Cerda in the paper “General Theory of Urbanization”. The regulations regarding urban development have a recent history at global level¹, even if the discipline to which is made reference to is ancient, the first indications of such science was being highlighted from the antiquity. The urban modernization process can be made in an unconscious manner – randomly or conscious in an organized manner, having as main element the territory².

¹ In Europe, the earliest and the most accelerated urbanization is found in Great Britain, where, from the middle of the XIX h century, a balance among the urban and rural population has been achieved, 75 years earlier than France and almost 150 years earlier than the case of Romania.

² Territory is not reduced to the physical space, it represents the product and the producer of the later and this can be understood as an ensemble of relationships among the material and nonmaterial elements and the actors of the physical space, representing in the same time the result of the historical construction of the society or of the community.

Territory is generated by space. In present days, two types of main territories can be highlighted: "institutional territory belonging to the state and to the citizen" and "the interlinked territory in accordance with the enterprise, the user and the inhabitant".

Institutional territory represents the territory of the modern state, defined by a frontier, containing the ensemble of living beings, the resources and the relationships that are strictly included inside this state. The interlinked territory must be analyzed in regard to its connection to the "market".

The term of urbanism was defined under various forms and it has been considered that it represents: "a complex ensemble of activities of design, advise, approval of several plans or the authorization of future buildings for any type of urban or rural locality" (Șăineanu, 1998: 1056).

Other opinions considered that urbanism constitutes: "an ensemble of political, administrative, financial, economic, social or technical measures destined to assure a harmonious development of a city" (Hubert, 1993: 1).

In accordance with the Romanian Language Explanatory Dictionary we consider that: "urbanism is the science whose object is constituted by the systematization of existing settlements and the design of new settlements, the word itself originates from the Latin word *Urbis* meaning city, and urbanism represents thus the science of the cities and settlements development" (Dex, 1996: 1138).

Urbanization can be understood as a continuous and complex process in which a series of phenomena related to the population concentration take place in the same time, as well as various modernizations and social changes. The urban center or the city can be considered an administrative area or a functional economical area.

Urban development can be regarded as well as a process of growth and amplification accompanied by a series of the qualitative changes generated by the application of strategies, policies and development programmes. Urban development represents a complex, interactive process, and these features are determined by the phases of the development projects like design, planning, implementation and evaluation, phases that involve a series of actors whose decisions determine the development trajectory.

The urban development policy constitutes thus a set of integrated (economic, social, cultural, environment, transportation and security) government (national, regional and local) measures that are addressed to the cities. The formulation of sustainable development policies has as purpose the improvement of the existing situation, elimination of the malfunctions, balancing future developments and consolidation of development directions. In accordance with the particularities of each city, the sectors covered by the development policies include: land management, the locative space, public services, environment protection, socio-economic development, and means of urban revitalization.

METROPOLITAN DEVELOPMENT

Metropolitan development, as a way of the city extension in the surrounding space and of the integrated evolution with the settlements from its peri urban area is known especially in the developed countries, as a feature of a new urban development phase, posterior to the phases of population concentration in the current city and the forming of the suburbs. The specialists have called these new socio-economic realities, metropolitan areas. In USA starting with 1980 these areas are registered for the census as Metropolitan Statistical Area³ comprising all the agglomerations formed from a city and its surrounding settlements that have a direct connection with the city and that have a total population of at least 50.000 inhabitants.

Therefore, the result of the metropolitan development process is represented by the apparition of the metropolitan areas. The process of the metropolitan development, called metropolization, represents the process of the metropolis constituting, construction and development. For a better understanding of its functioning, this process must be analyzed from the perspective of the factors that contribute to its development. Thus it is necessary to make a distinction regarding the used terminology in the characterization of this process, referring to the notions like *metropolitanian* and *metropolitanization*⁴, notions that are strictly related to the metropolitan development process. Following the same logic (Ricq, 1983: 122-123), when making the distinction between “*regionalism*” and “*regionalization*” and taking into consideration the fact that both notions are connected to the process of regional development, it can be affirmed that the *metropolitanism* is the equivalent of regionalism and the *metropolitanization* is the equivalent of regionalization in the process of metropolitan development. Thus *metropolitanism* is the result of a “bottom-up” process in which the communities become conscious about certain unbalances, about economic and ethnocultural underdevelopment, about the centralism of the state in which they live, while *metropolitanization* is the “top-down” process through which the state realizes the local unbalances with all their accompanying phenomena like economic underdevelopment, exaggerated centralism and it starts to decentralize the political-judicial system through a metropolitan level institutionalisation.

The constituting of the metropolitan areas answers a need or an opportunity determined by the organic evolution of the cities. The process of urbanization on the European territory has led to an interdependent development of the metropolis with the localities from their influence area, forming already primary metropolitan realities, which even if are not called metropolitan areas, function in fact as unitary areas, relatively independent. The first features of the metropolitan areas can be extracted as being distinct systems of human settlements which comprise a large number of people that live in, or around a center of big density (Miles, 1970).

³ In 1990 in USA there were 254 such metropolitan statistical areas, under the conditions in which the socio spatial integration of the cities is larger, including, in fact, a few metropolitan statistical areas, the Standard Metropolitan Consolidated Area is formed, this representing in fact the first official definition of the metropolitan area.

⁴ It can represent the process of nascence, of development of the element of the metropolis

Several strategic problems of urban planning at European level can be treated directly only at the metropolitan areas level, facilitating thus production, exchange and consumption of goods development at the European Union level, avoiding in this manner the deterrents related to excessive localism as well as centralism at national level. In essence, it is about forming of the metropolitan areas as poles and regions of growth developed at European level and included in national and transnational strategies. The development of the metropolitan areas facilitates the integrated territorial planning at regional level, through this the unbalances between the center and the contiguous areas are decreasing. The unbalances are caused by the scattering or the marginalization generated by the isolation of the certain settlements lacking opportunities. Obviating or the decrease of such unbalances lead to the improvement of the population's quality of life.

Identifying the common development and cooperation tendencies of the settlements from the area, as well as the creation of new forms of institutional and administration organization, of representing their interests in foreign diplomacy, will enhance their capacity of facing competition. Hence the economic competitiveness growth of the localities from the metropolitan area as against neighboring regions will be ensured. Carrying out the development policies is usually made through a good cooperation among localities in the fields of territorial planning, locative, infrastructure, economic development, environment protection, human resources usage. The most performing actions are usually those related to public transportation, water supply, waste management and implementing projects with investments.

Political, social and economic life between the city and the regions surrounding it has always been connected. The symbiotic relationship among the compact city and the suburbs with low demographic density consists in the manner in which it influences the economic and political destiny of the suburban areas.

From the administrative point of view, metropolitan structures are dependent on the political, social, economic, historic and geographical elements and consequently cannot project themselves or be realized in a definite shape in a laboratory/ office. The administration of metropolitan areas can raise a series of challenges meaning a series of "changes from the development patterns of certain territories with low densities, through voluntary cooperation among existing local public administrations, through the intervention of the state in assuring certain urban services, through public-private coordination, the existence of regional supplementary regional agencies from the administrative structures and through the offering of public facilities having as purpose the stimulation of the regional institutionalisation" (Downs, 1994).

THEORY OF THE GROWTH POLES IN METROPOLITAN DEVELOPMENT

The metropolitan area represents a favorable environment for applying and development which Francois Perroux called "The theory of the growth poles". According to the theory of the growth poles, the apparition and the development of the metropolitan areas appear as an unbalanced process, but hierarchized in the development region in the same time, in which a certain number of economic agents play an essential role, being

thus pinpointed. These pinpointed agents are called “growth poles”. In the category of these agents can be found enterprises, industrial platforms, and important infrastructure elements like ports, airports that succeed through their mere existence to attract and to facilitate the apparition of numerous activities or even the apparition of an urban pole that has its own activity. It is assumed that the existence of these growth poles will engage the whole metropolitan area or even the whole economy. Acting like a magnet, the growth poles will be able to attract the whole existing innovation and development capacities.

However the quality of the diffusion from the poles to the areas of the center must be analyzed. In the case of metropolitan areas precisely the quality of these diffusion effects may lead to the generalization of the unbalances persistence and the cumulative growth of the development inequalities. Since at the level of growth poles there is a superior innovation and competition capacity, the developed areas can create a type of polarized continuous development. There is in the same time the possibility of the apparition of activities’ filtering phenomena that diffuse the development in the region, in this way the unbalances being persistent. The metropolitan area becomes thus a model of economic-administrative development based on the central places theory.⁵

Christaller considers that the main function of the city is to distribute goods and service for the space comprising it. By extrapolating, the metropolitan area can satisfy all these demands, necessary for satisfying the general metropolitan interest. The existence of the metropolitan determining⁶ is vital if it wishes for the metropolis to be functional. The existence of this market facilitates the apparition of a theory stating that each point from the theoretical territory (rural, homogenous, and in which the population is uniformly distributed) has access to all the possible goods and services. Nevertheless, the goods and services offered by the metropolitan area are not equally important, but they are hierarchized based on the consumers’ requests; daily, weekly, monthly, occasional needs. Their hierarchy is engaging the hierarchy of the central places as well as the corresponding areas of influence.

Metropolitan areas will accumulate elements of value having also the tendency to externalize inconvenient, embarrassing, unwanted activities that need brute, tiring and in decline work that need low levels of skills and ageing technologies towards the region’s less developed areas. The filtering these activities can be determined by ecological grounds or performance criteria.

In the absence of certain barriers for the population and workforce migration, the appearance of “growth poles” can be associated with significant population displacement, which constitutes another demographic-economic problem. In most situations, the direction of these displacements of population is from the poor developed areas towards the developed ones and it aims young and middle-aged population, as well as population

⁵ The theory of central places is one of the most elaborated models of space analysis. It is affirmed that without this theory “it wouldn’t have been possible to talk about a theoretical independent geography from other sciences”. Among the models of development based on the theory of central places are reminded the following – “Model of Christaller, Model of Losch, Model of Zipf”.

⁶ By determining it is understood the access to transport infrastructure, services supply, possibility of economic activities for private agents to take place.

with higher education/ skills. Thus all developed areas impose filtering processes of the workforce entry stream.

A qualitative depopulation of the poorly developed areas surrounding the metropolitan area occurs, influencing and modifying the rhythm of demographical, birth and nuptial rate evolution, emphasizing demographical ageing and implicitly a decrease of the region's competitiveness.

4. CONCLUSIONS

In the structure of metropolitan areas three major components can be identified: "cultural identity, an economic and social base necessary for supporting the development of the area and a form of power regarding decision making" these constituting only a few elements necessary for constituting public and private "development coalitions" (Keating, 2008:157) alongside territory, leadership, external connections and development strategies.

Metropolitan space must be analyzed from a complex perspective, including a series of aspects related to political organization, administrative procedures, territorial planning and ensuring of public services to inhabitants that are accounted for in different administrative-territorial units.

The functioning of the metropolitan area implies a careful analysis of the administrative implications regarding the metropolitan coordination as well as an analysis of the economic implications which a structure like this can generate. The role of the metropolitan governance is to establish from several forms of administration the expected results in the dynamic of the urban economy in the fields of economic strategies formulation and development, regulations for the land market, infrastructure development, and fiscal policy design.

As regards ensuring a sustainable development of the metropolitan area, this action implies a strategy that takes into account the social and economic needs of the population, based on that planning option that following the impact evaluation compensates in the best manner the loss of resources that cannot be immediately restored or replaced, not limiting the future development of the area. The perspective of sustainable development implies the existence of an overview regarding the environment status, evaluating the methods of urban framework quality improvement, of urban renewal and resources regeneration through which the negative impact of the area development strategies are decreased, the metropolitan sustainable development being assured.

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THE ROLE OF THE CONCEPT OF “GROWTH POLES” FOR REGIONAL DEVELOPMENT

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Abstract: *This study analyses determinants of the concept of "points of growth" at regional level. The definition of the concept of growth points is considered in terms of economic development of the region, which integrates into the global world. As a basic model of local development is proposed to use the theory for Growth Poles of François Perroux, that later was supplemented by Albert Hirschman. To estimate the possible practical applications of the theory for Growth Poles in the development of local economic development programs and regional planning in the article it is considered the adaptive model of "growth points" with feedback. Using the proposed model allows us to develop an algorithm for the local public administration to identify the most prospective areas for attracting FDI.*

Keywords: *FDI, "Growth Poles", regional development*

INTRODUCTION

The matter of ensuring local economic development is one of the primary objectives for local public administrations of the Eastern European countries, including Ukraine and Republic of Moldova. Commonly used forms of its initiation are the determination and activation of the so-called “Growth Poles” (François Perroux, 1955). A theoretical basis of the works referred to planning of local economic development is the Neoclassical Growth Theory that was set forth by James E. Meade, 1951 and then was further developed in the works of Robert M. Solow, 1956 and Trevor Swan, 1956.

Basic category of the growth theory is a “region” that should be seen as a territory that has a number of certain integral, interrelated characteristics, thus making it distinguishable from the other territories. Ensuring “economic development” expressed in indices of gross product dynamics or income level per capita in conditions of savings insufficiency is possible at the cost of external resources that are required for support of investment processes and capital reproduction, therefore stimulating the economic growth.

The task to determine the “growth pole” and implement the program of its economic development is certainly imposing on local public administrations. In order to create better conditions for the region’s economic growth their first step is the development and implementation of respective programs that are introduced by a succession of systematic changes that bring the region to a higher level of its economic development. Specific features of such programs are as follows:

- Long-term nature of practical implementation;
- Possibility to assess the change process using quantitative (economics) and quantitative (social sector) indicators;
- Compulsory attraction of external resources, investments;
- Localization of business within the “growth pole”;
- A combination of market principles and governance that allows considering different options of development directions, to foresee and choose the most optimal one.

Therefore, introduction of methodology of development and implementation of economic development programs on the principles of “growth poles” concept use is important and has prospects.

THEORETICAL GROUNDS OF “GROWTH POLES” CONCEPT USE FOR MANAGEMENT OF LOCAL ECONOMIC DEVELOPMENT

The subject of planning and public administration of local economic development on the grounds of “growth poles” determination is covered in works of John B. Parr, 1999, John B. Parr, 1973, Morgan D. Thomas, 1975.

It is said there that a practical outcome of determination is the initiation of regionalization processes and appearing of regional economic centers: core, semi-periphery and periphery that subsequently become not only a heart of local development, but also a channel of involvement in the globalization processes. That is why a study of the influence and interrelation of regionalization and globalization processes on initiation and further development of “growth poles” is the first step in determining the possibility of their creation.

Such study should be based on the principles of contribution determination of respective mechanisms of local public administration into this. Such approach is related to the modern rethinking of the state and executive power organ’s role, their restructuring and modernization in the context of regionalization and globalization processes and simultaneous consideration of the specific characteristics of the regional forms of development. In this context the regionalization itself can be considered not only as a mean of territorial regulation. Postindustrial regionalization (new regionalization) is conceptually better fitting in the essentially different edifice, as its main idea is in considering a region as a completely artificial construction that allows regulating the economic potential in terms of territory in order to ensure its effectiveness.

Modern approaches to the development of resource provision model for the “growth poles” consider two possible options:

- Initiation of “growth poles” on the grounds of special-purpose public financing;

- Determination of “growth poles” where is the concentration of available resources and favorable conditions created for economic development and attraction of foreign investments as well as developed infrastructure available, etc.

A comparison of both approaches allows making a conclusion that one basic model of local economic development, which theoretical base is the growth poles theory and development centers (François Perroux, 1955). In case of limited localization of resources, the growth pole can be introduced by a notion of “growth point”.

Behind the idea of François Perroux concerning the poles is the concept of centers and areas of economic space, where the enterprises involved in the international system of labor distribution are located and that become the attraction poles of production factors as they provide their most effective use. It leads to further concentration of the enterprises and as a consequence, formation of economic growth poles.

“GROWTH POLES” MANAGEMENT BY LOCAL PUBLIC ADMINISTRATIONS

In the modern practice of spatial economic development the ideas of growth poles are implemented in such forms as free economic zones, technological parks, industrial parks, etc. Therefore, a conclusion can be made that it is about different approaches to practical implementation of one basic model of local economic development that in case of limited localization of resources can be represented by a concept of “growth pole”.

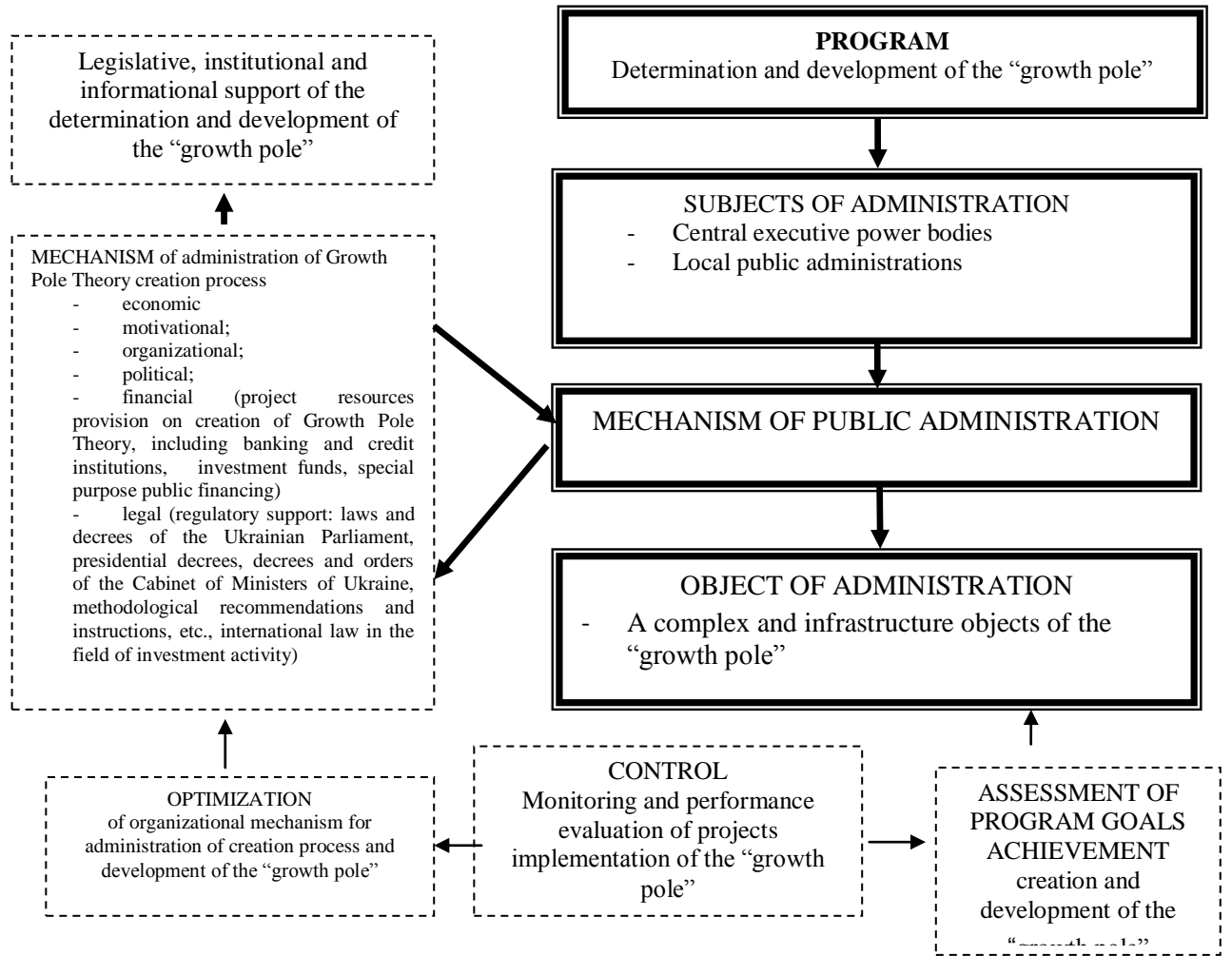
In the context of public administration system the model of “growth pole” creation should include identification of respective mechanisms with further presentations of the connections between the objects and subjects of administration and of the process itself in dynamics. In its turn, it stipulates the necessity to study specific features of the institutional and resource provision for implementation of “growth poles” and change creation programs that are required for local system of public administration.

On the other hand, there is a mechanism of public administration of the “growth pole” creation process within such system. It should be directed at achievement of specific purposes by influencing certain factors and using available and potential resources of the “growth pole”. Various definitions of “public administration mechanisms” concept maybe used as a basis for development of such mechanism model.

Generalization of the “public administration mechanism” concept in the context of studying the preconditions for the creation and development of the “growth pole” allows determining it as a “system that sets the order of certain kinds of activity” and characterizes the «succession of conditions and processes that constitute any action”. Such mechanisms can be represented as an aggregate of economic, motivational and legal means of focused influence of the public administration subjects on the course of regional economic development process. Thereby the diagram of such administration mechanism should contain goals, solutions, decisions, impacts, actions, results and that should be reflected in the respective model.

Use of the said mechanism of determination allows representing the mechanism of public administration of the determination process and development of the “growth pole” in the form of the organizational and functional diagram, Fig.1.

Fig.1. Organizational and functional diagram of the mechanism of public administration of the “growth pole” creation and development process



According to Fig.1, the mechanism of public administration of the “growth pole” creation and development process consists of the following elements:

- economic (mechanism of public administration of budget policy, social and economic development of the region, etc.);
- motivational (aggregate of social and economic incentives that influence on decision making process by public authorities with respect to the “growth pole”);
- organizational (available objects and subjects of public and social management, their goals, tasks, functions, methods of management and organizational structures, as well as results that are expected as a result of the “growth pole” development);
- political (formation mechanism of economic, social, financial, industrial policy on creation and development of the “growth pole”);

- financial (project resources support on creation and development of the “growth pole”, including banking and credit institutions, investment funds, special purpose public financing);
- legal (regulatory support: laws and decrees of the Ukrainian Parliament, presidential decrees, decrees and orders of the public ministries, methodological recommendations and instructions, etc., international law in the field of investment activity).

According to the determination, each of these elements represents a respective mechanism of public administration that in the general setting includes mechanisms of formation and implementation of the programs of creation and development of the “growth pole”.

Considering all mentioned above, it is possible to emphasize a number of specific features of the mechanism of public administration of the creation and development process of the “growth pole”:

- activity in the field of the “growth poles” projects statement and implementation process should be productive, therefore, to minimize the resources consumption and to maintain their profitability at the same time, it is necessary to determine their specialty or industrial direction;
- a condition of ensuring the profitability of the “growth poles” projects should be a priority compared with other directions of resources provision of local development;
- priority of the profitability goals of the “growth poles” projects should be compatible with the general strategy of the region’s economic development;
- performance evaluation of the project on creation of the “growth poles” should be done not according to specific elements of the project implementation course, but according to the final result.

First step in development of the “growth poles” project public administration model is determining:

- the novelty of such model, that is, how effective is going to be its application in relation to previous variants;
- theoretical and methodological principles that shall lay the basis of the new model;
- possibility to apply known successful examples of the “growth poles” projects implementation;
- possibility to apply a public-private partnership mechanism upon “growth poles” projects implementation;
- readiness of local public administrations to practical implementation of the suggested “growth poles” projects and recommendations developed on their basis.

An instrumental action theory that proves a possibility to transform the environment based on the previously developed plan can be applied as a theoretical and methodological principle of the “growth poles” project administration model (Michael J. V. Woolcock, 2001). It supposes the availability of the administration system based on the hierarchic principles as its main task is to provide for an unhindered decisions implementations and existence of only one decision-making center. The availability of

two or more centers like this, which is natural on the framework of the democratic regime, is objectively leading to conflict of interests and powers of various intensiveness degrees.

Under such conditions the initiative and right to formulate a compulsory plan of actions should belong to the subject that is authorized to make final decisions, that is, local public authority.

Practical implementation of the “growth poles” theory regulations was summarized in three models, Table 1.

Table 1 Models of the “growth poles” determination and development

Model types	Characteristics
Growth poles	Centers and areas of economic space, where leading regional enterprises are. Dense location of industries that are dynamically developing leads to synergistic effect and appearance of industrial centers and peripheries. Practical implementation: free economic zones, technological parks, technology towns, priority development territories
Agglomerates	Dense location of urban settlements united into a certain integral unit with developed production, cultural and social connections. A form of territorial concentration of the industrial potential and various resources (financial, labor, infrastructural, investment, informational, etc.)
Clusters	Concentrated on the territory of interrelated companies: equipment, components and special service suppliers, infrastructure, research institutes and other organizations, that supplement each other and strengthen the competitive advantages of one another and the system as a whole.

World experience of the last decade shows high effectiveness of the “growth poles” projects creation. Their practical implementation is first of all related to the determination of the territories that are perspective for development and the possibility of their resource provision, joining the existing network of such poles.

A specific precondition of the “growth poles” concept use model development is a consideration of the terms of the a priori and current uncertainty in the description of the objects and factors of external influence, when such uncertainty has an essential impact on the process effectiveness. It stipulates the necessity to use an adaptive administration mechanism, which basis is an ability of the public authorities to change the adopted program of implementation within the process of the “growth poles” project implementation process.

Therefore, the adaptive model of the “growth poles” project implementation process model should be read as a system that serves the basis for the operative change of administration algorithm or its parameters in order to ensure optimal, to a certain extent, operation of the system with a feedback. It is possible if such system contains the information about the parameters of external actions, dynamic object characteristics that is obtained in the course of the project implementation program. For this purpose, the administration algorithm or its parameters (regulator coefficients) are in a somewhat functional connection with the parameters of the external influence factors and indicators of the project performance evaluation.

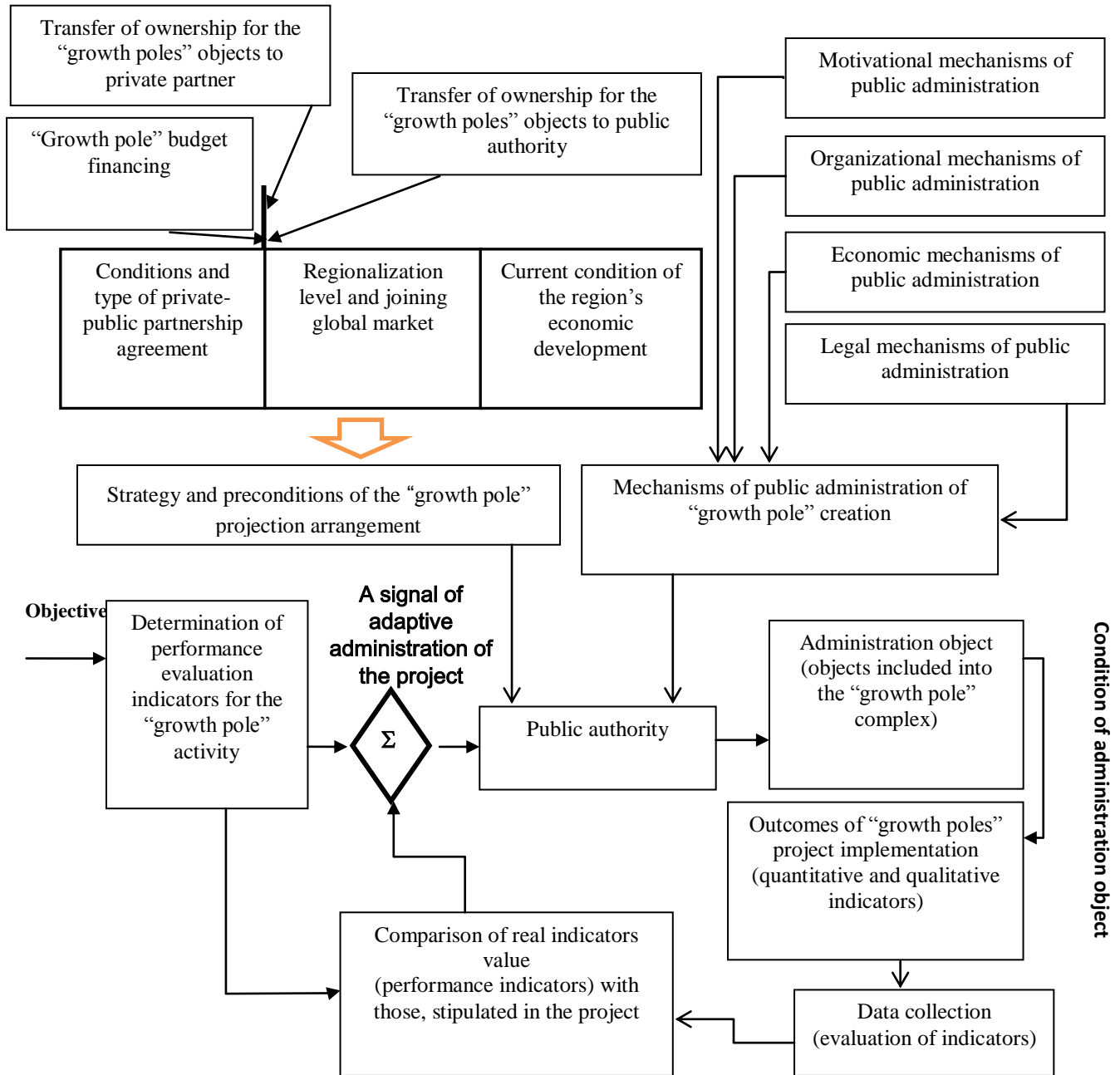
Thus, the development of the “growth poles” project implementation process model should foresee the detection of the specific features of the systems and mechanisms of administration of such projects and programs on the principles of organizational and functional adaptive model development, determination and justification of its optimization directions in accordance with the defined performance evaluation criterion. In accordance with the theory of multilevel systems the mechanism of public administration of the “growth poles” project implementation process should have a defined specific structure, methods, leverages and instruments of influence on the administration object with a respective legal, normative and informational support.

In order to ensure practical application of the adaptive approach it is necessary to make sure that the “growth poles” project implementation program complies with the existing approaches to adaptation of the complex social and economic systems in real time. According to Fig. 2 the administration system with a feedback compares the expected characteristics with performance indicators and determines the role of their deviation. Public authority shall develop and implement administrative decisions directed at elimination of detected inconsistency, achievement of desired characteristics by the “growth pole” objects.

Model arrangement, Fig. 2, is determined by two prerequisites:

- project output parameters (performance evaluation indicators) that in the process of its implementation serve as a regulation object for public authorities, that evaluate the nature of the administrative process course in the quantitative terms and adjust them in order to obtain the expected results, according to the changes of the characteristic features of the external factors impact;
- project arrangement is performed with use of the tools of public-private partnership upon provision of the expected performance factors by the public-private partnership.

Fig.2 Adaptive organizational and functional model of public administration of the “growth pole” project implementation process with a feedback scope



Specific character of the "growth pole" project implementation process model is embodied in determination of connections between them on the basis of functions, forms, methods, means and administration processes distribution that arise between the process participants in compliance with terms and conditions of the private-public partnership agreement. Their generalization allows suggesting model adaptation principle to changes of influence factors. The main components of such model are: objects and subjects of

public and social administration, their objectives, tasks, functions, administration methods, organizational structures and administrative services.

Statics of the model is determined by the subjects and objects administration (public authorities and private companies that act within the framework of the “growth pole”), and dynamics by a complex of connections and procedures of interactions between them that are determined by a respective legislative base, structure of public authorities.

Development, practical implementation and optimization of model mechanisms of public administration of the “growth pole” project implementation process are impossible without determination of performance evaluation criteria of such model.

Indices of economic growth and increase of goods and services production volumes, etc. serve as a quantitative indicator of the “growth pole” project implementation performance evaluation indicator.

A concept of public welfare as a long-term development objective may serve as a qualitative indicator of the “growth pole” project implementation performance evaluation indicator.

Determination of welfare of an individual consumer based on the satisfaction level of consumer’s needs (sustainable development concept) is possible by application of utility function:

$$u_i = (x_i, G), \quad (1)$$

where: x_i – is a consumption level of private welfare consumption and consumer; G – is a level of public welfare consumption (according to definition they are identical to all consumers).

Bergson-Samuelson social welfare function is applied upon the transfer from welfare of an individual consumer to determination of welfare of the whole society (Gareth D. Myles (2001))

$$W = \sum_1^k (x_1, \dots, x_k, G). \quad (2)$$

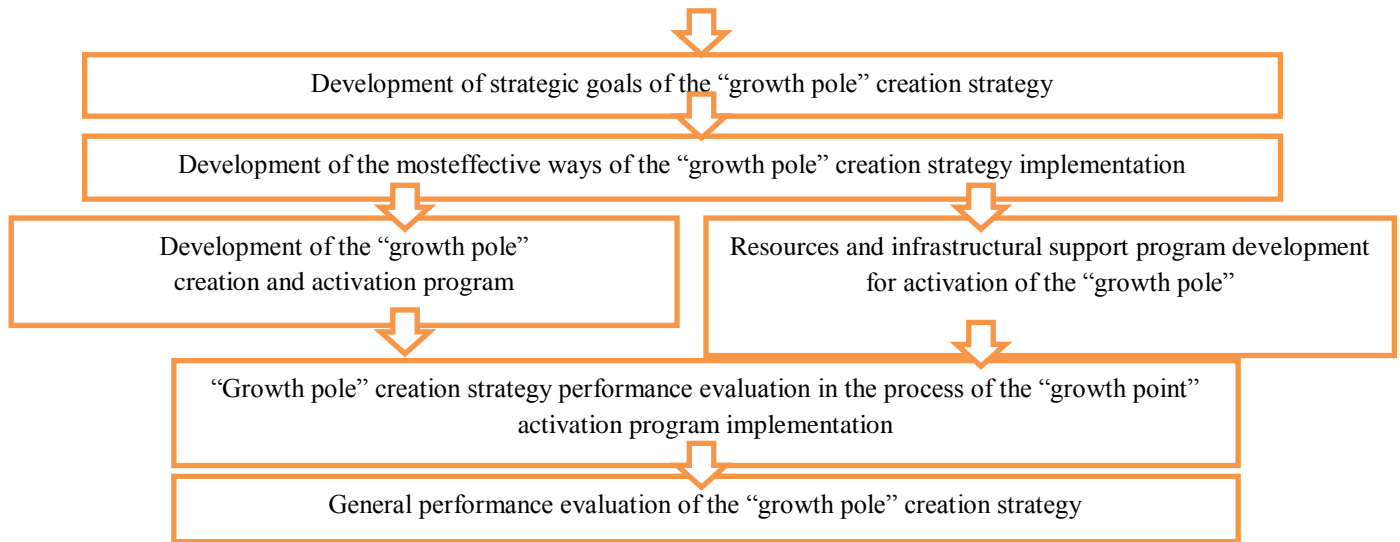
According to this function, for any consumer “k” the best variant of consumption increases general utility W . At the same time, Bergson-Samuelson function does not explain how the changes that improve situation of some consumers and at the same time worsen the situation of the other consumers, influence the welfare of society.

Thus, determination of qualitative and quantitative indicators of the “growth pole” project implementation performance evaluation is a separate problem that requires further study.

The initial precondition of the “growth pole” project implementation model development is a local development strategy. Thereby, a respective algorithm of the “growth pole” creation has a dependent nature, is agreed according to the objectives and stages of implementation and is considered as a factor of its effectiveness provision in accordance with a chosen general economic strategy, Fig.3.

Fig.3 Algorithm of the “growth pole” project implementation strategy development

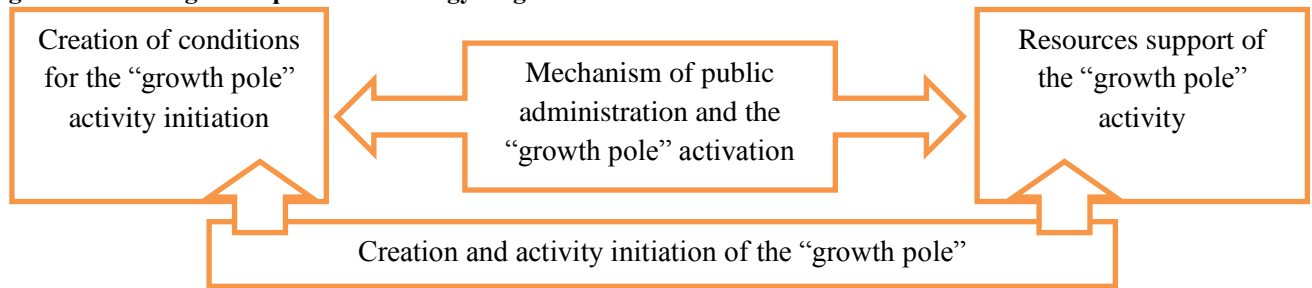




In accordance with the algorithm represented at figure 3 the choice of implementation ways of the "growth pole" local strategic objectives can be performed in two directions. One of them shall cover the development of the "growth pole" strategic directions and the other one – resource support strategy development. This stage is the most important and difficult.

The solution of this problem in perspective depends on the stages of life cycles of the adopted "growth pole" strategy, Fig.4.

Fig.4. Nature of “growth pole” life strategy stages



At the stages of “birth” and “development” of the “growth pole” main share of the resources support of the “growth pole” activity has a material form. At the stage of “expansion” prevailing are direct foreign investments that at the stage of “maturity” of the “growth pole” are also a condition of further development. In order to avoid a “recession” period and to prolong the “maturity” period, it is necessary to perform a timely activity diversification of the companies, which are a part of the “growth pole”. In its turn, it provides for not only the suspension of the “recession” period, but also for a transfer to a new stage of “expansion”.

World’s most widespread practice of local economic development achievement on the principles of the “growth pole” concept is the establishment of industrial parks. An extremely important success condition at the stage of initiation and commencement of the “growth pole” project is the level of expertise and will to compromise by the local power in the negotiation process with key investors.

CONCLUSIONS

The offer to apply the “growth pole” project implementation as a basis for the provision of local economic growth supposes a combination of functional and situational beginnings, consolidation of administration stages into a unified administrative cycle and objects and subjects of administration into an integral flexible organizational structure. Such approach allows considering a possibility to change the administration system functioning conditions, ensuring its flexible reaction to change of conditions by application of alternative options. It supposes a systemic review of the organizational structure that consists of the differentiated and interdependent totality of actions required for achievement of goals and determination of which part of the unified administration cycle may be performed by a private company and which part by public authorities.

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RATIONALIST MODEL IN PUBLIC DECISION MAKING

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Abstract: *The paper addresses the issue of public decision-making rationalist model. In its preamble are presented the stages of the process of public decision rationalist model but also barriers and criticisms of this model. The core of the paper is represented by the public decision through the theory of rational choice, here being presented in addition to theoretical concepts, also some practical examples.*

Keywords: *Decisional process, public decision, rationalist model, rational choice theory.*

INTRODUCTION

Based on the distinction between objectives (background rationality) and means (functional rationality), this approach assumes that all public decisions must first be based on background rationality. Thus, society must establish through the government, the social goals and social values (such as equality, economic development or public order). Clearly, these goals and these values will be different depending on times and the countries that are being analyzed. We may discuss about the rationalist model, only when it was determined that these values or social goals can operate in functional rationality; it is a mean of seeking ways to maximize these goals. Goal setting and values of the society can often take the form of a concept of "general interest", which then helps to determine the importance and urgency of the problems to be solved (Mercier, 2008).

The basis for this rational model, are rationalist theories and those are being rooted in the illuminist rationalism and positivism, current which promoted ways of neutral and objective knowledge on human society. At the basis of these problems lies the idea that human society can and should be resolved in a rational and scientific manner, by gathering all of the information that can be found in the problem, followed by processing them, and obtaining, by applying the most efficient answer, from the cost point of view (Junjan, 2001).

DECISIONAL PROCESS – RATIONALIST MODEL

In Professor Marius Profiroiu's opinion, "it is about the approach on decision making, developed by classical economy, in which man is taking rational decisions. The decision is assimilated to a single actor reasoning that seeks to maximize the purposes depending on means at its disposal. He has preferences, he establishes its goals, set's

some values and choose their utility. Then searches for available alternatives to solve the problem, alternatives that exhaustively inventoried and whose effects can also worth trying to identify them. In the next phase, it adopts a criteria of choice as objectively as possible, to allow him to identify the best balance between the advantages and disadvantages of each possible alternative. The set of alternatives will then be sorted using these criteria, yielding the solution considered most appropriate to resolve the matter" (Profiroiu, 2006: 161 - 162).

The decisional process presented by the rationalist model, comprises the following distinct and sequential stages (Mercier, 2008: 149):

1. Identifying the values and objectives achieved;
2. Analyzing all possible alternatives for achieving the objectives;
3. Researching and selecting information based on the efficiency or effectiveness of various alternatives;
4. Making a comparison between alternatives and their consequences;
5. Choosing the alternative that maximizes the values and objectives;
6. Implementation;
7. Feedback.

The rational actor model has many qualities as decision maker should focus essentially on the problem, the contents of alternatives and preferences, as well as choosing good criteria suitable to the content. Several analysts have adhered to this model and tried to improve it by examining all possible options and their costs. The improved model is called the rational – comprehensive model (Profiroiu, 2006).

In Professor Lucica Matei's opinion, according to the "rational understanding model" the decision-making process includes the following steps:

- Determining the objectives. In the process of decision-making, public administrators must first determine which the public policy objectives are. These objectives must be identified in operational terms, so they can be observed and measured. Must be noted that the public administrator does not have the freedom to set goals, being constrained by authority, specialization, hierarchy and so on.
- Establishing the means. Once you have established public policy objectives should be considered the different means to achieve them. At this stage should as far as possible, that all means that can be identified to be examined. Note that it is unlikely that all possible means were at one time tested and evaluated in practice. The public administrator must try to estimate the consequences of each means in all areas of public interest.
- Choosing the best alternative. Once all means potential have been identified to reach an end point, it is necessary to choose between them. In accordance with the present model, this choice must be such as to cause maximum efficiency, economy and effectiveness. In situations where these three values are in perfect harmony, shall create an appropriate balance between them.

According to Réjean Landry, the rationalist model of decision-making process involves the following phases (Réjean, 1980: 15):

1. Identifying the context - in this stage are identified the issues to be investigated and the objectives of the involved actors.

2. Determining the possibilities of action – In this stage is seeking actions that may be undertaken for the settlement of the problem.

3. Estimating the consequences

Shall be determined the implications of each possibility action on the issue taken into consideration.

4. Comparison of consequences

At this stage are being calculated the relative costs and benefits of the various possibilities for action.

Choosing a possibility of action: This phase involves choosing the variant that produces the highest net benefits.

A group of American specialists, Charles Lindblom, in "The Science of Muddling through" - Public Administration Review, Herbert Simon in Administrative Behavior, Alan Altshuler and Norman Thomas, in "The Politics of the Federal Bureaucracy" described model and the three stages to be completed in public decision making.

Must be emphasized the characteristics of this model (Androniceanu, 2005: 149):

- Proceedings of decision making process in three distinct phases:

- 1) Determination of objectives;
- 2) Formulation of decision alternatives;
- 3) Choosing the best alternative.

- Emphasis should be placed on maximizing efficiency and effectiveness;

- Elaboration of a program with practical nature, according to the three criteria: effectiveness, efficiency and rationality;

- Accentuated specialization of the public servants involved;

- Taking into account the total cost;

- Specifying clearly decision objectives that should be concise and non-contradictory, etc.

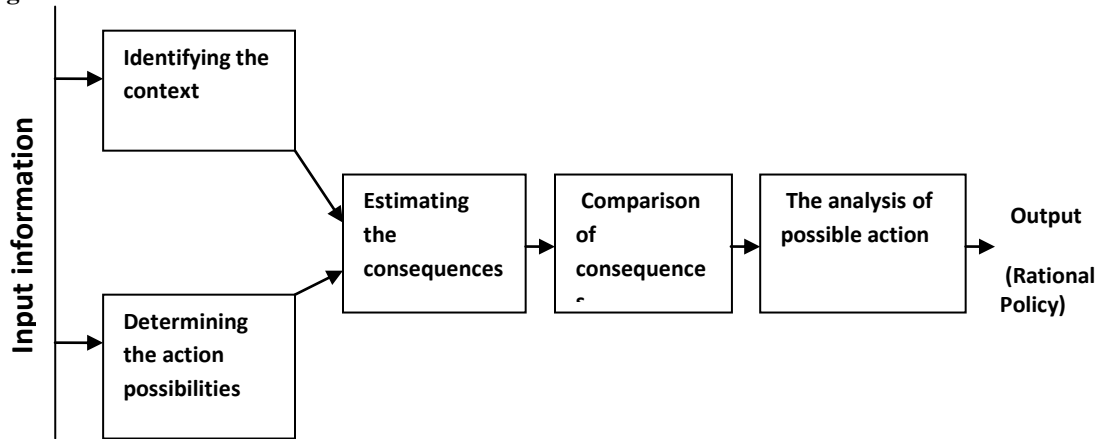
So it must be stressed that the rationalist model of decision-making is not a simple sequence of actions. It is assumed from the beginning, that there is an order between the values established, and public decision-maker is aware of the values on which it intends to be concentrated. Also it is assumed that decision-making stages of the process must always be presented in the order that was established above. It is also assumed that the decision maker is able to obtain all information related to the subject of the decision, and therefore he may actually take into account, all possible alternatives. In conclusion it can be said that the rational model has a large number of requirements (Mercier, 2008).

According to Gournay, for the rationalist model, are not taking into account many factors that influence the decision. The first of these factors relates to the number of decision-makers in government. It should be noted that in the rationalist model we do not have to deal with a single decision maker. In public administration there are several decision makers, so more rationalities and values that are involved in the competition (see this and Androniceanu, 2005: 134-139). Basically in the rationalist model, the decision maker must take the decision at the right time. In reality, the decision-maker works with several dossiers in parallel and cannot fully concentrate on a single decision. Gournay insists that, for adopting a decision, decision makers do not possess the right tools for them, to make future projections of all the effects of a decision. He mentioned that the relevance of a decision is based on the underlying value of the information to, cases in

which all information is available are rare and therefore it is difficult to have an objective decision that takes into account all the important aspects. In addition to lack of time, resources and intellectual routine often prevents public decision-maker to consider all possible alternatives of a decision. This questions the rationality of certain decisions of the public administration. The author reminds us that despite all the efforts made in the sense of rationality, it is impossible to foresee all the consequences that would result from such a decision or another. He believes that a rational process of taking a decision demands from the decision makers, objectivity which cannot be achieved, especially in political decisions (Gournay, 1980).

The rationalist model of decision making process in five steps illustrated in Fig. 1:

Fig.1 Rationalist Model



Source: Réjean, 1980, p.16

3. BARRIERS AND CRITICISMS OF THE RATIONALIST MODEL

The rational model is very important for analytical purposes, due to the fact that, in practice, faces a multitude of obstacles, derived primarily from the difficulty of assuming a pure rational decisions. Further on shall be presented several of these barriers (Popescu 2006: 265):

- Benefits for the whole society can not be determined, but only for certain social groups or individuals, even in the latter case, this leaves to conflicts and contradictions;
- The conflictual benefits and costs, can not be measured accurately (eg: you can not buy the dignity of the individual with an increase of taxes);
- The decision makers are motivated not only by maximizing the social gain, but also by factors such as power, status, financial rewards, reelection, and so on;
- Searching for perfect rational alternative is very difficult, generally it stops when the chosen alternatives are working.
- Investment in major government programs and the adoption of decisions required, are timed by responsible factors, before the elections;

- Collecting the necessary information for choosing the best alternative encounter many difficulties: the cost of information, the time required to collect the most necessary one;

- Segmented nature of the process of public policy making in large bureaucracies makes difficult, accounting and the coordination of all inputs , provided by various categories of specialists and their incorporation into - the ideal decision.

In the literature are also encountered criticisms of this model.

Herbert Simon has demonstrated that the theory of absolute rationality is unrealistic. He tried to apply the theory of decision-making in large undertakings but also realized that its postulates are wrong. Herbert Simon questioned the idea of optimal decision making and demonstrated through empirical research, that the decision is frequently triggered by organizational problems. Simon has also shown that the process of problem solving leads to satisfactory solutions, and under no case to optimal solutions (Mercier, 2008).

The rational decision maker acts as if they act in a world of absolute rationality. No constraint (both cognitive and political) presses upon him or on his situation, but they exert a strong influence on the process. There is a certain rationality, but it is limited. Herbert Simon was joined in 1958, James March, together showing that organizations actors, act according to a limited logic rationality, choices made and decisions being subject to constraints originating from human nature itself (Profiroiu, 2006).

In the reality of action the decision maker encounters major constraints related to several factors (Profiroiu, 2006:164 - 165):

- Firstly, efficiency, effectiveness and economy are not prevailing values in the public sector. Public sector is reasoning, first, in terms of expenditure, means, budget, and not by income, results, operational account, as they do in undertakings operating in the market. He is also reasoning in terms of "maximum" and not "optimum".

- Information is missing and that is costly.

- There are few situations in which public decision-maker acts in advance (so-called proactive action) before trying to identify the problems and the means of solving them.

- Selection criteria are rare. The available methods to define any approximation of an arbitration between the advantages and disadvantages, there are very few. Are always evoked the same examples regarding public choices that can be based on a scientific set of criteria, allowing comparison of the various alternatives among themselves: decisions regarding major infrastructure of transport (location of roadworks, expanding rail networks, etc..)

- The ability to generate a state of exhaustive alternatives varies - rational decision maker inventories all alternatives and all related merits. But here there are limitations related to the nature of behavior in a cognitive situation. Some individuals may not act unless they have at their disposal a considerable amount of information. Others can not decide unless alternatives were reduced to a smaller number.

- Choice situation triggers a psychological tension. The decision process is often expressed through moments of uncertainty, pressure and tension. The decision maker

capacity to support psychological the situation of choice varies from one person to another.

In Professor Lucica Matei's opinion "model of rational understanding" covers the following criticisms (Matthew, 2006: 234):

In practice, this model does not always match with the real process of the public decision adoption.

2. A second problem of understanding rational model is that it assumes that policy-makers have time to address the challenges in a rational way, to identify all the detailed and comprehensive potential means of achieving the objectives established and evaluate all these means based on efficiency, economy and effectiveness.

3. Another difficulty in approaching this model is that specialization which was used so powerfully can also become a burden. "We are all familiar with the image of the right hand of the Government, without knowing what it's doing with the left." This is because the hands operate in different spheres, under the limitations of different times and with different objectives envisaged. But modern government, of course, has more than two hands, he has rather countless tentacles. Public decision-maker that operates in one of these areas is determined from time to time, to disagree with ones another's actions.

Often, specialization makes it difficult to analyze the costs of any particular course of government action. An institution that makes decisions in a complex policy area, may create new problems for other institutions. In terms of the rational understanding model, the problem lies in the fact that these costs are difficult to be assessed and analyzed, because they tend to get lost in the system of specialized jurisdictions. The problem is worsened by the fact that, as the administrative status increases, costs that are passed from government to society tend to become a public policy concern. Such things gets even more complicated in situations of economic - financial crisis.

Finally, we can say that, because it is based on theory and abstract professionalism, decisions may be adopted that are inappropriate in practice and these do not match with the nature of contemporary administrative operations, calling for public policy makers to exercise a degree of rationality and competency (professionalism) comprehensive, which exceeds their ability.

PUBLIC DECISION THROUGH THE RATIONAL CHOICE THEORY

When making a decision must be find the answer to three questions: What is the problem? What are the possibilities (variants) for solving? Which is the better choice?

Concerning the public administration, because the decision takes different aspects and forms, depending on the author making the request, the field or object to which it refers, stretching sphere, content and nature of provisions that are established, the decision making process itself, presents some particularities which, given the theme, is needed to be taken into account.

Stages of decisional process in public administration may be presented as a logical scheme, as follows:

- Initiating decision adoption;

- Establishing the objective and the means of achieving it;
- Data collection, respectively, documentation, in order to formulate the decision;
- Selection and interpretation of data;
- Decision making;
- Implementation of the decision;
- The control execution of the decision.

To explain why in a situation has been taken a certain decision and no other should we appeal to rational choice theory.

In the traditional sense (general, logical) rationality, refers to the property of enunciations or judgments of being able to be deduced (derived) logically from other enunciations or judgments. The truth value of the succeeding statement is dependent on the truth of other statements accepted as true based on various grounds (observation, experiment, practice) and inferential derived through reasoning. Therefore to emphasize the reasons or the rationality of a proposition shall mean to determine the set of possible antecedents or the possible implications, to determine the multitude of possible consequences (Hoțu & Leordean, 1981).

The term "rational" has very different meanings, some of which relates to knowledge, other human action (Miroiu, 2006: 32):

- Rationality consists in conformity with the rules of deductive logic.

Let us take the syllogism. Whether we have the premises:

All the mayors are elected, and b) Ion is mayor, then it is reasonable to conclude from this situation, that Ion is elected - but it is unreasonable to conclude that Ion is a Romanian peasant who was concerned about local community issues.

- To be rational means to make accurate mathematical calculations. Indeed, it is reasonable to infer that the number x is bigger than 10 if they know that a) $x > 6$, and b) x is multiple of 5.

- Rationality consists in reaching to proper conclusions on the meaning of the words we use. If I know someone is a bachelor, then - because I know that "bachelor" means unmarried man - we can conclude that there is no person to be father in law.

- To be rational means to call for amplificative induction. If a student was very well prepared for all exams in the first two years of college, it will be reasonable to conclude that at the exam for today she came back very well prepared.

- Rationality consists in making use correctly of the probability that some event will occur. At the elections for mayor of Bucharest in 2005, polls showed that the difference between DA Alliance candidate, Adrian Videanu, and the SDP Vanghelie, was huge in favor of the first candidate. Therefore, it was reasonable to conclude that the probability that my vote could change the voting results was very small.

- To be rational means to make inferences based on empirical generalizations generally accepted as valid. If it rained yesterday and last night was cold, then it can be concluded that the streets and sidewalks will be slippery in the morning today.

In all six cases, the term "rational" was applied in some of its premises mechanism by which conclusions were inferred; rational is its arguments tautologically speaking, "reasoning" used to extract new knowledge. There are also some very different ways of using the term "rational", which does not apply this time to knowledge, but to

our action. The term "rational" is not applicable how we make judgments, but how we act and behave.

- To be rational means to act to achieve our best purposes;
- To be rational means to treat any other man as a goal in it, not as a means to achieve our goals.

The first meaning of the term "rational" has to do with the means we use to achieve your goals. The second meaning aims the goals rather than means. In the Weberian tradition, it is said that in the first case we are dealing with an instrumental rationality and in the second with value rationality (or axiological).

- Instrumental rationality.

If you want to talk about a rational choice, then of course that it assumes the reason is, in one way or another related to action. But perhaps we do not want just to assert that reason can judge the actions that we did or that we intend to do, and we can say they are good or not. Rather we want to support something more: that reason somehow influences our choice and, therefore, that reason influences human action (Miroiu, 2006).

Very generally speaking, instrumental rationality requires that people should in their choices to respect certain principles and J. Rawls, indicates the following three (Miroiu, 2006: 38):

- The principle of effective means. Due to a specific objective and more alternatives (means of achieving that objective) the principle requires adopting the alternative that best meets the purpose. "As a goal you must achieve the lowest expense of means (whatever it may be), or, given the need to fulfill the objective means as broad as it could be."
- The principle of comprehensiveness. An alternative is preferable to another if its application would result in the application of all the goals we attain the other application and other purposes, in other words it is the preferable alternative that has the required comprehensive consequences. If we chose to rehabilitate the sewerage system of a city by the classical method (breaking the road) or robotic (nonintervention on the road), and we know that if we use the second method do whatever we wanted in the first method, and saving funds for aftercare of road destroyed, then it is rational to prefer to use the method of robots.
- Higher probability principle. If the goals we can achieve by two alternatives are generally the same, but it's a greater chance to achieve those goals by applying one of the two alternatives, then it is rational to choose this one.

According to Rawls, the three principles (with a wide applicability in decision-making in public administration) define the idea of rational choice, which therefore could simply be replaced by invoking them. In other words, when we asked if a choice is rational, our response will be to verify that it meets the three principles (Miroiu, 2006).

- Valoric rationality.

Most of the times, the conception of rationality is derived from the human tradition and is contrasted with the one, which may be found in I. Kant's work. It should be noted that there are attempts to connect the two traditions. The Rawls one, particularly in later works -1993, 1999, 2001 - his first book *A Theory of Justice*, is well known.

Relevant to this paper is the notion of the categorical imperative, which represents a moral rule that allows us to judge our actions.

I.Kant gives three famous formulations of the categorical imperative (Miroiu, 2006):

1. Acting under that maximum that you would also like it to become a universal law;
2. Act so that you use humanity both in person and in the person of anyone else, always in the same scope and never as a mean;
3. Act according to the maxims which can also be subject to themselves as universal laws of nature.

Starting from the idea that administrative action represents a kind of human action this is itself influenced negatively or positively.

For this paper it is relevant that when we deal with an administrative decision that the entire decision making process must be rational, i.e. each stage thereof is logically derived from the previous step. If this is not achieved then the decision is not effective.

For better understanding the above stated it must be made an appeal, to what logician GH Von Wright says, that if an agent engages into an action or final state as scope, and for its realization, another action (mean-action), an absolutely necessary one, then the agent must engage in the achievement of mean-action.

Hence the appearance of rationality of logical derivation of the conclusion, that employment renders mediator agent, is to commit the action absolutely necessary to achieve the stated purpose (Wright, 1982).

Let us suppose that in an emergency (flood, earthquake, etc.), public administration namely its authority or authorities who manage this situation make a decision but do not compliance with the logical order of the stages of decision making, leading ultimately to extension or initial worsening.

To remember is that always results concludes to two or more premises of practical reasoning: the major premise through which is formulated the purpose (mission) to fulfill the minor (minor) premise (or the premises) which shows the action (or actions) intercessory absolutely necessary to the purpose described in the major premise. Conclusion specificity in such practical reasoning is that, it is a statement of intent, an engagement of the agent, regarding his future attitudes and behavior, often transmitted through an order (order) in situations where to accomplish the mission (purpose) requires the coordination of the subordinate agencies (means).

Here is an example of practical reasoning for an emergency:

1. Major premise: It rained a lot and the Danube overfished its quota of damage. The mission of the public administration is to limit the effect of losses.
2. Minor premise: Danube dams can break certain dike defense in the south of the country.
3. Conclusion: So the public administration decided to strengthen dikes in areas where they are weaker.

In a generalized formula, practical reasoning can be played as follows:

- Agent X plans to achieve goal S;
- Without X taking M action, he will not reach S;
- So if X will do necessarily M.

Finally if the decision and conduct of other agents (subordinate), judgment will have the following form:

- X has the mission to achieve S;

- In order to X achieve S, Y must accomplish M1, and Z must accomplish M2;

So X must determine Y, to accomplish state M1, and Z, to accomplish state M2.

Should be noted that practical reasoning has the opportunity to be enriched and improved by introducing chronological dimension structure. This has a great importance for the public action as introduces in its structure and the need for framing within certain intercessory actions and an order of their succession. Without ordering specified time, practical rationality loses partially or totally the meaning, as if an intervention is being made in the target range or at „t” time, when it is appropriate, it has no functional effect established (Hoțu & Leordean, 1981).

With reference to the above emergency situation (flooding) if the time factor is not taken into account this can lead to inefficiency of the decision.

The act of cognitive control of the situation ongoing constitutes the bases for an uninterrupted coordination of interventions which sets out whom to intervene in what place, at what point exactly and in what sequence, with what means to act to achieve partial goals, that contributes to the execution of the mission. From highlighting these coordinates appears more clearly the importance of relationships and systematic ordering of the involvement of a gear acting on analytical and deductive operations forming practical rationality. Through it are being conducted the means and instruments transformers so that at certain points or intervals to be obtained certain values of accomplished action (achievement of goals).

CONCLUSIONS

Public decisions are a kind of decisions and represents a conscious choice, a voluntary act, the final result of deliberation, a decision maker activities, with as object of activity public business. May be considered public decisions, decisions taken by the mayor, the President of the County Council, minister, secretary of state, civil servants having as object of activity public business.

The literature shows that the decision is the focus of all management activities of an institution or public authority, as it is found in any public function of management.

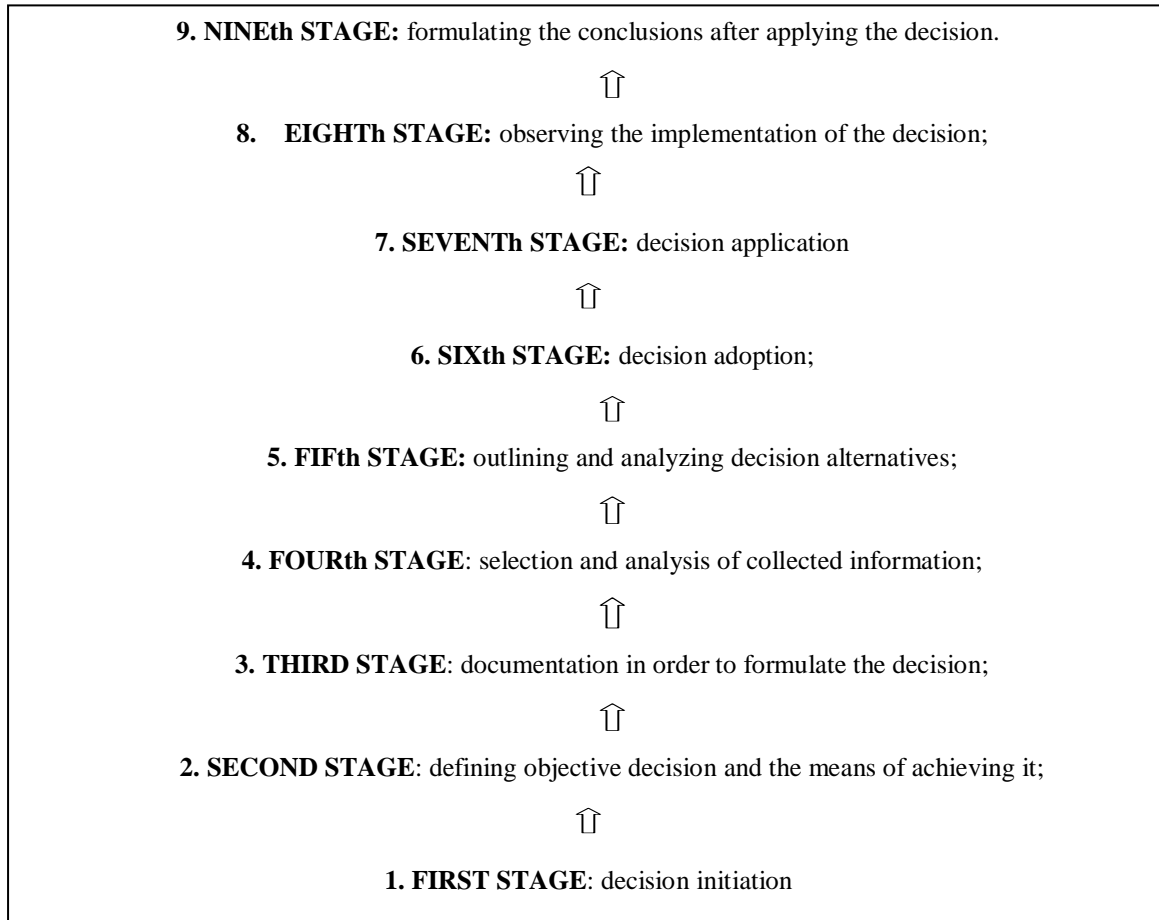
Public decision should not be seen only as a mere activity of rational choice of the best of several possible options but a complex act, whose implementation can have irreversible consequences on the lives of administrators (individuals and businesses).

Referring on public decision characteristics, we can say that it is more delicate one, than a personal decision. Since the decision maker must be held accountable, explain himself to the citizens or to the electorate. The right to mistake is rarely acknowledged, he must prove endlessly extreme rigor in the manner of deciding. Public decision must be legal: the judge checks due process and penalize violations of any kind committed by public authorities.

Even though the literature says that to implement rational model, it may encounter many barriers, and that in practice we can not speak of absolute rationality but only a

limited one, if we start from the premise that decision making is a process of logical type (stages must be to derive one from the other), rationally, it must include the following steps, shown in Fig.2:

Figure 2 Logical scheme of the rational type of decision-making process



Source: The author based on the literature

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CONFLICT OF INTEREST AND INTEGRITY IN PUBLIC ADMINISTRATION IN CEE COUNTRIES. COMPARATIVE ANALYSIS

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Abstract: *Corruption is a threat to democracy, to the law's supremacy, to social equity and justice, it erodes the principles of efficient administration, undermines the market economy and endanger the stability of state institutions. Research on corruption has particularly focused on the classification of its various forms in order to operationalize the concept of analytical judgment and practical reasoning. In this context, conflict of interest represent one of the main form of manifestation of corruption in public administration*

Keywords: *Integrity, public administration, corruption, conflict of interest.*

1. DEFINITION OF CORRUPTION – A NECESSARY DELIMITATION

During the past recent years, corruption makes its presence all over the world, and this fact has attracted the attention of the economists and of the public opinion. The awareness of the dramatic effects of corruption on the process of development for a country has led to research incentives on the phenomenon and its various forms he wears in different countries around the world (Sierra D, 2006)

Choosing one single definition of corruption is very difficult. Taking into account a review of existing literature and bibliographic sources on this topic, academic research can be classified using at least the following criteria: in the context of different social sciences, according to the most important debate and discourse, and depending on the discussions that place in various governmental and nongovernmental organizations that have corruption, as their object of investigation. What is to be included and what is to be excluded in these definitions? What are the different types of corruption? What is the difference, if any, between corruption and the pursuit of wealth? (Popa Florin, 2012)

Research on corruption has particularly focused on the classification of its various forms in order to operationalize the concept of analytical judgment and practical reasoning. Therefore, there are many opinions regarding the best way to classify corruption into categories and subcategories. Some researchers have defined corruption as a particular state-society relationship and they make a distinction between 'political' corruption and the 'bureaucratic' one. Another classification is that considering 'functional' corruption and 'dysfunctional' bureaucracy. Other researchers have tried to link corruption with other phenomena or processes. For example, political sciences have recently tried to place corruption, and the fight against it, on the agenda of

democratization process. A strict definition of corruption, limits it to the staff, to certain sectors or to specific transactions (as the case of corruption is defined as a behavioral deviation of the officials) (Popa Florin, 2012).

The decisional role of the state is reflected in most definitions awarded to corruption, which express it as a particular state-society relationship (and, some might say, a corrupt one). Studying corruption has become multidisciplinary and wide, ranging from the efforts of theoretically modeling of a generally met situation towards a detailed description of a single corruption scandal. It was studied as a matter of political, economic, cultural and moral underdevelopment. The fact that corruption very often occurs in complex situations is based on the simplicity of its triggers and motivations. For example, the *Source Book*, published by Transparency International, argues that public administration programs, government reform, law enforcement, public accountability and the creation of institutions to prevent corruption, all of these are only some elements in a long process that needs as much support as possible and involves the change of attitude at all levels. Moreover, it was argued that as countries are improving their modernization stages, reaching higher development levels, corruption does not disappear, but on the contrary, it just takes different forms (Girling, J., 1997: 3).

Samuel Huntington notes that there, where political opportunities are rare, 'corruption occurs when people use their wealth to buy power, and where economic opportunities are scarce, corruption occurs when political power is used to track wealth' (Huntington, S.P., 1968: 59-71). Prospecting different types of transferred resources, there could be made a distinction between corruption in economic terms, and corruption in social terms. Economic corruption is a typical market situation and requires an exchange of cash or goods, which are fundamental to corruption.

The decisive role of the state is reflected in most definitions of corruption, which speak about this phenomenon as a particular state-society relationship. Corruption is conventionally understood and regarded as '*the private conduct in the search of welfare of someone who represents either the state or the public authority*'. It stands for the public authorities' misuse of public resources for personal interests. Encyclopedias and working definitions used by the World Bank, Transparency International and other intervention bodies, show that corruption is '*abuse of public power for private benefit*'.(Amundsen ,I., 1999)

Another widely used definition is that according to which '*corruption is a transaction between private actors and public sector actors, through which collective goods are illegally converted into private property*' (Heidenheimer at al, 1989). This point of view is also emphasized by Rose-Ackerman, who argues that 'the corruption exists at the interface between public and private sectors'. (Rose-Akerman Susan, 1978:35)

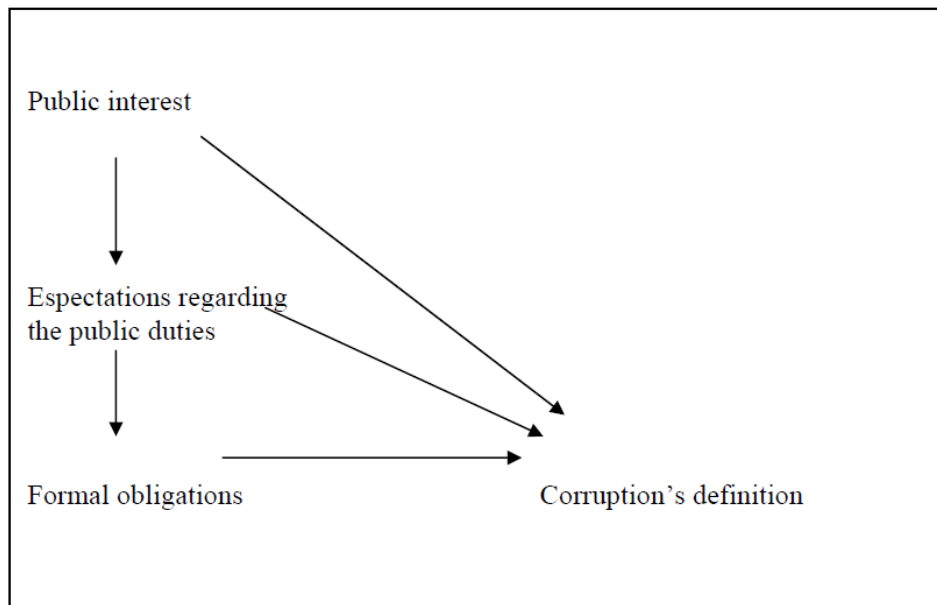
As noted above, the definition of corruption, best suitable to its appearance in the public sector, seems, at least at a first glance, an easy thing to reach: *the misuse of public power for private gains*. The concept of private earnings refers to both receiving money or goods, and the possibility of increasing one's power or social position. Accepting favors or future earnings for relatives or friends can also be regarded as a successful and

assured future income. Regarding the favors for relatives and friends, the most often used terms are those of ‘nepotism’ and ‘favoritism’.

Such an approach is used by Johann Lambsdorff (2006). Continuing his empirical approach, he intrinsically analyzes the definition. Thus, referring to the concept of **public power**, he asserts that it is exercised by bureaucrats, appointed at the public office, or by politicians, elected or employed on their position. The public power is exercised in a variety of sectors, such as public acquisitions and procurement, business regulation, licensing and permits, privatization, foreign trade (including customs, permits for foreign trade, international financial transactions), the taxes and local fees (including granting exemption from payment of fees), police, public utilities and government services (health, education, defense).

As for the concept of **‘improper use’**, this refers to the specific behavior that deviates from the normal duties belonging to the public position (appointed or elected), which is opposed to the informal rules (set off by the public expectations in a standardized way as codes of Conduct). Within a governmental system that works with these types of definitions, there is a merge of them into only one: the public interests transforms into the public’s expectations in regard to the power holders.

Fig.1 The definition of corruption and its coming into being



Source: Lambsdorff, J., (2007), “The Institutional Economics of Corruption and Reform” Cambridge University Press, p. 18

In the national arena, corruption occurs at the interface between state and various non-state actors. On one side there is the corrupt dignitary, on the other side there is the briber, the bribe provider. Authorities may be represented by anyone, from the president and top political leadership (‘political corruption’), down on the hierarchy, to the farthest public servant placed in the local public administration (‘bureaucratic corruption’). Many

theories and conceptualizations of corruption place the accent on those who corrupt the benefits that they earn, those who offer bribes in the first place, whereas other theories emphasize the corrupted persons, those who accepted the offered bribe and their advantages.

Also, at the level of the national institutional arena, at the level of the various state agencies present there, corruption can occur between political institutions and administrative / bureaucratic ones. These relationships have the potential to become corrupted due to political struggles for access to resources, to overlapping and conflicting authority, or due to personal relations of dependence and loyalty.

2. CONFLICT OF INTEREST

The effort of elaborating legislative rules for the definition and explanation and solving of the conflict of interest that occurs in the exercise of public authority and the execution of public functions, in general, is an issue that requires a more careful approach on behalf of the politics (political side) and on that of the society. It is increasingly discussed the need for prevention of conflicts of interest in exercising public functions and, where such conflicts have occurred, their solution. There are referred here certain public positions of authority and other executive public functions. The protection of public interests should form the basis of the execution of public functions, as it is totally unacceptable for the society for them to be improperly used by those who exercise them in order to obtain undue benefits or gains.

2.1. ELEMENTS OF DEFINITION OF THE CONFLICT OF INTERESTS

The essence of conflict of interest is violating the socially acceptable balance between the civil servants' personal interest and the public interest. Most countries do not use the concept of conflict of interest literally, and the legislation usually does not provide a legal definition on conflict of interest. In general, the concept of conflict of interest as a legal term is relatively new. In most countries it has already been introduced in the legislation but mostly through the focus on the fight against corruption.

As a result, the types of conflict of interest recognized in the CEE legislation primarily include holding a public office simultaneously with other private or public jobs or positions ("incompatibilities") or economic conflict of interest. Nevertheless, in the theory of administrative science, there is great demand for a clear legal definition of conflict of interest. (Kudrycka Barbara, 2004:8)

There are three key elements in defining a conflict of interest. The first is the private or personal interest, which may be a financial interest, or may be another kind of interest, for example to provide a particular advantage to the spouse or to a child. The more difficult part occurs when private interest is in conflict with the second element of the definition, 'official duties' of the work placement, the tasks that an official has to execute in accordance with the position they occupy. Any employee has certain official responsibilities, which assumes his/her obligations towards the customers, in respect to other employees or different other persons. These duties are

supposed to take precedence over personal or private interests. Conflict of interests interferes with the professional responsibilities in a specific way, namely, it affects or may affect the objectivity of professional reasoning. One reason why employers and clients appreciate the professionals is the fact that they manage to maintain their objectivity and integrity. Several factors, such as private or personal interests that may alter these two qualities, are a serious concern for those who rely on the professionalism of the staff, be they customers, colleagues or the generic public. It is therefore particularly important to avoid apparent or potential conflicts of interest. An apparent conflict of interest is a situation where a person considers that the employee's judgment might be compromised. A potential conflict of interest implies the existence of a situation that may develop into a conflict of interests. Starting from this distinction, one can speak at least seven types of conflicts of interest:

- *personal interests*: when a person works for the government, for example, uses his official position to conclude a contract with a private consulting firm that is his own.
- *the acceptance of benefits*: substantial bribes and gifts are important examples of this category;
- *traffic of influence*: when an employee, who has influence or let others believe he has that influence on an officer or another person, receives or claims money or other benefits, accept promises, gifts, directly or indirectly for himself or for another person in exchange for using his influence to support the interests of others
- *for personal use of the employer's property*: this is basically similar to stealing office supplies to use them at home (in private)
- *the usage of confidential or secret information*: for example, while a person works for a client, finds out that the client intends to buy land in the region and decides to buy the land on his wife's name just a short time before the client.
- *getting employed in the same sector*: representative for this type of conflict of interest is a situation where a person resigns from a public job and starts another job in the same domain.
- *carrying out activities in parallel with the job*: such as, for example, starting a personal business in direct competition with the employer.

The majority of the states have institutionalized the registration of the official statements on the financial interests of members of Parliament, Government of, or civil servants. This situation of defining ethical standards is necessary along with the need for greater transparency in the government act as opposed to the traditional mechanisms - such as regulations on ineligibility, incompatibility and the financing of political parties and election campaigns - that proved to be not sufficient enough.

2.2. LEGAL REGULATORY MODELS

An analysis of the laws of other states indicates the existence of three regulatory means to model the public functions' problem in respect with the conflict of interest and incompatibilities with other functions of. The *first* model is the *British one*. This model includes not only the states with the British parliamentary tradition (UK, Australia,

Ireland, New Zealand, Canada), but also European countries like Germany or Portugal. The main merit of this model is its ability to rather put emphasis on the potential economic and financial relationships that could affect the integrity and impartiality of officials and civil servants than to stress on risk of unjust enrichment. In conclusion, the key concept is that of transparency.

The second *model* is the *French* one, which had a greater impact in countries with French inspired juridical system (France, Spain, Italy), in the Central European states that are in the process of democratization (Hungary, Romania, Poland, Czech Republic Slovakia) and in some countries in Latin America. The French model is founded on different principles, revealing a greater degree of non-confidence granted to the occupants of positions of public services, than that from the British model. The main concern of this system is that of fighting against corruption, rather than promoting transparency. It is assessed mainly the fact whether those who hold public office during their mandate accumulate 'over normal limits' wealth.

The third *model* used is the *Nordic one*, present in countries such as Sweden, Norway, Denmark, Finland and the Netherlands. In these countries, the registration or the declaration of financial interests, economic or of other nature, are voluntarily and there are no specific punishments, which suggests a greater citizenship credit granted to the individuals that represent the people and a better trust for the public administration system.

3. REGULATION OF CONFLICT OF INTEREST IN DIFFERENT CEE COUNTRIES

In *Bulgaria* the problem of fighting against conflict of interest is regulated by „Conflict of Interest Prevention and Ascertainment Act”. This act determines the rules for the prevention and ascertainment of a conflict of interest of public office holders. A conflict of interest arises where a public office holder has a private interest that may affect the impartial and objective execution of the official powers or duties thereof. **“Private interest”** means any interest which results in a financial or non-financial benefit to a public office holder, or to any persons having close links therewith, including any obligation assumed. **“Benefit”** means any income in money or in property, including acquisition of participating interests or shares, as well as granting, transferring or renouncing rights, receiving a privilege or honors, acquiring goods or services gratuitously or at prices below the market prices, assistance, vote, support or influence, advantage, obtaining or receiving a promise to obtain a job, a position, a gift, a reward or a promise to avoid a loss, liability, sanction or another adverse event. Within the meaning given by this Act, “public office holders” are:

1. the President and the Vice President;
2. the Constitutional Court judges;
3. the National Representatives;
4. the Prime Minister, the Deputy Prime Ministers, the Ministers and the Deputy Ministers;

5. the Presidents of the Supreme Court of Cassation and of the Supreme Administrative Court and the Prosecutor General;
6. the National Ombudsman and the Deputy Ombudsman;
7. the Regional Governors and the Regional Vice Governors;
8. the mayors, the deputy mayors of municipalities and of boroughs;
9. the municipal councilors;
10. the members of the Supreme Judicial Council;
11. the Chief Inspector and the inspectors of the Inspectorate to the Supreme Judicial Council;
12. the President and the members of the National Audit Office;
13. the Governor, the Deputy Governors and the members of the Managing Board of the Bulgarian National Bank;
14. the Governor and the Vice Governor of the National Social Security Institute;
15. the heads of the overseas missions of the Republic of Bulgaria;
16. the administrative heads of the judicial authorities;
17. the single-person authorities, the deputies thereof and the members of the collegial authorities covered under Article 19 (4) of the Administration Act, as well as the members of other collegial authorities established by a law;
18. the heads of public-financed organizations established by a law, by a resolution of the National Assembly or by an act of the Council of Ministers;
19. the members of the Supervisory Board, the Manager of the National Health Insurance Fund and the directors of the regional health insurance funds;
20. the judges, the prosecutors and the investigating magistrates;
21. the recording magistrates and the public enforcement agents;
22. the representatives of the State or the municipalities on the management or supervisory bodies of commercial corporations wherein the State or a municipality holds an interest in the capital or of not-for-profit legal entities;
23. the managers and the members of the management or supervisory bodies of municipal-owned or state-owned enterprises, as well as of other legal persons established by a law, by an act of a state body or of a body of local self-government;
24. the members of the political cabinets and the advisors and experts to the political cabinets; the staff in the Administration of the President, of the legislative, executive and judicial authorities, the staff in the local administration, the staff in the bodies established by a law, with the exception of the staff occupying technical positions.

A public office holder may not hold any other office or perform any activity which, according to the Constitution or a special law, is incompatible with the status thereof. Also a public office holder may not represent the State or a municipality in the cases where the said office holder has a private interest in the taking of a particular decision. He does not have the right, in the execution of the duties thereof, to vote in a private interest. A public office holder shall not have the right to use the official status thereof in order to exert influence in a private interest on other authorities or persons in the preparation, adoption, issuance or rendition of any acts or in the fulfillment of any control or investigating functions.

Public officials in place do not have the right to participate in the preparation, discussion, adoption, issuance or rendition of any acts, to fulfill any control or investigating functions or to impose any sanctions in a private interest. Any such person shall not have the right to conclude any contracts or to perform any other activities in a private interest upon execution of the official powers or duties thereof. It is forbidden for any officials to dispose of any state or public property, to spend any on-budget or off-budget resources, including resources from funds belonging to the European Union or made available by the European Union to the Bulgarian State, to issue any certificates, authorizations or licenses, or to exercise control over any such activities in the interest of any not-for-profit legal entities, commercial corporations or co-operatives wherein the said office holder or any persons having close links therewith are members of a management or supervisory body, managing directors, partners, or holders of interests or shares.

A public office holder shall submit:

1. a declaration of incompatibility;
2. a declaration of private interests;
3. a declaration of occurrence of a change;
4. a declaration of a private interest on a particular occasion.

A public office holder shall submit the declaration referred above within thirty days after the election or appointment thereof. In the said declaration, the person shall state the circumstances which would lead to the occurrence of a conflict of interest, such as:

1. participation in commercial corporations, in management or supervisory bodies of not-for-profit legal entities or of co-operatives, as well as carrying on business as a sole trader at the date of election or appointment and twelve months prior to the date of election or appointment;
2. obligations assumed to credit or financial institutions, as well as to other persons, to a value exceeding BGN 5,000(BGN is the national currency); the person shall state the amount and type of the obligation assumed and the creditor thereof;
3. contracts with any persons who or which carry out any activity in areas related to the decisions made by the public office holder within the range of the official powers or duties thereof;
4. particulars of any persons having close links with the public office holder, in whose activity the public office holder has a private interest; particulars of any persons having close links;

A public office holder shall be obligated to suspend him or herself from the execution of the powers thereof or of an official duty where a private interest exists on a particular occasion. Also the public office holder may alternatively be suspended on a particular occasion from the execution of the powers thereof or of an official duty by a written act by the electing or appointing authority if the said office holder has declared a private interest.

In **Latvia** the problem of conflict of interest is regulated by “Law on Prevention of Conflict of Interest in Activities of Public Officials“

The purpose of this Law is to ensure that the actions of public officials are in the public interest, prevent the influence of a personal or financial interest of any public official, his or her relatives or counterparties upon the actions of the public official, to promote openness regarding the actions of the public officials and their liability to the public, as well as public confidence regarding the actions of public officials. In this sense the law provides for:

- 1) restrictions and prohibitions upon public officials;
- 2) prevention of conflict of interest in actions of public officials; and
- 3) declaration of the financial status of public officials and a mechanism for the verification of the declarations of public officials.

According to the law public officials are the following

- 1) the President;
- 2) members of the *Saeima*;
- 3) the Prime Minister, Deputy Prime Ministers, Ministers, Ministers for Special Assignments, and Parliamentary Secretaries;
- 4) the head of the Chancellery of the President of Latvia and his or her deputy, the Director of the *Saeima* Chancellery and his or her deputy;
- 5) advisors to the President, advisors, consultants and assistants, as well as heads of the Offices of the Prime Minister, Deputy Prime Ministers, Ministers, and Ministers for Special Assignments;
- 6) the Governor of the Bank of Latvia, his or her deputy and members of the Board of Governors of the Bank of Latvia;
- 7) the Auditor General, members of the Council of the State Audit Office, and the sector head of the audit department of the State Audit Office;
- 8) the Chairperson of the Central Electoral Commission, his or her deputy and the Secretary of the Central Electoral Commission;
- 9) the Director of the Constitution Protection Bureau and his or her deputy;
- 10) the head of the Prevention and Combating of Corruption Bureau, his or her deputies, central administration divisional heads and their deputies, heads of territorial offices and investigators;
- 11) the head of the Prevention of the Laundering of Proceeds from Crime Service and his or her deputy;
- 12) the Ombudsman and his or her deputy;
- 13) members of the National Broadcasting Council of Latvia, members of the Council of the Public Utilities Commission, members of the Council of the Finance and Capital Market Commission;
- 14) the chairperson of a self-government council and his or her deputy, the executive director of a self-government and his or her deputy, as well as the head of the administration of a rural territory (or *pagasts*) or town in the municipality self-government;
- 15) councilors of self-government councils;
- 16) heads of State or self-government institutions and their deputies;
- 17) civil servants of the general or specialized State Civil Service;

- 18) members of councils of capital companies who represent the interests of the State or self-governments in a capital company in which the State or self-government share of the equity capital separately or in aggregate exceeds 50 percent;
- 19) members of councils or executive boards of State or self-government capital companies; member of the board of such capital company, in which the share of the equity capital of one or several State or self-government capital companies in aggregate or separately exceeds 50 percent, and such member of the council of such capital company, who represents the interests of the State or self-government capital company;
- 20) representatives of the holder of the State or self-government share of capital and their authorized persons;
- 21) judges, prosecutors, sworn notaries and sworn bailiffs;
- 22) professional service soldiers and military employees of the National Armed Forces;
- 23) member of the Public Procurement Commission; and
- 24) officials with special service ranks of the Ministry of the Interior system institutions and the Prisons Administration.

Persons who in the performance of the duties of office in the State or self-government authorities, in accordance with regulatory enactments, have the right to issue administrative acts, as well as to perform supervision, control, inquiry or punitive functions in relation to persons who are not under their direct or indirect control, or to deal with the property of the State or self-government, including financial resources, shall also be considered to be public officials.

As public officials shall be considered also persons who in fulfilling the duties of office in State security authorities perform at least one of the following activities:

- 1) intelligence;
- 2) counter-intelligence;
- 3) investigatory operations; or
- 4) the processing, analysis or protection of information acquired through intelligence, counter-intelligence or investigatory operations.

They are also provisions in the law for some categories of public official with position similar to the one mentioned before. In this respect public officials shall be considered to be also persons who in fulfilling the duties of office in institutions involved in the management of European Union or foreign financial aid perform at least one of the following activities:

- 1) fulfill supervisory, control or punishment functions in relation to persons who are not directly or indirectly subordinate to them;
- 2) take decisions regarding the submitted project or project application; or
- 3) take such a decision, which affects the use of the granted financial aid.

As public officials shall be considered to be also persons who hold the offices of chairperson of the board of a port, port manager or member of the board of a port. Persons employed in private ports shall be considered to be public officials only if such is provided for in Paragraph three of this Section.

Persons who perform duties of office externally of the State or self-government authorities shall also be considered as public officials if in accordance with the regulatory

enactments the State or self-government has permanently or temporary delegated to them any of the functions referred to in Paragraph two of this Section.

A member of the board of such capital company, in which the share of the equity capital of one or several State or self-government capital companies in aggregate or separately exceeds 50 percent, and such member of the council of such capital company, who represents the interests of the State or self-government capital company, shall not be considered to be a public official, if the relevant capital company is registered in a foreign state. Prevention of conflict of interest in the activities of the board or council members of such capital companies shall be ensured according to the procedures and amount prescribed by regulatory enactments and statutes by the State or self-government capital company, which owns capital shares in the referred to capital company registered in a foreign state.

Public officials are permitted to combine an office of the public official with another office, in the performance of a work-performance contract or authorization if restrictions on the combining of the offices of the public official are not provided for in this Law or other regulatory enactments.

Combining the office of the President with another office is determined by the Constitution of the Republic of Latvia.

Members of the *Saeima*, the Prime Minister, Deputy Prime Ministers, Ministers, Ministers for Special Assignments, and Parliamentary Secretaries are permitted to combine their office as public officials only with:

- 1) offices that they hold in accordance with laws, or international agreements ratified by the *Saeima*;
- 2) offices in a trade union, an association or foundation, a political party, a political party union or a religious organization;
- 3) the work of a teacher, scientist, doctor, professional sportsperson and creative work;
- 4) other offices or work in the *Saeima* or the Cabinet, if such is specified in decisions of the *Saeima* and its institutions, or regulations or orders of the Cabinet; or
- 5) offices that they hold in international organizations and institutions if such has been determined by a decision of the *Saeima*, Cabinet regulations or orders.

The Chief of the State Police and his or her deputy, the Chief of the Security Police and his or her deputy, the Chief of the State Border Guard and his or her deputy, the Chief of the State Fire-fighting and Rescue Service and his or her deputy, the Chief of the Self-government Police and his or her deputy is permitted to combine the office of public official only with:

- 1) offices which they hold in accordance with the Law or international agreements ratified by the *Saeima*, Cabinet regulations and orders; and
- 2) the work of teacher, scientist, professional sportsperson and creative work.

Chairpersons of self-government councils, deputy chairpersons of city councils, executive directors of self-governments and their deputies, heads of State and self-government institutions and their deputies, heads of rural territory (or *pagasts*) or town administration in municipality self-governments, as well as members of executive boards of such State and self-government capital companies, in which the State or self-

government share of the equity capital separately or in aggregate exceeds 50 percent, and members of councils of capital companies who represent the interests of the Latvian State or self-governments in a capital company are permitted to combine their office of public official only with:

- 1) offices which such persons hold in accordance with laws, or Cabinet regulations and orders;
- 2) offices in a trade union, an association or foundation, a political party, a political party union or a religious organization, if it is not prescribed otherwise in Paragraph fourteen of this Section;
- 3) the work of teacher, scientist, doctor, professional sportsperson and creative work;

A person who, after assuming office as a public official, concurrently holds an office the combining of which with the office of public official is not permitted, has a duty within seven days in writing:

- 1) to notify a higher public official or collegial authority of the fact that he or she holds one or more offices (performs a work-performance contract or authorization) the combining of which with the office of public official is prohibited; and
- 2) to submit to the authority in which the person holds an office the combining of which with the office of public official is prohibited a submission requesting the release of him or her from the relevant office.

In **Slovenia** the problem of combating conflict of interest is regulated by “Integrity and Prevention of Corruption Act”. According to this act “*Conflict of interest*” is circumstances in which an official’s personal (in the sense of the document “Official” means persons defined as such in the Penal Code) interest affects or makes an impression of affecting the impartiality and objective provision of his/her public duties. In this sense, art.37 statutes that any officials shall pay attention to any actual or potential conflict of interest and shall make every effort to avoid it. They are prohibited to use office or job to materialize any illegitimate private interest to him/her or anybody else. Unless specified otherwise by another act, an official determining a conflict of interest or a possibility for such a conflict when assuming the job or office or during its performing shall immediately inform his/her superior thereof in writing or the Corruption Prevention Commission in the case of no superior. (S)he shall immediately cease to work on the matter where the conflict of interest has occurred unless any delay would be dangerous. In the case of a probability that official acts of the official contained a conflict of interest, the Commission may initiate the procedure to determine the actual existence of the conflict of interest and its consequences.

4. CONCLUSIONS

Usually we have the tendencies to see corruption mainly as bribery. But fighting corruption represents a challenge because corruption is live organism that adapt to every new medicine. There is no universal panacea. In the field of combating conflict of interest the situation is not different. Every area of conflict of interest, e.g., personal economic interest, duplication of power, nepotism, and cronyism, may be a subject of separate

research. (Kudrycka Barbara, 2004:5). As we can see above each country has a special way to deal with this issue. In the same time, beside several particularities, there is a main core of actions such as interdiction to be in certain positions in the same time, to provide certain services, to fill same declaration of interest and of income.

The present analysis is only the beginning of a bigger research activity with the purpose to offer a general framework to fight against conflict of interest, the general framework containing also indicators to asset the impact of certain regulation.

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CITIZEN PROTECTION IN FRONT OF PUBLIC ADMINISTRATION. COMPARATIVE ANALYSIS

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Abstract: *The purpose of this paper is to analyze the legal instruments available to the citizen to fight against government abuses. These tools, some of them published and recently developed, is a natural part of the evolution of government and the relationship between administration and citizens. Increasing citizen involvement in administration is reflected precisely by giving increasing importance in legal research to this phenomenon.*

Keywords *equality, human rights, legality, government*

1. THE CURRENT STATE OF KNOWLEDGE

In the last decade, one can observe a development of the roles that government has, on the whole European continent and beyond. Relations between government and citizens become more frequent and intense, increasing the risk of disputes proportionally. The right of a person aggrieved by a public authority is a fundamental right in a state based on the rule of law. Also, there is a substantial increase in the role Ombudsman institution, since in many cases; non - legal remedy offered by the Ombudsman is a cheaper alternative and faster, thus avoiding overloading the court system. Since the Ombudsman does not issue binding decisions, the procedure is less flexible and relatively informal to proceedings before a court. Especially since it take into account not only legal rights and obligations, but also the idea that, in a democracy, government exists to serve the citizens and not vice versa. The work of Ombudsman institutions can promote even higher standards for public administration, in order to meet the growing expectations of citizens (Rădulescu Crina Ramona, 2008)

Protect citizens can be analyzed both in terms of institutional issues (and here we refer mainly to the Ombudsman institution) and in terms of legal aspects (and here we mean the existence and enforcement of legislation on administrative as well as existence and application of human rights principles).

2. OMBUDSMAN INSTITUTION AT EUROPEAN LEVEL

Development of Ombudsman institutions in Europe help, and in the same time is a success of pluralist democracy on our continent. In this sense, the actual realization of

human rights (especially, but not exclusively, cultural, economic and social) depend largely on the quality of public administration. This is why the Charter of Fundamental Rights of the European Union includes the right to good administration as a fundamental right of citizens.

The Maastricht Treaty established the European mediator to defend this principle and to investigate any cases of bad administration in the EU institutions and bodies. He exercises administrative control mechanism comparable to that which allows control of public authorities at national level by the Ombudsmen or the Ombudsman, in most member countries. In 2000, 12 of the 15 EU Member States had a national Ombudsman institution. In Germany and Luxembourg, parliamentary committees to examine petitions play a role analogous. Italy does not have a national mediator although they were submitted several drafts of this. There is also a mediator in regional or communal in many Member States, for example, in *autonomias* Spanish, Italian and German *Länder* regions. (Alexandru Ion et al, 2007)

According to art.228 of the Lisbon Treaty, European Ombudsman, is elected by the European Parliament, and empowered to receive complaints from any citizen of the Union or any natural or legal person residing or having its registered office in a Member State concerning instances of maladministration in the activities of the Union institutions, bodies, offices or agencies, with the exception of the Court of Justice of the European Union acting in its judicial role. He or she shall examine such complaints and report on them.

In accordance with his duties, the Ombudsman conduct inquiries for which he finds grounds, either on his own initiative or on the basis of complaints submitted to him direct or through a Member of the European Parliament, except where the alleged facts are or have been the subject of legal proceedings. Where the Ombudsman establishes an instance of maladministration, he refer the matter to the institution, body, office or agency concerned, which shall have a period of three months in which to inform him of its views. The Ombudsman then forwards a report to the European Parliament and the institution, body, office or agency concerned. The person lodging the complaint shall be informed of the outcome of such inquiries.

The Ombudsman submits an annual report to the European Parliament on the outcome of his inquiries. He is elected after each election of the European Parliament for the duration of its term of office and he is eligible for reappointment. The Ombudsman may be dismissed by the Court of Justice at the request of the European Parliament if he no longer fulfils the conditions required for the performance of his duties or if he is guilty of serious misconduct.

The Ombudsman is completely independent in the performance of his duties. In the performance of those duties he neither seeks nor takes instructions from any Government, institution, body, office or entity. The Ombudsman may not, during his term of office, engage in any other occupation, whether gainful or not. The European Parliament acting by means of regulations on its own initiative in accordance with a special legislative procedure, after seeking an opinion from the Commission and with the approval of the Council, lay down the regulations and general conditions governing the performance of the Ombudsman's duties.

From the very beginning of the Ombudsman's activity, the term "maladministration" has been interpreted so as to include failure to act in accordance with the law, with the principles of good administration, or with fundamental rights. The Ombudsman in protecting and promoting fundamental rights in the EU public service. The office protects such rights by means of a reactive mode of operation, that is, by dealing with the complaints that we receive. He also act proactively, both to protect fundamental rights and to promote them, especially by identifying and spreading best practices among the EU institutions. The reactive and proactive approaches are complementary and reinforce each other (Nikiforos Diamandouros: 2012).

As we mention before the institution of Ombudsman exists in most European countries. Thus, in the Belgium the office of the Federal Ombudsman is an independent and impartial institution that examines complaints about the way the federal administrative authorities act or function. The institution comprises two ombudspersons appointed for a period of six years by the House of Representatives, and are assisted by a team of experienced staff. They are not part of the administration. Within the scope of their remit, the ombudspersons do not receive instructions from any authority. They appoint staff to assist them in the performance of their duties. His office of the Federal Ombudsman performs several tasks:

a) It examines complaints from citizens about how the federal administrative authorities act and function; b) It investigates, at the request of the House of Representatives, how the federal administrative services function; c) It makes recommendations to the federal administrative authorities and to Parliament based on observations made during these two missions; d) It reports to Parliament. The mission of an institutional Ombudsman is to deal with cases of "poor governance". The Federal Ombudsman has from the outset focused on drawing up a transparent list of rules and criteria used to process the complaints received: 1. Proper application of the rule of law; 2. Equality; 3. Impartiality; 4. Reasonableness and proportionality; 5. Legal certainty; 6. Legitimate confidence; 7. Right to be heard; 8. Reasonable time limit for complaint handling; 9. Conscientious handling; 10. Effective coordination; 11. Justification of administrative acts; 12. Active information; 13. Passive information; 14. Courtesy; 15. Appropriate access (<http://www.federalombudsman.be>)

The Public Defender of Rights in the **Czech Republic** acts to defend persons against the conduct of authorities and other institutions exercising state administration, if the conduct: is against the law; does not violate the law, but is otherwise defective or incorrect, and hence does not correspond to the principles of a democratic legal state and the principles of good administration; if these authorities are inactive.

The Defender is authorised to deal with complaints against the activities of the following: ministries and other administrative authorities having competence over the entire territory of the Czech Republic and the administrative authorities falling under their competence; territorial self-governing bodies (i.e. municipalities and Regions), but only in the exercise of state administration, i.e. not where they make decisions within their own competence (self-government); the Czech National Bank to the extent as it acts as an administrative authority; the Council for Radio and Television Broadcasting; the Police of the Czech Republic, with the exception of investigations where the Police act in

criminal proceedings; the Army of the Czech Republic and the Castle guard; the Prison Service of the Czech Republic; facilities performing custody, imprisonment, protective or institutional education, or protective treatment; health insurance companies; court bodies and public prosecutor's bodies in the exercise of state administration (particularly concerning delays in proceedings, inactivity of courts and inappropriate behaviour of judges), but not against the actual decision of a court or public prosecutor.

The Defender may conduct independent inquiries but he cannot substitute for the activities of state administrative authorities and he cannot cancel or alter their decisions. However, when a shortcoming is ascertained, the Defender may request that authorities or institutions ensure remedy.

The Defender may also open an inquiry on his own initiative (for example on the basis of information in the media).

Since 2006, the Defender has been exercising supervision over compliance with the rights of persons restricted in their freedom. He performs systematic preventive visits to facilities where persons are or may be confined on the basis of a decision or an order of a public authority (e.g. a court) or on the grounds of dependence on the care provided (particularly based on age, health condition, social circumstances, etc.). These places include, for example, police cells, prisons, asylum facilities, institutes for long-term patients, facilities for elderly people, mental homes, institutional education facilities, etc.

In 2008 the Defender was given special powers in the area of state court administration – the right to propose commencement of disciplinary proceedings against presiding judges and deputy presiding judges of courts if they breach the obligations associated with the discharge of their office.

Upon approval of the Antidiscrimination Act in 2009 the Defender became a body assisting victims of discrimination. The aforementioned legal definition of his mandate does not give the Defender the right to enter private-law relationships or disputes (including disputes between employees and employers, even if the employer is a state authority). Complaints about discriminatory conduct are the only exception – in these cases the Defender may intervene also in the private-law sphere.

The Defender also cannot intervene in the decision-making of courts, he is not a body of appeal against their decisions and he is not authorized to intervene in the activities of expressly specified institutions: Courts of all instances and types in their decision-making powers; The decision-making activities of public prosecutors; Parliament, the President of the Republic and the Government; The Supreme Audit Office; The intelligence services of the Czech Republic; Prosecuting bodies. (<http://www.ochrance.cz>)

The Ombudsman of the Republic of **Latvia** is an official elected by the Parliament, whose main tasks are encouragement of the protection of human rights and promotion of a legal and expedient State authority, which observes the principle of good administration.

The Ombudsman is elected for five years and assumes his or her duties after taking an oath. The Ombudsman is independent in its actions and is governed only by law. No persons or State or municipal institutions have the right to influence the performance of the Ombudsman's functions and tasks. The work of Ombudsman Office

is organized in four main or legal divisions and two assisting divisions: Division of Civil and Political rights; Division of Social, Economical and Cultural Rights; Division of the Rights of Children; Division of Equality before Law. (<http://www.tiesibsargs.lv/>)

3. LEGAL ASPECTS REGARDING THE PROTECTION OF CITIZEN

In Europe, the Lisbon Treaty refers to the Charter of Fundamental Rights, considered a true catalog of rights that all EU citizens should have in relation to the EU institutions and guarantees legally binding EU legislation. It contains a section on solidarity, which lists a number of rights and principles directly relevant to social, such as the right to information and consultation in undertakings, the right to negotiate collective agreements and to take collective action, access to placement services employment and protection against unfair dismissal and the right to security and social assistance. These rights draw largely from other international instruments such as the European Convention on Human Rights, giving a legal form within the Union. Union institutions must respect the rights enshrined in the Charter. The same obligations incumbent on Member States when they are implementing Union law. Court of justice will ensure the correct application of the Charter. The inclusion of the Charter in the Treaty is more than beneficial because it does not alter the powers of the Union as it seems, but also provides enhanced rights and more freedom for citizens.

Lisbon Treaty is further proof that Europe plays an increasingly assertive role on the world stage. This treaty establishes common principles and objectives for the Union's external action: democracy, rule of law, the universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, the principles of equality and solidarity.

To ensure good administration have been identified by research conducted twelve principles widely across Member States, without which we cannot speak of good administration. Thus we can mention:

- The principle of legality, non-discrimination and proportionality
- The principle of impartiality and fairness
- The principle of promptness
- Right to be heard
- Right to access to personal folder
- Access to public information
- The obligation of the public institution to declare in writing the reasons that led to a decision
- The obligation of the public institution to notify all interested parties of a decision.
- Obligation to recommend possible solutions to issues raised by citizens
- Obligation to draw up minutes of every meeting
- Obligation to keep records
- The obligation of public officials to be directed towards improving the quality of services

In **France**, (Alexandru Ioan, 2008) legal protection against the administration was conducted by the central position occupied by the State Council. In some forms of litigation, designated by law, the State Council acts as a court of first and last resort. In other cases, however, it exist essentially two levels of judicial proceedings. In the role of Court of Appeal, the State Council first reviews the decisions of administrative tribunals. In the role of the Supreme Court, the State Council reviews the decisions taken in the first instance most special administrative courts. These include not only the disciplinary courts, and some quasi- judicial administrative committees. The types of actions are classified according to the extension of the jurisdiction of the Court relevant. Under "contentious annulment" Courts are only those that can cancel illegal administrative action. The most important type of action under this title is "appeal for abuse of power". Under full jurisdictional disputes (litigation involving unlimited jurisdiction) courts also have the power to improve or replace the administrative decision. Except action for damages, when the administration may be asked to make a financial payment, courts are reluctant to issue directives on administrative authorities. An action seeking to compel the administration to implement a particular obligation would be incompatible with French separation of powers.

By far the most important type of action is the appeal for excess power that can be used against all forms of activity in administration (unilateral administrative acts). These include both individual acts and ordinances. To be admissible, the action must not only comply with the prescribed time limits and formalities, but also seek to protect the legal interests primarily. The Courts have made a very liberal interpretation, which refers to the concept of "*interet pour agir*". Proceedings before administrative courts are based on the principle of the preliminary examination and the written nature of the procedure. Government representative has an important role in driving these procedures. He examines the dispute before the Court, and, independent of the Judge, make his reports. Government representative position served as the inspiration for that of the Advocate General at the European Court of Justice.

In **England**, the procedural aspect is predominant and characterizes the relationship between positive and procedural administrative law. Possible appeals against administrative action must take account of legal recourse on the one hand and judicial control, which traditionally fall within the jurisdiction of the courts, on the other hand. In addition to the control exercised by the ordinary courts over the administration gained in importance and judicial review of administrative action by the special courts. These judicial bodies decide on complaints brought against measures taken by the administration. The general provisions regarding the composition of these courts, which in most cases, consist of a lawyer as president and two outsiders, the procedure to be followed and special court review of decisions by the ordinary courts, reveals considerable variation from one type to another.

In **Germany** (Alexandru Ioan, 2008) there are numerous institutions and procedures for monitoring the administrative action, ranging from control procedures at the state and local authorities, through parliamentary oversight in the form of ministerial responsibility to overseeing the mass social undocumented media. So called the preliminary objection is extra judicial procedure by which the legality and efficiency of

the implementation of an administrative act, or refusal to issue an administrative act, is considered by the administration itself, in most cases by a higher authority. Preliminary procedure is a prerequisite to obtain a judgment under an action for annulment or for bringing an administrative action. This extensive examination leads in many cases to a decision that is favorable to the applicant.

Article 19 (4) (1) of the Fundamental Law guarantees legal protection against violations committed by public authorities. In this sense, all disputes from public law that are not constitutional in nature, fall under the jurisdiction of administrative courts, subject to special rules on jurisdiction envisaged by federal law task. The general judicial system on administrative law provides two levels of appeal: above / over Verwaltungsgericht (Administrative Court of first instance) there Oberverwaltungsgericht (Superior Administrative Court) (or Verwaltungsgerichtshof) (Court of Appeal) and Bundesverwaltungsgericht. In addition to the above, there is also some administrative Court.

Finally, the Federal Constitutional Court ensures legal protection against government in some cases. Any citizen may bring constitutional proceedings before the Federal Constitutional Court because his fundamental rights have been violated by public authorities. However, action is admissible only after all other available remedies have been exhausted, making the most of the actions to be filed not against administrative acts, but against the decisions of the highest court of appeal. Administrative law issues can also be brought before the Constitutional Court through other procedures, the revision of the law abstract. As already mentioned, the Constitutional Court has exercised a decisive influence on the current administrative law.

4. CONCLUSIONS

Protecting citizens against possible abuses of government is an issue that gives rise to interesting debates in the academic world. Often it appear the question to what extends the right of the citizen and to what extends the right of the government? How should administration react to the individual requests: to give the disadvantage of the majority?

The cases are difficult to distinguish. One thing is certain: the problem of protecting citizens against government reveals interdisciplinary aspects. We can talk about an approach from the viewpoint of political science referring to the existence of a democratic regime or to a dictatorial regime. On the other hand taking into account the political developments in Central and Eastern Europe in the last 25 years, the transition from dictatorship to democratic regimes, it must be said that these countries are trying to recover the gap from western countries, gap not only at the legislative level but also at social perception.

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INTERACTION BETWEEN PARTNERSHIP SECTORS AT CREATION THE PUBLIC PRIVATE PARTNERSHIP

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Abstract: *This research analyses evolution the determinant of conception "partnership between society sectors" as theoretical base at creation of public private partnership (PPP). For concept development PPP is offered to use the concept of inter organizational relations and multi sector collaboration between local public administrations, business and the non-commercial organisations when they unite for the decision system problems which influence to existence of a local community. It is established that cooperation addition between public and a private sector by the third, non-commercial sector, not only allows to raise a social orientation of such partnership, but also to develop algorithm of local public management that meets requirements of a local community.*

Keywords: *"multi sector collaboration", cross-sector partnership, public-private partnerships, regional development*

INTRODUCTION

As known, the understanding of became the precondition of occurrence of projects on principles of use of concept PPP that bodies of the public power not always are effective when it is a question of management of a local infrastructure. Such partnership became one of ways of increase of efficiency of its operation and quality of the services connected with it, which local public administrations should give to a local community. However, practical experience of application of the concept of PPP testifies that not always creation of such partnership answers with expectation of a local community. In our opinion, first of all it is connected with an insufficient social orientation of such partnership. In this aspect, the theory of "social partnership" which reflects the most adequate to conditions of a post industrial society the form of social interaction can become corresponding theoretical soil for consideration of mechanisms of formation and functioning PPP. The possible decision of this problem consists in application at creation PPP of the concept of multi sector partnership (further - MSP).

DEFINITION OF CONCEPTS MSP

There is a considerable variety of interpretations of MSP concept. It has the difficult, multipurpose maintenance which is defined by corresponding sphere of public life. In this aspect interpretation of MSP concept by consideration of a problem of

creation and activity PPP when the basic party of influence is the public sector, has the certain features.

In general, term MSP represents constructive mutually advantageous cooperation between three sectors of a society - the public power, commercial sector and non-commercial (which represents interests of a local community or certain social classes) for the purpose of the decision of problems existing in public life of a local community.

Throughout last year's definitions of concept MSP has undergone certain evolution (Jorgensen, M. 2006). The widespread term for its definition was "multi sector collaboration" as which understood multi sector cooperation on partnership principles between local administrations, the non-commercial and private organisations when they unite for the decision of system problems which have influence on society existence. (Brown, Cherie R. 1984), (Chrislip, David D. & Larson, Carl E. 1994).

Defining feature of multi sector collaboration is orientation to the decision of "system" problems when the question is considered in a context of the decision of others related problems, important for a society and which need the simultaneous decision on application of corresponding methodology.

Especial form of ISP is the organisation of cooperation within one sector, for example between private enterprises. Then the partnership is considered within the framework of the theory of inter organizational relations which aspires to explain partnership as the cooperation, which main objective is an achievement of mutually favourable purposes of the organisations of the same sector (for example, DiMaggio, P J., & Powell, W. W. 1983), (DiMaggio, P. J., & Powell, W. W. 1991). The example of MSP is a cooperation of business and the non-commercial organisations (Austin J.E. 2000), (Berger I., & Cunningham P., Drumwright M. 2004).

Modern result of evolution of concept MSP definition is the approach according to which it is considered as new society structure which starts to be organised on purpose to answer the shared problems and questions of a local community. The partnership is created on cooperation principles between three sectors: bodies of the public power, commercial and non-commercial organisations (Jamali D. 2011), (Kolk A., Dolen W., & Vock M. 2010), (Selsky J. & Parker B. 2005).

The important assumption which is necessary in a basis of this thesis is that any of sectors cannot and should not dominate in public life, because they have no sufficient resources and abilities to solve economic, social, environmental problems of a local community independently. Therefore the partnership should be considered first of all as means which is practically realised on principles of mutual relations formation between society sectors which they enter for the effective decision of the problems interfering sustainable local development. In its frameworks the representative of public sector provides the consent, gives out the order and defines conditions and the partnership purpose; the commercial sector provides public services; the non-commercial sector defines a social orientation of partnership activity.

The important tendency of MSP concept development is cooperation between state and a private sector, well-known as "public private" partnership (Miller, C. & Ahmad, Y. 2000), (Rowe M & Devanney C. 2003), (R. Tennyson 2006).

Application the such form MSP as PPP, is expedient when bodies of the public power which cannot independently satisfy requirement of a local community involve in cooperation commercial, and on occasion the representatives of non-commercial sector.

Thus, putting on MSP concept in a basis of formation PPP allows to consider it as process of adjustment and support of constructive interaction of public, commercial and, on occasion, non-commercial sectors on purpose by the joint efforts to solve significant problems for a local community in social, economic and ecological spheres which is favourable each of the parties separately and all together.

Thus, the basic parties of partnership are two sectors:

- Public which represents public authorities and local self-government (bodies of the public power), the organisations subordinated to them which assets are in the state or municipal property;
- Commercial, which represents the private companies, that purpose is to get profit as a subject of the activity and which assets are not in the state or municipal property.

The partnership parties can involve also in certain cases in cooperation non-commercial sector which represents the local public and charitable organisations which purpose of activity is not to get a profit and which assets also are not in the state or municipal property.

However, putting on a basis of formation PPP of MSP concept is possible under certain conditions:

- Interest of each sectors in general searching the ways to solve problems of local development and understanding that the decision of these problems one by one inefficiently or in general is impossible;
- Orientations to constructive cooperation and a consensus, instead of on confrontation at interest's divergence of co-operating sectors;
- Presence of legal base which provides balance of interests, therefore, the most favourable conditions of interaction to each participant of partnership and a society as a whole.

In order to summarize the basic aspects of MSP concept definition it is possible to draw a conclusion that its interpretation in a context of application for PPP case is reduce to:

- its representation as interaction systems between different social subjects that provides the coordination and definition of an overall aim for realisation of local community interests;
- application of MSP concept for the analysis of processes which proceed at PPP formation, such partnership can be considered as technology of interaction of social subjects within the framework of concrete sphere of a local community activity.

MULTI SECTOR INTERACTION AT PPP CREATION

Putting on of MSP concept in a basis of PPP formation, is the organisation of constructive interaction of public and commercial sectors, with possible attraction for cooperation non-commercial sector for solving the problems existing in a society which provides synergetic effect from consolidation of their resources (Grat S. 2011).

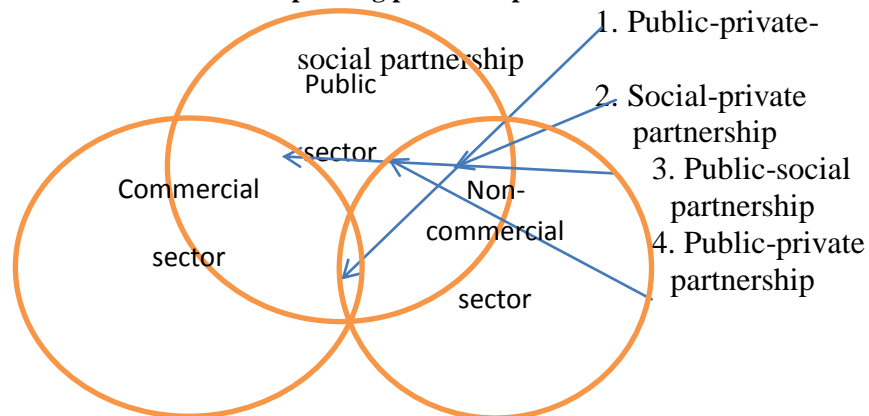
Formation of such partnership is possible only under conditions of application from public sector the mechanisms of the governance, as for example legal, economic, social and organizational. Thus, the problem of PPP formation is multi-layered and is defined by mutual relations of MSP subjects who are in difficult mutual relations who are regulated by the national legislation and are defined by traditions, practice, private interests and others. Generally these relations can be presented by the "multi sector interaction" in which framework each of sectors identifies itself in partnership according to the expectations, requirements and available resources and with a strategic view concerning directions of local development and possibilities of resource maintenance of partnership activity and requirements concerning distribution of profits and risks.

Considering an aspect of multi sector interaction at PPP creation it is necessary to notice the fact that possibility of creation of partnership is substantially defined by a level of institutes' development of a civil society. It is connected by that PPP construction is based on a mutually advantageous exchange of resources access to which can be useful and mutually advantageous for all parties only under conditions of presence of such society. Certainly, each of sectors owns the unique resources:

- the public sector has at the economic, politic, legal, administrative, information resources;
- the commercial sector has financial, expert, innovative, information, personnel and communicative resources;
- the non-commercial has expert, social, information, human, communication and innovative resources.

Within the frameworks of multi sector interaction the exchange of necessary resources is a basis of effective interaction and success of PPP functioning. Depending on the accepted form of multi sector interaction, such directions of a mutual exchange of resources between the partnership parties are possible: public-private-social partnership, social-private partnership, public-social partnership, public-private partnership, Fig.1.

Fig.1. MSP forms at creation of corresponding partnership



For the cases 1, 3 and 4 authority receives resources from commercial and non-commercial sectors in full though resources of public bodies (powers, material and financial assets) cannot be transferred in full to the partnership parties.

Anyway, resources transferring between the partnership parties is possible only under conditions of adjustment of mutually advantageous communications and interdependence between interaction sectors. Their regulation within the framework of multi sector interaction is defined by available legislative and institutional base which not only regulates relations between the partnership parties, but also defines norms of general use of all resources and distribution of dividends from partnership activity.

Multi sector interaction of PPP parties has certain features, which are connected with the leading role in partnership of public body, which is supplemented with attraction possibility to cooperation of non-commercial sector and application to partnership the concept of "corporate social responsibility" partnership (Moon, J. and Vogel, D. 2008). As a result of such approach will allow providing its social orientation.

Based on stated, concerning definition of the form of multi sector interaction which can be applied at PPP formation, it is necessary to put the following:

- Partnership creation is possible under conditions that will meet simultaneously as to requirements of public and commercial sectors, and to consider requirements of a local community at which decision its activity will be focused. Under certain conditions in partnership the non-commercial sector can represent interests of local community;
- Crossing of influence spheres of partnership sectors allows to apply the approach when keeping peculiar features of the activity, the structure of one sector starts to supplement procedures and methods which connect it with other part;
- Definition of specific mechanisms of multi sector interaction is possible only under conditions when they except reflexion of interests of partnership sectors also consider and meet the requirements of sphere in which PPP is created.

The list of main principles which is the base of multi sector interaction at PPP formation:

1. Universal principles of partnership formation:
 - presence and definition of a shared problem and purpose;
 - the system approach when the decision of a certain problem concerns other problems existing in public life of a local community;
 - the coordination of private interests of partnership sectors;
 - consolidation of resources and acceptance on itself of mutual responsibility for partnership activity;
 - possibility of mutual influence of partnership sectors.
2. Organizational principles:
 - structuredness at resources consolidation;
 - adaptability of partnership mechanisms functioning;
 - institutional preconditions of partnership formation which define possibility of choice the optimum form of its creation;
 - legitimacy of multi sector interaction mechanisms.
3. Management principles:
 - differentiation of functions between the parties of multi sector interaction;
 - monitoring of efficiency of partnership activity and estimation of achievement of goal of its creation;

- estimation of quality of partnership activity final product (public services) from consumers (a local community).

4. Communication principles:

- an information openness and access to the public information which is connected with formation and current partnership activity;
- using the feedback at an estimation of quality of partnership activity final product.

Practical application of multi sector interaction principles is possible on base of use of corresponding mechanisms, management by which is a priority for the initiator of PPP formation (certainly, it is public sector).

Representatives of each sector usually have on hand different possibilities for a solution of a problem which is provided to solve together by PPP formation. Nevertheless despite of available differences and the contradictions predetermined by these differences, cooperation of sectors is obviously necessary, because public, commercial and non-commercial sectors are not in condition to overcome a certain problem independently. Therefore, representing PPP as object of management from local public administration, it is necessary to allocate a number of its basic properties:

- Purpose presence at PPP initiation. It means that it is necessary to consider, what the purposes are at partnership formation as they correspond with real possibilities of the parties of public-administrative relations, and also degree of coincidence of the purposes of the subject managements (partnership) with the purposes of object management (public administration);
- Adaptability as PPP ability to adapt to conditions and factors of environment influence and to react by a feedback principle to provide not only performance of the tasks of partnership, but also provide its further development. Adaptability is possible only at abilities to self-organising and self-management (conscious self-regulation) by its activity and its development. Self-management in PPP activity is carried out as a result of comprehension of vital needs and is direct reaction to calls of environment and develops in the course of interaction of interests, will of a local community, public and commercial sectors. The internal self-organising of self-management is not always officially institutionalized. Degree of PPP structuredness is closely connected with PPP characteristic and is object of management.
- dependence on objective conditions and factors of public life which are recreated at PPP functioning.

The important factor at PPP creation is the system of representation of partnership interests in local public bodies at partnership formation.

CONCLUSIONS

Generalising the above mentioned, it is possible to draw following conclusions:

- Acceptance for a basis of PPP formation the principles of multi sector interaction allows to organize optimisation of corresponding mechanisms, to provide at local level

the general existence and development of public, commercial and non-commercial sectors.

- Each sector has the specific interests, priorities, the purposes which are a potential source of conflict situations, destructive forms of multi sector interaction and can lead as a result to refusal of partnership. It is must be considered.

- Complexity of the social phenomenon, inadequacy of partnership model to specificity of a problem which dares, causes at application of many, often mutual inconsistent approaches. Increase of efficiency of administrative decisions and minimisation of negative consequences is possible only on principles of the competent coordination of the different points of view.

- Functions optimisation of the partnership parties at definition of conditions of multi sector interaction consists in the maximum formalisation of instructions which is necessary following that output data will transform into result which is expected. But not all processes give in to a rigid regulation and algorithmization and in managerial process always present elements of creativity, even intuitions. The possible approach consists in possibility of duplicating of receptions and methods, their repeated repetition, and also application in similar circumstances with predicted result.

Thus, technologism of administrative activity is one of the basic resources of increase the efficiency of the government. At the same time it is necessary to recognise that if in the Western Europe considerable experience in branch of introduction of social technologies and multi sector interaction is already stored at the same time in Ukraine their application only starts to be extended.

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DEVELOPING CITIZEN SAFETY

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Abstract: *Is it possible to involve citizens in the process of increasing public safety? Police used, even from its beginnings, the help of citizens, otherwise they would encounter problems in performing its duty - many of its successes were due to the unification of Police forces with the citizens. How citizens get involved? (1) They may be directly asked by the Police officers (a time consuming method because many police officers needs to go on the field to speak with the potential witnesses) or (2) by using the mass-media channels (television can address to a large number of potential witnesses in a very short time). We still can see on TV portraits of missing persons, or some other kind of images with which the Police is trying to solve some of its cases (thieves, robbers or burglars surprised by surveillance cameras) – why not Internet software application?!*

Keywords: *e-government, software, technology, Internet.*

1. INTRODUCTION

Since 1978 Ostrom said that many state institutions need the cooperation of citizens for their work to be effective. For example in the police case, citizens are the ones who make complaints. Without these, police departments would not be able to catch thieves or to find missing persons. The idea behind is that the people have to contribute in various ways to increase police efficiency. They are no longer regarded as "passive objects", but they are actively involved in increasing public safety. For this the police departments must find appropriate way of engaging citizens, for bringing a positive contribution to this process of increasing public safety. Investing in citizens' involvement can be understood as a responsibility to them.

Cooperation involve either face to face discussion or through the mass-media channels. Face to face contact plays a crucial role in investigations of police departments. This type of interaction is expensive and requires that both, police and citizens, to be in the same place at the same time; and that means that they are able to contact a limited number of persons. The media, on the other hand, is used to inform citizens of the results of police investigations. It has no problem reaching the masses. The disadvantage here is the fact that there are no opportunities for direct interaction.

Next I will refer to new elements of the media (mobile phones, Internet) as sensing new opportunities for cooperation between state institutions (in the example chosen by me – police departments) and citizens.

Police can provide an unlimited amount of data to citizens in a structured manner, and to provide opportunities for interaction. Additionally, information can be provided in real time so that they may be directly involved in police work. This suggests that police should take the opportunities to expand citizen's cooperation through the virtual world.

WHY WOULD THE POLICE BE INTERESTED IN THIS NEW DIMENSION?

On the first place, because these new environments can provide a new way for increasing police efficiency. *How's that?* Well ... by getting relevant information from citizens about the suspects or the victim; information about missing persons; about the stolen goods, etc. Generically, this type of information can be called: information from witnesses. Citizens do not need certain attributes to provide such data; the only requirement is that they must have been in a position where they could observe the relevant issues. Another type of relevant information would be the one provided by the experts. In some circumstances the police would not be able to build a plausible scenario to explain a particular crime. So, police detectives may appeal to citizens and ask them to come up with some ideas or scenarios. They should not have been there, but can provide useful information because they can interpret certain events other than the police. The more information from "witnesses" and from the "experts"; the more accurate the investigation may be; and by that the police can solve the case faster and efficient (Meijer 2010).

A second reason should be to strengthen the legitimacy of the police. Engaging citizens in police work would cause them to increase their confidence and, also reinforces the belief that police are always working (with people) to increase safety. Citizens will more easily understand the efforts made by the police; they will see that the resolution of certain cases in real life is proving much more difficult than on movies. The idea that citizens may help, can make them more confident in the police efforts, and as a result, police legitimacy would be enhanced (Lyon 2001).

1.2 WHY WOULD THE CITIZENS BE INTERESTED IN SUCH COOPERATION?

A first reason is the personal interest of everyone. Citizens, whose house was robbed, are much more willing to help police since they believe that it will catch the perpetrators. They will try to gather data from the neighbors (who probably are not so open in talking with police detectives) and make the script together with the police, etc. In short they are much more motivated by the need to recover their losses (Garland 2001).

Another reason could be based on the one above, only that this time the individual is interested in the interest of the community of which he belongs. Cooperation in this respect seems to benefit the whole community (by the word *community* I refer to a group of people with similar activities) as the individual feels that he contributes to all including his safety. An example could be community taxi drivers, where they, as members, fight against the aggressions to which they face sometimes. Even if the attack was on another

member, everyone reacts as a unit (even if they did not personally know the victim). So ... we may say that they are led by a collective interest (Garland 2001).

A third motive may be the reason to increase citizen participation in public safety (simple as that). Citizens interested in these forms of cooperation considered that their actions produce collective goods. This time it is not an individual interest or group of individuals, but the interests of all members of society. Citizens feel the need to help the police because they believe that in this way they contribute for creating a safer society. Such behavior is influenced not only financial but also by social values like moral norms etc. (Garland 2001).

***This cooperation is based on the premise that there is a win-win situation, but things are not always like this. There are also reasons to believe that citizens do not want to cooperate with police. For example in drugs dealings, members of a neighborhood are pleased, because those activities bring money to their neighborhood, but police want to stop these actions because this is illegal. Here's an example in which there is no desire (as citizen) to get involved in police actions.

Another barrier, this time from the authorities, is the financial factor. Police may blame the wrong information from the population to excuse its failures, and thus explaining certain expenditure may be very difficult (Bovair 2007).

1.3 COOPERATION OPPORTUNITIES

Many cities and towns from all around the world offer to the police television channels dedicated to it, through which is trying the engagement of the citizens in trying to resolve certain cases. In other cases, the police set up a Web site to involve more citizens and for the interaction to be more concrete. Some of these sites explicitly put citizens in a detective role, asking them to come with ideas that could be useful or with scenarios that could provide a new perspective of police detectives. Here are also photos or videos with various crimes to which all citizens have access. These materials are useful information that can help in catching them.

***Twitter, Facebook – are social networks which today no longer need advertise. References to them are found in the media, in scientific articles, etc. How do they work? The model is taken from real life. A group of friends who share each other experiences. News is brought by multiple media elements (photos, movies, etc.) with which they can demonstrate the veracity of what was said. In this way, the information posted on each member of the group (its wall) is not visible to non-members of that particular group.

Some applications allow mobile phone use for posting / downloading information / pictures so users can stay "connected" non-stop (migration of users from e (electronic) to m (mobile) is simply a matter of time).

Twitter has taken the model above, but implemented in a totally innovative manner. Each user' page is connected via SMS to his mobile phone. So if a member of one of these virtual communities sends a message on his page (or if a friend from his list does that), that message gets in real-time on the mobile phones (also by SMS - which does not require users to use a smartphone) of the members of his friend list. It should be

noted that there is no cost (except, of course, the one who sends the original message – the price is the standard cost charged for each operator for SMS - the rest is all covered by Twitter) (Osimo 2008).

2. ENGAGING CITIZENS TO INCREASE SECURITY

2.1 HOW CAN POLICE ENJOY THESE SOCIAL NETWORKING MODELS?

Technically the creation of such platforms is not an impediment. Through a proper marketing campaign, it remains just to get people in.

Take the example of a small neighborhood (the dimensions of each collectivity is set by the police according to the demographic density of that particular area – see figure 2). If one of the neighbors sees a robbery at the corner shop or on a car in the parking line, he sends a message to the police wall and that message is automatically sent on the mobile phone of every member of the community. Obviously, in this way even the police are notified.

2.2 WHAT BENEFITS WOULD THIS TYPE OF APPLICATION BRING TO THE POLICE AND COMMUNITY?

A first benefit is to immediately alert the competent bodies, by that they can send the nearest crew to catch the offender. Another benefit would be that community members are suddenly paying attention to what happens outside, and they can provide important data to police investigators (how many people were involved, how they have been dressed, where did they ran or hide, etc..)

Users need not to fear about the eventual identification of the perpetrators of crime, because their personal data will only be known by the police.

These network models of interaction restrict the space needed by criminals and increase the confidence of every member of the police network.

3. HOW IS THIS DONE?

Step 1 - for citizens.

They must register on the city police Web portal, providing the contact details as requests. Based on these data, the police department may easily recognize users when they later interact with it through the web portal.

All these identification info remain confidential. In order to structure the online discussions, it will be used as identifier of each member his user name which is totally his responsibility (maybe with some remarks; like how not to be – first_name.last_name for example).



Figure 1. The registration of citizens as users of the service

Step 2 - for police

Police, on the basis of demographic density, will divide the area in sectors of interaction. It is not necessary that all citizens of that area to be users of the service; over time the system will attract more and more. In this section a special place are those who have a residence in another area but they work here - they should be taken into account as well because they can provide useful information.



Figure 2. Interaction sectors

Step 3

This is the moment when a crime is committed and a community member see what happens as a witness. Simple observation is not enough, he must want to stop such events, and the easiest and correct way is by announcing the authorities.

Step 4 - Interacting with police through the web portal

The user sends an SMS to police web portal (just like on Twitter, there is an unique telephone number assigned to it - a short number), with minimal details about what he observes (e.g. where the action is, what happens, how many participants are, etc.). The portal immediately notifies departments for such situations and then a crew is send to the area to assess / intervene.



Figure 3. Interaction with the Police

At the same time the Web portal send a text message on each registered user describing the situation and requesting additional information from other witnesses who may be nearby (e.g. when a car is robbed neighbors can look out the window and see some clues about the thief / thieves – sending it to the police Web portal via SMS).

Step 5 - Gathering detailed information

A telephone operator from the police, will contact the first witness to request details and answer to the phones from other witnesses (contacted via SMS – see step 4). Thus, the multitude of information (which will be sent in real time to the police crew went to the area) can help in catching the perpetrator or at least to stop crime in progress (a brawl on the street, etc.).



Figure 4 Information flow

Since each user is registered on the site with real data, this information will empower him, thus minimizing the number of situations where police are informed deliberately wrong. Legislation penalizing any misleads.

Participants will receive a message when the action ends, and they can also obtain additional information about that from the website. The Website presents as well information about the final result.

Below I will present a scheme of the whole interaction between the user (after he has made its on-line account), portal, other users and the police.

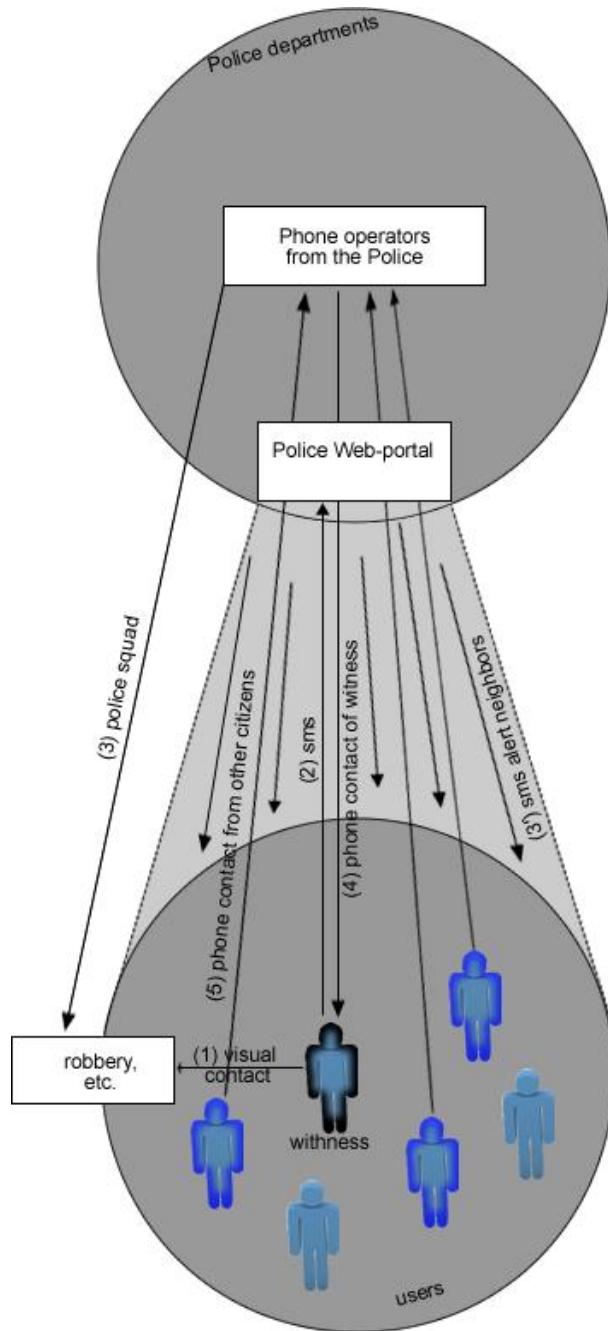


Figure 5. User Interaction - portal - other users - police

4. THE SUCCESS OF THOSE NETWORKS

Such systems are already used in several European countries: Denmark, Netherlands, etc. I will present some elements found in their practice. For example, in the Netherlands, Amsterdam police launched such a service since 2004, boasting a total of 200,000 visits (unique users) in the period December 2006 - June 2008 (approximately 2,000 per week accessing). We can say that is an impressive number for a city with a population of 750,000 inhabitants. This indicates that the site is known to the public.

The number of reactions has been much harder to measure. Amsterdam Police Department indicates that it received approximately 900 responses that were relevant in their investigation in December 2006 - June 2008, leading to about 10 reactions per week. In some cases, most reactions were not present on the site. Although police indicated the presence of a few tens of reactions, but posted on the site just a few - the reasons for this censorship is related to the existing protocols about providing information to citizens, which the police must respect.

The commitment of citizens seems to be linked with attention to the mass-media. Most of these reactions have been posted when the police investigation was presented on TV as well. Chronology of a murder investigation illustrates this impact. Such an investigation has been published on the website of the Amsterdam police on December 4 - 2006, and several national television channels have mentioned this investigation the same day while other channels indulge careful investigation of the website and the next day. If we look at the pattern of visits we see that visits have been 941 on December 4, 26.099 and 12.683 on December 5 and December 6. The number decreases slowly these days at the same level as at the beginning. Number of comments shows the same pattern: four comments on December 4, 1960 on December 6 and 60 on December 7. Then their numbers decreased to the same level as before the media attention.

What is the content of the contribution of citizens to police investigations? Most of the reactions contained information that could be relevant to the investigation. 38% of comments were replies to questions by the police and 41% of the reactions were about the investigation without presenting a clear answer to police questions, the rest is almost irrelevant to the investigation.

Is citizen's information helpful for solving crimes? Quantitative data are not available to clearly answer this question, but data on the site have led to the conclusion that citizens have helped solve some crimes. It remains however unclear what exactly is the contribution of citizens. A positive result would be that some citizens have sent messages of praise for the police to lunch their websites.

It may be notice the negative effects of this initiative, namely the impact of citizen comments on other citizens. Abstruse theories and insults made by other citizens may have a negative effect on the victim's family and friends. The most prominent impact is touching the privacy of suspects. Photos and videos with them are posted on the Internet; these materials can be copied and posted on other Web sites forever.

There are studies showing that 30-35% of tests may be solved based on the information offered by watching television. Clearly we cannot talk about the fact that the

Internet has the same success, but in future this may change. Using Internet can be considered as being additional media. The advantage is that there's no limit to the information that is shown to citizens. For the media there is clearly such a restriction. Another advantage of the Internet is that information is available 24 / 7. While some citizens may have missed the TV program, can always check the Internet. A disadvantage of the Internet is that it is much harder to capture the attention of people.

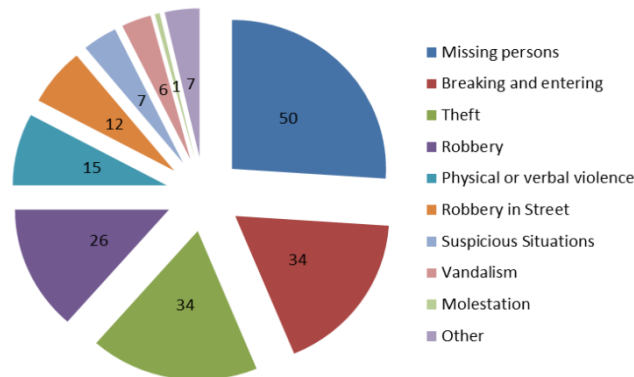
Police must find ways to use their strengths and weaknesses of this variety of media. In this mix of media, the Internet can be important as being additional and can be used to attain a certain target.

An important feature of this technology is that citizens can be finding anywhere and anytime. An important question for this project would be "*Who are the citizens who participate?*" Netherlands Case says the participants are mostly men over 40 years.

The network can be viewed as a form of co-production as the information is combined with information from police and citizens. The website is used to present information but contains little information about its participants. Police deliberately chose to use this technology to facilitate police-citizen interaction not citizens-citizens. In fact, police want to have control.

The graph below shows some data on the website of the Amsterdam police. This data show us the types of incidents in which police considered opportune the cooperation with citizens and how many of them reacted.

Chart 1. Types of incidents



Source: Amsterdam Police web site

5. THE IMPACT / CONCLUSIONS

The coproduction new practices between police and citizens have been developed to work, to be efficient. They were covered quite a bit and it seems to have sparked interest among citizens. Citizens want to participate much more intense in those projects. There is also a risk in this "game". This risk refers to the privacy of citizens.

These new forms of cooperation in police work could be a special status for citizens of the participants; men aged over 36 years than those who are young and immigrants. So ... there may be some complaints among citizens.

But back to the key question: *how can the Internet be used to secure cooperation and what that it means for people in the network?* The most important thing and most important contribution is the creation of new connections.

Police would like to have full control over these new connections. Information is sent from police to citizens and police only respond to citizens. There is an open communication. Citizens are asked to be practically available to police when needed to answer questions. Very important is to find fun and excitement among the citizens. As if we were to turn into a real-life game - to get a message to look out the window and catch the offender.

Citizens can receive messages anytime and anywhere. The distinction between participation and serious game today is very small. The idea of making a game from such cooperation's has important implications. Police will compete with other "games" to attract the attention of citizens.

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FINANCE

FINANCIAL INCLUSION STRATEGIES IN DEVELOPING COUNTRIES WITH SPECIAL REFERENCE TO INDIA

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Abstract: *Day in and day out, the gap between the haves and have-nots is widening, not only at inter-country level but also at the intra – country level. In this process, a large chunk of population does not have access to the formal financial markets, institutions and instruments. It is estimated that as many as eighty seven percent of marginal households in the world lack access to formal finance , and to fulfill their credit needs, they are resorting to the means of informal and unregulated finance, through money lenders, who charge them as much as hundred percent rate of interest. Thus, this stratum of population, in midst of financial exclusion, has been pushed to the vicious circle of poverty and, therefore, remain outside the growth parameters always. However, recently, the governments in about one hundred and forty two countries have become serious to overcome this menace and decided to design strategies to make formal finance available to the un-bankable at cheaper (price) interest. In this way, Financial Inclusion became a buzzword of these strategies. Financial inclusion, as a pre-condition to inclusive development, refers to the process of ensuring the accessibility, availability and usage of formal financial system for all members of an economy. In this paper, an attempt has been made to examine the financial inclusion efforts made at the global level and highlight the progress made on the subject in SAARC countries, and what strategies were designed and implemented in the fast developing economy like India in the past two decades have been discussed in detail.*

Key Words: *Financial Inclusion, Financial Exclusion, No frills account, Business correspondent.*

INTRODUCTION

It is shocking to note that, in the world, access to finance has been as low as 13% in the rural areas of the poorest households which in other words mean 87% of these marginal households lack access to credit, which charge as much as 100% interest rates on these lending, making them even more vulnerable (World Bank Report, 2006). It has also been found that people borrow at exorbitant rates in case of emergency from local money lenders as formal system of banking and finance is not within their reach. Thus they remain in the vicious circle of Poverty always and forever. Financial Access 2010 survey found that out of 142 countries included in the study, nearly 60 percent experienced a contraction in real per Capita income as a result of the deepening of the global financial crisis during 2008-09. The survey identified broadly six areas viz. Promotion of savings, financial capability, regulation of microfinance, promotion of access to finance for small & medium, enterprises, consumer protection, and most significantly, promotion of rural finance which were included within the financial inclusion agenda of the countries. In 90% of the countries, financial inclusion mandates

were on the agenda of many governments, financial regulators and banks; and reform efforts were wide spread, but implementation capacity was often limited (CGAP, 2010). Financial inclusion, as a pre-condition to inclusive development, refers to the process of ensuring the accessibility, availability and usage of formal financial system for all members of an economy. According to Rangarajan Committee (2008), “Financial inclusion is the process of ensuing access to financial services and timely and adequate credit wherever needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”. It has been proved that the absence of financial inclusion keeps the disadvantaged and poor away from the growth parameters (World Bank Report, 2008). Taking cognizance of this fact, all countries in the world took active steps in their financial systems to include all sections of population within the ambit of financial inclusion. In this paper an attempt is made to describe the genesis of financial inclusion examine the efforts made regarding the financial inclusion.

Objectives of the Paper:

- i) To give a brief description of various efforts taken at the international level regarding financial inclusion;
- ii) to analyze the state of financial inclusion in SAARC countries; and
- iii) To examine financial inclusion strategies adopted in India.

FINANCIAL INCLUSION EFFORTS AT THE INTERNATIONAL LEVEL

The U.K government has committed to tackle financial exclusion and undertook special proposals in three key areas: Access to banking services, Access to affordable credit and Access to money advice. Access to banking services includes a basic no-frills account and Post-Office Card Account (POCA) and advisory services will be provided by the advice bureaus, NGO’s, Community Development Groups, etc. Besides, a Financial Inclusion fund has been set up to tackle financial exclusion under the supervision of Financial Inclusion task force.

In USA, the various developmental initiatives have been taken by the government to deal with the ever complex situation of financial exclusion which includes the enactment of a civil rights law- Community Re-investment Act (CRA). This Act prohibits discrimination by banks against low and moderate income neighborhoods and imposes an affirmative and continuing responsibility on banks to cater to the credit needs of the excluded sections in the areas where they are allowed to do business.

In Germany, the voluntary undertaking by the banking industry endorses to provide current accounts on demand to everyone. In France, however, the Banking Act, 1984 made access to a bank account a legal right.

In Indonesia, the Microfinance Institution (MFI) mode of operation has developed to its full extent and MFI’s operating at regional levels are now out numbering the number of commercial banks in the country.

In Bangladesh, the MFI and NGO tie-ups has done wonders which works under prudent regulations of the Govt. and the steering Committee headed by the Governor of the Bangladesh Bank.

FINANCIAL INCLUSION IN SAARC COUNTRIES

South Asian Association for Regional Cooperation (SAARC) provides a platform for South Asian countries to work together in a cooperative manner towards accomplishing certain common goals which can help accelerate the economic and social development in the region (Kumar & Mohantey, 2011). Inclusive finance is not a new concept in SAARC countries. Those countries have a long policy history of developing inclusive banking systems. Historically, however, their interventions have been on the supply side, such as nationalizing private banks, prescribing branch regulations, placing interest rate ceilings on credit to low-income households, and providing credit at subsidized rates to priority sectors etc. Based on Financial Access 2010 survey of 142 countries and world Economic forum, 2010, a Comparative analysis on important aspects of financial inclusion in SAARC nations is presented in table 1.

From table 1, it can be seen that there is a wide variation among countries in the South Asian region in terms of deposit account penetration and access to credit. The deposit account per 1000 population varies from 83 bank accounts in Afghanistan to 1891 bank accounts in Sri Lanka. Similarly, in terms of loan account penetration, it varies from only 3 bank loans per 1000 adults in Afghanistan to 137 bank loans per 1,000 adults in India. The ATM location equally varies from as low as 1 in 1,00,0000 populations in Nepal to 12.29 in Sri Lanka. The Financial Access Index calculated in terms of outreach

Table 1 Indicators of outreach of financial services in SAARC countries

		India	Bangladesh	Pakistan	Nepal	Sri Lanka	Afghanistan
1	Bank Branch per 1,00,000 population	10.11	5.16	8.68	4.19	9.05	2.00
2	Bank branches per 1000 Kms	26.46	43.14	11.73	5.26	21.38	0.49
3	Deposits accounts per 1000 adults	467.40	228.75	119.84	229.49	1891.74	83.85
4	Loans account per 1000 adults	137.0	54.73	21.93	1.81	12.29	3.32
5	ATM per 100,000 population	7.29	-	4.06	1.81	12.29	--
6	ATM per 1000 Km	19.08	-	5.49	2.27	29.03	0.39
7	Financial Access Index Rank (WEF 57 countries)	49	35	55	-	-	-

Sources:

01. Compiled from Financial Access 2010, www.cgap.org
02. W.E.F (World Economic Forum), 2010, www.weforum.org

ease, cost, and accessibility in both the studies read with main indicators of outreach of financial services suggest that with regard to financial access in South Asian Region, there is a huge gap between the demand for financial services form the unreached and

low income households and its supply from the formal sources. This calls for a robust financial inclusion policy in the entire region.

FINANCIAL INCLUSION IN INDIA

The banking industry in India has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, Indian banks have not been able to include vast segment of the population, especially the under-privileged sections of the society, into the fold of basic banking services (Muthu, yattoo and Kadalarasane, 2011). In India 45.9 million farmer households in the country (51.4%) out of a total of 89.3 million households do not have access to credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27% of total farm households are indebted (i.e. enjoy credit facilities) to formal sources (Sangmi & Kamili, 2010). Thus, apart from the fact that exclusion in general is large, it varies across states and regions as shown in table 2.

Table 2 Level of Financial Exclusion (Non-indebtedness) of various states in India

State/Region	Non-indebted farmer HHs@		State/Region	Non-indebted farmer HHs@	
	Lakh	%		Lakh	%
Northern	53.21	48.7%	West Bengal	34.53	49.9
Haryana	9.11	46.9	Central	158.29	58.4
Himachal Pradesh	6.03	66.66	Chhatisgarh	16.50	59.8
Jammu & Kashmir	6.43	68.2	Madhya Pradesh	31.09	59.2
Punjab	6.38	34.6	Uttar Pradesh	102.38	59.7
Rajasthan	25.26	47.6	Uttranchal	8.32	92.8
North Eastern	28.36	80.4	Western	47.92	46.3
Arunachal Pradesh	1.15	94.1	Gujarat	18.20	48.1
Assam	20.51	81.9	Maharashtra	29.72	45.2
Manipur	1.61	75.2	Southern	44.11	27.3
Meghalaya	2.44	95.9	Andhra Pradesh	10.84	18.0
Mizoram	0.60	76.4	Karnatak	15.52	38.4
Nagaland	0.51	63.5	Kerala`	7.82	35.6
Tripura	1.19	50.8	Tamil Nadu	9.93	25.5
Sikkim	0.36	61.2			
Eastern	126.39	60.0	Group of UTs	0.99	66.9
Bihar	47.42	67.0			
Jharkhand	22.34	79.1	All India	459.26	51.4
Orrissa	22.09	52.2			

Source: National Sample Survey Organization (NSSO) India-2003

The analysis in table 2 reveals that the proportion of non-indebted farmer households at the country level was 51.4% and among the regions, Northern Region 48.7%, North Eastern region 80.4%, Eastern region with 60.0%, Western region 46.3%, Southern region 27.3% and all union territories were financially excluded to the extent of 66.9% (NSS, 2003). Seeing the gloomy picture of this exclusion, the Govt. of India

appointed a Committee on financial inclusion to suggest measures and develop strategies for bringing the vast population of the country within the contours of financial inclusion. The committee analyzed the financial exclusion of all sections and all areas of the country and recommended financial inclusion strategies for the nation. The committee propounded that to make financial inclusion successful at the national level, a national mission and a national plan is a must which can act as a vision. These are described as:-

i) National Mission on Financial Inclusion: To take up the task of financial inclusion in a mission mode, a National Mission on Financial Inclusion with representatives of all stakeholders with the aim of achieving universal financial inclusion within a specific time frame at the national level should be set for suggesting policy changes required for achieving the desired level of financial inclusion, and for supporting a range of stakeholders in the domain of public, private and NGO sectors in undertaking promotional Initiatives.

ii) National Rural Financial Inclusion Plan: The committee suggested to launch a National plan with a clear target to provide access to comprehensive financial services, including credit, to at least 50% of financially excluded households, say 55.57 million by 2012 through rural/semi-urban branches of commercial banks and Regional Rural banks. The remaining households, with such shifts as may occur in the rural/urban population, have to be covered by 2015. The plan for future given by the committee is reflected in the table 3.

The Committee suggested a 179 point strategy for building an inclusive financial sector and observed that financial inclusion must be taken up in a mission mode and representation from all the quarters for support and suggestions is needed. The report suggested certain specific measures like opening of no-frills account, routing National Rural Employment Guarantee Programme (NREGP) payments through banks, product innovation, issue of general purpose credit card, granting overdraft facilities to saving bank accounts, providing services through bio-metric smart cards, leveraging technology, developing business facilitator / Business correspondents as intermediaries in delivering financial services, etc.

Table 3 Analysis of State-wise extent of Exclusion and Plan for covering excluded households

S.No	States/Region	Formally excluded cultivator HHs	Non-Cultivator HHs;juju	Total HHs	50% Coverage by 2012	Total Rural & Semi Urban branches of CBs and RRBs	Per branch coverage 5 years of (No of HHs)	Per branch coverage P2(no of HHs)
	Northern Region							
1	Haryana	11594		11594	5797.00	972	596	119
2	Himachal Pradesh	7334		7334	3667.00	766	479	96
3	Jammu & Kashmir	9162		9162	4581.00	648	767	141

4	Punjab	11442		11442	5721.00	1783	321	64
5	Rajasthan	42503		42503	21252.50	2538	837	167
	Total	82037		82037	41018	6707	612	122
	North Eastern Region							
6	Arunachal Pradesh	1217		1217	608.50	69	882	176
7	Assam	24360		24360	12180.00	1042	1169	234
8	Manipur	2114		2114	1057.00	55	1922	384
9	Meghalaya	2541		2541	1270.50	147	864	173
10	Mizoram	719		719	359.50	69	521	104
11	Nagaland	670		670	335.00	72	465	93
12	Tripura	1805		1805	902.50	148	610	122
13	Sikkim	500		500	250.00	56	446	89
	Total	33926		33926	16963.00	1658	1023	205
	Eastern Region							
14	Bihar	65426		65246	32713.00	3078	1063	312
15	Jharkhand	25645		25645	12822.50	1223	1048	210
16	Orissa	28571		28571	14285.50	1913	747	149
17	West Bengal	51531		51531	25765.50	2762	933	187
	Total	171173		171173	85586.50	8976	954	191
	Central Region							
18	Chattisgarh	20277		20277	10138.50	816	1242	248
19	Madhya Pradesh	42656		42656	21328.00	2533	842	168
20	Uttar Pradesh	139051		139051	69525.50	6032	1153	231

Source: Report of the Committee on Financial Inclusion, Reserve Bank of India (RBI)-2008

The Committee suggested a 179 point strategy for building an inclusive financial sector and observed that financial inclusion must be taken up in a mission mode and representation from all the quarters for support and suggestions is needed. The report suggested certain specific measures like opening of no-frills account, routing NREGP payments through banks, product innovation, issue of general purpose credit card, granting overdraft facilities to saving bank accounts, providing services through biometric smart cards, leveraging technology, developing business facilitator / Business correspondents as intermediaries in delivering financial services, etc.

INITIATIVES AND PROGRESS OF FINANCIAL INCLUSION

Various steps were initiated by the Govt. of India, Reserve Bank of India (RBI), National Bank for Agricultural and Rural Development (NABARD), various commercial and regional rural banks, Non-Governmental Organizations (NGOs) and state

governments. Some of the steps and the achievements registered are discussed as follows:-

i) **No Frills Accounts:** RBI advised all banks in the country to make available a basic “No Frills” account with no or very low minimum balances and minimum charges to make such accounts accessible and affordable to vast population of the country. The progress made under this head is given in table 4.

Table 4 Number of ‘no frills’ accounts opened in India in different categories of banks

Category	March 2006	March 2007	March 2008	March 2009
Public Sector Banks	3,32,878	5,865,419	11026,619	29,859,178
Private Sector Banks	156388	856495	1560518	3124101
Foreign Banks	231	2753	30260	41482
Total	4,89,497	6,724,667	12,617,397	33,024,761

Source: Chandra Shekhar Babu, “Development Through Financial inclusive Financial Sector – Origin and Growth,” in Lazar & Aravanan & Deo (Edited) *Growth with Equity: Financial Inclusion*, Vijay Nicole imprints Pvt. Ltd.: 212

ii) **Easier Credit Facility**

Banks have been asked to introduce Credit Card facility in the nature of revolving Credit upto Rs 25,000 without insisting on security / collateral especially in the rural areas. In this direction, the scheme of Kisan Credit Card was launched which achieved tremendous progress in the country. A brief snap of the same is given in the table 5.

Table 5 Performance of Kisan credit Cards in India

Year	Total Number of Cards issued	Trend%	Total Amount Rs. in Crores	Trend %
2005-06	80,12,251	100	47601	100
2006-07	85,11,478	106	46729	98
2007-08	84,69,602	105	88264	105
2008-09	85,92,473	107	53085	111
2009-10	90,06,123	112	57678	121

Source: RBI 2009-10

iii) **Simplify KYC norms**

The banks have been advised to observe the new simplified Know your customer (KYC) norms for opening accounts. The relaxed norms are applicable to those balances not exceeding Rs 50,000 and credits thereto not exceeding Rs 100,000 in a year. For this purpose, the banks have been directed to treat Ration Card, PAN Card, identity Card, NREGA card etc. as address proof.

iv) **Electronic Benefit Transfer through Banks and NREGA payments**

In order to encourage banks adopt information technology, the RBI has reimbursed the cost of opening accounts with bio-metric access/smart cards. The payments to beneficiaries under NREGA are required to be routed through banks. Payments of

NREGA wages through bank are useful means of separating payment agencies from implementing agencies. Opening of accounts of poor rural households provide an immense opportunity to bring the NREGA beneficiaries into the fold of the organized banking. The banks open the accounts under NREGA without any charge and upto November, 2010 the total number of accounts opened has reached to 59,078,983 at the All India Level. However, a picture of NREGA accounts state wise is given in table 6.

Table 6 Population covered under Financial Inclusion through NREGA up to November, 2010

S.No	State/UT	No. of bank A/C opened
1	Andhra Pradesh	1957469
2	Arunachal Pradesh	16512
3	Assam	1483481
4	Bihar	1644246
5	Chhattisgarh	2395973
6	Gujarat	1010054
7	Haryana	722460
8	Himachal Pradesh	722460
9	Jammu & Kashmir	264962
10	Jharkhand	1177219
11	Karnataka	3505564
12	Kerala	1215237
13	Madhya Pradesh	6262342
14	Maharashtra	641981
15	Manipur	101750
16	Meghalaya	21892
17	Mizoram	23515
18	Nagaland	1161
19	Orissa	3861411
20	Punjab	388622
21	Rajasthan	4641539
22	Sikkim	36809
23	Tamil Nadu	15745470
24	Tripura	424832
25	Uttar Pradesh	7141394
26	Uttarkhand	749656
27	West Bengal	3301085
28	Andaman & Nicobar	38689
29	Dadra & Nagar Haveli	13776
30	Daman & Diu	NR
31	Goa	8938
32	Lakshadweep	NR
33	Pondicherry	16409
34	Chandigarh	NR
	Total	59,078,983

Source: www.nrega.nic.in

(V) Branch and ATM Expansion

RBI in its new Branch Authorization Policy has totally freed the location of branches and ATMs by the banks in towns and villages with a population less than

50,000. Thus under this policy, branch expansion has been taken up in a big way and network expanded exponentially. The picture is clear in the table 7.

Table 7 Branch and ATM position in India (selected years)

Branch/ATM	2005	2006	2007	2008	2010
Branch per 1 lakh population	6.33	6.37	6.35	6.60	7.13
ATM per 1 lakh population	1.63	1.93	2.40	3.28	5.07
Population per bank branch	----	---	16.0	15.1	14.0
Branches per 1000 sq.km	22.57	22.99	23.5	24.13	25.49
ATM per 1000 sq.km	---	5.93	7.11	9.11	12.68

Source: *Getting Finance in South Asia*, Kiatchai Sophastienphong, Anoma Kulathunga, *The World Bank-2010*

(VI) Development Fund and Technology Fund

As to bring, the vast hitherto excluded and vulnerable sections into main stream of banking initially is a herculean task, the committee on inclusive finance suggested to set up supporting funding for promotional and developmental initiatives for the purpose of creating an institutional support structure. Based on the recommendations of this, Govt. of India in collaboration with RBI and NABARD constituted two funds viz. Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF). The FIF for meeting the cost of developmental and promotional interventions of the financial inclusion and FITF to meet the cost of adoption of the technology. Both the funds were created and the position of these is presented in table 8.

Table 8 Contributions to FIF and FITF as on 31.03.2011

Contributed by	FIF (Rs in crores)	FITF (Rs in crores)
Govt. of India	30.00	30.00
RBI	3.05	0.41
NABARD	30.00	40.00
Interest Credited by NABARD	7.61	8.32
TOTAL	70.66	78.73

Source: NABARD

VII) Business Correspondent

Recognizing the divide between the poor people and the organized financial system, banks were permitted to use the services of individuals, non-governmental organizations (NGOs), micro finance institutions, retired bank employees, ex-serviceman etc. as agents to outreach financial services to un-bankable population of rural areas. These agencies are called Banking correspondents. Banking correspondent (BC) with internet Kiosks at villages as well as armed with mobile phones with back-end interface are used extensively. Under this model, a BC goes home to home in a village and collects small savings from villagers on behalf of a bank. If they want to withdraw from their accounts, the same BC gives them the money as required by them. Thus BC acts as a mobile bank branch for the villagers.

VIII) Common Service centers

The common service centers (CSCs) are ICT enabled front end service delivery points at the village level for delivery Government, financial, social and private sector services in the areas of agriculture, health, education. Entertainment, banking, insurance, pension, utility payments etc. A typical CSC is enabled with a PC, printer, scanner, UPS, digital/ web camera and broad connectivity. Under PPP mode, the CSC envisages a three-tier structure consisting of the CSC operator(called Village level entrepreneur/VLE, the service centre agency (SCA), and a State Designated agency(SDA) identified by the state govt. to manage it in the state.

Services offered by CSCs include-Account opening, Deposit/ withdrawal in account, NREGA's wage payment, govt. pension distribution, Loan for farm equipments and house, Micro finance for small ventures, loan recovery, etc.

In India 1 lakh (100,000) CSCs have been established. CSCs operationalized by AISECT have opened over 3,00,000 bank accounts for SBI, enabling transactions worth over Rs. 200 crores in one year.

IX) Financial Literacy

Setting up credit counseling and financial education and multilingual website in 13 Indian languages on all matters concerning banking and the common person in the year 2007 by RBI is a step further in the direction of financial literacy (Babu, 2011). Moreover, in every state, the RBI has advised the Convener Bank of each state level bankers committee (SLBC) to set up a financial literacy-cum-counseling centre in any one district on a pilot basis, and then extending the facility to other centers in due course. In this centre full information regarding banking, insurance and other financial services is provided to the general public who later this for their financial decision making. This programme has been launched a few years ago in all states and now lot of seminars, symposia, is conducted in all states. The media strategies through TV and community Radio programmes have improved the financial literacy of the citizens.

CONCLUSION

From the above discussion, it may be concluded that India along with other countries of the world has put Financial Inclusion process into a mission mode given that it can effectively help in addressing the concern of inclusive growth. However, still Financial exclusion remains an area of concern given the low levels of financial penetration and deepening in the country- only 30,000 habitations out of a total of 6,00,000 habitations have a commercial bank branch and just about 40% of population across the country have bank accounts. The proportion of people having a life insurance cover is 10% and proportion having non-life insurance cover is abysmally as low as 0.6%

of population (Chakrobarty, 2009). This requires continuous efforts on all fronts by all stake holders if India wants to achieve 100% financial inclusion in the coming years and be free from poverty.

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EXECUTIVE VIEWPOINT ON THE GEOPOLITICS OF BUSINESS

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Abstract: *The contemporary geopolitical environment has posed new challenges and opportunities for business organizations worldwide. With increasing international economic alignments and political conflict, organizations need to manage with innovative methodologies. These operational changes have an impact on the practice of public administration, finance, and law. With the intent of highlighting a real world case in geopolitical management, Professor Mark Munoz of Millikin University and undergraduate student Ashlee Colby interviewed Michael W. Ritscdorff, CEO of Dukane Corporation. Dukane Corporation is a global manufacturer and marketer of advanced technology products. Located in St Charles, IL, it has operated as a private corporation for 91 years and distributes products such as audio visual presentation products and ultrasonic thermal and friction assembly systems. The interview captures the company's geopolitical mindset.*

Keywords: *Geopolitics, International Management, Geopolitical Management*

Geopolitics is defined as the convergence of geography, economics and politics and its influences on events. It is shaped by geographic location, resources (natural and man-made), demographics and people factors, and relationships with other countries (Bronstein, 2011).

Early thinking on geopolitics was advanced by Mackinder (1904) who suggested that social occurrences in one part of the world will impact other locations and shape political and economic activities.

Companies and executives need to be cognizant of geopolitical occurrences. The global environment is threatened by: 1) financial challenges, 2) ecological threats, 3) global instability due to power shifts and resource limitations (Foster, 2009). A keen understanding of geopolitical dynamics and the management of risk is an essential skills set of the contemporary CEO (Financial Executive, 2011).

This article highlights an interview with **Michael W. Ritscdorff, the CEO of Dukane Corporation**, an Illinois-based global manufacturer and distributor of advanced technology products. The interview was conducted by Professor Mark Munoz, with the assistance of student Ashlee Colby.

The interview was conducted with the goal of gaining a real life corporate perspective on how a mid-sized international company executive manages the geopolitics of business.

(Start of Interview)

Interviewer: From your experience, to what extent do companies track and monitor geopolitical events around the world?

Ritscdorff: Depends on the company size. In larger companies the budget analysts would monitor events in countries that we sold into. We are a small company so the Division President is responsible for staying current on global events. Our international sales manager helps the president by visiting 20 countries a year.

Interviewer: How do companies gather geopolitical information and conduct research in international locations?

Ritscdorff: Discussions with company employees, foreign travel and healthy use of the internet news sites.

Interviewer: In your view, what are the key challenges in the geopolitical environment and how does it impact the contemporary corporation?

Ritscdorff: Stable economies and leadership are requirements. The slowdown in China and rollercoaster risk ride in Greece has spooked everyone. We are a capital equipment manufacturer and when buyers get spooked new machinery sales suffer. Rumors about Spain's possible strike, Italy and Germany's continued support of the Euro has hurt growth. We just opened offices in France and Japan, and France is operating below expectations.

Interviewer: Are there business opportunities resulting from geopolitics? What might these be?

Ritscdorff: With China's quest to be the number 1 economy, you must be there. We are 40% auto related and the volume increases in car production there are exciting.

Interviewer: Who is responsible for geopolitical planning in companies you've worked with? Is responsibility placed on a single person, department, or entire organization?

Ritscdorff: I have worked in 50 million to 3 Billion sized companies and there has never been one person. I would guess the large S&P 500 companies do it differently. As mentioned earlier, division presidents and foreign executives are responsible.

Interviewer: How does geopolitics impact the management function of planning?

Ritscdorff: Another aspect of the strategic planning process. If you see the right kind of leadership and economic promise you may plan to put in bricks and mortar and / or increase sales volume targets. If a country uses tariffs to protect their manufacturers, you may be more inclined to manufacture there if the political climate is stable.

Interviewer: How does geopolitics impact the management function of leading?

Ritscdorff: You have to pick people to lead your units that get it.

Interviewer: How does geopolitics impact the management function of organizing?

Ritscdorff: For us one of the toughest decisions is going direct or using a distributor. Geopolitical climate will influence that move.

Interviewer: How does geopolitics impact the management function of controlling?

Ritscdorff: Be vigilant of the assets you have in place and make sure you have the organization and review processes to recognize and bring any excess back to the US.

Interviewer: In your view, does geopolitics impact the company's financial bottom line? Why or why not?

Ritscdorff: Yes, the more controls you need the more expensive it is. When you need to manufacture there or have bank accounts there cash flow and profitability will be affected. However, as long as the incremental sales volume produces contribution to cover the additional expense you go for it.

Interviewer: How can the practice of geopolitical management are improved?

Ritscdorff: If you hired someone to be solely responsible for it. I won't do that so I need to ask more questions.

Interviewer: What resources are needed by organizations in order for them to best manage the complexities of geopolitics?

Ritscdorff: Information, the time to look at it and the intelligence to act on it.

Interviewer: What are the best practices you have observed in the management of global geopolitics?

Ritscdorff: I never did witness this function residing in one person. The best people will provide you with the best practice. As you choose presidents of divisions or foreign office heads, you need to insure they have that particular curiosity. Most people ignore it because they are buried with their day to day tasks. There are great people out there that look outside the boundaries of their home countries. Hold on to them and listen.

Interviewer: What is your vision of geopolitics in the future? Do you see it growing or declining in importance?

Ritscdorff: Big question for someone like me. It's like competition. It started in our towns and now it comes from all over the world. It grows every year. If you don't stay ahead, you're dead. So, yes it will continue to increase because selling to everyone in the world continues to get easier and it will be easier for global issues to affect you.

Interviewer: What role will geopolitics play in a company's success?

Ritscdorff: If you don't consider it you will get hurt.

(End of Interview)

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DOES INVESTOR ATTENTION MATTER'S?

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***Abstract** The purpose of the study is to examine the effect of investor attention on profitability, liquidity and volatility of a firm. Forty two firms listed on Karachi Stock Exchange are investigated. Data with monthly frequency from November 2009 to October 2013 is analyzed to inspect the relationship. It is found that the investor attention partially affect profitability, liquidity and volatility. Liquidity of a firm is more affected by investor attention as compared to profitability and volatility.*

***Keywords:** Google search volume, Investor Attention, liquidity, profitability; volatility.*

INTRODUCTION

It is often said that investors have infinite cognitive resources with high attention toward the stock market activities. On the other hand investors have in reality limited cognitive capabilities (Kaheman, 1973). Previous studies show that there are limits to the essential cognitive processing capability of the human brain. Sometime huge amount of information is available but investor collect specific information for their decision purpose, and also shows that attention have vital role in investors learning and trading behavior.

In the advancement of information technology the world is going in the digital era and internet is becoming an essential research tool. It provide us the easiest way to access information from different sources and people are more dependent on search engines to get their desired results from the internet, with respect to other search engine Google become the most frequently using search engine as worldwide and now in Pakistan, if someone do search on Google so he is paying attention to it (Da, Engelberg, & Gao, In Search of Attention, 2011), and without any biasness Google trend is the most reliable source of measuring Pakistani investors' attention so irrelevant and noisy information is ignorable or negligible.

Our research contributes and somehow relates to the stream of literature that analyze the "investor attention hypothesis" (e.g., (Fang & Peress, 2009), (Grullon, Kanatas, & Weston, 2004) and (Tetlock, 2010). Investor frequently gather information on stocks that are traded in market, they pay high attention toward every piece of

information which is related to the specific stock, because as we discuss before human brain has a limited central cognitive processing capability. Sometimes incomplete or asymmetric information become a problem for investors and it could be risky for them to make decisions. When investor pay a high level of attention toward the stock by searching actively on search engine, so they receive specific information on the stock which decreases level of asymmetric and incomplete information problems. It result, the stocks with more investor attention have a high rate of liquidity.

This paper is divided in to following steps. First, we examined the case of Pakistani stock market while previous studies emphasize on the US and French stock markets (Ding & Hou, 2011) (Vlastakis & Markellos, 2012) and (Aouadi, Arouri, & Teulon, 2013). Second, the paper analyzes empirically that does investor attention matters? And we follow Google search volume as a proxy on monthly basis for knowing investors' attention for stocks in KES 100-index.

And third, we considered Investor Attention as independent variable and profitability, liquidity and volatility as dependent variable.

Our results may help for stakeholders of institutions like financial markets (e.g. stock brokers and liquidity traders) from this they can efficiently learn investors trading behaviors. Finally, our findings may also benefit to search engine firms to develop a business model and standardize the search data on individuals searching behavior in terms of accuracy and timeliness, and then they are able to sell this information to concerned participants those who need such information.

The rest of the paper is arranged as follows. Section 2 demonstrates relevant literature review. Section 3 describes data and methodology. Section 3 presents empirical results, interpretation and relevant discussion. Section 4 will draw conclusion.

LITERATURE REVIEW

The concept "recognition of investor" was initially introduced by (Merton, 1987) and suggests that investor attention may be relevant to the stock market activities. Human brain is bounded in its information processing capability, attention plays a vital role in learning, selecting, decision making, and also effects trading behavior of investors (Hou, Xiong, & Peng, 2009). Asset pricing model speculate that investor attention is an essential part of stock price to fully integrate the public information, as an investor has to be conscious about information before he can observe and respond to this specific stock information. (Peng, Xiong, & Bollerslev, 2007) They find out that investors shift their limited attention to process market level information, an increase in market wide uncertainty and then subsequently divert their attention back to asset specific information.

According to Merton the firm should be well recognized or front line investors should be aware to the firm before investments, this shows investor attention is obligatory condition for a company to be recognized, also stated that increment in search volume increases the trading activities like stock prices, liquidity and temporary returns (Merton, 1987).

(Barber, Odean, & Zhu, 2006) Investors only focus on those stocks which are more familiar in the stock market and that information may not enough to determine

attraction of investors. This study indirectly indicates that limited attention toward direct determination is so effected because it is very difficult to measure human attention especially in stock market, For directly measures researchers have to go back in that particular time period which is very hard to do.(Barber & Odean, 2008) Individual investors locates the information about the firm's environment, product, history and strategies and they are more conscious to search for information when they are buying since they have to choose from a large set of available alternatives. (Fehle, Tsyplakov, & Zdorovtsov, 2005)Examine that most of the firms create and then increase investor attention through advertising techniques. (Della Vigna & Pollet, 2009)They find out that volume and two day stock price reaction to Friday news released media is relatively weaker than the other days of week. (Huberman & Regev, 2001)They find that newspaper can affect the stock prices even contents don't have genuine information thus prove the important role exercised by investor attention. (Della Vigna & Pollet, 2009). They find out that volume and two day stock price reaction to Friday news released media is relatively weaker than the other days of week. Mostly investor's intentions toward buying of stocks or grabbing stocks, high intention toward specific stock is due to its familiar reputation like headlines news, extreme or high returns and high abnormal trading volume. The result of attention is not restricted to the retail investors; High attention increases the level of unaccepted trading and uninformed investors (Yuan, 2008). (Chemmanur & Yan, 2009)Find that an increase in the level of investor intension is related with a higher cotemporary stock return and a lower future return. Stock market related news cause the investor's ignorant or attentive behavior towards frequently switching process (Andrei & Hasler, 2011).In good law enforcement countries investors pay more attention to firm's specific information which leads to higher momentum returns (Gavrailov, 2013). (Da, Engelberg, & Gao, The sum of all fears: investor sentiment and asset prices, 2010)Show that investor attention is correlated with the high first-day return and the long-run underperformance of IPO stocks. We emphasize from these studies that investor attention is almost depended on the way investor react on specific information and they are restricted to limited stocks and there information. Attention to stock market rises in times of high market activities, Moreover an increase in investor attention is followed by high volatility (Dimpfl & Jank, 2011).There are lots of tools and techniques through investor attention can be measured, like in previous studies researchers uses different indirect methods to measure investor attention. Such as business cycle activities (Kita & Wang, 2012), media coverage (Fang & Peress, 2009), abnormal trading volume (Hou, Xiong, & Peng, 2009) and advertising expense (Lou, 2009), extreme or high returns (Barber & Odean, 2008). (Grullon, Kanatas, & Weston, 2004)Examine that advertising expense is positively related to the number of investors and stock market liquidity. (DellaVigna & Pollet, 2009)Find that news can be the sources through stock prices reacts. (Fang & Peress, 2009) Report that there is a negative relationship between stock returns and media coverage.

Internet search volume proxies can be the most reliable sources because researcher can get highly relevant results. According to (Ding & Hou, 2011) when people pay more attention to trading activities by actively searching on the internet they receive relevant information on stocks and may eventually become investors of it, and this enable

the firm stocks and name to be better recognized as a result stocks with increased investor attention become more liquid. GSV first introduced by (Mondria, Wu, & Zhang, 2010) and (Da, Engelberg, & Gao, In Search of Attention, 2011) in their financial literatures as a direct measure of investor attention and show that it is more efficient than the previous measure of investor attention. (Aouadi, Arouri, & Teulon, 2013) Successfully measure the attention through Google search volume proxy, (Now onward Google search volume is called GSV) inspired by them and especially for avoiding any biasness GSV has been used in this paper. Most frequently used search engine Google, online search volume data was released on 2008 but search data is available from 2004 and onward. GSV captures information demand among investor and most of the searches have been performed during the period of earning announcement (Drake, Jennings, Roulstone, & Thornock, 2012). Higher GSV leads to increase greater stock liquidity, trading activities and greater the future returns in short term period (Bank, Larch, & Peter, 2011), (Da, Engelberg, & Gao, In Search of Attention, 2011), (Vlastakis & Markellos, 2012), (Dimpfl & Jank, 2011), and (Kita & Wang, 2012) These researcher use GSV on firms tickers, names and other related terms to determine investor attention as the information is available publicly, all these articles suggest that investor's online behavior is strongly time varying and larger in times of high volatility. Moreover (Vlastakis & Markellos, 2012) define that GSV explain about 50% of the variability in the Market Volatility Index.

Facts and figures suggest that GSV is the most reliable proxy source for measuring Pakistan's investor's attention. Useful and reliable information is perceived more valuable in Pakistan's financial markets, use of search engines is increasing rapidly day by day, and most of the investors and brokers are aware of it. All credit goes to information technology and then internet system because it decreases the cost of data gathering and increases the flow of information, still most of people are not the regular users of internet but in recent decades they are showing high interest towards it. Regarding GSV previous researches show positive results for different empirical studies in stock market activities. As we discuss below, the empirical question (Does investor attention matters?) can be examined.

DATA AND METHODOLOGY

Companies listed on KSE 100 index are used to measure the effect of investor attention on liquidity, profitability and volatility. 42 companies are filtered out of 100 stock firms based on the availability of data. Time duration for the analysis range from November 2009 to October 2013 with monthly frequency, stock firms are listed in the KSE 100 index which is chosen for our sample period and reason for selection of stocks from KSE 100 index is that they are the upfront representatives of Karachi Stock Exchange. To measure the investor attention we use Google Search volume and it considered as a proxy Index because it better as compare to other proxies of measure used in the previous literatures e.g. Advertisement expenditure, media coverage (Grullon, Kanatas, & Weston, 2004), (DellaVigna & Pollet, 2009). To measure the profitability of stock we convert individual stock price into return by using this equation

$r = \frac{pn}{pn-1} - 1$. We follow the (Ascioglu, Comerton-Forde, & McInish, 2007) (Chae, 2005) (Barnea & Logue, 1975) to measure the monthly volatility in the returns of a firm is calculated with the help of standard deviation of the daily returns. Turnover is used as a proxy of measure for liquidity of a firm by following (Fong, Holden, & Trzcinka, 2011) as representative of liquidity; a high ratio indicates a more liquid stock (low price impact of trades).

Table 1 show the queries used in the analysis. The combination of words in any search query is of very much importance. In Pakistan mostly the firms are searched by their names rather than the tickers as it is easy to remember the names. Also symbols of tickers may be used in different meaning than required.

To investigate the effect of investor attention on Turnover, profitability and volatility all the series are tested for stationary. The returns and volatility are found to be stationary at level for all the 42 firms. But for some companies it is observe that the series of turnover and Investor attention showed a unit root at level that's why ARDL is applied for that series. The results of Augmented Dickey Fuller test are shown in table 2 while Table 3 reports descriptive statistics for Turnover, profitability and volatility.

EMPIRICAL RESULTS

The results of regression are shown in table 4 estimates of ARDL are marked as *italic* whereas estimates of ordinary least square are non-*italic*. From the table we observe that turnover of 26% firms are significantly affected by investor attention, the results also indicates that 17% firms and volatility of 9% firms are also affected by investor attention at 5% Confidence Interval. At 1% Confidence Interval 19% firms in case of turnover, 12% firms in case of returns and 5% firms in case of volatility are found to be affected by investor attention.

Similar when 10% confidence interval is considered that 36% firms in case of turnover, 19% in case of returns and 14% firms in case of volatility are found to be affected by investor attention.

From these results it is observed that liquidity is most affected variable by investor attention and volatility is the least variable in our observation.

CONCLUSION

The research conclude that Investor Attention that investor attention partially affected liquidity, volatility and returns but the effect of Investor Attention is more in the case of liquidity it means that when a stock receive more investor attention investors tend to trade the stock with accelerating frequency. Returns and volatility are effected by investor attention, it suggest that when investor pay more attention to particular stock it doesn't means that the attention is due to its profitability or volatility.

Table 1 List of stocks in the sample and search queries

Sr#	Companies Name	Stock Ticker	Search Query	Sr#	Companies Name	Stock Ticker	Search Query
1	Adamjee Ins.XD	AICL	"adamjee insurance"	22	National Bank.	NBP	"national bank"
2	Allied BankXD	ABL	"allied bank limited"	23	National Refin XD	NRL	"national refinery"
3	Askari Bank Attock	AKBL	"askari bank"	24	Nestle Pak.SPOT Netsol Tech.	NESTLE	"nestle pakistan"
4	Cement Attock	ACPL	"attock cement"	25	XDXB	NETSOL	"netsol"
5	Petroleum Attock	APL	"attock petroleum"	26	Nishat (Chunian)XDXB	NCL	"nishat chunian"
6	RefineryXD	ATRL	"attock refinery"	27	Nishat PowerXD	NPL	"nishat power"
7	B.O.Punjab	BOP	"bank of punjab"	28	Oil & Gas Devel	OGDC	"ogdc"
8	Bank Al-Falah Bata	BAFL	"bank al falah"	29	P.S.O. XD	PSO	"pso"
9	(Pak)SPOT	BATA	"bata pakiatn"	30	P.T.C.L.A	PTC	"ptcl"
10	Century Paper Cherat	CEPB	"century paper"	31	Pace (Pak) Ltd.	PACE	"pace pakistan"
11	CementXD Fauji	CHCC	"cherat cement"	32	Pak Petroleum	PPL	"pakistan petroleum"
12	CementXD Faysal	FCCL	"fauji cement"	33	Pak Services Pak Suzuki	PSEL	"pakistan services"
13	BankSPOT Habib Bank	FABL	"faysal bank"	34	Motor	PSMC	"pak suzuki motors"
14	LtdSPOTXD	HBL	"hbl"	35	Pak TobaccoXD Shell Pakistan	PAKT	"pakistan tobacco"
15	ICI Pakistan Kohat	ICI	"ici pakistan"	36	Ltd. Shifa Int.Hosp	SHEL	"shell"
16	CementXDXB Kohinoor	KOHC	"kohat cement"	37	XD	SHFA	"shifa"
17	Textile Lucky Cement	KTML	"kohinoor textile mills"	38	Siemens Pakistan	SIEM	"siemens pakistan"
18	XD Maple Leaf	LUCK	"lucky cement"	39	St.Chart.BankXD	SCBPL	"standard chartered"
19	Cement MCB Bank	MLCF	"maple leaf cement"	40	Sui North Gas TRG Pakistan	SNGP	"sngpl"
20	Ltd. Meezan Bank	MCB	"mcb"	41	Ltd.	TRG	"trg"
21	Ltd.XD	MEBL	"meezan bank"	42	United BankXD	UBL	"united bank"

Table 2 Unit root tests on Turnover Returns Volatility and GSV

stocks	Turnover		Returns		Volatility		GSV	
	t-Stats	P-Value	t-Stats	P-Value	t-Stats	P-Value	t-Stats	P-Value
AICL	-3.511	0.0119	-8.48368	0.0000	-4.41208	0.0010	-5.18484	0.0001
ABL	-4.464	0.0008	-7.74367	0.0000	-3.91823	0.0040	-4.49484	0.0007
AKBL	-3.049	0.0376	-8.15957	0.0000	-3.97912	0.0034	-3.20389	0.0260
ACPL	-3.949	0.0036	-7.94602	0.0000	-4.85803	0.0003	-5.15953	0.0001
APL	-2.931	0.0493	-8.20006	0.0000	-4.71654	0.0004	-5.00334	0.0001
ATRL	-4.21	0.0017	-7.93353	0.0000	-4.78707	0.0003	-4.99829	0.0002
BOP	-3.657	0.0082	-7.97323	0.0000	-3.64792	0.0085	-4.95558	0.0002
BAFL	-3.696	0.0073	-8.18108	0.0000	-3.71785	0.0070	-4.93248	0.0002
BATA	-17.99	0.0000	-4.28949	0.0014	-7.76625	0.0000	-5.37058	0.0000
CEPB	-2.12	0.2362	-7.5355	0.0000	-8.6368	0.0000	-4.9633	0.0002
CHCC	-2.92	0.0508	-7.8014	0.0000	-4.2062	0.0018	-4.0727	0.0025
FCCL	-1.98	0.2925	-7.9395	0.0000	-3.4831	0.0130	-2.0359	0.2710
FABL	-3.71	0.0070	-8.06507	0.0000	-4.49287	0.0008	-5.9405	0.0000
HBL	-3.189	0.0269	-4.88883	0.0002	-8.29139	0.0000	-4.13218	0.0021
ICI	-3.317	0.0196	-8.11935	0.0000	-8.2131	0.0000	-4.08704	0.0026
KOHC	-0.14	0.9387	-8	0.0000	-3.4254	0.0151	-3.5877	0.0097
KTML	-2.932	0.0493	-9.38139	0.0000	-8.19302	0.0000	-4.3063	0.0013
LUCK	-3.008	0.0414	-8.43506	0.0000	-3.9005	0.0042	-5.58844	0.0000
MLCF	-2.06	0.2615	-9.2486	0.0000	-3.4981	0.0125	-7.3265	0.0000
MCB	-3.141	0.0302	-8.10795	0.0000	-4.73773	0.0004	-4.74675	0.0004
MEBL	-7.95	0.0000	-7.7852	0.0000	-4.529	0.0007	-1.5062	0.5212
NBP	-3.42	0.0153	-7.7677	0.0000	-8.2472	0.0000	-1.0688	0.7200
NRL	-2.706	0.0806	-8.18252	0.0000	-4.42603	0.0010	-3.12138	0.0317
NESTLE	-4.405	0.0009	-8.21907	0.0000	-4.61597	0.0005	-2.94451	0.0479
NETSOL	-5.24	0.0001	-8.9676	0.0000	-4.5481	0.0007	-1.9751	0.2965
NCL	-3.237	0.0239	-7.64976	0.0000	-8.32995	0.0000	-6.52849	0.0000
NPL	-2.53	0.1150	-8.216	0.0000	-4.6531	0.0005	-6.5723	0.0000
OGDC	-1.98	0.2925	-7.9395	0.0000	-3.4831	0.0130	-2.0359	0.2710
PSO	0.602588	0.9882	-7.9004	0.0000	-3.8913	0.0044	-1.8921	0.3331
PTC	-3.82	0.0052	-7.8984	0.0000	-4.8859	0.0002	-2.3242	0.1689
PACE	-4.916	0.0002	-7.31777	0.0000	-7.2529	0.0000	-2.92776	0.0497
PPL	-3.705	0.0071	-8.86145	0.0000	-7.87531	0.0000	-1.79075	0.3805
PSEL	7.734881	1.0000	-7.7417	0.0000	-4.9929	0.0002	-1.2406	0.6491
PSMC	-4.365	0.0011	-8.23041	0.0000	-7.95315	0.0000	-3.43871	0.0144
PAKT	-3.092	0.0340	-3.54672	0.0111	-8.05154	0.0000	-3.75858	0.0061
SHEL	-2.8	0.0658	-9.0505	0.0000	-5.1604	0.0001	-1.915	0.3228
SHFA	-6.27	0.0000	-8.0231	0.0000	-5.1514	0.0001	-2.4058	0.1458
SIEM	1.696488	0.9995	-7.6456	0.0000	-8.6044	0.0000	-3.0061	0.0416
SCBPL	-5.14	0.0001	-8.5033	0.0000	-4.6503	0.0005	-1.207	0.6639
SNGP	-1.3	0.6227	-7.8534	0.0000	-4.7179	0.0004	-3.9811	0.0033
TRG	-3.58	0.0099	-7.6064	0.0000	-4.315	0.0013	-0.9018	0.7768
UBL	-3.71	0.0070	-4.94033	0.0002	-8.12874	0.0000	-4.70634	0.0004

Table 3(continued) Descriptive statistics of Turnover Returns Volatility and GSV

Turnover					
stocks	Mean	Jarque-Bera	Kurtosis	Skewness	Std. Dev.
AICL	798063.0	14.33063	4.059018	1.229207	708917.2
ABL	176629.5	25.75995	4.642567	1.595458	169573.0
AKBL	0.400179	6.182611	2.437698	0.832935	0.013684
ACPL	80292.09	3.514641	2.412158	0.594088	54703.09
APL	102259.3	134.4750	9.695050	2.367160	118550.6
ATRL	1188495.	11.88431	4.075774	1.093716	643140.8
BOP	4225349.	55.86246	6.312172	2.059171	5046376.
BAFL	3265016.	9.753648	3.208549	1.099242	2212156.
BATA	1526.392	3095.145	40.39499	6.107113	4691.242
CEPB	147797.9	43.93824	6.113907	1.751621	154041.0
CHCC	292133.4	23.13941	4.726317	1.465395	377468.9
FCCL	6183904.	12.68649	3.208244	1.254978	8194501.
FABL	439763.6	969.6128	23.34101	4.214548	734188.9
HBL	220996.9	20.15008	4.397005	1.425080	190321.9
ICI	179792.7	16.98338	4.103538	1.348508	176591.4
KOHC	229826.5	177.8458	11.00833	2.489457	253693.3
KTML	184150.5	25.48729	4.674341	1.576406	234232.8
LUCK	1552636.	12.83654	4.083625	1.144992	880830.9
MLCF	3379325.	12.46701	3.024716	1.248288	4598190.
MCB	864813.8	12.24451	3.594516	1.200917	524456.8
MEBL	146550.1	46.05376	6.254205	1.763309	113126.4
NBP	4033543.	20.78474	4.555395	1.411835	2647161.
NRL	140764.1	5.960986	2.607678	0.840621	93482.21
NESTLE	618.3645	52.36149	6.164350	2.010450	763.3882
NETSOL	711833.8	12.98621	3.841205	1.202651	493543.4
NCL	1667289.	29.36292	5.394323	1.495717	1588355.
NPL	840752.3	86.27298	7.689961	2.298954	910211.3
OGDC	6183904.	12.68649	3.208244	1.254978	8194501.
PSO	1256756.	275.3139	12.99857	3.069426	1577078.
PTC	5429660.	35.01185	5.538502	1.662974	5372380.
PACE	2015344.	35.89145	5.501792	1.709296	2103527.
PPL	998811.5	57.98809	6.812737	1.901123	758312.1
PSEL	1768.313	865.1203	21.84630	4.398211	6066.590
PSMC	59417.97	18.11810	4.344133	1.346510	50159.76
PAKT	17095.90	5.758856	2.977117	0.848367	14674.92
SHEL	72412.33	243.4937	12.50914	3.025581	117742.4
SHFA	4846.941	110.2998	8.573247	2.454018	6779.693
SIEM	3268.185	3279.051	41.52353	6.234239	13661.35
SCBPL	82341.81	2818.694	38.62795	5.915997	233031.4
SNGP	1005247.	61.56525	6.610473	2.106366	1482762.
TRG	4168846.	26.77990	4.839025	1.581766	4573417.
UBL	897092.1	2.618096	2.656933	0.545746	525840.8

Table 3 (continued) b Descriptive statistics of Turnover Returns Volatility and GSV Returns

stocks	Mean	Jarque-Bera	Kurtosis	Skewness	Std. Dev.
AICL	0.200114	7.628205	2.740274	0.967813	0.020234
ABL	0.199809	6.997954	2.521156	0.904114	0.019917
AKBL	0.200079	7.503071	2.506552	0.936489	0.019697
ACPL	0.199552	6.104271	2.553403	0.844495	0.019670
APL	0.199752	8.143460	2.636549	0.992426	0.019582
ATRL	0.198996	6.387857	2.577179	0.868209	0.020611
BOP	0.199682	5.924215	2.731796	0.850026	0.021021
BAFL	0.199154	7.037443	2.606191	0.917011	0.019886
BATA	0.199492	3.361790	2.475807	0.592899	0.021489
CEPB	0.198831	6.257811	2.756183	0.875994	0.020424
CHCC	0.198649	5.215287	2.576114	0.779096	0.020465
FCCL	0.199491	5.935432	2.432216	0.813225	0.020629
FABL	0.200169	5.099386	2.431908	0.746151	0.019967
HBL	0.199654	6.833408	2.673340	0.909670	0.019763
ICI	0.199597	7.139529	2.532590	0.915327	0.019702
KOHC	0.197979	6.443223	2.552928	0.869157	0.021224
KTML	0.198717	5.075302	2.372671	0.732139	0.020200
LUCK	0.198762	7.110066	2.551909	0.915730	0.019828
MLCF	0.198436	6.555235	2.595129	0.882284	0.021116
MCB	0.199376	6.961021	2.549129	0.905155	0.020167
MEBL	0.198932	6.626990	2.483107	0.872685	0.019414
NBP	0.200237	6.116240	2.716428	0.862802	0.020630
NRL	0.199852	6.619954	2.393432	0.857621	0.019738
NESTLE	0.198506	6.765248	2.701437	0.907398	0.019497
NETSOL	0.199566	6.671003	2.615239	0.892673	0.020055
NCL	0.198249	5.391170	2.489310	0.780189	0.020096
NPL	0.198732	6.635325	2.494309	0.874920	0.020057
OGDC	0.199491	5.935432	2.432216	0.813225	0.020629
PSO	0.200030	6.719364	2.580257	0.892118	0.020854
PTC	0.199465	7.076774	2.736439	0.931252	0.020413
PACE	0.198460	2.725151	2.768954	0.572100	0.021640
PPL	0.199613	6.115624	2.441682	0.828567	0.019662
PSEL	0.199380	5.422774	2.789443	0.816556	0.020988
PSMC	0.199636	7.617887	2.701348	0.964333	0.019517
PAKT	0.199603	4.390212	2.528386	0.702262	0.020983
SHEL	0.200458	5.861802	2.357655	0.813284	0.019675
SHFA	0.199719	6.996694	2.888667	0.933535	0.019999
SIEM	0.200345	4.040696	2.679999	0.692450	0.019393
SCBPL	0.198775	7.835403	2.673002	0.976060	0.018637
SNGP	0.199765	6.395425	2.536120	0.863500	0.020804
TRG	0.197490	5.817292	2.597165	0.828609	0.021002
UBL	0.199324	7.387635	2.582010	0.937963	0.019408

Table 3 (continued) Descriptive statistics of Turnover Returns Volatility and GSV

Volatility					
stocks	Mean	Jarque-Bera	Kurtosis	Skewness	Std. Dev.
AICL	0.400098	6.309905	2.426275	0.840505	0.013527
ABL	0.400100	6.554987	2.522109	0.873086	0.013403
AKBL	32.37813	36.38106	5.907839	1.560049	9.307300
ACPL	0.400335	7.403876	2.639383	0.944973	0.013616
APL	0.400056	6.601297	2.513587	0.875221	0.013614
ATRL	0.400647	7.081592	2.765791	0.933534	0.013444
BOP	0.400771	5.009316	2.397413	0.731701	0.013358
BAFL	0.400526	6.736464	2.490513	0.881569	0.013630
BATA	0.400536	5.930011	2.649770	0.842963	0.013439
CEPB	0.400897	6.196487	2.361763	0.820198	0.013443
CHCC	0.401196	5.884432	2.605540	0.834658	0.013876
FCCL	0.400639	6.184556	2.578049	0.853557	0.013546
FABL	0.400195	8.661856	2.749148	1.032957	0.013647
HBL	0.400190	6.341078	2.503755	0.855026	0.013526
ICI	0.400215	6.275320	2.477183	0.846215	0.013562
KOHC	0.401439	5.004783	2.445991	0.740855	0.013473
KTML	0.401813	7.482505	2.881898	0.965311	0.014324
LUCK	0.400618	6.863684	2.555113	0.899155	0.013544
MLCF	0.401659	10.51835	3.600266	1.106668	0.014239
MCB	0.400341	6.653927	2.509305	0.878377	0.013302
MEBL	0.400626	6.733926	2.543992	0.888682	0.013856
NBP	0.400180	6.240506	2.522218	0.850291	0.013333
NRL	0.400107	7.030653	2.623153	0.918329	0.013632
NESTLE	0.400892	6.690737	2.480487	0.876852	0.013924
NETSOL	0.400555	5.334575	2.384576	0.756396	0.013819
NCL	0.401213	7.577511	2.622281	0.954736	0.013750
NPL	0.400711	7.072009	2.656924	0.924433	0.013533
OGDC	0.400639	6.184556	2.578049	0.853557	0.013546
PSO	0.399985	6.262872	2.516436	0.851117	0.013048
PTC	0.400466	5.933476	2.376144	0.802736	0.013357
PACE	0.402225	5.116258	2.237135	0.702881	0.014005
PPL	0.400150	7.469731	2.571815	0.942274	0.013473
PSEL	0.400536	5.789653	2.431267	0.801774	0.013267
PSMC	0.400257	5.761346	2.378033	0.789593	0.013830
PAKT	0.400318	6.117149	2.485753	0.835782	0.013245
SHEL	0.400280	6.643007	2.524768	0.900010	0.013857
SHFA	0.400456	7.550393	2.829341	0.967739	0.013708
SIEM	0.400037	7.167419	2.569452	0.921729	0.014103
SCBPL	0.400990	6.631872	2.582034	0.886177	0.014261
SNGP	0.400289	6.617363	2.605072	0.887794	0.013241
TRG	0.402752	9.640495	3.353319	1.083445	0.014717
UBL	0.400370	6.278017	2.475078	0.846089	0.013687

Table 3 (continued) Descriptive statistics of Turnover Returns Volatility and GSV

stocks	Mean	Jarque-Bera	Kurtosis	Skewness	Std. Dev.
AICL	36.85104	11.36793	4.487799	-0.93145	12.93061
ABL	13.18542	9.008738	3.722690	-0.99776	5.473077
AKBL	1051040.	20.42869	4.452097	1.423531	928063.3
ACPL	34.31250	137.2062	10.01643	2.200726	14.71742
APL	4.375000	2.424873	2.662347	0.524029	1.423586
ATRL	40.33333	2.016052	2.031539	0.132391	9.001970
BOP	2.595833	76.67181	7.575705	2.085595	2.381262
BAFL	25.38958	6.702364	3.765184	-0.83152	10.56892
BATA	34.84792	18.76393	5.943098	0.424305	8.365424
CEPB	30.17813	1.587797	3.246190	0.428162	5.383801
CHCC	32.45833	4.884897	3.370832	0.759100	8.530193
FCCL	21.97917	27.11752	4.622415	1.652765	22.08830
FABL	17.95000	21.48438	5.146479	1.238428	8.396954
HBL	25.05833	142.6060	10.32403	2.101283	5.771199
ICI	24.91667	79.17814	7.790870	2.039402	18.06705
KOHC	47.04167	2.913394	3.311204	-0.58306	21.59783
KTML	43.14583	34.16342	5.874894	1.484646	14.84529
LUCK	29.65104	55.62798	7.271287	1.546779	11.85419
MLCF	50.37500	6.449125	3.851460	0.790503	14.46290
MCB	35.50625	6.778124	2.519921	0.888621	16.52799
MEBL	27.46771	16.31411	4.121316	1.313365	10.59248
NBP	17.55417	6.990004	2.913326	0.933741	9.538722
NRL	34.72813	1.792196	2.499237	0.401664	6.183763
NESTLE	48.50000	0.648299	2.467855	0.101207	9.056219
NETSOL	22.82500	2.993825	1.988137	0.343892	3.483563
NCL	64.85417	0.224745	2.753980	0.113849	15.10388
NPL	36.35625	12.44227	4.906851	0.803905	6.970635
OGDC	21.97917	27.11752	4.622415	1.652765	22.08830
PSO	26.74583	11.65161	3.814548	1.136037	14.62348
PTC	46.26458	13.30284	4.007473	1.187057	16.87485
PACE	20.54167	11.05727	4.584557	-0.86859	5.757357
PPL	4.566667	453.9470	16.27675	3.560246	1.992655
PSEL	25.24583	8.964167	2.761637	1.051816	11.60573
PSMC	24.94479	6.601326	4.645006	0.385558	13.40089
PAKT	21.75208	5.628243	4.090535	0.637349	5.919261
SHEL	20.18370	33.52590	5.758060	1.572011	10.06510
SHFA	64.76458	18.09588	4.822447	-1.19652	15.48638
SIEM	34.52604	1.335962	2.427803	0.291793	9.040300
SCBPL	43.91042	2.667205	3.881789	0.372844	14.08257
SNGP	16.22500	20.47864	5.689054	0.867224	5.519424
TRG	4.550000	87.55416	8.179401	2.058573	4.163928
UBL	3.637500	29.76155	5.735032	1.360182	2.802668

Table 4 Least square regression on turnover, returns volatility and GSV

stocks	Turnover				Returns			
	Coefficient	Std. Error	t-Statistic	Prob.	Coefficient	Std. Error	t-Statistic	Prob.
AICL	-11575.3	7901.242	-1.46499	0.1497	5.93E-05	0.000231	0.257391	0.798

ABL	-13672.7	4099.338	-3.33535	0.0017***	0.00022	0.000536	0.411152	0.6829
AKBL	18617.73	14443.41	1.289012	0.2038	0.000135	0.000311	0.432633	0.6673
ACPL	967.1147	529.1501	1.827676	0.0741*	-5.8E-05	0.000197	-0.29218	0.7715
APL	11610	12158.47	0.95489	0.3446	0.001525	0.002016	0.756377	0.4533
ATRL	8370.735	10461.36	0.800158	0.4277	-0.00034	0.000334	-1.00527	0.32
BOP	-196722	311110.2	-0.63232	0.5303	0.001868	0.001272	1.468254	0.1488
BAFL	-1.5E-05	0.000277	-0.05261	0.9583	-1.5E-05	0.000277	-0.05261	0.9583
BATA	-180.037	78.30704	-2.29911	0.0261**	-0.00071	0.000364	-1.95713	0.0564*
CEPB	5101.7	1417.1	3.6	0.001***	-0.00049	0.000555	-0.88308	0.3818
CHCC	8331.7	4316.8	1.9301	0.06	0.000464	0.000347	1.338283	0.1874
FCCL	83666.4	133637.7	0.62607	0.534	0.005925	0.003567	1.6611	0.104
FABL	-9696.2	12812.09	-0.7568	0.453	0.000445	0.000344	1.292561	0.2026
HBL	-1415.87	4857.841	-0.29146	0.772	8.16E-05	0.000505	0.161679	0.8723
ICI	3692.251	1334.351	2.767075	0.0081***	1.62E-06	0.000161	0.010079	0.992
KOHC	4733.6	1035.8	4.5699	0***	5.74E-05	0.000145	0.397187	0.6931
KTML	-6.4E-05	0.0002	-0.31824	0.7517	-1047.37	2321.247	-0.45121	0.654
LUCK	12542.34	10798.54	1.161484	0.2514	-1.3E-05	0.000247	-0.05147	0.9592
MLCF	59464	51490.1	1.1549	0.254	-0.00026	0.000212	-1.22613	0.2264
MCB	18157	3836.912	4.732192	0***	0.000102	0.000179	0.568786	0.5723
MEBL	7296.3	12000.5	0.608	0.546	0.006053	0.002358	2.5665	0.014*
NBP	149538.7	60982.9	2.4521	0.018**	0.005405	0.009985	0.54129	0.591
NRL	-390.525	2228.19	-0.17527	0.8616	-0.00025	0.000469	-0.53254	0.5969
NESTLE	-3.56318	12.41742	-0.28695	0.7754	0.000288	0.000315	0.914697	0.3651
NETSOL	27850.3	2886.2	9.6496	0***	0.007798	0.001595	4.8898	0***
NCL	22531.7	15145.23	1.48771	0.1437	8.38E-05	0.000196	0.428194	0.6705
NPL	24714.7	9071.6	2.7244	0.009***	-9.2E-05	0.000424	-0.21649	0.8296
OGDC	19442.6	8177	2.3777	0.022	0.005272	0.000815	6.4687	0***
PSO	46329.8	41542	1.1153	0.271	0.00492	0.003808	1.2921	0.203
PTC	-49.5399	120.5612	-0.41091	0.683	0.003971	0.000717	5.5417	0***
PACE	6080.984	53862.43	0.112898	0.9106	-0.00025	0.000553	-0.44981	0.655
PPL	-88659.8	54565.58	-1.62483	0.111	-0.00098	0.001448	-0.67811	0.5011
PSEL	-49.5399	120.5612	-0.41091	0.683	0.006197	0.002525	2.4544	0.018**
PSMC	913.6336	535.1849	1.707136	0.0945*	0.000315	0.00021	1.504234	0.1394
PAKT	-87.4755	365.3076	-0.23946	0.8118	-5.4E-05	0.000523	-0.10287	0.9185
SHEL	3001.9	2325.9	1.2906	0.204	-9.4E-05	0.000168	-0.55576	0.5811
SHFA	74.4628	11.5945	6.4222	0***	0.002932	0.000232	12.6265	0***
SIEM	72.775	55.1685	1.3191	0.194	0.000289	0.000313	0.921657	0.3615
SCBPL	52723.7	26606.6	1.9816	0.054*	0.004063	0.000806	5.0403	0***
SNGP	1077.5	1000	1.0774	0.287	-0.0002	0.000555	-0.36696	0.7153
TRG	420759.8	416898.9	1.0093	0.318	0.024499	0.02134	1.1481	0.257
UBL	-35524.2	27162.9	-1.30782	0.1974	0.000505	0.001018	0.496258	0.6221

Table 4 (continued) Least square regression on turnover, returns volatility and GSV

Volatility				
Stocks	Coefficient	Std. Error	t-Statistic	Prob.
AICL	3.38E-05	0.000154	0.219401	0.8273
ABL	0.000144	0.00036	0.400146	0.6909
AKBL	0.000242	0.000214	1.132841	0.2632
ACPL	-4.2E-05	0.000136	-0.31125	0.757
APL	0.000545	0.001408	0.387282	0.7003
ATRL	-0.00029	0.000216	-1.32468	0.1918
BOP	0.001206	0.000808	1.493037	0.1423
BAFL	-56129.3	29730.39	-1.88795	0.0654*
BATA	-0.00024	0.000234	-1.01129	0.3172
CEPB	-0.00026	0.000366	-0.70552	0.484
CHCC	0.000385	0.000233	1.653412	0.1051
FCCL	0.010059	0.019492	0.51603	0.608
FABL	0.000469	0.000229	2.045197	0.0466**
HBL	5.62E-05	0.000345	0.16275	0.8714
ICI	-2.2E-05	0.000111	-0.20268	0.8403
KOHC	4.66E-05	9.17E-05	0.508225	0.6137
KTML	-0.00016	0.00014	-1.13715	0.2614
LUCK	2.37E-05	0.000168	0.140727	0.8887
MLCF	-6.4E-05	0.000145	-0.441	0.6613
MCB	6.09E-05	0.000118	0.514289	0.6095
MEBL	0.010651	0.013132	0.81112	0.422
NBP	0.033164	0.075047	0.44191	0.661
NRL	-4.1E-05	0.000325	-0.12696	0.8995
NESTLE	0.000312	0.000222	1.407141	0.1661
NETSOL	0.019682	0.017356	1.134	0.263
NCL	0.000205	0.000131	1.571222	0.123
NPL	4.36E-05	0.000286	0.152325	0.8796
OGDC	0.010838	0.00215	5.041	0***
PSO	0.007283	0.030967	0.2352	0.815
PTC	0.007809	0.003429	2.2775	0.028**
PACE	0.000239	0.000357	0.66872	0.507
PPL	-0.00053	0.000994	-0.52885	0.5995
PSEL	0.010631	0.019709	0.53941	0.592
PSMC	0.000246	0.000148	1.665788	0.1026
PAKT	3.97E-05	0.00033	0.120333	0.9047
SHEL	-5.3E-05	0.00012	-0.43974	0.6622
SHFA	0.005934	0.000747	7.9395	0***
SIEM	0.000225	0.000228	0.989697	0.3275
SCBPL	0.007977	0.004047	1.9711	0.055
SNGP	1.09E-05	0.000354	0.030794	0.9756
TRG	0.048462	0.10206	0.47484	0.637

UBL	0.000308	0.000719	0.428654	0.6702
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DEVELOPMENT FINANCIAL INSTITUTIONS AND THEIR ROLE IN SUPPORTING EMERGING MARKETS PRIVATE EQUITY FUNDS

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Abstract: *Development financial institutions have emerged in the last years as major investors in the private equity industry. Their main goals are to create new jobs, to foster innovation and to develop the private sector. The aim of the paper is to analyze the role played by the development financial institutions in the creation and development of emerging markets private equity funds in the light of financial crisis started in 2008. We found that many development banks have increased their financial support to the emerging markets private equity funds and have improved the standards and norms of the local industry. They played a countercyclical role during a difficult period when private investors proved reluctant in backing new private equity funds.*

Keywords: *Multilateral development banks; private equity funds; emerging markets; firms' financing; financial crisis.*

INTRODUCTION

As commercial banks are reluctant in financing news ventures, SMEs' access to capital is still costly and insecure especially in emerging markets. Recognizing the financial constraints faced by innovative SMEs and their need for alternative financial resources, development financial institutions (or multilateral development bank - MDB) have expanded their focus to the SMEs focus or have created a specialized arm on this (for example, European Investment Fund). Almost all of the MDB have as strategic objective the development of private sector by supporting SMEs.

MDBs support the SMEs sector the their countries of operations through various instruments such as direct loans, credit lines, guarantees, direct equity investments, participation in private equity funds, microfinance, trade finance, leasing facilities, and to a lesser extent through risk sharing facilities. A substantial proportion of the MDBs' activity in support of SMEs (private sector financing) is channelled through financial intermediaries (FIs) including local commercial banks, specialized microfinance institutions, private equity funds, regional and national development banks, and insurance and leasing companies. The rationale for engaging with FIs is the possibility of reduced transaction costs. Development financial institutions work mainly with local commercial banks, but private equity funds are becoming a “favoured vehicle” (Kwakkenbos and Romero, 2013).

The aim of the paper is to analyse the activity of multilateral development banks in the support of private equity funds after the onset of current financial crisis. We exclude some MDBs (Asian Development Bank and Inter-American Development Bank) from our analysis due to the missing of recent data on private equity investments.

LITERATURE REVIEW

Several papers highlighted the effect of private equity investments at micro- and macroeconomic level. Bernstein *et al.* (2010) found that industries financed by private equity funds in the previous five years have grown more quickly in terms of productivity and employment. Colombo *et al.* (2009) showed that venture capital investments have a positive effect on total factor productivity of New Technology-Based Firms (NTBFs). Popov and Roosenboom (2009) studied the effect of private equity investments on the level of patent filings in Europe during 1991-2004. They found that a 1% increase in private equity investment will cause an increase in patent filings by between 0,04%–0,05%. According to Boucly *et al.* (2011), private equity-backed companies are able increase their capital expenditure and become more profitable than their competitors. Moreover, leveraged buyout companies experienced greater job and wage growth than other similar companies. Strömberg (2009) and Frontier Economics (2013) provide a comprehensive literature review on economic and social impact of private equity in Europe.

There are only a few paper focused on the activity of MDBs in private equity industry. Pissarides (1999) emphasized that European Bank for Reconstruction and Development (EBRD) invested in private equity funds aiming to improve the SMEs' access to finance in Central and Eastern European countries. Settel *et al.* (2009) analyzed the rationales for multilateral development financial institution (MDFI) private equity fund investments and found that developing financial markets, supporting infrastructure development and promoting growth in SMEs, innovation and entrepreneurship are the main reasons for their involvement.

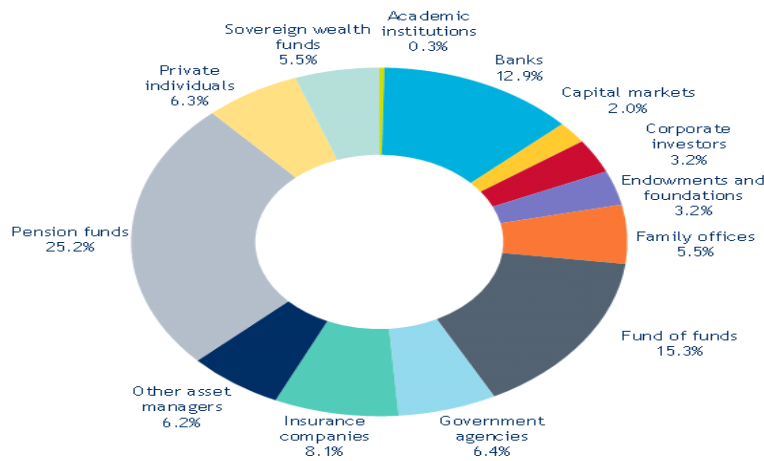
EVOLUTION OF MDBs' ACTIVITY IN PRIVATE EQUITY INDUSTRY

Since the onset of current economic and financial crisis, MDBs took several measures in order to support the development of emerging private equity markets. Nowadays, many international financial institutions are considered the largest private equity fund investors in their region of operations. For example, EIF is a leading financial institution in the European Private Equity market, while EBRD is the largest private equity investor in the CEE and Central Asia. ADB focuses on private equity funds in Asia, while IFC has a global focus.

Figure 1 presents the main sources of funds private equity in Europe for the period 2007-2012. We notice that the government agencies is the fifth provider of financial resources with 6,4% of total capital raised, after pension funds (25,2%), fund of funds (15,3%), banks (12,9%) and insurance companies (8,1%). Government agency

means a country, regional, governmental or European agency or institution for innovation and development, including structures such as the European Bank for Reconstruction and Development (EBRD) and the European Investment Fund (EIF). However, there are big differences from one year to another and from one region to another. For example, in 2012 in Central and Eastern Europe, government agencies (which include multilateral development banks) were again the largest source of capital providing 29% of the total capital raised for this region (EVCA Central and Eastern Europe Task Force, 2013). During the period 2009-2012, government agencies have been the most important providers of risk capital, investing over 30% of cumulative capital raised for this region. In 2007-2008, government agencies contributed with only 3% of cumulative capital raised.

Figure 1. Main sources of funds of private equity in Europe (2007-2012)



Source: European Private Equity and Venture Capital Association, www.evca.eu

According to Settler *et al.* (2009), the Asian Development Bank (ADB) and the International Financial Corporation (IFC) were the first multilateral development bank to invest in emerging market private equity funds since the 1980s. After a decade, other multilateral development banks started to invest in private equity funds. The European Bank for Reconstruction and Development (EBRD) made its first fund investment in 1992. The European Investment Fund (EIF) began investing in venture capital funds in 1997.

A few years later, multilateral development banks started to formalize their private equity fund operations. EBRD created a group dedicated to investments in private equity funds in 1997. In 2000 IFC created Private Equity and Investment Funds Group in order to select and manage its investments in private equity funds.

We conduct an analysis of the MDBs activity based on the public available information. Table 1 presents the main MDBs active in the private equity markets, their

level of current commitment in PE funds and current strategy. According to the data available for the end of 2012, EIF is the largest provider of capital for private equity funds, followed by European Bank for Reconstruction and Development and International Finance Corporation.

The European Investment Fund (EIF) represents the European Investment Bank (EIB) Group's specialist provider of risk financing to the benefit of SMEs across Europe. EIF delivers three types of instruments for SMEs, namely equity instruments, guarantee and credit enhancement instruments, as well as microfinance using a variety of financial intermediaries. An important part of EIF's activity is channeled through private equity funds.

Table 1. Overview of MDBs with private equity operations (2012)

MDB	Acronym	Region	Current PE fund investments (#)	Current PE fund commitments	Current strategy
African Development Bank	AfDB	Africa	37	\$836 million	Infrastructure, financial services, small businesses
Asian Development Bank	ADB	Asia	n.a.	n.a.	Financial market development
The Multilateral Investment Fund and the Inter-American Investment Corporation (members of Inter-American Development Group)	MIF, IIC	South America	n.a.	n.a.	Support to SMEs, entrepreneurship
European Investment Fund	EIF	Europe	435	Eur 6,9 billion	High-tech and early-stage segments
European Bank for Reconstruction and Development	EBRD	Central and Eastern Europe, Asia & Southern and Eastern Mediterranean	96	EUR 2,7 billion	Small and medium-sized enterprises

		(SEMED)			
International Finance Corporation	IFC	Global	180	\$ 3 billion	Growth equity funds, climate change, and SME funds

Source: Updated after Settel et al., 2009

The EIF's portfolio of private equity investments has grown considerably between 2009 and 2012 (see table no. 2). In fiscal year 2012, EIF has EUR 6,95 billion in assets under management across 435 funds. During the same period, EIF made new equity commitments of EUR 4,1 billion which catalyzed over EUR 20,8 billion from other institutional investors. As a response to the current financial crisis and its implications on SME's financing, the EIB has increased the overall volume of its investments in private equity funds from one year to another. EIF played a critical role in stimulating the development of private equity market in Europe as a provider of funds and, to the same extent, as a manager of some venture capital funds (Anton, 2013).

Table 2. EIF investments in PE funds in Europe during 2009-2012 (EUR billions)

Year	2009	2010	2011	2012
Private equity assets under management (in EUR billion)	4,103	5,367	5,919	6,952
Private equity new commitments	0,7	0,9	1,1	1,4
Private equity - leverage	3,1	4,6	6,1	7

Source: European Investment Fund, www.eif.org

EBRD is another European multilateral development bank active in the private equity markets with two aims: providing efficiently equity capital to companies (especially small and medium sized enterprises) and building a sustainable private equity industry in the region.

The bank usually committed about 90% of equity capital to a wide spectrum of PE fund sizes and investment strategies, regional and country-specific funds, and generalist and sector-specific funds.

In 2012, the EBRD invested €336 million in 11 private equity funds. Over the last twenty years of activity in this market, the EBRD's total net commitments to private equity funds amounted to EUR 3,4 billion with total capital of EUR 18,2 billion. With investments in over 147 private equity funds, EIF has become the largest private equity funds investor in its region of operations (Central and Eastern Europe, Asia & Southern and Eastern Mediterranean - SEMED). In these regions private equity markets are underdeveloped and EBRD's support consists not only in capital, but also in standards and policy requirements to the funds in which it invests. The EBRD's current portfolio

comprises 96 active funds, backing over 62 fund managers for over EUR 2,7 billion in commitments, with total capital of EUR 16,1 billion (EBRD, 2013). The main recipient for investments is Russia, accounting nearly 35% of the EBRD's overall private equity portfolio.

With investments in over 180 funds, IFC has become a leading player in emerging market private equity funds around the world. According to official data, IFC backed around 10% of the funds created since 2000 focused on emerging markets. In 2012, the IFC's total net commitments to private equity funds were around \$3,0 billion. In the medium term, IFC is ready to back twenty to twenty-five funds globally with investments up to \$500 million per year. IFC's strategy is focused on growth equity funds, climate change, and SME funds.

Other multilateral development banks with private equity operations are African Development Bank Group (AfDB), Asian Development Bank and two members of the Inter-American Development Bank (IDB) Group, the Multilateral Investment Fund (MIF) and the Inter-American Investment Corporation (IIC). The size of their portfolio of private equity investments is below the level of investments made by EIF, EBRD and IFC. In 2012, the AfDB's portfolio of private equity investments was \$836 million, with commitments to 37 funds.

Overall, the MDBs support the development of emerging markets private equity funds in many ways. First, MDBs back private equity funds which further provides to the enterprises situated in emerging markets capital and the expertise needed to expand their activities, to create jobs and to drive economic growth.

Secondly, multilateral development banks also support private equity funds focused on emerging markets acting as a catalyst to mobilize private institutional quality investors. Empirical evidences suggest that there is a large multiplier effect when a MDB invests in a private equity fund. For example, African Development Bank reported that for every \$1 the bank invests in private equity, a further \$5 is invested by other institutions and individuals. Moreover, Asian Development Bank has a multiplier effect of 8,08 for every dollar that the bank has allocated to private equity funds.

Thirdly, MDBs have improved international private equity and venture capital valuation guidelines. Furthermore, the presence of international financial institutions in these markets also brings economic, social and governance reporting and a high degree of conformity to international norms and standards.

CONCLUSIONS

Supporting private sector in developing countries represents a key task of multilateral development banks. Private sector is a provider of income, jobs, goods, and services to enhance people's lives and contribute to sustainable poverty reduction. One way to develop private sector is through financial intermediaries, namely private equity funds. The main advantage of this approach is that private equity funds have the potential to reach private enterprises, especially small and medium-size enterprises. SMEs represent an important source of job creation, economic growth, entrepreneurship and innovation.

All of the multilateral development banks have expanded their presence in private equity funds in the last years. During the current financial crisis, when there was a sharp retrenchment in the debt and equity capital available for SMEs in developing economies, MDBs played a countercyclical role by increasing their investments in PE funds focused on emerging markets. The majority of private equity funds backed by MDBs invests in small and medium-sized enterprises and thus contributes to reduce their financing gap.

In many regions of the world, multilateral development banks represent a major source of capital for private equity funds. Through their activities, MDBs have been key actors in the creation and development of private equity industry in emerging markets.

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THE NEW BASEL III REGULATIONS ON LIQUIDITY AND ITS POSSIBLE EFFECTS

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***Abstract:** The global financial crisis determined a series of proposals to reform the regulatory framework that govern the banking sector in order to strengthen its resilience in poor circumstances. For this purpose, the provisions of Basel III regulatory package is reflected on the issues and risks that have caused the financial crisis, including those related to liquidity. The aim of this article is to present the new Basel III on liquidity rules, their implementation need to ensure financial stability and their possible effects. The objectives of Basel III in terms of liquidity are formulated to determine the increase in liquid assets and the reduction of the short-term funding. However, all measures taken through the new regulations can reduce the risks, but can not exclude the emergence of vulnerabilities affecting the banking system in the future. We believe that the new regulations have caused a series of reforms to the banking system, but the compliance degree of their implementation and the effects of new laws differs depending on the degree of development of each country, the main implications are differentiated by monetary transmission channels.*

INTRODUCTION

Market instability triggered the middle of 2007 highlighted the importance of liquidity in the proper functioning of financial markets and the banking sector. Although before the period of instability, asset markets are characterized by high availability at low cost, change in economic conditions showed how quickly liquidity can be deplete and long period in which such failures can persist. It was moments of tension experimented by banks, so it required the intervention of central banks to support both the money market and the specific institutions.

The causes were many, among them is the absence of banks with large exposures to liquidity to rules tailored to reflect the liquidity risk taking in each product or line of business, which has lagged bank targets its tolerance to risk.

From an analysis conducted on the evolution of liquidity in the banking system was concluded on the importance of establishing a tolerance level of liquidity risk; maintain an adequate level of liquidity that includes the creation of a buffer of liquid assets; the need to associate to each activities of business- costs, benefits and liquidity risk; identifying and dimensioning of full range of liquidity risks, including contingent risks; the need to build a robust and operational plan of financing; the management of intraday liquidity risk and collaterals; the use of stress tests and public dissemination of information to promote market discipline. Another lesson was to highlight the importance

to be given to supervisors and their important role in the management of liquidity risk and the development of measures to be taken in this regard.

The difficulties with which banks have experienced in relation with liquidity was due to lagoons from basic principles of liquidity risk management. In response, Basel Comite has published new rules on liquidity that form the Basel III, and introduced two additional minimum standards for liquidity intended for financing . These two standards aimed at two distinct objectives but complementary: first to promote short-term resilience of a bank's liquidity risk by ensuring sufficiency of high quality liquid assets to overcome the tension of a period of a month - for this purpose elaborating the liquidity coverage ratio(LSF). The second objective aims to long periods of time, creating ways for banks to use stable sources of funding their continue work - net stable funding ratio (NSFR, 1 year).

The Basel Committee aims an immediate and rigorous implementation of new liquidity principles to both of banks and national supervisors and whose implementation takes into account the size, nature and complexity of the bank's business.

Further, the article is structured as follows: in the the second part is rendered the literature; the third part reveals new Basel III liquidity rules and objectives that are pursued through the implementation of those, emphasizing the need for implementation of these changes, the levels of liquidity to arrive; the fourth part involves rendering the possible effects of the implementation of new measurement and the expectations of monetary authorities on this issue. The paper ends with conclusions.

LITERATURE REVIEW

The term of liquidity refers to the ability of a bank to finance the increase in the volume of activity, but also its power to fulfill their payment obligations at maturity without irreparable losses (BIS, 2008).Liquidity is the ability of assets to be transformed quickly and with minimal expenses in liquid currency (cash or available in the current account). It is actually a problem of management of liabilities and bank assets that have different degrees of liquidity.An inadequate liquidity level may cause, in an unexpected situation of cash reduction, the need to attract additional resources of fund with high costs, reducing bank profitability and leading, ultimately, insolvency. On the other hand, excessive liquidity leads to lower return on assets and consequently to poor financial performance.

Maintaining an adequate liquidity depends on how the market perceives the financial situation of the bank. If the image of the bank deteriorates as a result of losses in the loan portfolio, there will be a high demand for liquidity. In these circumstances, the bank may raise funds in the market only at very high costs, thus worsening even more the situation of revenue. As a result, an deterioration of bank image may have serious consequences for liquidity position.

The main reasons that cause liquidity risk are: real economic situation, the influence of the media, financial indiscipline, economic dependence on financial market, maturity mismatch between deposits and loans.Credit institutions use specific techniques that eliminate or reduce liquidity risk. These techniques consist in the resources and bank

investments. Banking rules require that banks ensure a minimum level of liquidity, calculated based on the liquidity indicator, as a ratio between the effective liquidity and liquidity required in each maturity band.

The infrastructure of liquidity system refers to a set of institutional and operational measures taken by central banks and other financial and monetary institutions and which generates effects on market liquidity, efficiency, effectiveness in managing the liquidity of financial firms (Dziobek, Hobbs, and Marston, 2000) . Liquidity may be different in normal and stressful situations and can be defined as a facility (cost) with which it sells an security instrument in the market or its conversion into legal tender (Handbook, 2005).

According to Blundell-Wignall and Atkinson liquidity proposals made by the Basel Committee, have some enigmatic features. They believe that if banks are solvent and have an adequate level of capital, the management of liquidity and funding should be allowed, in principle, at their discretion. Moreover, they believe that the starting point for liquidity is defining the role of central banks in ensuring the stability and the functioning of the payment system. Some critics of these authors bring to the liquidity system refers to that LCR indicator has an prevalent inclination towards government securities, the new proposals require more liquid assets and liquidity management should be conducted together with the supervisory authorities (Blundell-Wignall, Atkinson, 2010).

More opinions to the new rules on liquidity render that into crisis circumstances the regulation of capital requirements cannot prevent a liquidity crisis and how fast can deplete the liquidity sources, generating a spillover effect and enhancing the role of banks as lenders of last resort to avoid the total collapse of the financial system. Introducing for the first time a explicit liquidity standards is the major contribution made by the Basel III (Howell, 2011). LCR indicator is one of the main reforms made by the Basel Committee to strengthen international regulation on capital and liquidity and with the objective of promoting a more resilient banking sector. This coefficient has emerged to raise short-term resilience of the liquidity risk of banks and the capacity of banking sector to increase capacity to absorb financial or economic situations of tensions and reduce the risk of contagion from the financial sector to the real economy (BIS, 2013) .

According to reports the Financial Stability Board (2012) some of new reforms respondents identified potential negative effects that would result from implementation of the Basel III liquidity. Among the concerns we raise the lack of high-quality liquid assets as a result of the characteristics of European financial markets, countries with lower credit rating which might experience a limited amount of corporate bonds and, in some cases, it has been ascertain that it is not reflect the exact structures of financial markets into liquidity standard. On the other hand, Oliveira Santos and Elliott (2012) believe that the liquidity requirements set out by the Basel III can avoid potential problems that may affect the activity of the banking systems and financial markets, ensuring their strength in case of "freezing "of liquidity. They admit a cost of implementing new rules that depend on the size of the liquidity deficit assumed by institutions and the estimates made on actions to be taken to meet LCR (Liquidity Coverage Ratio) and those that meet the requirements NSFR (Net Stable Funding Ratio).

Other researchers such as Walter (2011) believes that the success of Basel III should not be measured by its zero costs, but by the implementation of the new requirements at an acceptable cost. He also argues that, contrary to what many say, the new standards should help promote diversification fund of liquid assets held by banks. Tobias and Hyun (2008) believes that global liquidity can be understood as a growth rate of balance sheet.

The new standards bring an additional in liquidity management at the micro level, but combined with the improvement of supervisory rules can strengthen the stability of the banking and financial sector alike. If the rules are too restrictive, some banks may call for a relaxation of the rules which may lead to an increase in systemic risk. However, macro vision and the ability of central banks of intervention in the management of liquidity can reduce systemic risk and provide necessary liquidity for market operations (Global Financial Stability Report, 2011).

The Basel III Agreement on liquidity addresses several key elements of the treatment of liquidity risk, taking into account the systemic risk: appropriate regulation of liquidity risk costs, arrangements for the support of banks to prevent and alleviate situations of severe financial stress and improve international coordination for crisis management (Suarez, 2010). Binseil and Lamoot (2011) showed in their study interactions between the new regulatory framework for liquidity risk and operational framework of monetary policy of central banks. They describe how central banks play an important role in providing liquidity to other banks, both in normal times and in crisis and underlines the fact that the new rules may not be fully aligned with the operational framework of individual central banks.

THE BASEL III AGREEMENT - IMPROVING LIQUIDITY REQUIREMENTS

International standards on liquidity and one uniform quantization of the coefficients for calculating assets and cash flows (with a margin at the discretion of national supervisors), but require a minimum number of operational standards as a recognition that poor management of operational risk could impact liquidity to the situation in which certain assets may not be used for calculations of liquidity standards, reducing liquidity risk and liquidity management. Although the new rules will generate a risk mitigation banks will must constitute the capital for residual risks (Bordeu, 2012).

In order to highlight the evolution of financial markets and to go through the lessons learned during the recent crisis, the Basel Committee has defined a number of key issues regarding liquidity, namely: the importance of setting liquidity risk tolerance, maintaining an adequate level of liquidity, the need to assign costs, benefits and liquidity risk, identify and quantify the full range of liquidity risks, the use of stress tests, the need for a rigorous plan funding and publication of information to promote market discipline.

All these issues, along with the rules related on capital rules constitute the new Basel III Agreement in order to improve the banking sector's ability to absorb any financial or economic disturbances and reduce the risk of contagion from the financial sector to the real economy. The crisis has highlighted the importance of liquidity in the proper functioning of financial markets and the banking sector, and therefore, the Basel

Committee has established "The principles for a proper management and supervision of liquidity risk" and introduced minimum standards on liquidity for funding. These standards aim to achieve two distinct but complementary objectives: the first, promote short-term resilience of the liquidity risk of a bank, guarantee sufficiency of high quality liquid assets to overcome a situation of significant tensions episode for a period of one month - LCR. The second objective is to promote a longer-term resilience creating instruments that banks use for the stable financing of their continue activities - NSFR.

For that banks to be more resistant to potential liquidity disruptions, supervisory authorities around the world will have to apply these rules consistently, becoming internationally harmonized, but with elements that matches specific conditions in each country.

The Group of Governors and Heads of Supervision in January 2013 redefined the indicator LCR as an essential element of the Basel III Agreement on reform and restored a number of changes to the original formulation in 2010. This indicator is established to ensure an adequate level of funds in banks free of commitments (HQLA), consisting of assets that can be converted without loss immediately effective and can meet the needs of liquidity in a period of stress scenario of liquidity 30 days. This period allows managers and supervisors to take appropriate corrective measures, and the possibility that the central bank to intervene.

The LCR indicator is based on traditional methodologies of a "coverage factor" of liquidity used internally by banks to assess its exposure to the contingent of liquidity events. This scenario calls for the calculation of total net outflows from the next 30 days. The rules assume that in the absence of financial stress, the coefficient is not lower than 100% (meaning that minimum HQLA should be equal to the actual total net outflows). Moreover, during the period of severe financial strain banks can use free HQLA fund commitments to be reduced below 100%, proving risky maintaining of LCR level of 100% on banks and other market participants. The previously scenario of period of tension will include many of the disturbances experienced during the recent crisis and will be considered by banks as a minimum of supervision, in addition to stress tests that will determine their own level of liquidity to be maintained above the minimum.

LCR indicator consists of two componente: HQLA fund value in tension situations and the total effective outflows, calculated according to the above periods.

$$\frac{HQLA}{Totaleffectiveoutflowsin\ 30\ days} \geq 100\%$$

An asset is considered HQLA it can actually be transformed quickly without loss of value or their a very low level. Free of commitments - is the fact that these activities should not be subject to any legal restrictions, regulatory, contractual or other form preventing bank to liquidate, sell or transfer those assets. An asset belonging to this fund shall not be subject to any kind of guarantee or collateral of any operations an must be diversified across all asset classes.

The denominator of the fraction, total net outflows actually refers to the difference between actual outflows and expected inflows during the volatility of 30 natural days.

$$\text{Total net outflows} = \text{outflows} - \min. \{ \text{inputs, 75\% from outflows} \}$$

Should be noted that the standards for LCR assume a minimum liquidity of internationally active banks, but the supervisory authorities have the freedom to require maintaining additional liquidity if it considers that the LCR is not precisely reflect the liquidity risk assumed by banks. Although LCR is sufficient for dimensioning bank's liquidity risk, the Basel Committee has developed a series of tools for improving and promoting international consistency in the supervision of liquidity risk. Those instruments should be used to complement the LCR and continuous monitoring of liquidity risk exposures of banks, but also to communicate the local supervisors.

According to the Basel Committee, LCR is an essential component of Basel III Agreement and once implemented will help in creating a more resilient banking system. Aware of also the effects of implementation this instrument in financial markets, lending and also on economic growth the authorities decided its gradual implementation. The LCR will be introduced from 1 January 2015 to a minimum of 60% and will be increased annually in the same way until you reach the level of 100% on January 1, 2019. The Committee also noted that in times of tension will allow banks to use HQLA fund that falls below the minimum level.

LCR coefficient is based on the traditional methodology of "coverage factor" of liquidity used internally by banks to assess their exposure to the liquidity contingents events. Recent rules specifies that in the absence of periods of tension, the value of this coefficient is not lower than 100% as it claims use HQLA fund in case of liquidity risk. Even if it requires the LCR to be apply and to be account in in the single currency, banks must ensure the necessary liquidity and the HQLA according to need.

Although the majority of LCR parameters are harmonized internationally, there might be national differences in the the countries subject to national jurisdiction and when some supervisors adopt more severe parameters.

In order that assets and activities of banks to be financed for a longer period of time, the Basel Committee has established the net stable funding factor (NSFR). This indicator establishes a minimum contribution by stable funding accepted in relation of liquidity characteristics of assets and the institution's activities during the year. The aim of applying this coefficient is to complement LCR and supplement the surveillance initiatives in the restructuring of the institutions liquidity risk, eliminating the inadequacies of short-term funding and promoting a more stable funding and on long-term of activities and the assets. NSFR role is to ensure that the long-term assets should be financed by a stable minimum liability based on the liquidity risk profile. Also by this coefficient is intended to limit excessive dependence on short-term financing in periods of abundant liquidity and promote a more realistic assessment of liquidity risk from counterparties within and outside balance sheet.

$$\frac{ASF}{RSF} > 100\%$$

The denominator, ASF is defined as that contribution of own resources and foreign who can be reliable sources of funding on an annual under prolonged financial tensions. Required amount of stable funding liquidity is reflected in the characteristics of different types of assets, off-balance sheet commitments undertaken and / or completed activities.

The monitoring instruments together with the liquidity standards, supervisors provide the necessary information to assess a bank's liquidity risk and may be supplemented by national supervisors. The monitoring instruments do not indicate a level of liquidity risk, do not have warning limit, but provides useful information to monitoring and surveillance. Stress test scenarios for must combine bank and market specific issues, incorporating many of the shocks during the recent international financial crisis. The stress test is regarded as a minimum, banks should build their own scenarios specific to their work and to consider longer time horizons.

THE LEVEL OF IMPLEMENTATION OF THE NEW BASEL III AGREEMENT ON LIQUIDITY

In order to follow the implementation of the new Basel III Agreement on rules, the Basel Committee conducted an entire process in this regard, following three main areas: ensuring appropriate and timely adoption of Basel III Agreement on, the compliance of the new rules and ensure the correct calculations especially in reference to risk-weighted assets. Just like in the case of the new capital requirements under Basel III Agreement on (Apătăchioae, 2013), the largest economies (G20) have assumed the application a comprehensive and coherent manner of new liquidity requirements during 2013 and 1 January 2019 - a period of transition. Since the actual implementation of the new liquidity requirements will begin in 2015, these considerations will be analyzed later and not covered in the last report in 2012.

However, Stefan Ingves (2013) noted that under the revised LCR standards, the average LCR of the world's largest banks would be approximately 125%. In 2013, the Basel Committee plans to analyze the interaction between the LCR and the provision of central bank facilities. It also plans to develop liquidity disclosure requirements and market based liquidity measures. Between now and 2015, the Basel Committee intends to prioritize its review of the NSFR, which was introduced in the December 2010 Basel III liquidity framework alongside the LCR. The NSFR aims to ensure that banks maintain a stable asset-liability profile over a one-year time horizon. Basel Committee Chairman-Stefan Ingves reiterated that the NSFR would go into effect in 2018, as originally contemplated by the Basel Committee. It remains to be seen, however, whether the Basel Committee will ultimately permit the NSFR to be implemented on a phased-in basis, a move that would be consistent with the revised LCR standards. More generally, the Basel Committee stated that it will continue to strengthen its peer review program to monitor the implementation of Basel reforms in individual jurisdictions (Polk, 2013).

THE IMPACT OF NEW LIQUIDITY REQUIREMENTS

The Basel III introduced for the first time a series of regulations on liquidity risk, highlighting the negative effects who this aspect can generate. As mentioned Binseil and Lamoot (2011) a central bank plays a key role in procuring liquidity of banks both in normal times and in times of crisis and, therefor, the implication of central authority to ensure the involvement of these new rules is very important. The new Basel III Agreement on liquidity watch needs are to ensure liquidity in the financial institution and reduce risks that may arise in this regard. The measures are complemented by monitoring a minimum level of requirements and intended to maintain under control the liquidity.

The Liquidity Coverage Ratio (LCR) has as purpose to establish a minimum level of high quality liquid assets to withstand an acute stress scenario lasting one month. Provided the balance sheet and the firm's activities this stress defines the potential net cash drain. To determine the cash flow drain every source of liquidity risk has to be regarded which could affect the liquidity position of the financial firm. For instance, margin requirements from derivative transactions and liquidity support to conduits through committed facilities are captured within the measure. The liquidity buffer thus has to enable the firm to survive through a cash flow drain that results from a stress lasting one month. By requesting the liquidity buffer to consist of high quality liquid assets, which provide relatively low yields, the measure internalizes the liquidity risks from the activities of the banks, as holding the high quality liquid assets is costly to the bank.

The second measure, the Net Stable Funding Ratio (NSFR), is a more structural measure and has as purpose to ensure that the longer-term assets or activities are funded by more stable medium or longer-term liability and equity financing. The ratio is a more structural funding measure as it relates the maturity structure of the asset side with the liability side of the balance sheet. In broad, it requires that longer term assets are financed by funding of one year and more. The measure thus links the available stability of the funding with the required stability of the asset, or in other words, the illiquidity of the assets or activities of the firm (Binseil și Lamoot, 2011).

The introduction of those two liquidity ratios are carefully analyzed as the impact on bank regulation but also financial markets and the entire economy. Evaluation of the new requirements will take place into the period of observation, that will occur by the end of 2014, for it to be introduced with the January 2015. The NSFR would follow and would be introduced by January 2018. The objectives of the Basel III Agreement in the terms of liquidity are formulated to determine the increase in liquid assets and to reduce short-term funding. However, the measures taken by the new regulations can reduce the risks, but can not exclude the emergence of vulnerabilities affecting the banking system in the future (Dedu, Nițescu, 2012).

The liquidity can generate effects in four main areas: on price, on the interbank market, collateral markets and the real economy. Allen and Carletti (2008) analyzed the effects of liquidity on prices because they consider that one of the main causes of the

recent crisis was the dramatic fall in house prices. However, the liquidity of has played a key role in the recent crisis.

The importance of liquidity in situations of tension and the response of monetary authorities led by the new Basel III Agreement rules on this item. Some analysis about this issue identifies potential adverse effects of the implementation of new rules on liquidity. It is considered that, under normal circumstances, any liquidity adjustment made by banks will reduce their profits, even through loans (Oliveira Santos, Elliott, 2012).

Other studies conducted on the possible effects of the new liquidity requirements shows that European banks will be most affected by NSFR requirements, which are the most delayed in the reaching 100% on this indicator. Some advice in the improve this aspect refers to the diversification of funds and / or reduction of assets. In addition to that the new liquidity requirements of banks affect investment plans of banks , they will affect banks' profitability depending on their business model flexibility and how they will fold these changes. For example, banks with a limited level flexibility in the assets and a reduced possibility to diversify assets will need time to implement new regulations. On the other hand, greater flexibility of balance sheet and stronger investment activity will reduce the negative effects of the new rules will draw liquid assets and can operate on the most profitable segments.

All these changes must be monitored because banking strategies can have adverse consequences on systemic risk, especially on less regulated segments (Ötoker-Robe, Pazarbasioglu, 2010).

The effects which can be observed as a result of the new regulations on liquidity may concern improving the regulatory and supervisory oversight due to complementarity between micro and macro level, between external supervision and internal governance. It will also be an increase in the responsibilities of central banks and supervisory entities in terms of supplementary data to be provided. The new requirements will be reflected in the modification of the balance sheet of banks, but also to change their products to reduce and control liquidity risk. Moreover, it will be able to see a decrease in the profitability of banks, which will cause a shift in business strategies or business lines from counterparties with low profitability to those with high profitability. Another impact of the new Basel III liquidity rules can be seen in increasing of interconnectivity of all aspects of risk, increasing barriers to entry and exit as a result of increased operational requirements and orderly liquidity, modeling behavior and increase stress tests, modifying software and increase financial education efforts of the population

Although Basel III has improved the old regulations are expected in the future they continue to be under supervision and updated that to identify the weak issues during the crisis. Regulatory measures taken on time and their compliance will cause the markets to become more correlated, with effects in the reduction of differences in the regulatory level, increasing the availability of information and, simultaneously, the transparency.

Just as specify Mehrling (2010), we consider that the main issues faced by banking system since the crisis of 2007 is related to its level of capitalization and liquidity, therefore, requires that credit institutions should be subject to careful monitoring to meet the new rules. We believe that the new regulations have caused a

series of reforms to the banking system, but the compliance degree of their implementation effects of the new laws are different depending on the degree of development of each country, the main implications are differentiated by monetary transmission channels.

CONCLUSIONS

The evolution of liquidity in the banking system was concluded on the importance of establishing a tolerance level of liquidity risk; maintain an adequate level of liquidity that includes the creation of a buffer of liquid assets; the need to associate to each activities of business- costs, benefits and liquidity risk; identifying and dimensioning of full range of liquidity risks, including contingent risks; the need to build a robust and operational plan of financing; the management of intraday liquidity risk and collaterals; the use of stress tests of tension and public dissemination of information to promote market discipline. Another lesson was to highlight the importance to be given to supervisors and their important role in the management of liquidity risk and the development of measures to be taken in this regard.

The difficulties with which banks have experienced in relation with liquidity was due to lagoons from basic principles of liquidity risk management. In response, Basel Comite has published new rules on liquidity that form the Basel III, and introduced two additional minimum standards for liquidity intended for financing . These two standards aimed at two distinct objectives but complementary: first to promote short-term resilience of a bank's liquidity risk by ensuring sufficiency of high quality liquid assets to overcome the tension of a period of a month - for this purpose elaborating coficientul the liquidity coverage (LSF). The second objective aims to long periods of time, creating ways for banks to use stable sources of funding their continue work - net stable funding ratio (NSFR, 1 year).

The Basel III Agreement on liquidity addresses several key elements of the treatment of liquidity risk, taking into account the systemic risk: appropriate regulation of liquidity risk costs, arrangements for the support of banks to prevent and alleviate situations of severe financial stress and improve international coordination for crisis. For that banks to be more resistant to potential liquidity disruptions, supervisory authorities around the world will have to apply these rules consistently, becoming internationally harmonized, but with elements that matches specific conditions in each country.

The introduction of those two liquidity ratios are carefully analyzed as the impact on bank regulation but also financial markets and the entire economy. Evaluation of the new requirements will take place into the period of observation, that will occur by the end of 2014, for it to be introduced with the January 2015. The NSFR would follow and would be introduced by January 2018.

The effects which can be observed as a result of the new regulations on liquidity may concern improving the regulatory and supervisory oversight, an increase in the responsibilities of central banks and supervisory, the modification of the balance sheet of banks, but also to change their products and its business strategies. Although Basel III has improved the old regulations are expected in the future they continue to be under

supervision and updated that to identify the weak issues during the crisis. Regulatory measures taken on time and their compliance will cause the markets to become more correlated, with effects in the reduction of differences in the regulatory level, increasing the availability of information and, simultaneously, the transparency.

Considering that the main issues faced by banking system since the crisis of 2007 is related to its level of capitalization and liquidity, therefore, requires that credit institutions should be subject to careful monitoring to meet the new rules. We believe that the new regulations have caused a series of reforms to the banking system, but the compliance degree of their implementation effects of the new laws are different depending on the degree of development of each country, the main implications are differentiated by monetary transmission channels.

Banks aim to always maintain an acceptable level of liquidity, but also to try to maximize profits. For a bank a short-term placement based on long term deposits indicate a risk and high liquidity. The control of liquidity to credit institutions aims maximizing profits and providing money transfers within the economy. Because basically all assets held by a bank can be sold for cash, the liquidity of assets is viewed by time. In this context it is of major importance the quality of certain assets to be quickly transformed into cash that banks to be able to pay on time their obligations. It is normal for banks to maintain a minimum ratio of liquid assets to avoid losses occurred due to other investments instead of placing resources in normal interest-bearing assets.

The objectives of the Basel III Agreement in the terms of liquidity are formulated to determine the increase in liquid assets and to reduce short-term funding. However, the measures taken by the new regulations can reduce the risks, but can not exclude the emergence of vulnerabilities affecting the banking system in the future.

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ACCOUNTING AND FINANCIAL WEB REPORTING IN ALBANIA

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Abstract: *Recent technological changes have had a great impact on the accounting and financial environment. As other countries Albania has also been affected by developments such as the evolution towards using accounting information packages, financial web reporting, XBRL and cloud computing. Throughout this paper we try to analyze the current situation of accounting and financial reporting in Albania and the impact that the web reporting has had on the simplification of the accounting procedures. We present how tools such as cloud computing and XBRL have impacted the use of the accounting systems and also other reporting institutions in Albania. Describing the current development of cloud services we give information on the part of software vendors in Albania. We find that cloud computing has been used extensively not only by the private companies offering accounting informations systems, but also by other companies in the public sector (i.e. education). On the other hand we find that XBRL, even though a promising technology, has not been gained great recognition in Albania and is currently not used by any on the institutions or companies, neither by institutions whose mission is to create extensive databases (such as the Registrar of the Companies) and which might benefit the most from this technology.*

Keywords: *accounting software, information technology*

JEL classifications: *M41, O30*

1. INTRODUCTION

Nowadays the technological innovation and the internet have affected virtually every aspect of human life. They also have impacted the way transactions are performed and the manner that the information on these transactions is reported. Advanced and complex systems of information and communication have radically changed the world. Every profession, accounting included, has changed because of the impact of technology. Accounting often referred to as the "information infrastructure of the entity" has been one of the first areas where internet and web have changed almost every aspect. It is probably the time, as the new century is still young, when the accountants must understand the changes and innovations that technology introduces in their profession embrace these changes and exploit them to enhance the expertise level. They should also be mindful of the important role they play as "information suppliers" for other departments and

individuals in the entity, who rely on accounting data to make accurate and timely decisions.

Often the accounting and financial information tend to be not symmetrically shared among the interested parties. Thus the technology developments should be in the focus of the discussion of how they can be used to help enhancing the quality and speed of information processing and communication. Therefore the focus of this paper is to discuss and analyze the status of the web reporting, one of the recent trends in financial and accounting information. We will describe the current situation of the accounting information systems in Albania and how they are evolving towards being used over the internet. A special emphasize of our discussion will be on the degree that these innovations have already been introduced in Albania and how much the local professionals (both accountants and auditors) are aware of them.

The paper is organized as follows. In the first section we will make a short literature review focusing more on the results of previous studies conducted in web reporting, cloud computing or XBRL in Albania, with Albanian individuals and companies. In the second section we will present the accounting software used nowadays in the world categorized according the range of options they offer and of course their cost. We will also introduce some of the Albanian accounting software and some ERP solutions offered to domestic and to foreign companies by Albanian vendors. Next we will discuss about the accounting and financial web reporting situation in Albania. Under this section a short discussion about the use of cloud computing and XBRL in Albania is also provided. Certainly we focus in the use of the hosted accounting information systems and how they are gaining support (if any). In the last section we give the main findings and conclusions of the study.

2. LITERATURE REVIEW

Albania, as a developing country, is attempting to attract foreign investments and in this context the Internet and other technological innovations create good opportunities to communicate financial information in accordance with requirements for transparency and the timely reporting on the part of investors (Lamani & Cepani 2011). Technological developments are affecting the accounting profession more and more each day. It is impossible to work within the accounting and financial field and not to be exposed to, or to be required to know and operate with technologies such as EFT – Electronic Fund Transfer, POS – Point Of Sales, ATM – Automatic Teller Machine, EDI – Electronic Data Interchange and RFID – Radio Frequency Identification Device. These and others as well, have radically transformed the accounting and finance profession during the recent decades. These technologies have already overcome the barriers between developed and developing countries and have achieved huge acceptance and use even in countries with a short history in the market economy such as Albania (Shuli, Perri, 2011).

Various accounting software and financial reporting solutions are nowadays also offered over internet, either through cloud computing or as a simple hosted solution. Many companies, big companies and also small ones are using the web reporting solution as an initiative which helps them to save costs, to increase the quality of reporting and to

enhance the data security (Zeneli 2013). In general technology has changed the way the financial and accounting information is exchanged and how the results and interpretations are reported. In this context the Cloud Computing comes as a way to exploit the resources which instead of being installed in a specific host are shared through internet. The users of cloud should not be specialists with sophisticated technical knowledge, and neither do they need to supervise the infrastructure and manage the resources on the cloud. Working in a cloud environment has simplified the work of the Accounting and Finance Departments worldwide. These companies may see quick results in customer service, staff productivity and enhancement of the decision taking processes.

Even though web reporting has a fairly short history in Albania a study of the financial sector conducted in 2011 (Lamani & Cepani) found that 24 out of 26 companies included in the survey report their accounting and financial information over website. This study was focused in the information reporting and did not report whether these companies were using internet to exchange their accounting information as well. Companies in the financial sector (either banks or insurance companies) and large companies versus medium sized or small entities tend to report more information on the Internet. Bonson & Escobar, (2006) in their study which includes at least a dozen of Eastern European countries report that a statistically significant relationship exists between the extent of information disclosure on the Internet and a) company size, b) the company's activity being in the financial sector, and c) the fact of employing one of the world's Big Four accountancy firms for auditing the company's books.

Regarding the prevailing format used to report accounting and financial information on the internet Lamani & Cepani (2011) find most of the entities they included in the study report the information (mainly financial statements and annual reports) in the PDF format which inhibits the latter large scale administration of the information by users. The same study concludes that none of the studied entities used XBRL to report accounting information over internet. This platform is considered to boost and enhance the accounting information transmission on the web and would also increase the information transparency especially regarding the capital markets, (Bonson 2001). Probably due to the reason that the capital market in Albania is not active, or even to other reasons, the XBRL platform even though quite known by the professionals is not yet introduced as a viable and usable option among the companies in Albania (Allko, 2013).

Another issue to consider when discussing financial and accounting information and transactions over internet is the privacy and security of the information. Studies have revealed that individuals as well as companies are very sensitive regarding the security of the data transmitted over the web. Cepani (2012) reports that on average 62% of the individuals involved in internet data exchange (mainly through e-commerce) in Albania are very concerned about the privacy of information. We may quite imply an equal or even bigger rate among companies. This may very well become a barrier to impede them from performing transactions or even reporting information over the web (Cepani, 2012).

3. TYPES OF ACCOUNTING INFORMATION SYSTEMS AND THEIR APPLICATION

Organizations have several options while selecting the accounting information system adapted to their operations. They may either implement a customized system tailored for their needs (this solution may be offered by their internal IT staff or can be sub-contracted to a third party), or may choose an off-the-shelf accounting application that is expected to satisfy its system specifications and criteria. The last option requires the organization to investigate the features of the accounting software that are already offered in the market. The accounting software programs offered in the market may be grouped under four main categories: (1) the simple accounting software (considered to be low-end programs able to process only the basic accounting transactions); (2) medium packages (these are mid-range programs more sophisticated and which can be bought and installed or utilized through hosted solution or cloud computing); (3) specialized accounting software (these high end customized packages are tailored to meet the needs for information in specific industries such as hostelry or not-for profit organizations); and (4) enterprise-wide software (the ERP solution), which are not simple accounting software but also have incorporated and integrated features of other information sub-systems of the enterprise.

The biggest benefit from implementing an ERP, despite its very high costs, is that it is not only accounting software but it also fulfills the need for information of other departments of the entity like the production, marketing, human resources etc. Implementing ERP means an ongoing reorganization of the inner processes of the company and enhancing cooperation with business partners. It is a real reengineering and constant revolutionarization of the activities of the enterprise.

The leading providers of accounting software packages in Albania are the Institute of Business Modeling (IMB), Infosoftware Developer, and TPKSolutions. Certainly Albanian businesses can choose to buy foreign products which later they can adapt to implement and to comply with specific Albanian rules and regulations. This option is preferred by some large businesses in Albania, whose activity has been quite specific, like the Albanian Power Corporation (which has selected an ERP, the Financial Integrated Application from Oracle), the Treasury System (there are also selected an ERP, Financial Application Oracle E-Suite), and of course banks, insurance companies and non-profit organization.

IMB was established in 1991 by three professors of the University of Tirana, but it was only in 1996 that it offered its first product the Alpha Accounting. Following they launched Alpha PMR in 1998, Telenet in 1999, AlphaNet in 2000, AlphaNet Mobile in 2001, Alpha Water Bill in 2002, Alpha Shop in 2003, Alpha RestoBar in 2004, Alpha Platinum in 2005 and in 2006 Mesonic WINLine. Among the products listed above Alpha Platinum and Alpha Accounting are more widely used. Alpha Accounting is a typical solution for small companies while the Alpha Platinum is designed for medium and large enterprises and is considered to be an easy-ERP. IMB in collaboration with Mesonic (an internationally well-recognized ERP provider company) has recently

introduced in Albanian market WINLine a full ERP system which has been the choice of several big Albanian corporations.

Meanwhile, the other company InfoSoft Software Developer Finance currently offers Financa 5.0 which until 2003 existed in its earlier version Financa 4.0. The latter used to operate in MS-DOS platform while Financa 5.0 is offered in Windows operating system and relies on a more user-friendly interface than its predecessor. It works with SQL a powerful language of data management. InfoSoft Software Developer Currently also offers other products such as Onufri 2.0 which manages the cultural assets in our country.

A new company which offers accounting software is TPKSolutions which provided its first product in 2007, Bilanc 2007. Products following in 2008 were Bilanc 2008 Express (for small businesses) and Bilanc 2008 Standard (for big companies). This company, the newest on the market has already attracted nearly 200 clients around the country. Although the newest company TPKSolutions was the first to offer in 2011 the web hosting solution as an option of deploying accounting software versus buying the full package. Prior to this product its competitor, the IMB had offered the web-reporting feature on its applications.

Products offered by the three companies mentioned above are intended primarily for small and medium enterprises which have mainly an industrial or commercial character, positioned in sectors like commerce, manufacturing, restaurants, bars, etc. The banking sector tends to implement information systems built specifically for banks and tailored to fulfill their specific need for information. The products used by most Albanian banks are three, the FlexCube Solution (Intesa San Paolo, BKT, Union Bank), BOS (BIS and National Bank) and Midas (Raiffesein Bank).

4. ACCOUNTING AND FINANCIAL WEB REPORTING IN ALBANIA

Financial and accounting web reporting is already introduced in Albania and is gaining recognition and support among the business community. Several government bodies and agencies, banks and other financial institutions as well as many private companies (big and medium sized) are using web reporting solutions. Two main factors that have contributed to facilitate and accelerate the development of the web reporting platform, not only in Albania but also abroad are the cloud computing and XBRL web reporting language.

4.1 XBRL position in Albania

Web-reporting is often viewed as an additional feature for companies that use traditional reporting rather than replacing it. One of the ways the web reporting may become efficient is tapping on the advantages that XBRL use has introduced. *Extensible Business Reporting Language* is a communication standard for electronic reporting of business information. The financial information can be transmitted using a variety of formats HTML, PDF, hard copy. XBRL aims to provide a single communication standard. XBRL is based on a simple expression that communication is more effective

and efficient if anyone uses the same language. The main goal of XBRL is to enable organizations to spend less time in preparing the information and more time analyzing thus improving the decision-making process.

XBRL has the potential to increase the quality of web-based reporting because of the standardization of labeling and tagging. XBRL can influence the decision making process of its users and reduces the costs of research. However, success depends on two factors: (1) quality and speed of information processing and (2) evolution of web technology. These two factors increase flexibility and comparability of the reported information, thus increasing its value. Economic outcomes of XBRL are clear: XBRL provides a powerful return on investment, in particular by reducing the costs of producing and consuming information. It is a flexible solution that facilitates the exchange of data, organized communications, and speeds up the delivery of information and increases the transparency of reported information.

XBRL is an advantageous technology which may be successfully adapted by the government agencies, financial sector and big companies. Despite its good perspective as of 2011, a study (Lamani and Cepani, 2011) conducted within the financial sector found that none of the banks and insurance companies operating in Albania uses the XBRL platform to report financial and accounting information.

One study focused on the status of XBRL solution in Albania (Allko, 2013) found that even though XBRL is not currently implemented it is a concept already known by the accountants and other accounting and auditing professionals. 56% of the interviewed responded that they have knowledge about XBRL, and that this information was mainly received through their academic studies and not by their practical work or practical trainings. Nevertheless, after explained what XBRL means for the accounting field, 93% of the interviewed professionals stated that XBRL is needed to be implemented in Albania. The same study proposed various institutions which might benefit from XBRL implementation such as the Tax Authorities (33% of the interviewed), the Financial Supervision Authorities (28%), the Registrar of Companies (19%) and Ministry of Finances (9%) (The remaining 12% is represented by Institute of Statistics and National Accounting Council).

Given the results of the above study we may conclude that implementing XBRL, even though an already popularized concept among the professionals in the field seems too far for the Albanian reality. Nevertheless this should not impede other forms and ways of web reporting to be developed. In the following sections the cloud computing situation in Albania is presented and other web reporting solutions offered by local companies.

4.2 CLOUD COMPUTING IN ALBANIA

Cloud Computing is one of the newest technologies in Albania. We cannot say for sure when its inception has been, since many private companies may have used it earlier than the Albanian government, as a result of the lack of a specific law or legal procedure for new technologies. The first agreement was signed with the Albanian government in 2007 and consisted in the opening of the office of Microsoft Corporation in Albania, but

also in technical support for several government projects, such as: e-cabinet, e-questionnaire (for managing the process of preparing fast and precise questionnaires), reporting of corruption cases, training of secondary school teachers, etc. So, on 15 September 2009, the Albanian government held the first e-cabinet meeting. This meant that everything was transparent to the public and to all offices, agencies, and cabinets.

Albanian government renewed the contract with Microsoft Corporation in June 2010. The new agreement mainly consisted in building a modern infrastructure of Information and Communication Technology (ICT) in the country and further training of technical staff in the institutions involved in the agreement. Part of the agreement was the establishment of a center of business and innovation, in cooperation with the Albanian government, using software provided for free by Microsoft. It further consisted in the advancement of the e-cabinet project so that all movement of documents in government and public administration would be carried out electronically, but it also included other projects for the advancement of e-governance. The agreement would double the number of training days for the IT technicians, focusing mainly on the development of IT systems security. One of the goals of this agreement was the development of a community of application developers and the organizing of Development Day every year in June.

4.2.1 Cloud Services used in the Education Sector in Albania

Part of the agreement between the Albanian government and Microsoft Corporation, is the "Campus Agreement" for universities. Apart from benefiting from very low prices on Microsoft products, the universities will receive assistance to further improve ICT curricula and to establish "Microsoft IT Academy", which will enable students of Informatics and Electronics to get a Microsoft official certification during the period of their schooling in areas such as operating systems, mail systems, data security, database administration, etc. The establishment of the "Navision Academy" at the University of Tirana, Faculty of Economy, will benefit from the use of "MS Dynamics" Enterprise Resource Planning software, while "Live@edu" which is hosted on Microsoft platforms will be offered for free for academic institutions.

Children Safety on the Internet is another project developed by Microsoft in cooperation with the Ministry of Education to further increase the awareness of children, parents and teachers for the safety of navigation on the Internet.

An example of successful implementation of the cloud technology in Albania is the case of centralization and standardization of the application servers that were used throughout the Albanian government. Not many years ago the government of Albania found itself with a decentralized, often unmanaged variety of technology platforms. About 300 server computers were scattered across 14 different ministries and agencies running on different operating systems including Windows Server, Linux, and UNIX. NAIS (National Agency for the Information Society), the agency tasked with coordinating government technology initiatives found that working with that variety was not at all an easy task, not with the limited resources available at least. To solve this problem, it used Microsoft technologies to create a private cloud solution that mitigates cross-platform issues and reduces the time and money spent on traditional management

tasks. As a result, server provisioning time was reduced by about 70 percent; focus was shifted more on solutions than on infrastructure, IT staff productivity increased by between 50 and 70 percent.

4.2.2. Cloud Services offered by private companies

Apart from the government, various private companies also began to offer cloud computing services. One of them is AlbTelecom which introduced cloud services in Albania on April 2013. This unique technology will offer business in Albania platform, infrastructure and programming services. The one - stop - shop system of this business service platform uses the latest technology to provide significantly reduced cost to users, maximum security up to 99.99%, dual recording (back up) for absolute avoidance of problems, and maximum data transmission speed, about 30 times faster than overseas hosting. The lack of these services in Albania until a year ago, has forced many Albanian companies to have their data stored abroad, but this approach has many drawbacks, the data access speed limit because of the long distance being the main concern. The introduction of these services in Albania has brought many benefits: data access is much faster, performance is greatly improved with much lower cost and thanks to cloud services any business in Albania, regardless of its legal form, can enjoy maximum security of its data.

These services are greatly beneficial to banks, institutions, agencies, large, medium and small businesses that use portals, websites and online applications for sales management, human resource management, customers' relationship management, their online programs for finance management, etc. With cloud services businesses reduce their "capex" (in terms of initial cost of building IT infrastructure), and "opex" in terms of maintenance cost.

4.3 Web reporting packages offered by Albanian vendors

IMB (Albanian Institute of Business Modeling), first entered the market with a program of its own called "Alpha Accounting", in 1997. IMB is currently the largest "Software House" in the country in the field of software development for business and public management, in terms of employees' number and market position. IMB has developed a range of programs, according to market requirements, accounting standards and the latest programming technologies. Every 3 to 4 months they come up with a new version of software. The range of products includes software for accounting, financial management, human resources management, project management, etc. Applications are tailored to small, medium and large businesses, according to the type of their activity: trade, manufacturing, construction, services, public service, etc.

Since 2009, IMB has launched Alpha Web Reports application, a novelty for the Albanian software market. Through this application, any authorized user of Alpha Platinum (the latest version of Alpha Accounting) can access his company records, at any time, from any place — provided that has access to the Internet. How does it work? First Alpha Web Reports is installed on the company server (where the database and Alpha

Platinum server application are installed). Then user rights are configured to determine which persons who will have access to the company record through this program. Once this is done, any authorized user with a simple internet connection can generate financial and management reports online. All these reports can be customized through the use of filters. Since the main concern of this solution is data security, Alpha Web Reports provide maximum security and control in managing online reports. This assurance is provided in several ways.

After this first successful step, IMB has lately introduced its first genuine cloud solution called Alpha Web. Alpha Web performs almost the same tasks as the desktop version Alpha Start (the simpler version of Alpha Accounting) completely adequate for small and medium businesses, but Alpha Web is easier to use and more adaptable to the variety of business requirements.

Alpha Web Start is a web application that works through the Internet as well as LAN (local network). To access it, a user needs just password and a modest PC. This application saves time and money because:

- does not require expensive machines (servers),
- it works on any platform (Windows, Macintosh, Linux), even on mobile phones,
- maintenance and update are automatically performed online,
- offers a simple and intuitive user interface.

Alpha Web Start eventually resolves the issue of communication between remote points of sales and production, warehouses and suppliers, administrative sectors, etc.

Another software provider in the field of accounting and financial management is Bilanci sh.p.k., former TPKSolutions. The company was founded in 2004 and is now present in over 900 firms and institutions with its applications. It provides solutions for its customers all over Albania and Kosovo. Its products include over 12 software applications, all of them in the field of business administration. The latest product of this company is Bilanc Online. This program like its competitor Alpha Web is based on cloud technology and offers all the functionality of a desktop application, plus access to the data via the web interface. Unlike Alpha Web which functionality is based on desktop version Alpha Start (the most basic desktop version developed by IMB), Bilanc Online seems to enjoy the status of the most advanced desktop version (Bilanc Profesional) produced by Bilanc sh.p.k., plus provides real-time data access via the Internet.

As for the additional benefits claimed by the company it can be said that they are quite similar to those of Alpha Web, which ultimately are benefits of cloud technology per se.

5. MAIN FINDINGS AND CONCLUSIONS

The traditional financial and accounting information processing and therefore the role of the accountant have changed considerably because of the use of cloud computing, XBRL and other innovations which permit greater flexibility and access on data. Nowadays, relieved from the burden of repeated manual work of recording and reconciling transactions (these processes can be performed more quickly and more efficiently by computers); accountants can instead focus their time and efforts towards

interpreting and communicating information. This new role that the information technology has helped creating must be well understood by the accountants and embraced by them, so that the impact of this profession should not perish but rather be strengthened.

In this paper we have discussed about the new technologies which have introduced major transformations in accounting and financial reporting. We present the cloud computing and XBRL, how they have penetrated the Albanian market, how much they are known and in what extent they are being used by the accounting professionals. We also analyze the extension of use of web reporting in accounting. Given that two out of three major vendors of accounting packages in Albania already provide cloud computing services SaaS we compare the advantages of this use of using the accounting packages. Cloud services have also gained recognition and extensive use within the education sector in Albania.

These may deeply affect the accounting and financial landscape in Albania and have an impact on the requirements presented for the professionals of the field. On the other side for several years now the Albanian companies are liable to file their financial statements with the Registrar of the Companies. This institution may be benefiting from the experience of other countries and may consider the use of modern technologies like the web-reporting and even the implementation of XBRL language so that the data format is consistent. This initiative would be the starting point of creating a collection of complete databases with historical financial statements of companies, which are available in other countries and very helpful for analysis purposes. XBRL could also be used for reporting with the Taxation Authorities and the Bank of Albania (by the financial institutions).

All the recent technological developments call for greater attention by the accounting and financial professionals so they can capitalize on these changes and not be resisting them. As the technology facilitates the data gathering and processing, the information becomes more accessible and therefore increasing and in the same time changing considerably the role of the professionals.

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THE CHARACTERISTICS OF COMPETITION ENCOUNTERED ON THE EXTERNAL FINANCIAL MARKET AND ITS IMPACT ON THE ELABORATION OF GENERAL STRATEGY OF SMALL AND MEDIUM-SIZED COMPANIES IN THE CONTEMPORARY ECONOMY

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Abstract: *One of the characteristics of external financial markets is represented by the very strong competition and its tendency to increase. The reason the competition is strong is that, firstly, the supply brings together goods and services produced by many companies from different countries. Thus, on the market there is present a large number of identical, similar or replacement products, fact which generates the presence of a very wide range of products which are brought into the customers' attention.*

Keywords: *external financial market, companies, factors, cash, behavior, competition, profitability.*

1. INTRODUCTION

The large number of companies present on the market and implicitly the variety of products lead to a strong competition.

The factors which influence the competition level on the external financial market which must be taken into consideration when planning an international marketing strategy are (D, 1996):

Product quality – which is represented by the technical parameters the product has: finishing degree, design, but also the type of technology used to produce it (in the developed countries the use of non-pollutant materials and technologies is more and more emphasized).

Price - its correlation to the product quality being the first condition for the trial to promote a product on an external market. Besides it, each producer makes special efforts to reduce the price by reducing the costs and then by increasing the productivity. The products price on the markets of the developed countries is established by the direct competition of the companies that hold the largest shares on the market. Many times, small countries speculate the competitive advantage of holding a qualified labor force cheap enough to compensate for the additional costs which result from a bad technology and a low productivity.

Services additional to the product, including those services which are offered for free or against money. Also from the range of services additional to the product are the home delivery and installation.

Commercial terms, very important in the decisional process regarding the purchase of a product have been lately the commercial terms offered by the supplier. We mention the possibility to pay in installments, to give discounts for the use of a certain payment form, to give discounts for the purchase of large quantities or above a certain amount, to return the balance if it was not used in the case of an advance payment for many goods or services, to give seasonal discounts, to offer products at promotional prices, to clear a stock etc.

The aspects related to the environment protection, become more and more a condition to introduce and maintain the products on external markets. In this sense is taken into consideration, firstly, the extent to which that product represents a source of pollution and is set the maximum allowed levels from case to case. On the other side, it is also emphasized the evaluation of the danger degree the product has for the consumer (in the case of foods are set lists of ingredients and the minimum and maximum limits within which they can be present in the product). Not the least, the possibilities to reintegrate into the environment the waste after the use of the product is estimated.

2. THE CHARACTERISTICS OF COMPETITION ENCOUNTERED ON THE EXTERNAL FINANCIAL MARKET

The strong competition and the much diversified supply of products which are found on a developed financial market have the role of emphasizing the fact that, if a very serious diagnosis analysis is not made and if the adopted marketing strategy is not comprehensive, then the chances of success of the companies reduce significantly. Due to the totally different conditions a domestic company faces on the external financial market compared to the internal financial market, it is necessary that each type of international commercial action it plans should be first analyzed from the point of view of its effectiveness and then of its efficiency. The introduction on a financial market of some new companies, large or small, intensifies, obviously, the competition on that market, creating additional problems to the companies already present. It is obvious, under these conditions, that the companies situated on a financial market aimed at by the companies outside it, should create a series of obstacles which encumber their entrance on that market.

The barriers to entry represent „the circumstances or practices which allow the companies already present on the market to protect themselves against new competitors” (O, 1991:26). The theory of barriers to entry was elaborated in the second half of the sixth decade, by J. Bain and completed by P. Sylos-Labini, representing an approach in a new vision of the competition theory.

According to the conception of Bain, the ample issues of competition must be approached in a global vision, which should take into account the basis conditions on the market, its structure, the behavior of the companies present on the market and their performances. The famous paradigm Structure (S) – Behaviors (B) – Performances (P),

proposed by J. Bain, rapidly became an element of reference in the future theoretical developments and paradigms of industrial economy. According to this paradigm, the performances of the companies on a market and, by summing up, the performances of that industry, depend on the behavior of these companies, behavior influenced at its turn, by the market structure and its more or less competitive behavior: the lack of competition or its low level explain the passive behavior of the companies on the market and, implicitly, their modest performances.

According to this paradigm, the quoted author develops the idea of *potential competition*, which joins the *effective* one on a market and which is based on the following realities: - introduction of new companies on the market; - new companies which managed to enter on disadvantaged markets; - the market presents a certain „viscosity” which is against the easy entrance or exit of new companies.

The barriers created by the competition at the level of prices or outside them (”non-price competition”) are extremely various and represent obstacles sometimes insurmountable, especially for the small and medium-sized companies.

The scale economies represent a barrier which acts in the favor of large companies able to make huge volumes of production allowed by this criterion of profitability. The small companies which aim at entering a market are strongly disadvantaged by this criterion, and the large ones, which aim, also, at entering that market, have to make huge investments in order to raise their production volume at the level of scale economies which corresponds to the current companies, fact which raises a lot the costs.

The cost advantages are, also, on the side of the companies present on a market, being determined by: the preferential access these company enjoy – on the basis of their notoriety, of their proven accuracy in the contractual relations and their stable policy – to the necessary human, material and pecuniary resources, the most advantageous from the prices point of view; the technological advance they acquired in the area they got specialized a long time ago; the organizational and managerial expertise resulted from the specialization too.

The innovative potential of the current companies – materialized in the number of the patents taken out and the patents awarded, which give the right to use exclusively some new technologies and the exclusive manufacture of new products – also acts as a strong restrictive factor for „the new comers” on the market, which do not have the know-how specific to the companies which hold consolidated positions (A, 2000).

The products differentiation represents a form through which constant preferences of clients for some products offered by the present companies are gained, the trust and fidelity of consumers to some trademarks which imposed themselves on the market; under these circumstances, the penetration of new companies on the market requires from their side huge expenses for research and development in order to differentiate significantly their products compared to the current ones and required by consumers, as well as for advertisement in order to impose the new products.

It is obvious the fact that the modalities to overcome the barriers to entry on a market by the new competitors are not accessible to most of small and medium-sized companies in different industries. For this last category of companies, the chances to

enter a market protected by barriers to entry are, mainly, two: either to have an offensive strategy, or to become subcontractor of large companies (P, 1999).

The development of the theory of barriers to entry and the attempt to update them to the market realities in contemporary economy were done by W. Baumol, J. Panzar, FR. Willing and E. Baily who, at the beginning of '80, elaborated *the theory of contestable markets*.

A market is perfectly contestable if the entry/exit into/out of it is absolutely free. The structure of a contestable market includes all the companies which meet the request of that market.

According to the theory of contestable markets, the companies on the market are not advantaged compared to the ones that aim at entering it. The lack of barriers to entry makes equal the companies on the market to the ones that want to enter, from the point of view of the access to the production factor markets, to the specific technologies and the current infrastructure. The exit from these markets is done without additional costs, the irreversible costs being inexistent.

A contestable market is balanced (sustainable) when no entrance on the market is rational, in the sense that the companies currently on the market do not register losses, and the new comers do not realize superior profits to those registered by current companies, equal to the profitability reached on other markets (H, 1997).

The characteristics that define the equilibrium of a contestable market correspond to the equilibrium characteristics of the markets with perfect competition and pure competition.

From this point of view, the contestable market can be considered as an extension of the competitive market and of the pure one. The equilibrium characteristics of a contestable market overcome thought the condition of supply atomization, defining for the perfect competition. Thus, a natural monopoly can represent a contestable and sustainable market that means it exists in a state of equilibrium, which has the same characteristics as a market completely atomized by perfect competition (D, 1998).

This situation is explicable through the „setting” role the potential competition of the companies found on that market plays, which can enter at any, time that given market. In what concerns the small and medium-sized companies, the theory of contestable markets would offer encouraging arguments for their entrance/exit on/from the competitive markets. In fact, it is difficult to admit the idea that there are no barriers to entry/exit, especially regarding the smaller companies, the realities of the markets in modern economy confirming, to a large extent, such an affirmation.

3. THE ELABORATION OF GENERAL STRATEGY OF SMALL AND MEDIUM-SIZED COMPANIES

According to A. Chandler definition, the company's strategy means „to define the company's long-term main objectives, to adopt the directions of action and to allot the necessary resources to reach the objectives” (C, 1962).

In the case of small and medium-sized companies, it is essential to set their development strategy, having to take into account their characteristics: small size,

relatively limited economic and financial potential, mobility, flexibility, products or services manufacturing with short cycle.

In order to reduce the negative impact of inflation and, as far as possible, to transform its effects in opportunities and benefits, a company must apply adequate strategies. As a consequence of different activities, structure, organizations, systems, capacities, the intensity with which the companies are influenced is different. In spite all, there are rules that must be adapted to the individual situation of each company.

In an inflationary environment, the following topics must be well-defined: *structure of assets, structure of financing, price policy and possibility of transfer, sensibility to government decisions, flexibility and coordination.*

The company's assets represent the values of any kind that belong to it, the elements that belong to it and have value, the concrete form of the company's resources. Depending on the *liquidity degree*, the assets are made up of: *fixed assets; circulating assets*. Depending on *their nature*, the assets can be *fictitious assets* (expenses to set up the company, to increase the capital), *financial assets* (cash, bank deposits, shares, bonds) and *real assets* (buildings, sites, equipment, raw materials, finished products).

In the case of many small companies „the cash” represents the most important asset a small business holds. The lack of this asset may lead the company to bankruptcy, its level having to be high enough so that the company may face its obligations.

Creditors, employees and all those that gave credit to the company, wait to be paid on time, and „cash” is the exchange. Some small and medium-sized companies, though, retain the level of „cash”, sometimes excessively, with the goal of preventing unforeseen situations. This immobilized money represents though an important potential of gain that the owners of small companies ignore, making the company lose profitability.

The management of financial means represents, especially, a problem for the small companies which develop rapidly. Many successful companies, in development and profitable may go bankrupt, because they become insolvent; they no longer hold the adequate „cash” to prevent the requirements of the developing company. The crisis-type financial problems can create irregular financial means that usually, each small business has.

Similarly, the amounts to be paid fluctuate drastically from one month to another. The slow payment or the failure of clients to pay complicates more the problem. That is why the owner of the small company, if he uses management techniques of the financial means, can foresee these problems and make plans.

In a small company, the permanent transactions which take place are perceived as events which change continuously the level of financial means. Thus, the receipts from sales and bank credits will raise the available financial means, while the payment of tax, interests, dividends and debts will cause the reduction of these availabilities.

It is necessary to define the adequate level of financial means, with which to meet the company's necessities; what means enough ”cash” for a company, may be totally inadequate for another, depending on the size, nature and particular situation of each company.

The owner of the small company must understand that profits and cash are not the same thing. The profit represents the difference between receipts and expenses, being possible to distribute it on different destinations; in exchange, the creditors, employees and all those that give credit to the company are not paid from profit, but from the company's available "cash". The „cash" represents the financial means which circulate in the company in a continuous cycle, without being incorporated in other assets. In the case of a small company it is vital to act promptly as soon as a sum becomes an unpaid debt. An extremely low money collecting rate may force the small company get out of business.

The reimbursement time is very important, for the sums to receive as well as for those to be paid. The manager of a small company must try to delay as much as possible the payments outside the company, without deteriorating its position as debtor and to speed the receipts collection. In other words, the rotation speed of circulating assets must be accelerated, on all possible ways.

The stocks represent a significant investment of circulating means for many small companies. The excess of stocks represents money invested in means that do not bring income and which immobilize unsatisfactorily the company's money assets.

Thus, a satisfying structure of assets is the one that minimizes the total investment, without endangering current activities. The principle of minimizing the unproductive assets, valid in a stable economy, becomes even more important in an inflationary economy. The measures that can be taken include: minimization of deposits in local currency, elimination of clients financing, reduction of stocks level (except the case in which the stocks offer an adequate protection against inflation). Due to the speed the changes in economic variables take place, the companies must be flexible in order to react rapidly to different alternatives (M, 1996).

The profitability depends to a great extent to the financing at low cost. The decisions in this regard take into consideration the company's liquidity and the solvency objectives. According to them, the strategic principles to get resources at a real cost less than the profitability of the assets realized with their help are more valid in an environment with a high level of inflation. The main difference consists in including the inflation rate as additional financing cost. The objective is to cover the monetary assets with monetary obligations in order to get a situation with neutral or negative exposure to the inflation effects. It represents a natural protection and presents a fundamental importance because the exposure level to inflation can represent the difference between financial success and failure.

In the same time, a special attention must be paid to the net exposure in foreign currency to keep an adequate protection against the risk of appreciating local currency.

It is very important to emphasize the necessity to have a centralized control of the cash in order to minimize the unoccupied deposits of cash, to eliminate the cash deficit, to ensure the investment on time of temporary excess of cash and to reduce the investment in clients and stocks.

Often a small company can risk more than a large company. That is why, the management of the financial means and the identification of the way in which they circulate within the company, represent attributes of the system of financial evidence.

Small and medium-sized companies tend to use a higher financing rate on short term. The results of investigations show that once a company is set, its access to the working capital manages its capacity to grow. In general, small and medium-sized companies tend to have an inadequate access to cheap credits, on long term, especially because of the lack of guarantees. In the economies in transition, the financial intermediaries cannot or do not want to answer enough to the financing needs of small and medium-sized companies. There is a variety of reasons for this attitude, including: - high costs of transactions; - lack of experience; - absence of monitoring systems in banks; - capitalized banks; - absence of secondary markets; - existence of better alternatives for investments; - lack of a history of the activities of small and medium-sized companies.

There are data that small companies give relatively more commercial credit than the large ones. Moreover, small and medium-sized companies seem to receive less credit from their suppliers than they give to their clients. Even so, in recession, the delayed payments of the commercial credit can be to the detriment of the performance and the survival perspectives of small and medium-sized companies.

The following conclusions regarding the structure of financing can be drawn:

- In an economy with a high inflation rate the financing tends to be short. This dynamism requires a special attention and limits the capacity left for operation;
- The protection of the cash excess requires a special attention given to the analysis of all possibilities of available investment;
- Although the market offers in general investment tools appropriate to the economic environment, the financing options depend on the real availability of these tools;
- The inflationary process creates the necessity of some additional credits, but at the same time the available credits can be fewer and more expensive.

The definition of a price policy which allows the transfer of higher costs (including the financial costs) to buyers represents a key element of the management strategy. In order to make a total protection, the price increase should not be delayed till the moment higher real costs appear, but it must be planned in advance, so that cash inputs compensate the cash outputs (M, 1994).

For an adequate management of assets, as well as in order to set up a marketing structure which minimizes the inflation impact, a company needs a very high volume of information regarding the market behavior in the future. In situations with a high level of inflation, the information correctness and promptness is more important than in the case of a stable economy.

The sensitivity to the governmental decisions represents a factor of special importance, because the governments intervene frequently in the market, by exercising the control on prices, the guarantee of subsidies, the set of official exchange rates, and the stimulation of exports and imports or through monetary policies. It is vital for a company to have update information about governmental agencies with direct impact on operational and commercial activities and, also, it is vital the speed with which it adapts to political, social and economic changes.

The flexibility and coordination express the reactions to incidental changes, to the impact of the environmental changes, as well as to the economic events, such as

recession. The company must be flexible enough in order to adapt its policy, structure and operations to the requirements of each new economic scenario.

4. CONCLUSIONS

The lack of ability to react quickly to such changes (the speed at which the changes take place varies in proportion to the inflation level) generates successive problems which can accumulate and can threaten the company's survival. All the company's departments and levels must be fully aware of the management policy and strategies. The most important reason to adopt this principle of close coordination between all departments is that it will generate a homogeneous and consequent behavior. Shortly, the company's survival strategy in a strongly inflationary economy depends on its capacity to „think in inflationary terms” when it makes decisions and develops its activity. Most of the principles mentioned above are not applicable in the case of an inflationary economy, but the reaction speed coordinated to a new flow of events should be even more emphasized.

When the general strategy has been defined, the management should detail the specific actions for each functional sector, in order to implement the given strategy. In other words, it should detail the settlement of daily operations in each of the following activities specific to a company: production, sale, purchase, finance and accounting, credits and receipts, staff-wage system, economic and financial planning, managerial information.

All these prove that the company's general strategy, its informational system, its capacity to anticipate possible governmental decision and the speed at which it adapts to the circumstances are the most important elements which decide the success or failure of decisions, to a larger extent than the rational analysis used in elaborating those decisions.

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THE ROLE OF UNION BANK IN SUPERVISION OF THE EURO AREA BANKS

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ABSTRACT: *The recent financial crisis European Union has undergone a process of reconfiguration. This process has focused particularly on the banking union project that seeks to solve the problems in the European financial system. This project involves the adoption of a single system of banking supervision will allow the need case, recapitalize European banks in difficulty.*

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KEYWORDS: *union bank, financial stability, unique mechanism of supervision, euro area, credit institutions.*

1. INTRODUCTION

Banking union project intends primary target supervision in the euro area banking institutions, a prerequisite for direct recapitalization of distressed credit institutions and halt the trend of fragmentation of EU financial markets is incompatible with the existence of an Economic and Monetary Union and the single market, strengthening financial stability, stopping negative influence between banks and debt of states.

This institutional project aimed at resolving these problems by establishing a banking union in the euro area and other EU Member States can opt to participate in this union.

Constitutive elements of this project pursue to harmonize regulatory and supervisory framework for banking - a single set of regulations, the transfer from national to European level of the main responsibilities for supervision - a unique mechanism of supervision, the introduction of common provisions to ensure legal support in appropriate management of the troubled banks - a single mechanism for resolving the banking crisis by harmonizing and centralizing deposit guarantee.

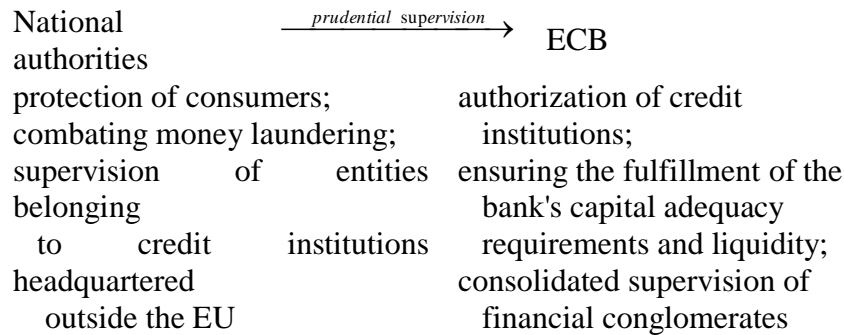
The achievement of banking union involves simultaneous operationalization of these main components.

2. SET OF RULES UNDERLYING UNION BANK

Union Bank is based on a set of unique rules and its main components the supervisory unique mechanism (SUM), the network of deposit guarantee schemes (DGS) and the only mechanism for resolution (MUR).

The new set of rules implemented by the ECB will help reduce the possibility of regulatory arbitrage and will require credit institutions to maintain adequate levels of liquidity and equity, enabling them to strengthen the administration capacity of financial specific risks activities and the cover potential losses.

The supervisory unique mechanism (SUM) to the union bank focuses on the European Central Bank (ECB) and engage in prudential supervision of credit institutions in the euro area. European Central Bank will consistently enforce a set of rules unique to the group of credit institutions in the euro area banking institutions will directly supervise and monitor semnificiative surveillance practices of credit institutions less significant undertaken by competent national authorities.



Source: NBR

The supervisory unique mechanism will be available on a voluntary basis and the Member States outside the euro area through a cooperative agreement between the competent national authorities and the European Cent Bank. The European Banking Authority will pursue enforcement set of unique rules in the MUS and the Member States outside.

Unique mechanism of resolution (UMR) is the second element of the set of rules proposed by the European Commission. The creation of this element is based on transnational consequences of banking crises justifying the need for such a mechanism at European level resolution.

The main objective of this mechanism is impartial and effective management of banking crises so as to minimize negative impacts on the economy and the call to public funds.

It is a complementary solution to the single supervisory mechanism which aims to create a suitable framework for bank resolution, which can be used if the difficulties of a credit institution would create problems in terms of public interest. Identification credit institution should enter the resolution process will be conducted by the European Central Bank and the Committee then single resolution, define the conduct of Commission resolution and recommend resolution procedure. The European Commission will decide triggering resolution and national resolution will be responsible for implementing the plan for resolution.

Regarding Deposit Guarantee Schemes (DGS), bank union project does not currently include a single scheme at the supranational level. As a possible intermediate step in this direction aims at adopting Directive DGS and establishing a network of national deposit guarantee schemes, deposit guarantee funds adequately funded. Adoption of Directive DGS priority at European level, because complementarity with the other two components of the project bank union.

Benefits of implementing this element are:

- Ensure equal treatment of depositors in all EMU countries - complementary single supervisory mechanism;
- Strengthening confidence in the banking system:
- a greater volume of resources is likely to grow considerably shock resistance system
- sovereign risk as a potential generator of banking panic, loses importance

3. CONCLUSIONS

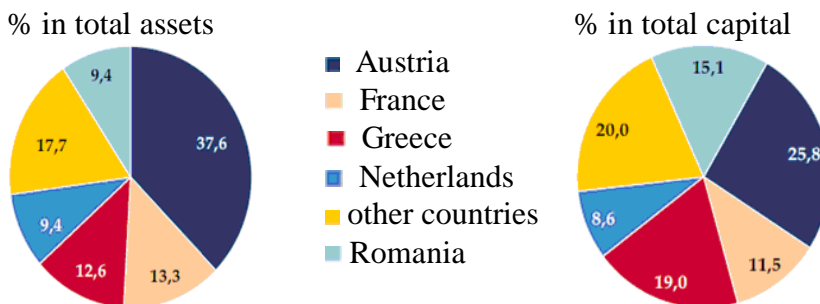
Banking union project will impact on both the micro-prudential supervisory practices and the prudential supervision framework in the euro area Member States will decide to participate. The scope of macro-prudential supervision in the EU include transnational, European Systemic Risk Board responsibilities for monitoring, prevention and reduction of systemic risk in the European financial system, issuing warnings and recommendations, as well as its consultative powers at EU level.

Also nationally designated competent authorities or policies may apply and use macro-prudential tools, whether at its own initiative or as a result of the ESRB recommendations or warnings. These two levels are added single supervisory mechanism aimed activities of credit institutions in the Member States participating in SUM.

Under this mechanism, the ECB may adopt more stringent measures than those adopted by the competent national authorities designated in terms of capital buffers and reduce systemic risk.

EU Member States outside the euro area between where they are and Romania, may choose to participate or not in union bank. Romania's EU membership Banking appears as a natural choice given that euro area banks hold three-quarters of bank assets in Romania and two-thirds of its capital.

1. Banking system (March 2013)



Source: NBR

Benefits of joining the project, which can be felt directly at national level include strengthening financial stability, increased confidence in the national banking system due to the harmonization of supervisory practices and deposit guarantee schemes and support lending and economic growth as result of reducing the fragmentation of European financial markets.

On the other hand, participation in union bank would represent a reduction of power tools and remaining national decision primarily prudential supervision and bank resolution, and lead to a series of charges determined by national contributions to finance mechanisms implemented, particularly for unique mechanism of resolution and deposit guarantee schemes.

In this context, it is necessary that the analysis underlying the decision to participate in union bank to pursue both sharing tasks, duties and responsibilities of participating entities and financial obligations determined and, consequently, how to complete the negotiations on issues that are still discussion at European level.

Regarding the strengthening of the Economic and Monetary Union Rumania support the creation of a genuine banking union and strengthening governance of the euro area, but considering that this process should not be to the detriment of the Member States outside the euro area and contribute thus, the fragmentation of the European Union.

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OPERATIONAL RISK DISCLOSURE IN ROMANIAN COMMERCIAL BANKS

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Abstract: *This paper aims to assess the actual operational risk disclosure in Romanian banks. Therefore we focus on the operational risk information that Romanian banks reveal and if they conform to the requirements of the National Bank of Romania. The study methodology consists in testing the annual financial reports for Romanian commercial banks. The analysis shows that the financial reports of Romanian banks are not in consonance with the requirements of the National Bank of Romania relating to operational risk revelation and also there are many discrepancies between Romanian banks relating to the format of the financial report, which presents the operational risk disclosures. Commercial banks in Romania have different approaches of showing the disclosures of operational risk. Accordingly, they do not disclose the same types of information. Our study advises Romanian commercial banks to increase prevailing operational risk disclosure proceedings. The contribution of this paper is to highlight the Romanian commercial approaches of the operational risk disclosures.*

Keywords: *operational risk; transparency, commercial banks, Basel II; The National Bank of Romania*

INTRODUCTION

Compulsory disclosure is an important utensil designed to be used by the shareholders and clients to appraise operational risk. Therefore the annual financial reports of the banks should show the key indicators of operational risk, because one of the essential responsibilities that banks have to accomplish is to evaluate and administer the risks that emerge from their business activities.

In this study we scrutinize the quantity and quality of operational risk measurements and governance data that it is presently given by Romanian banks' annual financial reports and establish if the results are in consonance with the transparency requirements of operational risk settled by The National Bank of Romania and Basel Committee on Banking Supervision.

The importance of this research consists in showing of the real situation concerning the disclosure of operational risk in Romanian commercial banks. This paper highlights that the financial reports of the Romanian commercial banks should encompass information about the concept of operational risk, the management procedures, the operational risk capital and the models used to measure this capital. Moreover, we embolden Romanian banking system to disclose the data regarding operational risk because this information is useful to all participants on the market. If they have this kind of details they will have an unambiguous picture of the performance and the manner of dealing with bank risks.

The purpose of this paper is to assess the actual operational risk disclosure in Romanian banks. Therefore we focus on the operational risk information that Romanian banks reveal and if they conform to the requirements of the National Bank of Romania.

PREVIOUS STUDY

Whereas operational risk is increasingly present in the media due to big losses generated by the operational risk events a significant number of academic researchers are interested in this important issue.

Helbok and Wagner, 2005, show an investigation of operational risk disclosure practice for the period 1998-2001. In this interval the operational risk exposure was not imperative, but there was an increasing concern about this type of risk. Their results illustrate that companies with a lower equity-ratio and with reduced incomes prefer a higher level of operational risk exposure. These institutions choose to disclose this type of information for promoting themselves and to ensure the participant on the market that the operational risk is properly administered.

Brown, et al., 2008, research the level of operational risk transparency using SEC requirement and a file Form ADV. The paper highlights that leverage and ownership structures indicate that the shareholders and lenders seem not to have this kind of data or consider it irrelevant. This investigation suggests that regulators should consider to disclosure of more pieces of information because this type of data represent a "marginal benefit to different investments clientele".

Ojo, 2010, aims to highlight the role and the importance of data in strengthening the "financial contagion". Moreover she emphasizes the significance of higher transparency requirements. She considers that this type of information is decisive in helping the regulators in determining the potential sources risk events. The study concludes that disclosure needs to be encouraged because fragmentary or partial pieces of information is on the origin of market failure and the publishing of exhaustive data would reduce the risks caused by maintaining reduced capital level rewards to banks that have a poor management system.

Haija and Hayek, 2012, study the items of operational risk that are disclosed by Jordanian commercial banks and if they abide by the requirements of central bank of Jordan. They test the annual financial reports for 12 Jordanian commercial banks. They show that Jordanian banks adhere to the requirements of the central bank of Jordan, referring to operational risk transparency, but there are not content with the way the commercial banks organize their information in their annual reports. Therefore, they advice Jordanian banks to improve their manner of publishing the information they disclose and to enhance an official structure established by the regulators in presenting the operational risk disclosure.

RESEARCH DESIGN

Research Factors

We will use a model created by Haija and Hayek. This model includes the following three variables:

First point Definition issues, which includes: operational risk definitions; operational risk measurement system; information on key risk indicators; technology and system risk; risk of human error; legal risk and other operational risk.

Hierarchical issues, which includes: risk management framework; establishing operational risk committee; operational risk management department.

Regulatory issues include: operational capital charge as % of minimum regulatory capital; operational risk exposure (by business line, if available) unexpected loss from operational risk.

Sample Selection

The present research consists of all Romanian commercial banks. Therefore the study population consists in all 41 Romanian commercial banks. Table 1, Table 2 and Table 3 show the disclosure items for all Romanian commercial banks and if they adhere to our analysis factors.

Data Analyses and Results

Table 1. The disclosure items in Romanian Commercial Banks

Disclosure items	Risk Management Framework	Operational risk definition	Establishing operational risk Committee	Policies, processes and procedures	Operational Management Department	Operational risk capital charge as % of minimum regulatory capital	Operational risk exposure (by business line)	Operational risk measurement systems
ALPHA BANK ROMANIA	√	√	√	√	√	√	-	-
ATE BANK Romania	-	ATE BANK Romania	√	√	-	√	-	√
Banca Comercială CARPATICA	-	√	√	-	-	√	-	√
Banca Comercială FEROSIARA	-	-	-	-	-	-	-	-
Banca Comercială Intesa Sanpaolo România	-	√	-	√	√	-	√	√
Banca Comercială Română (BCR)	-	-	√	√	√	-	-	√
BCR Banca pentru Locuințe	-	-	-	-	-	-	-	-
Banca de Export-Import a României EXIMBANK	-	-	-	√	-	√	√	√
Banca Millennium	-	-	-	-	-	-	-	-
Banca Românească Membra a Grupului National Bank of Greece	-	-	-	√	-	-	-	√
Banca Transilvania	-	√	-	√	-	-	-	-

BANCPPOST	√	√	√	-	√	-	-	-
BANK LEUMI	-	-	-	-	-	-	-	-
ROMANIA								
BRD - Groupe Société Générale	√	√	-	√	-	√	-	√
CEC Bank	-	√	-	√	-	-	-	-
Credit Agricole Bank Romania	-	-	-	-	-	-	-	-
CREDIT EUROPE BANK (Romania)	-	-	-	-	-	-	-	-
GARANTI BANK	-	√	-	-	-	-	-	√
LIBRA BANK	-	√	√	-	-	√	-	-
MARFIN BANK (ROMANIA)	-	-	-	-	-	-	-	-
MKB	-	-	-	-	-	-	-	-
ROMEXTERRA Bank								
OTP BANK	√	√	-	√	√	-	-	-
ROMANIA								
PIRAEUS BANK	-	√	-	√	-	-	√	√
ROMANIA								
PORSCHE BANK	-	√	-	√	-	-	-	-
ROMANIA								
ProCredit Bank	-	-	√	-	-	-	-	-
Raiffeisen Bank	-	-	-	-	-	-	-	-
Raiffeisen Banca pentru Locuințe	-	-	-	-	-	-	-	-
RBS BANK (ROMANIA)	-	-	-	-	-	-	-	-
Romanian International Bank								
UniCredit Țiriac Bank	√	√	-	√	√	-	√	√
VOLKSBANK	-	√	-	√	√	-	-	-
ROMANIA								
Anglo-Romanian Bank Limited	-	-	-	-	-	-	-	-
Banca Italo Romena	-	-	-	-	-	-	-	-
Bank of Cyprus	-	-	-	-	-	-	-	-
BLOM Bank France S.A.	-	-	-	-	-	-	-	-
CAIXABANK S.A.	-	-	-	-	-	-	-	-
Citibank Europe	-	-	-	-	-	-	-	-
FINICREDITO-INSTITUICAO FINANCEIRA DE CREDITO S.A.	-	-	-	-	-	-	-	-
Fortis Bank SA/NV	-	-	-	-	-	-	-	-
ING Bank N.V., Amsterdam	-	-	-	-	-	-	-	-
TBI BANK EAD Sofia	-	-	-	-	-	-	-	-

Table 2. The disclosure items in Romanian Commercial Banks

Disclousure items	Information on the models used to manage measure operational risk	Information on Key risk and indicators (KRI)	Unexpecte d loss from operationa l risk	Tehnolog y and system risk	Risk of Human Error	Legal risk & other operationa l risk
ALPHA BANK ROMANIA	√	-	-	-	-	-
ATE BANK Romania	√	ATE BANK Romania	-	√	√	-
Banca Comercială CARPATICA	-	-	-	-	-	-
Banca Comercială FEROTIARA	-	-	-	-	-	-
Banca Comercială Intesa Sanpaolo România	√	-	-	-	-	-
Banca Comercială Română (BCR)	√	√	√	√	√	√
BCR Banca pentru Locuințe	-	-	-	-	-	-
Banca de Export-Import a României EXIMBANK	√	-	√	√	√	√
Banca Millennium	-	-	-	-	-	-
Banca Românească - Membra a Grupului National Bank of Greece	√	-	-	√	√	-
Banca Transilvania BANCPOST BANK LEUMI ROMANIA	√	-	-	-	-	-
BRD - Groupe Société Générale	-	√	-	-	-	-
CEC Bank	√	-	-	√	√	√
Credit Agricole Bank Romania	-	-	-	-	-	-
CREDIT EUROPE BANK (Romania)	-	-	-	-	-	-
GARANTI BANK	√	√	-	-	-	-
LIBRA BANK	√	-	√	-	-	-
MARFIN BANK (ROMANIA)	-	-	-	-	-	-
MKB ROMEXTERRA Bank	-	-	-	-	-	-
OTP BANK ROMANIA	-	-	-	√	√	-
PIRAEUS BANK ROMANIA	√	-	-	-	-	-
PORSCHE BANK ROMANIA	√	-	-	-	-	√

ProCredit Bank	√	-	-	-	-	√
Raiffeisen Bank	-	-	-	-	-	-
Raiffeisen Banca pentru Locuințe	-	-	-	-	-	-
RBS BANK (ROMANIA)	-	-	-	-	-	-
Romanian International Bank	-	-	-	-	-	-
UniCredit Țiriac Bank	√	-	-	√	√	√
VOLKSBANK ROMANIA	√	-	-	-	-	-
Anglo-Romanian Bank Limited	-	-	-	-	-	-
Banca Italo Romena	-	-	-	-	-	-
Bank of Cyprus	-	-	-	-	-	-
BLOM Bank France S.A.	-	-	-	-	-	-
CAIXABANK S.A.	-	-	-	-	-	-
Citibank Europe	-	-	-	-	-	-
FINICREDITO-INSTITUICAO FINANCEIRA DE CREDITO S.A.	-	-	-	-	-	-
Fortis Bank SA/NV	-	-	-	-	-	-
ING Bank N.V., Amsterdam	-	-	-	-	-	-
TBI BANK EAD Sofia	-	-	-	-	-	-

Table 3. Summary

Disclosure Item	% percentage
Risk Management Framework	12.19%
Operational risk definition	34.15%
Establishing operational risk Committee	14.63%
Policies, process and procedures	34.15%
Operational Management Departement	17.07%
Operational risk capital charge as % of minimum regulatory capital	14.63%
Operational risk exposure (by business line)	9.76%
Operational risk measurement systems	24.39%
Information on the models used to manage and measure operational risk	36.59%
Information on Key risk indicators (KRI)	7.32%
Unexpected loss from operational risk	7.32%
Tehnology and system risk	19.51%
Risk of Human Error	19.51%
Legal risk & other operational risk	14.63%

% percentage: equal the existence of item in banks divided on total number of banks

The previous three tables show the results of our research on Romanian commercial banks.

First of all, by analyzing Romanian commercial banks annual financial reports, we present data that prove that the extent and content of the disclosure of banks on operational risk are not good, emphasizing that managers of the bank, supervisors and other agents are not interested in disclosing operational risk information.

Second of all, we found evidence that most of Romanian commercial banks do not meet the requirements of National Bank of Romania referring to operational risk disclosure: 51.21 percent do not give any information on operational risk. Moreover, only 36.59% give information about the models they use to measure and manage operational risk, 34.15 choose to disclose the definition of operational risk and policies, procedures and processes they use. Furthermore, the preponderance of the banks do not expose information on key risk indicators, unexpected loss from operational risk and operational risk exposure (by business line).

Third of all, Romanian commercial banks do not show the information about operational risk in the same manner. Therefore it is quite difficult to find the information you need about operational risk.

CONCLUSIONS AND RECOMMENDATIONS

We examine the disclosure of operational risk in Romanian commercial banks using the model created by Haija and Hayek. We found evidence that the majority of Romanian commercial banks do not disclose important information on operational risk. Therefore we recommend that National Bank of Romania and supervisors should put a pressure on Romanian Commercial Banks to disclose qualitative and quantitative data on operational risk.

Every Romanian commercial bank should have an effective system in place to identify measure, monitor and control operational risk as a part of overall approach to risk management. Moreover, Romanian commercial banks should give information on operational risk in the same manner in their financial annual report.

One of the limits of this paper is the research method used. We consider that in our future investigations we should use an econometric model that will illustrate the correlation between operational risk disclosure, the size of operational risk capital and the performance of the banks. Moreover, we take into account to obtain data about operational risk capital before the disclosure. Further, we want to extend our sample selection to banks from European Union to have a broader perspective.

Operational risk disclosure is a very important subject because the more information participants on the market know, the fewer the financial crashes will be.

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STATE BUDGET AND BUDGETARY PROCEDURES IN ROMANIA

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Abstract: *In Romania, the budget process is governed by the Constitution and the Law of Public Finance no. 500/2002, act that includes the elaboration of the draft budget, approving the state budget, budget execution and budget control. All these activities are carried out in a legal way and administrative-institutional way, presenting features from country to country. The budget shows many traits in common: it is a decision process, because its essence consists in allocating budgetary resources for public goods such as education, health, national defence and so on. On the other hand is an essentially political process because allocation decisions budgetary resources are determined by the political groups, the mechanism of representation and voting, is a complex process with many participants (schools, hospitals, ministries, etc.). The budgetary process is a cyclic process, as it follows a well-defined calendar as a consequence of yearly and advertising budget. In conclusion, the budget process is a set of consecutive stages of development, approval, execution, control and reporting of the state budget, which ends with the approval of its execution account.*

Keywords: *budget, financial law, revenues and expenditures.*

1. INTRODUCTION

In the historical evolution of public finances a special moment was the appearance of the state budget. Further evolution of the state budget has been determined primarily by the need to correlate public spending with public revenues, each year. Public Accounting Act from 1864 is a step forward, because for the first time this document stipulated all state revenues and expenses necessarily to fulfil public services. Those revenues and expenses have been arranged according to the law and allowed for each year to form the general budget of the state. The state budget could be considered politically as an act of running the state, but he is also an assessment document because it indicates the expenditures will be made in the future. State budget revenues should be evaluated and all funds should be set at the disposal of the state to cover economic, social, military, public order and environmental needs. In terms of purely economic, budget express economic relations is manifested in cash, in the gross domestic product placement in connection with performing the functions and duties of the state. The budget appears as a financial action plan of the state, which is provided and authorized revenues and expenses for a limited period of one year. In conclusion, on the one hand, the budget is a document that authorizes the legislative power of the revenues and budget expenditures, and on the other hand, the public budget is a planning document for

incomes and expenditures over a period of one year. Regarding the nature of the state budget there are several theories. The state budget would be an administrative act, according to some opinions ensuring economic and social rights for citizens, right to education, cultural activities, and freedom to associate.

Other experts say that would be a legislative act. Finally, according to some theorists, it would have a political nature that will explain the fact is adopted by Parliament. Should be taken in consideration, the fact that, the Parliament is consist of different political parties, having different political options.

THE BUDGETARY PRINCIPLES

In the preparation, approval and execution of the state budget, activates a set of rules known as the basic principles of the budget process. Budgetary principles in Romania have both a technical and a political significance. On the one hand, are considered necessary for the proper management of public finances, on the other hand are designed to facilitate the control of Parliament over the Government. The elaboration and execution of the state budget on the following principles:

- the principle of universality,
- the principle of publicity,
- the principle of unity,
- the principle of yearly periodicity,
- the principle of specialization,
- the principle of monetary unity,
- the principle of budgetary balance,

a) The principle of universality.

According to this principle, the state budget must include all incomes and expenditures. It follows therefore that no income and no budget expenditure should not be done outside the budget framework. Applying this principle enables Parliament to know the total revenue the state will collect it and will be given their destination. This Parliament is entitled by adopting the annual budget law and the legal norms contained in the Public Finance Act.

b) The principle of publicity.

According to this principle, the public budget, in all its components, is to inform the public. The project budget is referred to the general public and professionals. During parliamentary debates, which are public, are subject to approval by the major budgetary provisions. Then, after the official adoption of the law on the state budget, which is published in the Official Gazette, which gives the possibility of knowledge of its provisions.

c) The principle of unity.

Applying this principle requires development each year to a single state budget, to be submitted in all income and all expenses of the annual budget. Bringing together in one documents all public revenues and expenditures allow clear presentation of state resources and their destinations. Also, a budget unit enables easily establish the relation

between income and expenditure and to know if the budget was prepared balanced deficit or surplus.

d) The principle of yearly periodicity.

Annually state budget has two different meanings, namely: the first refers to the time period for which the budget is prepared and approved, and the second, the period of time that are collected revenues and expenditures (budget execution). This principle requires that the budget be approved each year by Parliament. Limit to one year parliamentary authorization is based on political considerations and technical reasons. In finance theory is estimated that implementation of the budget, collection of revenues and expenditures authorized for each fiscal year could be organized by the state early taking in account the foreseeing financial necessity.

In Romania, public finance law states that budget year coincides with the calendar year, starts at January 01 and ends at December 31.

e) The principle of budgetary specialization.

According to this principle, budget revenues should be budgeted and approved by Parliament. The budget sources and public costs should be incurred by categories and destinations according to their economic content. Also, Parliament approves maximum level of each expenditure could be made (there is no exceptions on this area). According to this principle, the group of incomes and expenses is done in a particular order based on specified criteria, in a process called budget classification.

f) The principle of the monetary unity.

According to this principle, stipulated within the Public Finance Act, "all budgetary operations should be carried out in local currency". Introducing this principle was absolutely necessary, representing a means of ensuring the unity of expression in matters of enforcement revenues and expenditures.

g) The principle of budgetary balance.

The basic requirement of this principle lies in that the state budget must be balanced at all times. The public revenues cover all public expenditures and a balance during budget execution should be kept. The budget deficit is covered, usually by state loans and monetary issues, but just as temporary solutions. The related interest payments are affected by future income, which contributes to increasing the deficit and balance the budget at the expense of issuing money has negative consequences on the national economy.

THE PROCEDURES OF THE STATE BUDGET IN ROMANIA

In most countries the draft budget is prepared by Government and the responsibility for drafting the budget rests with the Ministry of Finance. Development of draft budget is based on the objectives of the ruling party (or coalition of parties) which has a parliamentary majority. The result of the elaboration of the draft budget documents is presented by the Government for examination and approval of the Parliament. Usually, they contain explanatory memorandum and the bill of the budget, which includes provisions on the size of revenues and expenditures, proposals to amend the law relating to income and expenditure necessary for the budget to be approved. Moreover, the draft

of the budget includes annexes, in which is shown the structure of revenues and expenditures. Act no.500/2002 of public finances provides a preliminary stage of elaborating draft budget which is based on macroeconomic and social indicators, fiscal policy objectives and budget for the budget. Government will approve them until May 15 and inform the committees on Budget, Finance and Banks of Parliament on the main orientations of its macroeconomic policy and public finance. Each Minister has the obligation until July 15 of each year to submit to the Ministry of Finance to draft budget proposals for each Ministry. The whole draft budget and their annexes shall be submitted as completed until August 1 of each year. Ministry of Finance examines all draft budgets, discussing their main loan. In case of divergence of income and expenditure figures included in the budget proposal, the jurisdiction lies in the hands of the Government. Ministry of Finance, based on the draft budget, prepares the draft budget law and the draft state budget, which they submitted to the Government until September 30 of each year. After considering the Government Budget Proposal and the draft state budget the draft shall be submitted to Parliament for debate and approval. According to Romanian law, the state budget should be approved by the Parliament in joint session of the two chambers - the Chamber of Deputies and the Senate. This reveals the importance that is given by the fundamental law of the state budget. On the other hand, this solution is justified by the desire to eliminate the blockage of parliamentary activity. Draft State Budget, together with the draft law approving this budget is submitted to Parliament by the Government, together with the report on the economic and financial situation of the country. According to parliamentary procedure, to examine and approve the state budget law should be taken few steps:

- Examination of the draft budget law and report to the Government by committees of each chamber;
- Opinions of committees should be transmitted to budget and finance standing committee, along with any amendments made, the amendments should be issued on the right time and conveyed to the right committee;
- The general debate of the draft budget law in the plenum of the two chambers in the present Government;
- Debate on the articles of the draft law;
- Adoption law approving the state budget on the vote, which can be open or secret. After adoption by the Parliament in joint Rooms draft budget law becomes law, not organic law but an ordinary law.

THE EXECUTION OF THE ANNUAL STATE BUDGET

State budget execution procedures include legal acts and operations through which the public revenues, and as a corollary, public expenditure is made. Thus, the third phase or stage of the budgetary procedure is the execution of the annual state budget. The aim of this phase is to carry out collection of taxes and other public revenues and public expenditures according to the destinations set of state budget law. Specifically, important attributes are set to the Ministry of Finance , such as those on the distribution of quarterly revenue and public expenditure, budgetary appropriations, transfers to local budgets,

introducing changes in the budgets of the principal loan and structure of the state budget, based on legal provisions stipulate units, actions or tasks from one ministry to another, cancellation of loans identified as being without justification, development work weeding general account annual state budget execution, preventive control and management of public revenues and expenditures. To organize the execution of the state budget, a particularly important role it has distribution quarterly revenues and expenditures set by the annual budget law. Pursuant to the Law of Public Finance quarterly distribution of income and expenditures take place according to the legal terms. Quarterly distribution of revenues and expenditures approved in compliance with all of these perfectly, ensuring achievement balanced state budget, including the budgets of the principal loan provided separately in the state budget, because the only way we can reflect any disparity between income and expenses of certain quarters and can proceed to the allocation of public expenditure according to the proportion achieving budgetary revenues in each quarter. Approving quarterly distribution of income and expenditures is given by law, the Ministry of Finance, which approves the expenditure headings, and within them, the titles of the principal loan proposal, approved quarterly distribution. The Ministers approves quarterly distributions for their budgets and budgets of secondary and tertiary loans, respectively. Finally, approval and distribution of approved secondary authorizing officer for budgets and budgets budget spending units. Completion of the execution of the state budget year coincides with the calendar year and respectively 31 December each year. Pursuant to the framework law, any income is earned and any accrued expense, liquidated and ordered , within budgetary provisions and not paid until December 31 will be charged or will be paid, as appropriate, account budget next year. Unused budgetary appropriations are cancelled until the end of the straight. Availability of external funds and public funds to co-finance the financial contribution of the European Union, remaining at the end of the budget year in accounts implementation structures, is reported in the following year. Ministers prepare annual accounts of the execution of the state budget, including the annexes shall include the revenue planned budget, final budget provisions and collections made. The expenditure budget appropriations initial and final budget appropriations still pay effectuate. In based on the financial statements of the principal loan, house accounts on execution of the state budget presented by the authorities which, by law, have the task, and after checking and analysing them, the Ministry of Finance prepares the annual general account execution of the state budget, including its annexes, which shows the Government. After the government proceeds to analyse them, present them to the Parliament. Annual general account of the execution of the state budget law is approved by the Parliament after its verification by the Financial Court. In case of money surplus, Parliament decides, on a proposal from the Government, the use of financial surplus, taking into account the possibility to allocate at least a portion of it to create a fund of the state treasury, which is kept in the account state treasury, opened at the National Bank of Romania. All states pay a special attention to the national reserve, as a financial insurance. In case of general account annual state budget execution results in a deficit Parliament tasked all the proposal of the Government, to decide the best way to cover the deficit, and actions necessary to prevent in the future

recurrence deficits. These decisions of the Parliament have a special importance, especially in the yearly implementation of the state budget.

THE CONTROL OF THE BUDGET EXECUTION

State budget assumes that revenue earned and expenses incurred to carry out under the control of government agencies with responsibilities in budget control. Thus, control of budgetary execution tasks are performed by the following bodies:

- Parliament (Chamber of Deputies and Senate) who have a purely political control.
- The Court of Auditors, which has judicial control.
- Government, exercising administrative and financial control using specialists from different agencies.

Political control is performed by the Romanian Parliament in the general prerogatives of executive control activity. Moreover, as mentioned previously, Parliament debates and approves the annual general account of the execution of the state budget, thus giving a discharge to the Government. Parliamentary oversight is exercised on request or on its own and follows the evolution of budget execution. Judicial control over the execution of the state budget is exercised by the Court. Annually, this institution report to the Parliament on the accounts of the government budget concerning the expired budgetary year, including cases of mismanagement. Financial or administrative control of specialized executive power exercised by the government is exercising on general management executive activity in the area of public finances, the goal periodically examines the financial situation in the economy, the national public budget execution and establishes measures to improve the balance financially. At the Government level, it works a control body of the Prime Minister who, according to legal duties, could perform control actions regarding the execution of the state budget. The main objective of this control is the management and use of state budget by public institutions and companies, as well as the accuracy and reality of their financial recordings. There is also a form of self-control of Ministries and other central bodies of public administration, which is oriented to respect legality, appropriateness and efficiency of using budget funds. In conclusion, control of budget execution has a double determination. First, it is determined by political reasons, in that Parliament is concerned that the Government in implementing its program, to fit in the permit, which was granted , that to realize the full revenue and not exceed approved budget allocations established for each destination. Secondly, the control is determined by financial reasons, the government is interested in the proper management of public funds by avoiding waste and preventing and combating fraud and other related penal offences.

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AN SURVEY OF INTERNATIONAL FINANCIAL RISK MANAGEMENT SYSTEM

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Abstract: *Rising global competition, increasing deregulation, and introduction of innovative products have pushed financial risk management to the forefront of today's financial landscape. Identification of different types of risks and effective management of these risks in the international financial system would help to alleviate crisis, financial losses and also helpful to the long term success of all the financial institutions. The present study aims to analyze different types of risk management strategies and throws some light on challenges and opportunities regarding implementation of Basel-II in international financial system. The present paper also attempts to discuss the different methods and techniques used to measure financial risk management. There are three types of risk faced by all financial institutions: market risk, credit risk and operational risk. In commercial banking, credit risk is the biggest risk; in investment banking, its market risk; and in asset management, it's operational risk.*

Keywords: *Risk Management, Value at Risk (VaR), Basel Accords*

JEL Classification: *G15, G32*

1. INTRODUCTION

Recent global financial crisis, rising volatility in the financial markets, increasing deregulation, poor management practices at banks and other financial institutions, speculative transactions, huge financial losses, introduction of innovative financial products and their growing complexity are some of the current challenges faced by the financial researchers all over the world. These factors have pushed financial risk management to the forefront by giving new direction. Financial risk management is not a modern issue. It is the possibility of losses resulting from unpredicted events like volatility in market prices, adverse changes in currency rates, unfavorable price variation in securities and business partners' defaults. It arises because of raising various financial

business activities, huge number of financial transactions including savings, investment, loans, sales and purchases. Except this, mergers and acquisitions, legal transactions, debt financing, growing management activities, rising competition, intervention of the foreign governments and weather are some major factors responsible for the fluctuations in the financial markets. Since it is not possible or desirable to eliminate risk completely; as some kind of risk is necessary to remain in business. It involves an opportunity to earn profit in future transactions. So understanding and identification of different kinds of risks, their interrelationship and the factors responsible for its happening are essential for the management of different kinds of risks.

Risk management is a dynamic process which relates to the institution and its business. It includes and affects many parts of the institutions like treasury, sales, tax, marketing, purchase, investment pattern, credit worthiness and corporate finance. The risk management process entails both internal and external factor analysis. The internal part of the analysis includes identification and prioritization of the financial risks facing an institution and understanding their importance. It is necessary to examine the institution and its management, customers, suppliers, competitors, balance sheet structure, and position in the market. It is also essential to consider stakeholders and their objectives and acceptance for risk. Once a clear understanding of the risks emerges, appropriate strategies can be implemented in combination with risk management policy. The process of financial risk management is an ongoing one. Appropriate strategies need to be implemented and refined in accordance with the changes in market and requirements of the organizations. Here refinements refers to the changes in the business environment, changes in expectation about the exchange rate, market rate and commodity rate and also includes changes in the international political scenario. The present study broadly examines different types of financial risk and appropriate strategies for their management, specifically the objectives are:

1. To analyze different types of financial risks and the factors affect these risks.
2. Aims to discuss various methods and techniques essential for financial risk management.
3. To examine the challenges and opportunities regarding the implementation of Basel Accords in international financial system.

The remaining part of this paper is organized into five sections including introduction. Section 2 presents the reviews of both theoretical and empirical literatures. Section 3 discusses different types of financial risk. Section 4 presents strategies and the methods used for management of the financial risks. Section 5 presents the summary and conclusion of the paper.

2. LITERATURE SURVEY

In the last two years we can observe extensive work has been done on the financial risk management practices particularly after the financial crisis in 2008. A large number of studies have been done in the field of financial risk management. Some of the major studies are reviewed and discussed below.

Allayannis et al. (2003) have examined a firm's choice between local, foreign and synthetic local currency debt by using a data set of East Asian Non financial companies. They have found that there is a unique as well as common factor that determines use of each debt, indicating the importance of examining debt at a disaggregated level. They have used the Asian financial crisis as a natural experiment to investigate the role of debt in firm performance. Finally, they have concluded that the use of synthetic local currency debt is associated with the biggest drop in market value, possibly due to currency derivative market illiquidity during the crisis.

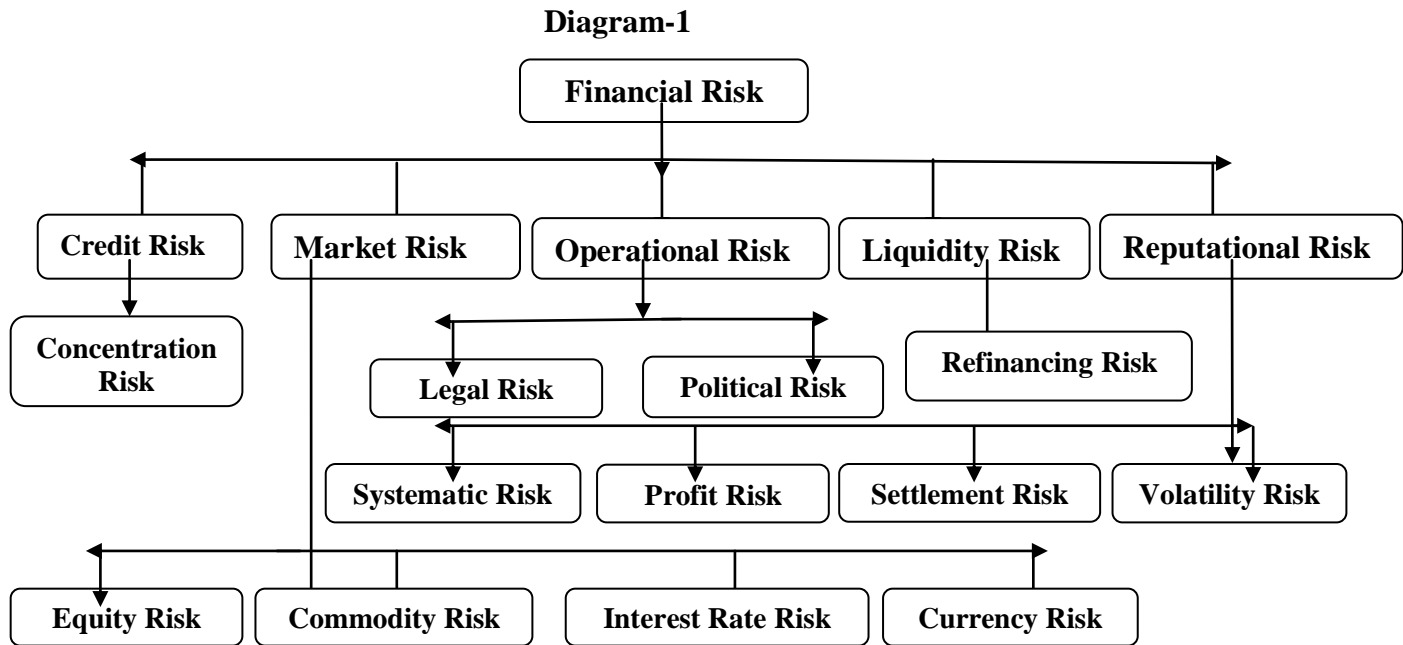
Kaen (2005) has defined financial risk as the variability in cash flows and market values which caused by unpredictable changes in three major variables such as; commodity prices, interest rates and exchange rates. He has described that accurate identification and management of the financial risks will help a firm to reduce the exposure to financial risk. The similar studies by Bartram et al. (2007) have developed three different methods to quantify the risks of a systematic failure in the global banking system. They have taken a sample of 334 banks (representing 80% of global bank equity) in 28 countries around five global financial crises. Their results become statistically significant, but economically small. They explained that although policy responses are endogenous, the low estimated probabilities suggest that the distress of central bankers, regulators and politicians about the procedures could be overstated and the current policy responses to financial crises could be adequate to handle major macroeconomic events.

Daianu and Lungu (2008) have examined the factors which are directly responsible for the exposure in the financial market transactions and indirectly contributed to the current financial crisis. These factors include introduction of innovative financial products and their growing complexity; inappropriate regulation and supervision of financial markets; poor risk management practices at banks and other financial institutions; increased complexity of financial systems; financial market speculation. Stulz (2008) has examined there are five major factors which are responsible for the failure of risk management systems particularly before and during the current financial crisis. These factors are (1) failure to use appropriate risk metrics; (2) mis-measurement of known risks; (3) failure to take known risks into account; (4) failure in communicating risks to top management; (5) failure in monitoring and managing risks. Both Stulz (2008) and Daianu and Lungu (2008) have suggested that there is a need to improve the Integrated Risk Management (IRM) technique which is used as one of the risk management processes where all the risks are assembled in a strategic and coordinated framework.

Hassan (2009) has evaluated the degree to which the Islamic banks in Brunei Darussalam implemented risk management practices and analyze how they operate by using different techniques to deal with various kinds of risks. The major risks that were faced by these banks were foreign exchange risk, credit risk and operating risk. He has used a regression model and showed that risk identification, assessment and analysis were the most influencing variables. He has concluded that it is essential to understand the true application of Basel-II Accord to improve the efficiency of Islamic Bank's risk management systems.

3. TYPES OF FINANCIAL RISK

Financial risk refers to the possibility of losses expected by any financial institution when it will not have adequate amount of cash to meet its financial obligations. It refers to the uncertainty of a return and the potential for financial losses relating to the financial transactions of any institution or organization. Risk refers to that there is a possibility that you won't receive a return on your investment. It is essential to consider some events in business which involves some kind of risks and steps should be taken to mitigate them. This study is only focus on the credit risk which is the major component of financial risk. The following diagram-1 shows the major classification of financial risks:



3.1. Credit Risk

Credit risk is most simply defined as the potential that a borrower or counterparty of the bank will fail to meet its obligations in accordance with agreed terms. Credit risk management has always been on the radar of the top management of any company. For most banks, loans are the largest and most obvious source of credit risk, however, other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet. Banks are increasingly facing credit risk (or counterparty risk) in various financial instruments other than loans, including acceptances, interbank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees and the settlement of transactions. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by

maintaining credit risk exposure within acceptable parameters. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Banks should also consider the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization.

3.1.1. Credit Risk Management Process

Since exposure to credit risk continues to be the leading source of problems in banks world-wide, banks and their supervisors should be able to draw useful lessons from past experiences. Banks should now have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred.

Credit risk is calculated on the basis of possible losses from the credit portfolio. Potential losses in the credit business can be divided into: expected losses and unexpected losses. Expected losses are derived from the borrowers expected probability of default. Unexpected losses result from deviations in losses from the expected loss. Unexpected losses indirectly consider equity cost in the course of income planning and setting of credit conditions. The most commonly used management tools include:

- a. Risk-adjusted pricing of individual loan transactions.
- b. Setting of risk limits for individual positions or portfolios.
- c. Use of guarantees, derivatives and credit insurance.
- d. Securitization of risks.
- e. Buying and selling of assets.

3.1.2. Principles of Credit Risk Management

There are about 20 principles for credit risk management in banks some of them are listed below:

Principle 1: The strategy should reflect the bank's tolerance for risk and the level of profitability the bank expects to achieve for incurring various credit risks.

Principle 2: Senior management should implement the credit risk strategy approved by the board of directors and developing policies and procedures for identifying, measuring, monitoring and controlling credit risk.

Principle 3: Banks should identify and manage credit risk in all products & activities. Banks should ensure that the risks of products and activities new to them are subject to adequate risk management policies

Principle 4: Banks must operate within sound, well-defined credit-granting criteria including clear indication of the bank's target market and of the borrower or counterparty

Principle 5: Banks should establish credit limits at the level of individual borrowers and counterparties, both in the banking and trading book and on and off the balance sheet.

Principle 6: Banks should have a clearly-established process in place for approving new credits as well as the amendment, renewal and re-financing of existing credits.

Principle 7: Banks should have in place a system for the ongoing administration of their various credit risk-bearing portfolios.

Principle 8: Banks must have in place a system for monitoring the condition of individual credits, including determining the adequacy of provisions and reserves.

Principle 9: Banks are encouraged to develop and utilize an internal risk rating system in managing credit risk. The rating system should be consistent with the nature, size and complexity of a bank's activities.

3.2. Market Risk

This is the risk where the value of an investment portfolio or trading portfolio will be expected to decline due to the change in the value of the market risk factors. It may be defined as the possibility of loss to bank caused by the changes in the market variables. It is the risk that the value of on/off balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange markets and commodity prices. This market risk is divided into four types such as equity risk (volatility in stock prices), interest rate risks (volatility in interest rates), currency risks (volatility in foreign exchange rates) and commodity risks (volatility in commodity prices). Market risk management provides a comprehensive and dynamic framework for measuring, monitoring and managing liquidity, interest rate, foreign exchange and equity as well as commodity price risk of a bank that needs to be closely integrated with the bank's business strategy.

3.3 Operational Risk

This risk is arising from execution of a company's business functions which considers the people, systems and processes through which a company operates. It also includes fraud risks, Legal risks and environmental risk. This can be defined as the loss incurred by an institution resulting from inadequate or failed internal processes, people and systems. It is not used to generate profit like credit risk and market risk. Sometimes operational risks can also result from unforeseen external events such as transportation systems breaking down, or a supplier failing to deliver goods.

3.4. Liquidity Risk

This is the risk arising when a security or asset cannot be traded quickly in the market to avoid a loss or to make some required amount of profit. It arises mainly because of the uncertainties involved in the trading of liquidity assets of an institution or organization. In simple words it refers to a situation when a party cannot be able to trade its asset in the market as because of nonparticipation of other parties involved in trading. It is very much important for those parties who want to hold their current assets with them and not interested in trading. This will affect adversely their ability to trade in future. This kind of risks is mostly found in emerging markets. An institution might face the liquidity risk when there will be a possibility of fall in the credit rating of it which is

caused due to sudden unexpected cash outflows or non-participation of counterparties in trading.

3.5. Reputational Risk

Reputational risk is one of type of financial risk which related to the trustworthiness of business or an organization or an institution. It adversely affects the reputation of an organization which likely to destroy the value of the share holders. It results loss of revenue, litigation, adverse publicity, withdrawal of chief employees, fall in share values, loss of trade partners. Sometimes it is used as a tool of crisis prevention but extreme cases may even lead to bankruptcy. It arises when the system of an organization do not work properly as the expectation is made which cause widespread public reaction. Sometimes mistakes and fraud made by the third party are also responsible for reduction of the reputation of the institution. A comprehensive systematic reputational risk assessment is an integral part of the financial risk management system.

4. STRATEGIES AND METHODS FOR FINANCIAL RISK MANAGEMENT

Financial risk management is the systematic identification, estimation and prioritization of possibility of financial losses caused due to some unfortunate events in the financial sector. Financial risk management operates within a specified guideline, limits and target and it is quite different from other financial activities like settlement, accounting, controlling and reporting. In order to implement sound, consistent and efficient risk management methods, a well developed IT system with sophisticated infrastructure is required. The methods used to show how risks are captured, measured and aggregated by the organization. In order to choose suitable management processes, the methods should be used to determine the risk limits, measure the effect of management instruments, monitor the risk positions in terms of observing the defined limits and other requirements. Processes and organizational structures have to make sure that risks are measured on a timely basis, so that risk positions are always matched with the defined limits and that risk mitigation measures are taken in time. It is necessary to determine how risk measurement can be combined with determining the limits, risk controlling, monitoring.

4.1. Basic Principles of Financial Risk Management

Financial risk management system is based on certain principles or ideology which is identifies by the International Standardization of Organization (ISO). The following are some of the major principles on which the risk management process should be based:

- Value creation via extension of resources.
- To be an integral part of the decision making process.
- To be a vital part of the organizational process.
- It must be transparent, planned, systematic and comprehensive.

- Should be considering human factors.
- Should be reassessed within certain regular intervals.
- Should not be rigid and ready to accept the changes for improvement and enhancement.
- Should be based on the available information.
- Explicitly address the possibility of uncertainty.

4.2. Strategies for Financial Risk Management

The strategies to manage financial risk include transformation of risk from the original risk bearer to another party without reducing the possibility of losses, reducing the possibility of the risk, avoiding the risk and accepting a portion or all the potential consequences of a particular risk.

4.2.1. Basel Accords

It is a list of agreements set by the Basel Committee on Bank Supervision (BCBS), which provides recommendations on banking regulations in regards to the management of capital risk, market risk and operational risk. The main purpose of this accord is to ensure that financial institutions have enough capital on account to meet obligations and absorb unexpected losses.

1. Basel I Accord:

The first Basel Accord, popularly known as Basel I, was issued in 1988 which focuses on the capital adequacy of financial institutions. The capital adequacy risk indicates the risk that a financial institution will be getting due to some unexpected loss. It primarily focused on credit risk. It has divided the assets of financial institution into five categories i.e., 0%, 10%, 20%, 50% and 100%. It has mentioned that those banks which operate internationally are required to hold capital equal to 8% of the risk weighted assets. Currently nearly 100 numbers of countries have adopted its principles with different efficiency in enforcement. Now it is considered as outmoded as it is unable to fulfill its target due to the versatile nature of the international financial sector and the introduction of various financial innovative products.

2. Basel II Accord:

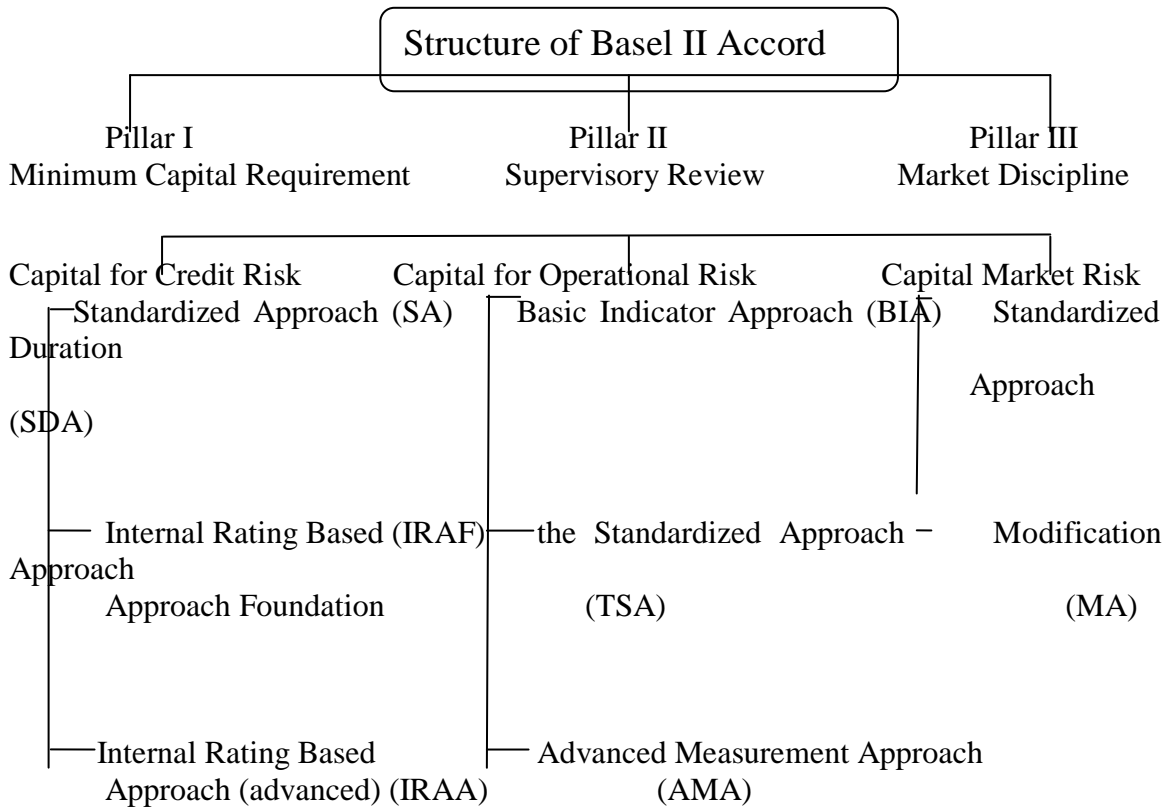
Basel II accord is the second Basel Accords which was published in June 2004 with adopting certain improved laws and regulations relating to the financial risk management than Basel I accord. It considers different types of financial risk where the Basel I Accord dealt with credit risk. Basel II Accord aims to create an international standard about the amount of capital that a bank needs to hold against the financial risk in future. That international standard will help to protect the international financial system from different types of financial risks which may responsible for the collapse of the whole system. To meet with financial risk and capital management requirements, it has designed appropriate rules and regulations relating to the lending and investment

practices of the institution. These rules indicate that the greater risk to which the institution is exposed, the greater the amount of capital it needs to hold to safeguard its solvency and overall economic stability. It has the following objectives:

- To ensure that high capital accumulation is more risk responsive.
- Raise the disclosure requirements which will permit market participants to evaluate the capital adequacy of an institution.
- Try to ensure that credit risk, market risk and operational risk are quantified which based on availability of data and formal techniques.
- Attempts to reduce the regulatory arbitrage by supporting more both regulatory and economic capital.

The following diagram-2 shows the structure and functioning of the Basel II Accord:

Diagram-2



Basel II Accord is based on three major pillars for its functioning i.e.,

- Pillar I - Minimum capital requirement (to address risk).
- Pillar II -Supervisory review process.
- Pillar III -Market discipline requirement.

Pillar 1 – Minimum Capital Requirements

Designing the minimum capital requirement involved a number of objectives:

- To be directionally correct and reasonably calibrated.
- To be sensible in its composition.
- To be in line with current internal measurement systems but flexible enough to accommodate future developments in operational risk.
- To be as consistent as possible with approaches to market risk and credit risk.
- To generate the right incentives.
- To be pragmatic

Pillar 2 – Supervisory Review Process

BIS Sound Practices paper:

- Outlines a set of 10 principles that provide a framework for the effective management and supervision of operational risk.
- Develop an Appropriate Risk Management Environment.

Risk Management: Identification, Assessment, Monitoring, and Mitigation/Control

Pillar 3 – Market Discipline Requirement

Banks should make sufficient public disclosure to “allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution”.

3. Basel III Accord:

Basel III Accord is the third international regulatory standard on bank capital and liquidity announced by the Basel Committee on Bank Supervision (BCBS) in December 2010. It is developed in a response to the limitations in financial regulation revealed by the global financial crisis. It is both an opportunity as well as a challenge for the banks. It provides a solid foundation for the development of the banking sector by addressing the past uncertainties and introduces new way to address the management of risks and finance. It strengthens the capital requirement by introducing new regulatory requirements related to the process of liquidity and leverage. According to Basel III Accord, the banks should hold 4.5% of common equity and 6% of Tier I capital from the risk-weighted assets. This new regime gives more emphasis on greater integration of the finance and risk management functions. The following are some of the major characteristics of this accord:

Basel III Accord is the third international regulatory standard on bank capital and liquidity announced by the Basel Committee on Bank Supervision (BCBS) in December 2010. It is developed in a response to the limitations in financial regulation revealed by the global financial crisis. It strengthens the capital requirement by introducing new

regulatory requirements related to the process of liquidity and leverage. According to Basel III Accord, the banks should hold 4.5% of common equity and 6% of Tier I capital from the risk-weighted assets. The following are some of the major characteristics of this accord:

- The quality, consistency and transparency of the capital base should be raised.
- The risk coverage of the capital framework should be strengthened.
- It will introduce a new leverage ratio (3%) as a supplementary technique to raise the profit margin.
- It is introducing a series of measure to promote capital buffers in good times to support the stress in future.
- It is introducing Net Stable Funding Ratio, as a global minimum liquidity standard for internationally active banks.

4.3. METHODS FOR FINANCIAL RISK MANAGEMENT

Although there are many types of financial risk faced by the financial institutions but three types of risk are very much common among them. They are market risk, credit risk and operational risk. The following are some of the methods used to address these three types of risks:

4.3.1. Methods for Credit Risk Management

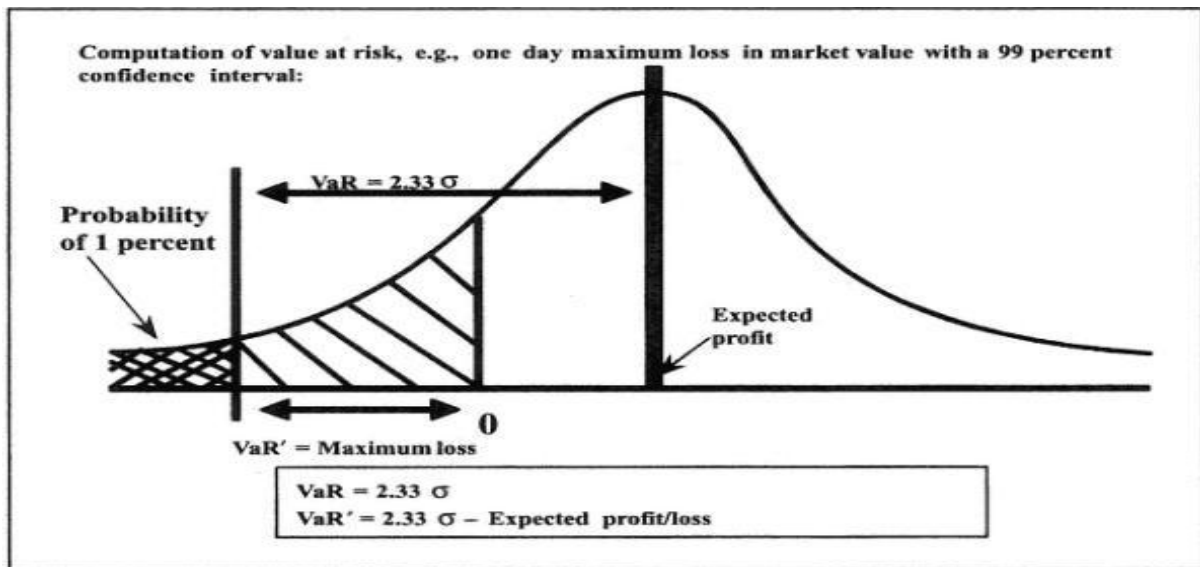
There are two methods used to measure risks i.e., (a) Value-at-Risk technique and (b) Scenario techniques. Both methods are intended to measure the credit risk as adequately as possible. However, they differ strongly in their calculation methods and their precision, with the scenario analysis as the simpler method being used in cases where a calculation of the VaR is not possible.

(a) Value-at-Risk (VaR) Technique

The VaR states the maximum loss that will not be exceeded with a certain probability (confidence level) at a given horizon (holding period). To determine the value at risk, a confidence level is determined which reflects the probability that the calculated maximum loss will not be exceeded within the holding period. The confidence level is usually between 95% and 99.95%, which means that higher losses are possible, but will only occur with a probability of between 5% and 0.05%. The holding period states the horizon during which the losses can occur and is derived from the liquidity of the assets observed. To calculate the credit VaR, it is necessary to determine the distribution of potential losses in the credit portfolio. The value-at-risk analysis has limited explanatory power; while it does state the amount of losses within the confidence level chosen, it does not offer any prediction as to the probability distribution of losses beyond that confidence level. Moreover, it usually does not take into account any extreme market movements as would occur, for example, in an economic crisis with extremely high default rates.

It's defined as the worst loss that might be expected out of a security or portfolio over a given period of time, given a specific level of probability. For eg; if we say that a position

has a daily VaR of \$10 million at 99% confidence level, we mean that the realised daily losses from the position will on average be higher than the \$10 million on one day every 100 trading days. VaR is not the answer to the simple question. "How much can I lose on my portfolio over a given period of time?" The answer is everything or almost the entire portfolio. If 11 markets collapse at the same time, then naturally prices may plunge and at least in theory, the value of portfolio may drop near to zero. Instead VaR provides a probability statement about the potential change in the value of a portfolio resulting from a change in the market focus, over a specific period of time. VaR is answer to following question. "What is the maximum loss over a period of time such that there is a low probability; say a 1% probability--- that the actual loss over the given period will be larger?"



Note that VaR measure does not state how much actual losses will exceed the VaR figure; it simply states how likely it is that the VaR figure will be exceeded. VaR models designed to measure risks over a short period of time, such as a day or, in the case of risk measurements required by regulators to report regulatory capital, 10 days.

VaR is for Managing as well as Measure Risk

VaR provides a common, consistent and integrated measure of risk across risk factors, instruments, and asset classes, leading to greater risk transparency and a consistent treatment of risks across the firm. VaR provides an aggregate measure of risk: a single number that is related to the maximum loss that might be incurred on a position at a given confidence level. VaR system allows a firm to assess the benefits from portfolio diversification within a line of activity, but also across businesses. It allows managers to assess the daily revenue volatility they might expect from any given trading area. VaR has become an internal and external reporting tool. VaR reports are produced daily for managers of business lines and are then aggregated for senior management. VaR is also communicated to the regulators and has become basis for calculating regulatory

capital.

Calculation of Value at Risk (VaR)

To calculate VaR the first thing to be taken care of is generation of a forward distribution for the portfolio only after which we can calculate the mean and quartile of the distribution.

There are usually two approaches adopted for the calculation of VaR.

- (a) Monte Carlo Approach
- (b) Historical Simulation Approach

These share the following preliminary steps:

- **Selection of Risk Factors**

Change in value of portfolio is driven by the change in market factors that influence price of each instrument. The relevant risk factors depend on the composition of the portfolio. The selection of factors is straightforward for simple security, but requires judgment for more complex products. The market factors that affect prices vary by instruments. In case of stock portfolio, the risk factor is the stock price of the stocks that compose the portfolio. For bond portfolio, the choice of risk depends on the “granularity” that one needs to achieve.

- **Choice of Methodology for Modeling Changes in Market Risk Factors**

The historical approach doesn't allow the user to oblige to any analytical assumption regarding the distributions. VaR is derived from the empirical distributions generated by the historical realization of the risk factors over a considerable period of time. The Monte-Carlo can be implemented by choosing any analytic multivariate distribution for the risk factors. The only ability is to estimate the parameters of the distribution such as mean, variances and covariance's. This methodology is flexible and allows the analyst to choose distributions that exhibit fat tail and skewness. Processes with mean reversion can also be simulated.

(b) Scenario Technique

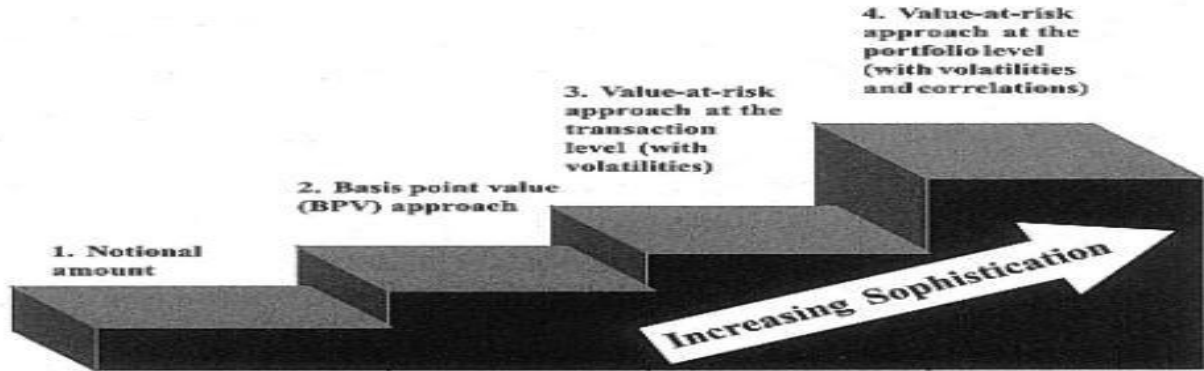
Under scenario analysis, the available historical market data and/or internal bank data are used to create scenarios concerning the possible development of default rates. In this the worst case scenario already occurred is under review, worst case scenarios assuming the incurrence of extreme losses are assumed. These scenarios are used to determine the extent of the fluctuations in the portfolio value for the occurrence of the event. The highest possible risk is calculated on the basis of the scenario analysis. The scenario analysis is limited in its explanatory power as it takes into account only a few changes in parameters.

4.3.2. Methods for Market Risk Management

As per the Bank for International Settlements (BIS) 1998 regulatory reform there are two approaches in dealing with Market Risk Management.

1. Standardized Approach
2. Internal Model Approach

The standardized approach which is based on the constant factors determined by the BIS for various instruments possesses severe competitive disadvantage. This disadvantage encourages banks to invest in more sophisticated methodologies in order to reap the benefits of the lower regulatory capital.



4.3.3.1. Standardized Approach

It uses the building block methodology. The charge for each risk categorize i.e interest rates, equities, foreign exchange and commodities, is first determined separately. Then the four measures are simply added to get the global capital charge that arises from the bank's market risk.

(a) Interest Rate Risk

The interest risk capital charge is the sum of two components of market risk, each of which is separately calculated. The first component "specific risk" applies to the net holdings for each particular instrument. The Second component is related to "general market risk" and in this case the long and short positions i different securities or derivatives can be particularly offset.

(b) Equity Risk

It consists of the net spot position, is 8% of each net position. The capital charge for any specific risk is 8%, unless the portfolio is both liquid and well diversified, in which the charge is 4%.Equity Derivatives are treated in the same way as interest rate derivatives. While there is no specific charge that the underlying is a government security or a market rate, for diversified broad market indices there is a specific risk charge of 2% of the underlying market value.

(c) Foreign Exchange Risk

There are two steps in the calculation of capital charge. First the exposure in each currency is measured and, second, the net long and net short exposures in all currencies are translated into an overall capital charge according to a rule called the "shorthand methods". The measurement of the exposure consists of the net spot position, the net forward position, accrued interest and expenses and other future income and expenses which are already fully hedged.

4.3.3.2. International Model Approach

Nowadays the institutions that trade in financial products rely on their proprietary expertise in modeling as much as they rely on traditional trading skills. The risk that models will be wrong or wrongly implemented- what is known in the derivative industry as "model risk".

State of art modeling give many institutions with a unique competitive edge. Pricing models are kept relatively secret, as the face value or notional amount for an individual security to the latest technologies for computing VaR numbers. Each measure has been applied first to individual securities and then to be adopted to measure the risk of complex portfolios such as those containing derivatives.

4.3.3.3. Factor Sensitivity Measures

These capture the sensitivity of an instrument or portfolio to changes in the value of the primary risk factors such as interest rates, yield to maturity, volatility, and stock price, stock index etc.

For fixed income products a popular risk measure among trades is DV01 also known as "value of 01". This describes the sensitivity of security prices to a 0one-base point parallel shift in the yield curve. This is similar to conventional duration analysis; small parallel shifts of the yield curve, the price sensitivity of a fixed-income product can be approximated by a linear function of the change in yield.

$$\frac{dP}{dy} = -P \frac{D}{1+y} = -PD^*$$

Where,

P denotes price of security

y is yield to maturity

dP/dy is change in security price for change in yield to maturity

D is Macaulay duration of security

D* is modified duration ($D^*=D/(1+y)$)

4.3.4. Methods for Management of Operational Risk

Basel II and various Supervisory bodies of the countries have prescribed various soundness standards for Operational Risk Management for Banks and similar Financial Institutions. To complement these standards, Basel II has given guidance to 3 broad methods of Capital calculation for operational risk.

- Basic Indicator Approach - based on annual revenue of the Financial Institution.
- Standardized Approach - based on annual revenue of each of the broad business lines of the Financial Institution.
- Advanced Measurement Approaches - based on the internally developed risk measurement framework of the bank adhering to the standards prescribed.

- The Operational Risk Management framework should include identification, measurement, monitoring, reporting, and control and mitigation frameworks for Operational Risk.

The U.S Department of Defense summarizes the principles of ORM as follows:

- Accept risk when benefits outweigh the cost.
- Accept no unnecessary risk.
- Anticipate and manage risk by planning.
- Make risk decisions at the right level.

5. SUMMARY AND CONCLUSION

The present study examines different types of financial risk and discusses appropriate strategies and methods for their management. There are three major types of risk faced by all financial institutions: market risk, credit risk and operational risk. “In commercial banking, credit risk is the biggest risk; in investment banking, it’s the market risk; and in asset management, it’s operational risk.” One of the major problem in aggregating credit, market and operational risks is that the underlying probability distributions are quite different. “The gains and losses from market risk are approximately-normally distributed; credit risk losses are skewed; and operational risk losses involve high-frequency, low-severity losses coupled with low-frequency, high-severity losses. Understanding these different types of risk and how they are integrated is the key to successful risk management for a large financial institution. This study has examined basic principles for financial risk management. It has also discussed three types of Basel Accords and their usefulness in the financial risk management. The objective of risk management is not to prohibit or avoid risk taking activity, but also to ensure that the risk are consciously taken with full knowledge, clear purpose and understanding so it can be measured and controlled. It also controls an institution from suffering high losses causing an institution to fail materially its competitive position. The functions of risk management should be bank specified by the size and quality of balance sheet, complexity of functions and technical manpower in that bank. The effectiveness and efficient risk management in bank needs computerization and networking of the branch activities.

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A REVIEW OF THE ACTUAL STATE OF ENVIRONMENTAL PERFORMANCE OF ROMANIA – EPI 2012

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***Abstract:** The paper objective is to review the EPI 2012 results and analyze Romania performance and ranking. We detail the ranking status for Romania on different levels of aggregation. We also emphasize the new features and methodology chances available for the 2012 ranking. The paper also presents some cases of asymmetries between EPI 2012 and other development measurements, presenting some cases of countries scoring different across those rankings.*

***Keywords:** environment, performance, EPI, Romania*

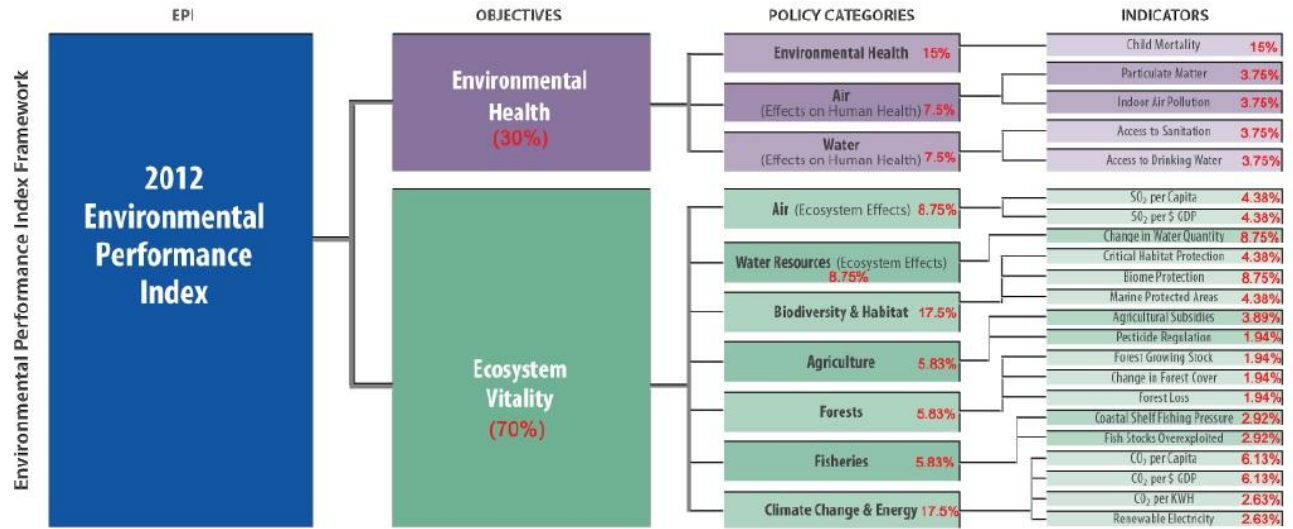
1. INTRODUCTION

The Environmental Performance Index (EPI) is a tool for measuring and comparing different countries efficiency in dealing with environmental issues and creating sustainable policies. It was first developed as the Environmental Sustainability Index between 1999 and 2005 (EPI 2012 Full Report).

The EPI ranks 132 countries for the 2012 version based on a complex algorithm between 22 performance indicators from the following policy categories: environmental health, water (human health effects), air pollution (human health effects and ecosystem effects), water resources (ecosystem effects), biodiversity and wild life habitat, forests, fisheries, agriculture and climate change.

The two objectives in the EPI 2012 framework weight different being described by a different number of policy categories. Thus the environmental health contributes with 30% in the total score (contains 3 policy categories) while the ecosystem vitality weight 70% (with 7 policy categories). Each policy category unfolds on quantifiable indicators.

Figure 1: EPI 2012 framework



Source: EPI 2012 Full Report

The 2012 EPI apparently shows less evidence of interdependency between the economic welfare (described by the GDP per capita) and the environmental performance.

Thus Kuwait is a performing country when talking about economic development (in terms of GDP per capita) – 11th in the IMF 2012 GDP per capita ranking (in a total of 182 countries) – but fails to rank better in terms of environmental performance (126 of 132). The same situation in the case of Kazakhstan – 57th in terms of GDP per capita but only 129 in the 2012 EPI. It is also interesting that countries such as India and Kazakhstan perform poorly in terms of environmental policies efficiency trend (95th and 126th). On the other hand Nepal for example, a poor performer in terms of GDP per capita (161st in 182 countries), place 38th in the EPI ranking and shows a very active environmental policy trend (14th).

Again we can observe differences between the EPI assessment and other welfare indexes (in this case HDI). It is the case of Kuwait which rank 54th (in a total of 186) in the HDI and is placed at the bottom of the EPI 2012. Again similar to the GDP per capita case, Nepal place in the lower category of HDI countries, even the environmental performance described by the EPI 2012 is rather high.

Another asymmetry is that there are countries (again Kuwait) that place 11th in the HDI environment component ranking (so even better that the global HDI).

The reason for these incompatibilities between data in EPI 2012 and other indexes can be the large spectrum of environmental characteristics and combinations between the quantifiable environmental variables and the impossibility to cover all in one index. Also the methodological differences are evident and are directly connected with the environmental characteristics and variables chosen for inclusion in one index or another.

Table 1: EPI 2012 – Ranking bottom

EPI Rank	Country	Trend EPI Rank
125	India	95
126	Kuwait	131
127	Yemen	29
128	South Africa	124
129	Kazakhstan	126
130	Uzbekistan	69
131	Turkmenistan	123
132	Iraq	125

Source: EPI 2012 Full Report

2. EPI 2012 AND SOME COMMENTS REGARDING ROMANIA

EPI 2012 has a unique feature showing beside the main ranking the “trend index performers” and the “trend index decliners”. This is designed to show the evolution from the last measurements and better describes the environmental policies efficiency. It is an important feature because due to methodology changing from one EPI version to another it is a difficult task to assess the ranking evolution and obtain directly comparable results.

Thus even Romania place 88th in the main ranking, a rather poor performance, it place third in the top ten trend performers.

Table 2: EPI 2012 – Top 10 & Romania ranking and neighbors

EPI Rank	Country	Trend EPI Rank	EPI Rank	Country	Trend EPI Rank
1	Switzerland	89	84	Mexico	22
2	Latvia	1	85	Togo	90
3	Norway	84	86	Algeria	58
4	Luxembourg	106	87	Malta	97
5	Costa Rica	113	88	Romania	3
6	France	19	89	Mozambique	102
7	Austria	71	90	Angola	6
8	Italy	12	91	Ghana	28
9	United Kingdom	20	92	Dem. Rep. Congo	83
9	Sweden	63	93	Armenia	49

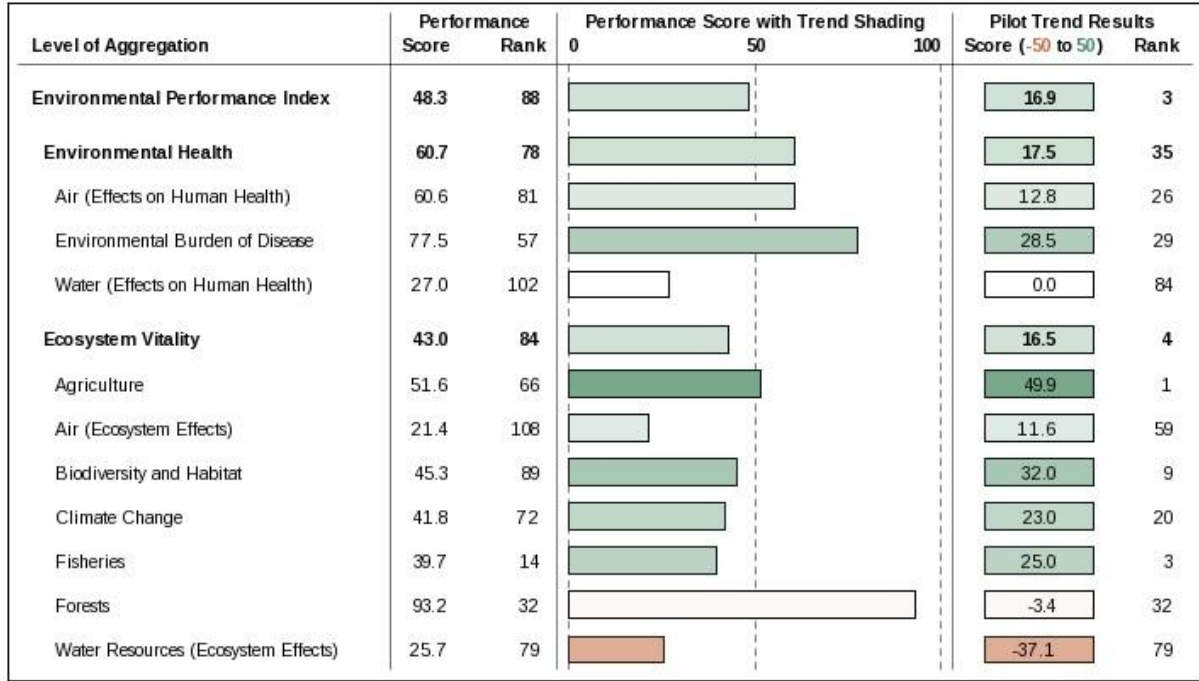
Source: EPI 2012 Full Report

The report mentions that Romania shows improvements in agricultural subsidies, fisheries (coastal fishing shelf pressure) and climate change, facts that place the country in top 3 environmental performance trends.

Detailing the levels of the aggregate we can note the highest rank for Romania (14th) for fisheries aspects and the lowest rank (108th) for the air effects on the ecosystem.

There is no evident tendency to excel in one direction or another (environmental health or ecosystem vitality). The scores and ranks for different level of aggregation being rather homogeneous (the exception for fisheries and ecosystem effects of air).

Figure 2: EPI 2012 levels of aggregation – Romania



Source: *EPI* 2012
<http://epi.yale.edu/dataexplorer/countryprofiles?iso=OMN&view=summary&thisind=EPI>

In the same time Romania place 56th in the Human Development Index scoring well especially at the non-income HDI value. Though, Romania scores less well for the environmental component of the HDI (95th).

3. CONCLUSION

The vast complexity of the environmental issues across regions and nations cannot be describes or fully assessed by one particular index. The EPI 2012 is one example of how the continuous evolution in environmental issues can affect the data comparison in time even if we talk about the same indicator. However this not affects the importance of such approaches and does not prejudice the merits of it.

It is until now the most complex and most comprehensive environmental performance assessment developed across such a large number of countries with totally different economic and social peculiarities.

Recognizing the fact the developers included a new feature for better description of time evolution – the trend EPI rank.

Romania places in the second half of the index and shows good trend in improving the present situation. The 88th place (from 132 countries) cannot be described

as a good rank and the environmental policies must be closely observed in the future. It is interesting to see if the trend EPI rank will result in better future EPI rank or is just a circumstance without any sustainable effect upon the quality of environment.

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LAW

MODIFICATION BY THE COURT OF DISCIPLINARY SANCTION APPLIED TO THE EMPLOYEE IN ROMANIAN LABOUR LAW

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Abstract: *High Court of Justice recently ruled that a court has the right to change too drastic punishment inflicted on an employee by another, more appropriate in relation to the offense committed. The Supreme Court ruling clarifies such a legal provision that was applied by different courts: some substituted for disciplinary sanctions if it were disproportionate to the offense employee, while others refused to do so.*

Keywords: *offense, disciplinary sanction, employer, court*

LEGAL FRAMEWORK

Article 250 of the Labour Code provides that:

"The employer sets the applicable disciplinary sanction to the seriousness of the offense committed by the employee, taking into account:

- a) the circumstances in which the act was committed;
- b) the degree of employee's fault;
- c) the consequences of misbehavior;
- d) the general conduct of the employee;
- e) previous any disciplinary sanction of the employee.

Article 252 of the Labour Code provides that:

"(1) The employer order the disciplinary sanction by a writing decision in within 30 calendar days from the date of knowledge about disciplinary irregularity, but no later than six months from the date of the irregularity.

(2) Under penalty of nullity, the decision necessarily includes:

- The description of the act constituting misconduct;
- The specification of the provisions from the personal status, internal rules, individual employment contract or collective agreement which have been infringed by the employee;
- the reasons for what the employee's defenses have been removed during disciplinary research or why, as provided in art. 251 para. (3) the research was not performed;
- the law reason under which the sanction applies
- period within which the penalty may be contested;
- competent court where the sanction may be appealed.

Sanctioning decision shall be communicated to the employee within 5 calendar days from the date of issuance and produce effects by the communication.

Communication is handed personally to the employee, with signature of receipt or, in the case of refusal of receipt, by registered letter at the domicile or residence communicated by him.

Sanctioning decision may be appealed to the courts competent by the employee within 30 calendar days from notification. "

According to the provisions of art.247 para.(2) of the Labour Code, the disciplinary liability is drawn through an offense in relation to work and that is a guilty act or omission committed by the employee that he violated the law, internal regulation, individual employment contract or collective applicable agreement, legal orders of the hierarchical bosses. This liability is drawn *ope legis* when the employee has committed an act of guilt in connection with his work, in violation of legal norms mentioned above.

The prerogative for application of disciplinary sanctions belongs exclusively to the employer.

In this sense, art.248 of the Labour Code provide that:

"(1) Disciplinary sanction which may be applied by the employer, if the employee commits misconduct is:

- a) written warning;
- b) demotion, with the wage corresponding to the position in which demotion for a period not exceeding 60 days;
- c) reduction in base salary for a period of 1-3 months with 5-10%;
- d) reduction in base salary and / or, where appropriate, and management allowance for a period of 1-3 months with 5-10%;
- e) disciplinary termination of the individual labor contract.

(2) If by professional regulations approved by a special law, it sets a new sanction regime, it will be applied to this.

(3) Disciplinary sanction is excluded within 12 months from the application, if the employee is not bound for another disciplinary sanction within that period. The cancellation of disciplinary sanctions shall be determined by the employer's decision issued in writing.

At the same time, the criteria for deciding on the sanctions are provided for by art.250 of the Labor Code, shown in the previous.

The sanctioning decision may be appealed to the competent courts by the employee within 30 calendar days from notification, in accordance with art.252 para.(5) of the Labour Code

DOCTRINE

Any activity carried out in a collective framework, which aims to achieve a particular purpose needs two important things: organization and compliance with a certain discipline that is provided by a complex of rules under which to conduct business as and compliance with these rules.

To understand the definition of disciplinary liability is necessary to define the notion of labor discipline, as major social competence, is one of the fundamentals for organizing and conducting effective work processes in all sectors and all departments of activity.

Over time, in the specialty literature, several definitions were formulated for this.

So:

- “legal way, their own labor law to ensure labor discipline“ (Stefanescu, 2007)
- “that form of judicial responsibility, specific to the labor law, which consists of sanctioning violation charged with guilt by any employee, regardless of job title or that the handle of the obligations under labor contract, including the rules of conduct“(Ghimpu & Ticlea, 2000)
- “consists of a set of legal rules who sanction misbehavior“ (Popa , 2004)
- “violation by public service obligation to undertake their disciplinary responsibility and further this is called deviations from office and punished with reprimand, warning, reduction in salary, demotion, suspension from office, disciplinary transfer, dismissal, etc.“ (Athanasiu, 2007)

Disciplinary liability has the following characteristic features (Ghimpu & Ticlea, Stefanescu, Sasu):

- It has a contractual nature, only because individual labor contract conclusion determines a hierarchical subordination and thus a legal basis for disciplinary action by the governing bodies;
- It translates into a material or moral constraint;
- exercise a threefold function: sanctions, preventive and education, leading to defending the internal order of unity;
- Has strictly personal character, not being admitted for another person act and no transmission to the heirs of employee (in case of civil liability);
- Presents a lower social danger that other facts that affect the general interests (offenses and penalties);
- It is a form of liability, independent of all other forms of legal liability.

The Labour Code (Article 247, paragraph 1) defines the disciplinary liability as powers of the employer who has the right to apply the law, disciplinary sanctions whenever its employees found that they have committed a disciplinary offense and in paragraph 2 continues: Deviation discipline is an act in relation to work and which consist of a culpable action or inaction committed by the employee that he violated legal standards, labor contract or collective labor agreement applicable, orders and legal provisions of hierarchical leaders.

For disciplinary action to be triggered, it is necessary to have met a number of its defining elements:

- Unlawful conduct - conduct that ignores legal provision which violates work duties (eg rules on protection, hygiene and safety at work in the unit);
- Guilt - action involves the deliberate nature of the subject by risk taking behavior resulting from wrong. This may be intentional, direct or indirect, or fault, or negligence easily.

- harmful result: order perturbation its disciplinary unit / image and prestige affect the employer or its products
- Causal link - the causal link between the act and the result of its perpetration.

Although the Labour Code does not make any reference about violating rules of behavior in the unit, we believe that, on the one hand, nothing prevents the parties to provide such rules by internal rules or applicable collective labor contract and thus their failure be the subject of disciplinary proceedings, and on the other hand, Article 39 para. (2). g) of the Labor Code provides for the possibility of establishing other obligations to the employee by law or applicable collective agreement, whose violation is, naturally, a disciplinary offence.

Disciplinary irregularity is necessary and sufficient condition, under single disciplinary liability. Disciplinary violations must meet a number of items, cumulative (taken in criminal matters) to lead to employee disciplinary liability:

- object, namely social values protected by labor discipline;
- subject, which is always a person employed by an employer;
- objective side, which always involves a material element in terms of action or inaction, that is a crime committed suddenly or continue as a result dangerous by damaging the social value protected by violating labor discipline that work and a causal link between the act and dangerous consequences;
- subjective side (the employee's guilt) in this matter has no relevance if the act is committed intentionally or by mistake, the guilt is assessed on a case by case basis depending on a number of factors such as professional training of the employee and / or his experience so that the degree of guilt may have relevance in individualizing sanctions, lack of guilt leads to not meeting disciplinary elements to intervene, if however, the employer has the employee disciplinary sanctions, the measure is illegal.

Into the Labour Code are not listed expressly the misbehaviors (Law on the Statute of civil servants No.188/1999 include limiting the actions that constitute misconduct). According to Art.247, paragraph (2) misbehavior is an act "in connection with work", making it possible to discipline the employee sanction for an act in connection with his work, committed outside the unit during or outside of so, as long as the employment relationship with the employer affected by damage image, reputation or if the employer violated certain obligations expressly set (eg, the obligation of fidelity to the employer).

In Article 249, the Labour law clearly states that the same disciplinary may apply to only one penalty and disciplinary fines as punishment labor discipline prohibited. All the regulations in Article 248 stipulate that it radiates as a disciplinary sanction within 12 months of the application, if the employee is not bound for another disciplinary action within that period. Cancellation of disciplinary sanctions shall be determined by the employer's decision issued in writing.

In the penalties, the employer has the obligation to establish the applicable sanction in relation to the offense committed by the employee disciplinary, taking into account the following:

- the circumstances in which the offense was committed;

- the degree of guilt of the employee;
- the consequences of misbehavior;
- general behavior of the employee;
- any previous disciplinary sanctions suffered by the employee.

To apply a sanction, the employer must make a prior disciplinary research (Article 251), where the employee will be convened in writing by the person authorized by the employer to carry out research, specifying the subject, date, time and place of the meeting and if it does not show undisclosed employer may penalize an objective and in his absence, without the effects of disciplinary investigation (Article 251, paragraph 2).

If he shows on in the prior disciplinary research employee is entitled to formulate and sustain any defense in his favor and give the person empowered to carry out all the research evidence and motivations as they consider necessary, and the right to be assisted in request by a representative of the union whose member is (Article 251, paragraph 4). After making a decision it is communicated in writing within 30 calendar days from the date of taking the cunotinta about committing a disciplinary offense, but no later than six months from the date of the deed (Article 252).

The decision must contain:

- description of the act that constitutes a disciplinary offense;
- specifying the provisions of personal status, bylaw individual employment contract or collective agreement applicable to the employee have been violated;
- the reasons why defenses have been removed by the employee during the disciplinary investigation prior or why, as provided in art. 251 para. (3), no research has been carried out, under the law under which disciplinary sanctions applied;
- period the sanction may be appealed;
- competent court where the penalty can be appealed.

Sanctioning decision shall be communicated to the employee within 5 calendar days from the date of issue and shall be effective from the date of communication. Communication surrenders personal to the employee personnel with signature receipt or, in case of refusal of receipt, by registered mail, the domicile or residence of his submissions. The employee has the right to appeal the decision to the competent courts within 30 calendar days from the date of communication.

CASE LAW

Approach 1: Punishment should be replaced

Some courts have upheld complaints made by employees, have canceled part of the disciplinary prepared by the employer and replaced it with the punishment inflicted by another, determined according to the degree of guilt of the offense and the employee's actual danger (Appeal Court Alba and Bacau).

The delivery of this solution has been considered the theory that the employer's disciplinary prerogative is not absolute discretionary nature of the court to remove the prerogative to check how the employer applied the criteria of individuation and establishing disciplinary sanction. Such intervention of the court of justice you purpose of

effectively solving the case before it because the court can not be limited to a determination of the legality or illegality of the act or fact disputed legal.

Approach 2: The decision to sanction may be canceled entirely, but the penalty should not be replaced

On the other hand, there were instances that have found that application of disciplinary sanctions is the exclusive prerogative of the employer that he has the prerogative disciplinary, having the power to individualize applicable disciplinary sanction against the seriousness of the disciplinary, taking into account the circumstances in which the offense was committed, the degree of guilt, the consequences of misbehavior, the general behavior of the employee and any penalties incurred by it (Appeal Court Suceava).

These courts have reasoned opinion arguing that the sanction may not attribute court, since it can only exercise control of legality and rationality of the act of disciplining.

"To the extent that after the control court finds that the employer has not complied with the proportion between the act committed by the employee and the sanction which he applied, it must be concluded disciplinary sanction illegality measure in whole or in consequence of the cancellation decision and not reindividualizarii sanction. If they agree to the contrary, the court would get to replace employer, which can not be accepted," claimed the courts.

Approach 3: The penalty should not be replaced. Otherwise, the court violates a principle of operation

In a third approach to jurisprudence, the opinion is that if they replace it with another punishment, the court would violate the principle of availability, since it would decide on something that is not asked (Appeal Court Craiova).

According to the principle of availability, the court must decide only on people who have been sued and the object of the case established by the applicant in the application for summons, not having the right to decide on any matter under discussion by the court ex officio, without this being requested by any of the parties.

And "the top" there are different interpretations of the legal regulations. Interpretation of legal provisions is not unitary even when referring to the two institutions has initiated appeals on points of law.

The Managing Board of the Bucharest Court of Appeal considers that an appeal court invested with the decision to sanction only verify compliance by the employer with the legal provisions on the procedure of applying disciplinary sanctions and analyze the legality and validity of the contested decision, without being able substitute the individualization of employer sanctions, the result of applying a less drastic sanctions.

On the other hand, the Attorney General of Romania considers that, in solving such a work conflict, if the court finds that the punishment is unjustified in relation to the offense, it must partially cancel and replace the decision to sanction one more right. By doing so, courts do not turn into disciplinary bodies, because they do not default administrative research to establish legal acts and facts that was violated labor discipline,

just as censors on sanctions already applied by the employer, providing a framework for the protection of employees in its relations with the employer, with the principle of proportionality", says attorney general.

THE JURISPRUDENCE OF HIGH COURT

Decision Nr.11/2013, published in Official Gazette no. 460 of 25 July 2013, allowed the appeals on points of law submitted to the High Court of Cassation and Justice of the Appeals Court and Prosecutor's Office High Court, which notes that the two institutions is unitary judicial practice regarding disciplinary replacement by the courts that have judged the appeals filed by employees against their disciplinary sanctions.

The High Court stated that "The court competent to hear the appeal against the employee disciplinary sanction imposed by the employer, finding that it is wrong individualized, one can substitute another punishment.

The High Court decision is mandatory, according to art.517 para.4 of the Code of Civil Procedure. According to the legal provisions mentioned, the decision pronounced by the courts necessarily be applied from the date on which it was published in the Official Gazette.

In resolving the appeal brought against the decision of the disciplinary sanction, the courts have jurisdiction to review not only the legality, but also the validity and enforcement measure issued by the employer, in accordance with art.269 para.(1) of the Labour Code, in which case they check how the employer applied the criteria for individuation and establishing disciplinary sanction.

This attribute of the court is enshrined the principle of fact-finding in civil process, enacted by art.22 of the Code of Civil Procedure (former art.129 para.5 of the former Code of Civil Procedure).

In relation to the issue that was before the appeals on points of law of the case before, the High Court observed that labor discipline is an objective condition, necessary and indispensable conduct of business of each employee. The need to respect a certain order, some rules to coordinate the conduct of individuals to achieve a common goal, it is necessary to force the evidence, reasoning applies to any human activity carried out collectively.

Highlighting the importance of the duty to observe labor discipline, the Labour Code states that a distinct obligation to employees. This obligation is the right of the employer as provided in art.247 para.(1) to apply disciplinary sanctions whenever employees find that they commit misconduct.

Under this principle, an objective means of labor discipline a system of rules that governs the behavior of employees in the process of collective work.

From the subjective point of view of the employee, labor discipline is a legal obligation synthesis that incorporates and summarizes all obligations assumed by the conclusion of the individual employment contract.

However, this obligation is contractual in nature, because, although it is provided generic law, arises specifically in charge of a person determined by its inclusion in the working of a unit, following the conclusion of the contract.

The employment contract has the effect of hierarchical subordination, objective condition of the organization and work efficiency. The direct link between individual employment contract and disciplinary determines both persons entitled to apply disciplinary measures and the conditions and limits its application.

In this context, the legislative framework highlighted, the High Court held that, being invested with prosecution appeal against the decision to sanction issued by the employer, the court has to verify the legality and soundness of the measure, devolution exercising control of a judicial nature. To appreciate the seriousness of misbehavior and how individualization of the penalty in relation to the criteria established by the legislature specifically, the court has not only the possibility of appreciating the evidence adduced during the preliminary disciplinary research conducted under the empire of art. 251 of the Labor Code and allowing the direct administration of an additional evidence.

In these circumstances, if it finds that the disciplinary sanction is unjustified in relation to the misconduct disciplinary, court will accept the appeal, the partial annulment of the contested decision and the penalty imposed by the employer to replace another measure of punishment.

In doing so, the courts do not turn into disciplinary bodies, because they do not default administrative investigations to establish the juridical acts and deeds by which violated labor discipline, but censors extent already applied sanctions for employers, providing a framework protection of the employee in his relations with the employer, with the principle of proportionality, according to which any action taken must be appropriate, necessary and proper purpose.

This is not court interference in disciplinary prerogative of the employer, as his right to sanction misbehavior has ceased with the sanction. However, after this time, become effective powers of the court to exercise judicial review of the lawfulness and merits of the decision sanctioning control includes the right jurisdiction to decide its own solution.

In fact, no court is applying sanction but is invested in the employee's complaint, the court only changes partly contested decision, holding that in terms of individualization, and respectively dosage sanction decision is unlawful under the provisions of art.250 of the Labor Code, which establishes mandatory criteria that the employer must consider in determining cumulative disciplinary sanction.

In this context, it notes that the disciplinary prerogative of the employer cannot be one absolute discretion, any disciplinary sanctions may be applied only to the statutory provisions and, in any case, it cannot legally remove the prerogative court hear a labor dispute on the legality and validity of a disciplinary action to check and how the employer has applied these criteria in relation to the offense committed by the employee.

Since, in accordance with art.252 para. (5) of the Labour Code, the decision may be appealed by the employee labor jurisdiction cannot be reduced in this case just to check the formal aspects of the employer's unilateral act and respect for the disciplinary proceedings, the essence of judicial review is just analyzing the individualizing disciplinary measure.

Therefore, replacing the sanction measure subsumes analysis merits sanction decision.

Per a contrario, if the court would not recognize the plenitude of power, would mean that the wrongful act of the employee disciplinary remain unpunished, which would be unthinkable in terms of harm to the rights and interests of the employer, which is prohibited from applying other penalty for the same offense, according to art.249 para.(2) of the Labour Code.

On the other hand, the employee free access to court would be illusory if the court's role would be limited to the legality of disciplinary measure without censorship circumstances in which it was taken that penalty, leaving the employee free choice employer in establishing and applying criteria individualization of the measure.

In the present case the reasoning is fully applicable to the High Court of Cassation and Justice made the decision no. 16/2012, published in Official Gazette of Romania, Part I, no. 817 of 5 December 2012 on the existence of reasons of analogy on how the legislature intended to regulate under special laws, the issue raised with respect to how the courts have resolved appeals against disciplinary action taken employer under special laws.

Thus, art.80 of Law no.188/1999 on the Statute of civil servants, republished, with subsequent amendments, provides that "public servant dissatisfied with the sanction imposed may appeal administrative court, requesting the cancellation or modification, if appropriate, order or sanction."

Likewise, the provisions of art.89 para.(4) of Law no. 567/2004 on the status of specialized auxiliary personnel of courts and prosecutors' offices attached to them and the staff who work at the National Institute of Forensic Expertise, as amended and supplemented, states: "The decision to sanction may be appealed within 30 days of notification, the labor and social security tribunal in whose jurisdiction the appellant resides. "

Finally, the provisions of art.51 para.(3) of Law no.317/2004 on the Superior Council of Magistracy, republished, as amended, provides that "against the decisions referred to in paragraph (1) may exercise the appeal within 15 days of notification by the judge or prosecutor sanctioned or, where appropriate, Judicial Inspection or disciplinary action by other holders who exercised it. Jurisdiction of the appeal the Panel of five judges of the High Court of Cassation and Justice ... ".

This solution is consistent with the jurisprudence of constitutional litigation has held that "penalty decision may be challenged in the courts competent person", in this way the appellant being able to enjoy all the procedural safeguards provided by law, the taking of evidence required before courts which resolve these claims "(Decision no. 63 of 17 February 2004 the Constitutional Court, published in the Official Gazette of Romania, Part I, no. 211 of 10 March 2004).

High Court holds that this solution is consistent with the European Court of Human Rights on the implementation of Article 6 para. 1 of the European Convention on Human Rights on effective access to a fair trial and the right to a fair trial, the positive obligation of States under the procedures relating to private law disputes worn either between individuals, or between an individual and the state, through the organs or institutions.

European Court of Human Rights in examining compliance with the effect of access to a higher court to a litigant, has held that the protection of individual rights is "protection of rights practical and effective, not theoretical and illusory" (Airey v. Ireland case) and the positive obligation of signatories is an obligation to do traditionally associated with economic and social rights, being the "adopt reasonable and appropriate steps to protect the rights of the individual incumbent" (Lopez Ostra vs. Spain case).

Procedural aspect, the positive obligation of signatories includes the obligation to ensure a fair judicial procedure enabling cutting any dispute between private parties (Case Sovtransavto Holding v. Ukraine).

Moreover, national legislation of the signatory states should not contain provisions that violate the rights protected by the European Convention on Human Rights or allow third parties conduct contrary to the Convention, which the literature has called "horizontal effect" of the Convention (Decision Ghibuși against Romania).

The Court also held that the scope of art. 6 of the Convention include labor disputes, including the so-called contentious disciplinary courts and courts lays the power to conduct a proper examination of the submissions, arguments and evidence (Case Buzescu against Romania).

CONCLUSIONS

Doing the replacement of the penalty, the court does not Give Anything else or more than Requested, but restores the balance between the employee's wrongful conduct and the sanction imposed by the employer disproportionate.

Although all these special laws was envisaged court hearing an appeal against the decision to take disciplinary action against the employee to replace disciplinary sanction by the employer, the practice courts is uniform, meaning that when the penalty not applied the principle of proportionality, the solutions are given individualizer the penalty.

Clearly, replacing the penalty proceeding, the courts will application of non reformatio in pejus principle enshrined in the provisions of art.481 and art.502 of the Code of Civil Procedure.

In doing so, the court shall balance the relationship between the parties, in the sense that the employee did not create a situation more difficult than it was previously challenged disciplinary measure, but also ensures achieving the purpose of disciplinary liability, meaning that if it recognizes only right to cancel the sanction of the court employee would remain unpunished, non apply a penalty for the same offense.

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LEGAL FRAMEWOK FOR SUPERVISING THE USE OF UE FUNDS IN ROMANIA

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Abstract: *The European funds are meant to serve certain development directions. It is imperative that these purposes are reached, so there is a need of an institution to observe, to guide and to correct, if necessary, the way that public funds are used. There are two levels of the control procedure: the European and also the national level. The European institution that has this specific mission is the European Court of Auditors, the only institution entitled to do the control over budgetary procedure and over its execution. On national level, the Romanian Court of Auditors functions according to the principle of uniqueness and autonomy. Both these institutions are independent and realize external and posterior control over the national and European funds.*

Keywords: *control of European funds, expertise*

JEL classification: *K33, K39*

I. INTRODUCTION

European money meant to serve certain directions of development of the European Union can only achieve its purpose through appropriate use, according to the destination initially envisaged. Compliance with the objectives set can not be achieved only through specific control operations and, if necessary, through implementation of sanctioning measures.

In a simple manner, the control could be defined by assessing compliance with a norm, a standard, a model. In a much broader acceptance, control is a specifically human activity that takes place consciously and always pursues an aim which is to verify and analyze permanent, periodic and unannounced of processes, phenomena in any field in order to preventing and liquidation of any shortcomings (Mihăescu, 2006).

The Explanatory Dictionary of the Romanian Language defines control as the verification, continuous or periodic analysis of activities to pursue its course and take measures for improvement.

Financial control has the task of preventing the hiring of expenditure without any economic justification, to ensure increased profit in using of material, financial and labor resources. Financial control procedure consists of a series of activities and operations

concerning the organization, conduct and control of the results of control operation (Drosu Şaguna, 2001).

In the control procedure must be verified and established the competences of institutions authorized to perform specific operations of the control operations, implementation of these operations by an incompetent body in this respect being absolutely ineffective, purposeless.

II. EUROPEAN LEGAL AND INSTITUTIONAL DIMENSION

The establishment of European Court of Auditors is part of the implementation and strengthening financing Communities within own resources and of the attribution of the responsibility to the European Parliament to discharge the Committee for the budget execution (Fuerea, 2004).

European Court of Auditors was established by the Treaty of Brussels in 1975 (22nd of July), who reformed the budgetary procedure. "The Court of Auditors shall carry out the Union's audit" [Treaty on the Functioning of the European Union, Article 285]. Despite the name used, the Court is not a jurisdiction and is included in the Community institutions by the Treaty of Maastricht in 1993.

As an independent body, ECA acts as a veritable "sword of justice" for Parliament and the Council in exercising their powers of control over the budget (Lefter, 2001). According to the Treaty, the ECA examines the accounts of all revenue and expenditure of the Union and also examines the accounts of all revenue and expenditure of all bodies, offices or agencies set up by the Union, in so far as the relevant constituent instrument does not preclude such examination. So that, up to 80% of the EU's budget management is shared with the Member States. Member States cooperate with the Commission in setting up supervisory and internal control systems to ensure that EU funds are spent properly and in accordance with the rules. Audit therefore has both an EU and a national dimension. In addition to the work done by the ECA, many Supreme Audit Institutions (SAIs) in the Member States audit the European funds that are managed and spent by their national administrations.

Evolution of the role and place of the ECA in the system of the European institutions sought to ensure its extended control jurisdiction. The Treaty of Nice offered the possibility of ECA to organize its functions in the direction of the adoption of special reports. Interesting is the fact that the court documents cannot be subject of an appeal for annulment to the European Court of Justice. Treaty of Amsterdam expanded control powers of the European Court of Auditors, including under its control any public or private entity receiving the European funds.

Treaty of Nice establishes the competence of the court to formulate its rules, approved by a qualified majority of the Council.

Members of the ECA shall be chosen among persons who belong or have belonged to external audit bodies in their countries or who possess special qualifications for this position and must provide all guarantees of independence in the general interest of the community. They should not accept instructions from any government or other

body. They must refrain from any action incompatible with their duties. Membership of the European Court of Auditors is incompatible with any other professional activity.

The Statute of members of the European Court of Auditors is inspired by the statute members of Court of Justice; all are obliged to act in the general interest of the European Union and not as representatives of countries whose citizens are (Zarka, 2005). They have a renewable mandate of six years. President of the Court shall be elected from among its members for a term of 3 years with the possibility of renewal. The full ECA Court of 28 Members meets around twice a month to discuss and adopt documents.

European Court of Auditors operates as a collegial body, and each member is assigned a specific sector of activity. Court adopts opinion or a annual reports by a majority of its component members.

Concerning the powers of the European Court of Auditors, there are mentioned for the first time in the EEC Treaty, Article 188c, which provides that the institution shall examine the legality and regularity of expenditure and revenue and ensure the financial management of the Communities. So that, the ECA was established to audit the EU's finances. The starting point for its audit work is the EU's budget and policies, primarily in areas relating to growth and jobs, added value, public finances, the environment and climate action. The ECA audits the budget in terms of both revenue and spending.

The Court also exercises control on fields and on the institutions of the Member States of EU, if they have received and used the European funds. For this reason, the powers of the Court were considerably strengthened.

European Court of Auditors is the external auditor of the European Union and has competences that have been established by the Treaty, as following:

- to examine the accounts of all revenue and expenditure of the European Union and all bodies created by it, provided that not be otherwise;
- to examine the legality and regularity of revenue and expenditure of the Union and ensure sound financial management, namely that the funds will be used in an economic, efficient and effective (<http://doctorate.ulbsibiu.ro/obj/documents/rez-ciochina.pdf>)
- an annual report, in which will be presented observations on the implementation of the EU budget for each year and to make a statement assuring (DAS) on the reliability of the EU accounts for the year then ended, as well as the legality and regularity;
- at any time to submit its observations on particular problems, particularly in the form of special reports;
- to report cases of fraud or irregularity discovered in the audit work;
- to provide advice on proposals for EU legislation procedure economic;
- to be consulted on all proposals aimed at fighting fraud measures;
- to assist the European Parliament, within the limits on its powers to control the European Union budget, through the publication of audit reports and verdicts.

For the period 2013 to 2017, the main objective of European Court of Audits is to maximize the value of its contribution to EU public accountability and for meeting this objective, the priorities of ECA are to:

- focus the ECA's products on improving EU accountability;

- work with others to leverage the ECA's contribution to EU accountability;
- develop the ECA further as a professional audit institution;
- make best use of the ECA's knowledge, skills and expertise;
- demonstrate the ECA's performance and accountability.

Over the period 2013-17, the ECA will ensure that its selected audit tasks and special reports:

- reflect financial management risks, public interest and the ECA's capacity to add value through audit;
- focus on performance issues, including those related to specific topics of current public interest, high-level EU objectives, and crosscutting policies.

In order to fulfill its duties, ECA collaborates with other similar international institutions and national supervisory bodies.

Over the period 2013-17, the ECA aims to coordinate its efforts with its main partners at EU and national level in order to:

- identify needs and common priorities for improving EU accountability;
- explore how best to achieve synergies between the work of the ECA and partners' activities;
- raise awareness about EU financial management and accountability issues; and
- facilitate the use of audit results in EU policy making and budget allocation.

In addition, as regards cooperation with Member States' SAIs, the ECA will:

- enhance its cooperation activities with respect to the audit of public funds put at stake in the EU and national budgets to meet EU objectives;
- share knowledge and expertise with respect to the audit of EU funds;
- further contribute – alongside Member States' Supreme Audit Institutions (SAIs) - to the development of international standards on financial, compliance, performance and environmental audit within the context of INTOSAI, and its regional grouping EUROSAI.

ECA is called to play a double role. Thus, the ECA exercises the competence of the assistance of budgetary authorities (Council and Parliament), and in particular, the Parliament, for the realization of his own as political control in budget execution, working closely with the budgetary control committee (Fuerea, 2002). In accord with the Treaty (article 287), the ECA provides the European Parliament and the Council with a statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions which is published in the Official Journal of the European Union. This statement may be supplemented by specific assessments for each major area of Union activity.

The results of the ECA's work are used by the European Commission, the European Parliament, the Council and the Member States to oversee the management of the EU budget and, where necessary, make improvements. The ECA's work provides an important basis for the annual discharge, a procedure in which the Parliament decides, on the basis of a recommendation from the Council, whether the Commission has satisfactorily implemented the previous year's budget.

The audit in the Member States of the EU is provided in collaboration with national audit bodies or, if they have the necessary competences, the competent national

departments. Any document or information necessary for the fulfillment of the Court, it shall, on request of other institutions of the Community and national control institutions if they have the necessary powers, the competent national departments.

The control of the European Court of Auditors is external and posterior. This control system is for legality accounting and budget execution to ensure compliance with the principle of sound financial management. Court prepares an annual report. The procedure starts on June 1st of the year following the year for which financial management is analyzed. On this basis, on 15th of July the Court of Auditors shall notify the institutions observations that are included in the report. On October 31st institutions addressing their answer to the Court, on which the Court draft the final version of the report, retransmitted to the interested institutions, and official journal of the union for publication (Jacgue, 2004).

European Court of Auditors performs two types of audit: financial audit and audit of financial management. Financial audit concerns the reliability of the accounts: financial statements are accurate and complete. The objective is to determine whether the financial statements give a true and fair view and whether the financial results of the exercise at the end of the year, operations and asset and liabilities were accounted and properly recorded in the financial statements.

Sound financial management audit aims to assess which measures of the Commission and Member States have been well applied having regard to the principles of sound financial management, namely: economy, efficiency and effectiveness in the management of EU funds. This type of audit is called "the performance audit " and still, "checking optimal use of resources."

III. LEGAL AND INSTITUTIONAL DIMENSION IN ROMANIA

In the EU countries, the responsibility for auditing state institutions that benefit from public funds and which makes investments, has the Supreme Audit Institution.

The Romanian Court of Accounts is the supreme institution external subsequent financial control, operating independently in addition to the Romanian Parliament. Functioning of the Court of Accounts is governed by two principles: the principle of uniqueness and autonomy [Dan Drosu Şaguna, 2003].

As supreme institution external subsequent financial control, the Court of Auditors of Romania's main task verifying the formation, management and use of financial resources of the state and the public sector.

The Court of Auditors is to contribute to sound financial management of public funds and public patrimony, to provide to the Parliament and to the deliberative public authorities of administrative-territorial units, reports on the use of public funds and their management, in accordance with the principles of legality, regularity, economy, efficiency and effectiveness. Court has exclusive jurisdiction to decide after checking accounts on discharge.

Romania's Integration in the European Union must be characterized by a new approach for which means public funds, namely their performance of use and how an activity, program or government organization operates efficiently and effectively. In this

regard, EO no. 43 of 14 June 2006 on the organization and functioning of the Court establish the regulation.

Given the delay in the adoption of organic law of the Court of Auditors to reflect the constitutional amendments of October 2003 indicated in the attention (yellow flag) in the Monitoring Report of the European Commission of 16 May 2006, Romanian authorities have changed the regulatory framework for the operation and organization of the Court of Auditors. These legislative changes have received the approval by General Department for Budget of the European Commission, saying that it in accord with international recommendations in the field (INTOSAI) Lima Declaration and EU requirements in the field of external audit.

Court exercise control over of the establishment, administration and utilization of the financial resources of the state and the public sector. Control function of the Court of Auditors shall be made public external audit procedures stipulated in its own audit standards developed in accordance with international auditing standards generally accepted (Law no. 94/1992 republished in Official Gazette No. 282 / 29.04.2009).

Court of Accounts is the public authority of State exercising external audit in the public sector as a supreme audit institution.

Court of Accounts carries out the external audit of public institutions and other entities for which the law provides jurisdiction of the Court Auditors. In to achieve the objectives external audit in the public sector, the Court has the power to require information and documents and doing the verifications which it considers necessary, to legal persons which:

- a) manage and / or use public funds;
- b) there are companies, also in which the state or territorial-administrative units is a major shareholder;
- c) administer the goods or services of the public or private domain of the state or territorial-administrative units based on concession agreements, rental or other forms of administration;
- d) benefit from government guarantees for loans, grants or other forms of financial support from the state, municipalities and public institutions.

Court of Auditors carry out audits of international public authorities and other institutions headquartered in the country or abroad, whether through agreements, memoranda of understanding or other international agreement that competence is established.

Court of Accounts, in exercising its role, performing external financial audit and performance audit in the public sector and other specific actions to audit compliance with the Constitution of Romania, republished, and legal regulations.

Text ordinance transposes into law the principle of independence of European law. The Court of Accounts operates independently, in accordance with the provisions of the Constitution and the Government Emergency Ordinance. Court of Accounts decides independently on its program of work, but the Chamber of Deputies or the Senate resolutions asking the Court of Auditors to carry out control actions within its powers are required. Court of Accounts cannot be bound by any other public authority to carry out control.

Counselors of accounts are independent and irremovable. The Court of Auditors shall draw up its own draft budget to be submitted to Government for inclusion in the draft budget law. Account Verification annual budget execution Court shall be exercised by the Committee on Budget, Finance, Banking and capital markets of the Senate and the Committee on Budget, Finance and Banking of the Chamber of Deputies.

Court of Accounts cooperates with the European Court of Auditors, supreme audit institutions in other countries, the International Organization of Supreme Audit Institutions and its regional structures, as well as with other international organizations in areas falling within its sphere of activity.

Court of Accounts represents Romania in international organizations Supreme Audit Institutions. The Court of Accounts may conduct joint audits with other supreme audit institutions of other countries under bilateral agreements, memoranda of understanding, agreements, exchange of letters or other forms of understanding.

Both the Court of Auditors organized at national level and European Court have a consultative role regarding the draft legal acts concerning national and European finances and track legality and regularity of revenue and expenditure, making general reports on the whole control activities.

IV. CONCLUSIONS

In conclusion, both the European Court of Auditors and Court of Accounts of Romania are independent institutions responsible for controlling the management of public finances national and European. These made external control, with the main purpose control over the national budget, respectively, union, on budget and extrabudgetary financial operations, the Structural Funds and the actions financed from the EU budget.

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CAREER OF EUROPEAN CIVIL SERVANTS. A THEORETICAL APPROACH

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Abstract: *Career in European public office involves both elements of an organizational nature, reflected by the nature of the public organization (mission, objectives, regulatory framework, activities) and individual elements pertaining to human resources engaged in the organization and emphasized the skills, competencies, knowledge, behaviors. The capabilities mean professional development and the opportunity to put into practice the knowledge. Our paper aims to explain the key elements of European civil servants to develop their professional career to serve the public interest of European citizens. We analyze the principles, the determinants and the processes involved to develop the European career as a civil servant.*

Key words: *European civil servant, career, training, recruiting, career development*

JEL Classifications: M 12, K 23

INTRODUCTION

It is widely recognized that the value of an administration is not so much in material or financial means at its disposal, but especially in its human potential. Given that largely achieving political decisions, general economic and social progress depend on the quality of administration, it is understandable that special attention should be paid to the problem of staff training in this important field.

Forms and strands of government are extremely varied; we deduce that multilateral and specialized business functions determine the default specialization in public administration.

Moreover, in addressing public official status and implicitly, staff training for government, we must make a distinction between administrative functions necessary training to senior management, who has strong political, administrative functions and requires specialty level and functions which require only basic skills.

Theoretical and practical training of public officials should be considered in training them, from versatility and specialized work in public administration, character determines a differentiated training. Thus, in addition to a thorough grounding in the science of law and administration, professional competence requires: *Summum* of expertise (own industry or field in which the respective public authority acting), experience, ease of implementing intellectual skills, and all attitudes that predispose a person to apply all his intellectual possibilities.

Referring to the training requirements of public administration staff adaptation to the market economy must be stressed first that a cultural change in the professional community, namely public administration officials.

Education and training will be focused more on developing and nurturing skills than the automatic transmission of knowledge (methods, tools, techniques) often considered generally applicable.

For public officials to respond to their individual training and development, it is necessary to know:

- data on efficiency, productivity and competitiveness, to concern for modernizing the equipment;
- to possess extensive knowledge on the internationalization of business and generally relations;
- to have the capacity to take initiatives in areas such as economic analysis, education for sustainable development with environmental protection, social impact assessment of decisions taken possession and correction phenomena deformed accurate perception of how to develop and implement global and sectoral development strategies, to acquire the main features of professional management.

Only by answering these requirements can speak of civil servants performance. Whole communities must have a high level European public administration to be able to fulfill their respective missions. Thus, the goal is to ensure civil uniqueness of the European Communities, understood as the feature that allows it to strengthen cooperation between the institutions and their agents in the field of personnel policy in the interests of the proper functioning of Communities and efficient use of human resources.

From the definition it can be shown that officials of the European Communities may be an official of the Communities, any person who has been nominated to the provision of certain conditions provided for in the Statute, in a permanent position in one of the Community institutions, by an act of the authority vested with the power appointment of the institution. Authorization to appoint "international official results conditions set for European officials are divided into two categories, namely stationary, the same for all candidates and varying conditions that may be nominated by the Appointing Authority" (Fuerea, 2004). However, to choose the topic was the new direction on the one hand the EU has given Romania, namely the alignment of part of the operating status of the elected public officials at EU *acquis* and ratify Lisbon Treaty elements, otherwise we stated by Law.13/2008 of 07/02/2008, published in the Official No.107 of 12/02/2008 on the introduction section, that the Commission members regarding their choice and the establishment of a senior portfolio. Portfolio will be responsible for developing foreign policy and common defense policy, and also chairing the Foreign Affairs Council. The entry into force of the Treaty of Lisbon removed the division on the three pillars and stated the legal capacity of the European Union as an autonomous legal subject with rights and obligations (Tofan, 2013).

According to the introduction of Regulation EC, Euratom No.723/2004 of 22 March 2004 amending the Staff Regulations of Officials of the European Communities and Conditions of Other Servants of the European Communities are the reasons of fact

and law which have led to the need to adopt new statutory regulations at EU level. The first issue addressed concerns the need to implement the legal rules applicable to civil service of the European Communities, issues that meet the evolving needs of institutions and staff to respect the culture and traditions of a community governments founded on the principle that it is serving the citizen.

In the introduction we find stipulated that there should be a framework for the Community recruitment of their staff, which would allow selection to meet several requirements, including: future European officials have high skills productivity, efficiency and integrity EU officials come from the broadest possible geographical basis, to be representative of the citizens of the Member States of the Communities staff to perform tasks in conditions which ensure the optimum operation of their business, namely the recruitment and purpose staff regulations governing Communities is to create human resources capable of providing a European civil service characterized by competence, independence, loyalty, impartiality and permanence, as well as by cultural and linguistic diversity.

A principle underlying the regulation of the European civil philosophy is one of non-discrimination is enshrined in the EC Treaty, through which stipulates the development of personnel policies to ensure equal opportunities for all, irrespective of gender, physical ability age, racial or ethnic identity, sexual orientation or marital situation.

Regulations stipulating a value of status is not without consequences for the regime of the European public, with result that “Community public function placed in the category of public functions supposedly closed“ (Boulouis, 1997). This system is similar with civil service mentioned for French or German officials who are holding their positions and career vocation.

According to the stipulations of the Statute on the legal status of the act of appointment to an office community, it reveals the following: is a unilateral legal act, is issued by the authority vested with the power of appointment, the appointing authority that appointed for this purpose by the body Community in accordance with art. 2 of the Statute; necessarily act of appointment will have to specify the date from which the legal effect, and that, according to art.3 cannot be prior to the time the person concerned acquires the function; Community official instrument of appointment conferred statutory and regulatory legal situation, any appointment cannot be made only on a vacancy. The last condition is imposed in the case of promotion. The act of appointing a European civil service is unilateral legal act issued by the appointing power vested in a European institution, which gives the person concerned a statutory and regulatory legal situation that European civil servant.

DETERMINANTS OF EUROPEAN CIVIL SERVANTS CAREER

As defined in Art.1 of 96 of the Statute, we have the following elements of individualization of civil servants of the European Communities:

- Public servant is a person who occupies a public office within the institutions of the European Communities. Such a feature resulting from the formulation, an

official of the European Communities the person appointed to a position, i.e. in one of the institutions of the Community;

- The continuous of function. Statute provides that the appointment is a permanent public office;
- To becoming a European civil servant, the person must fulfill the requirements of the Statute;
- The act of naming a function of Communities is issued by the appointing power vested;
- Status applies equally to Communities staff and staff called in those Community bodies which called traditional agencies and personnel working in the European Economic and Social Committee, EU mediator and supervisor data protection.

Concept of staff of Community law includes two categories: *Community officials*, which are applicable provisions of the Statute, those *other agents* that can be employed by different types of contracts which it applies, or Community law or national law. In respect of the two Categories of staff, is included so that, generally designate by the term of the contract, which, in turn, are of two categories, namely contractual of Community law and local (national) contractual staff governed by private law.

Thus, the contractual staffs governed by Community law are several categories: the temporal agents, who occupy a position that is included in the establishment plan, but the budgetary authority, conferred such a character to that post. They are temporary and those who temporarily occupy the post that has a permanent rule in this situation being research staff, auxiliaries, and persons employed to perform poor tasks by their nature or in the absence of the holder. Those positions, "not in the plans of the institutions unless the interim. Payment of which the officer is dealing with such an open global destination respective institutions, special advisers are those personalities who are engaged in community institutions through knowledge, reputation, exceptional qualifications recognized, and their employment is still on a temporary basis and payment is made in global credit opened for this purpose at the respective institutions" (Fuerea, Filipescu, 1997). The contractual agent is different from the official working under the statute provisions, as the contractual agent is not legally entitled to develop a career, is not stable in the position once held, and does not acquired many of the rights contained in the statute (Tofan, 2013).

Officials on Contract Community differ from the community officials:

- they are employed on a contract basis, which can be fixed or indefinite duration, which, however, in most cases, cannot exceed certain limits of their legal situation;
- their legal situation is likely conventional, while civil legal situation is such statutory or regulatory;
- the contractual staff are not entitled to make a career, in the terms of European officials, their work with the aim to satisfy some defined European institutions where they are employed;
- they are subject of change being renewed constantly, while European officials benefit from stability;

- for the contractual staff are applicable provisions of the agreements under which they were employed, and some provisions of the Staff Regulations;
- the disputes that concern the contractual staff, as those involving European officials, are in the competence of the European Union Civil Service Tribunal and the European Court of Justice.

The European contractual agents are local agents that carry out different tasks or service materials from various. The legal act by which local staffs are recruited is services lease contract which is completed in accordance with the legal provisions of the country where local agent performs its duties. Repeating those stated in current law distinguishes between staff titular see, which is subject status, and temporary contract staff or auxiliary, whose situation remains more or less private, regulated contracts and are therefore tenure.

EUROPEAN OFFICIALS CAREER

European officials' career is presented in the first chapter of Title III of the Statute, concerning regulatory choice Community officials. Election officials are conducted through competitions, namely the written and oral examinations organized by each institution, but also international competitions. This ensures that the Community institutions officials possessing the highest degree of competence, efficiency and integrity.

On "Community officials choosing the statutes refer the following principles that govern this choice: recruitment must ensure selection of the most competent person, who through their skills through education and training, can lead to great returns, recruitment must ensure selection persons who meet the terms of their integrity, acquiring official status of a Community body; recruitment should be the geographical base large enough to ensure access to European features as many nationals of European Member States according to art.27 (77) (96) of the Statute, the person recruited to meet the conditions for acquisition of Community official, recruitment is on a competitive basis or before the vacancy of an institution, the authority vested with the power of appointment is required to meet certain preliminary procedure through which to consider whether the post can be filled by any other means specified by statute, namely the transfer, promotion or special procedure provided for by art.45 of which provides for a derogation from art.5 (3) b and c by an assistant clerk can be passed from grade 5 to a post in AD, subject to certain conditions" (Calinoiu, 1997).

The conditions "for European officials are divided into two categories, namely fixed conditions", the same for all candidates:

- nationality which requires that the person be a citizen of a Member State of the Communities;
- condition on the exercise of civil rights, which requires person to enjoy his civil right;
- the condition that "provided they satisfy the obligations of the laws concerning military service;

- the guarantees of morality, which are deducted from the criminal record and the presentation of references or recommendations;
- the physical fitness which exclude the existence of disability or diseases that may hinder the exercise of , that other conditions, according to art. 31 (96) paragraph (2) which provides that, to meet the specific requirements of institutions;
- the labor market conditions prevailing in the Community may also be taken into account when recruiting officials;
- the varying conditions that may be required by the appointing authority for certain functions, such as knowledge of languages, education, work experience, age limit etc.

There is a procedure for organizing and conducting the contest, except high positions respectively CEOs. The rule is that each Community institution organizes its own competition, highlighting positive and negative aspects, being sharply criticized by people both inside and outside the EU. The main reasons that supported these criticisms were the irregularities observed in the conduct and the lack of any transparency of procedures. Thus, in order to eliminate these deficiencies were made solutions, namely: organization of competitions each year, publish anal on previous posts, the publication number of posts.

Regarding "procedure for organizing and conducting the contest, interpreting statutory provisions contained in Annex III entitled even competition procedure determines the identification of the following dimensions of legal status, namely: the appointment and promotion are subject to the principle that they cannot deal only posts vacancies in normal administration is required post is vacant , that is occupied by an agent duly sworn, declare a job vacancy is preceded by some preliminary procedure, the appointing authority shall verify that the post can be filled transfer, appointment as art. 45a, or promotion; authority vested with the power to appoint committee should consult the peer, after which it will draw notice or advertisement for organizing the competition" (Vedinas, 2009).

Thus, the organization of the competition notice must include several elements, including: the nature of the competition rules of competitions, nature of duties and tasks related positions filled and the function group and proposed degree diplomas and other evidence, and so on, for conduct of each contest is a jury whose composition is determined by the authority vested with the power of appointment.

The jury is composed from a chairman appointed by the appointing authority, and a number of members appointed equally by the Appointing Authority and the Staff Committee. There are situations where a competition is held jointly by two or more EU institutions, where members will be number 11. They will be appointed by mutual agreement on a parity basis by the Committee staff in institutions. The Statute gives credit to the jury, recognizing him the right to appeal to one or more assessors in an advisory. Then, the candidates have to fill a form, whose content is determined by the authority vested with the power of appointment. Further, the jury will review the files received while establishing the list of candidates who meet the requirements imposed by the notice of contest. Candidates selected shall be appointed to the said function group stage in the competition. Thus, "officials can be recruited only steps AST 1 to AST 4 or

AD 5 to AD 8 and step specified in the competition will be decided by the Community institution to meet the objective of recruiting officials at the highest level and depending on the quality of professional experience" (Vedinas, 2009).

Repeating the words, "an official who graduated official competition selection is not final; he will gain this status after a trial period and after passing one or more exams" (Calinoiu, 2007). There is a period in which to perform an internship, whether it is for new ones admitted either senior officials, stated "in art.34 (8), (24), (69), (96) of the Statute, according to which the latter must go through a probationary period of nine months before being appointed on the post. The internship is twofold: to provide a trial period that learning. Thus, we can conclude that the career of an official European public higher at onset and until the end of the function, two stages can be identified in terms of Staff: European civil servant found higher during internship, that official higher European tenured" (Calinoiu, 2007).

At the same time the authority vested with the power to appoint and dismiss officials may decide before the probation period by giving notice of one month, without being able, however, the period of service to exceed that of the internship. There is one exception, where the authority vested with the power of appointment may authorize the official to continue the internship, but in another service. Thus, the new business person will have to do an internship of at least six months. The cumulative duration of the internship may not exceed fifteen months. A month before the expiry of the internship, trainee officer made a report, which shall contain the following elements: skills that has shown the way to pay for their duties that yield activity. This report is submitted to the official in question, who may, within eight calendar days, observations on the findings.

Depending on the stipulations of the report, it can meet the following conditions: evidence that the trainee has the qualities required for the post for which he was selected, in which to be tenured in this post, the trainee does not prove the qualities required for the job, the appropriate appointing authority vested with the power to dismiss him, or the exceptionally, may agree to extend the internship for a maximum period of six months, possibly changing the civil service respectively.

DOCTRINES CONCERNING THE LEGAL REGIME OF CAREER OF CIVIL SERVANTS IN SOME EUROPEAN COUNTRIES

European civil service is one of those types of functions that promote a contest draws public servant status but not final.

In contemporary Western doctrine "treats a lively discussion on the results of a competition legal regime and related to this issue, the candidate's status. Romanian inter wars doctrine was also controversial in this matter"(Vedinas, 2009). "When asked if passing the competition may arise, to promote the right to appoint, the answer was, according to some authors, negative". (Vedinas, 2009). Between the acquisition, by appointment, to the status of civil servant and promoting competition, there is always a connection time.

In most states, the selection does not automatically entail appointment to a post, and this appointment when there is no intervention, most often, only after the trial period.

From the point of view of the correlation between the selection and appointment can be identified three categories of countries:

- Countries appointment to identifying overlaps with the last phase of the selection promoted both the appointment and the actual selection is made by the same authority. In this situation, it is impossible for a person to be selected and not to be named. Such countries are Denmark, Germany, the Netherlands and Greece. This latter country presents only peculiarity automated selection system, but the law in January 1983 provides by the art.8. One that required for the appointment and confirmation of the candidate's willingness to be appointed. In other words, it expresses its consent, which takes the form of text.
- In the second category includes countries where the link between the act of selection and appointment is not direct, because the one authority is making the selection, and another the appointment. In this situation there are countries such as Ireland, the United Kingdom, where the selection is made by a special commission for the public function, but the appointment is made by the directors at the proposal of the commission. This system can be born a theoretical and practical problems related to the legal value of the selection decision of the Commission and hence, to what extent this decision obliges the administration to implement. Although the question was put so far only in theory, to prevent a possible practical situation through a law adopted in 1956, the Civil Service Act Commissioners, provision was made in Article 12, and the Commission's decisions are certificates of qualification, which allow access to public functions, representing such strong evidence in court.
- The last group of countries has some similarity with the previous one and features. It therefore states that the appointment is not made by the authority to select future civil servants. This category includes countries that practice backup civil system. Those accepted are listed on some special reserve list, which, interestingly, is not valid indefinitely. Limited nature of their validity arises naturally given the fact that public service demands are budding, and a person assessed as able to hold a function at a time can become, in a certain time, unable to cope with a new system the requirements. Also, it occurs discretion of the administration, which can go as in Italy, to the ability to change the order of ranking.

Relating Romanian system in accordance with framework law, the promotion of competitive examinations for public office draws obligation authority structure that is part of the open position appoint that one has passed.

CONCLUSIONS

Tackling administrative phenomenon from the whole of government perspective, the future is inextricably linked with those that operate under different administrative structures, of their professional and emotional quality. An incompetent administration cannot be a modern one. Modernizing government is closely linked to the growth of "what should be the role of public service in the future, not only improving the quality of

facilities and management techniques" (Trosa, 1995). And "the modernization of reasoning officials emphasized, it cannot be done against them, while being a participatory process that includes all those involved in this phenomenon" (Trosa, 1995). The recruitment process must ensure the selection of persons who meet the terms of their integrity acquiring official status of a Community body. In the public function, both national and EU matters, is not only training and professional performance, but also the moral value of the civil servant that providing a public service. For the career of European civil servants recruitment based on geographical criteria provides access to European features as many nationals of Member States of the European Union.

Regulations adopted by the institutions of the European Communities, through practice and jurisprudence, is aiming to create a European civil policy which would enable access to and maintenance of persons able to cope with complex problems returning the invested. The European policies concerning the civil servants career demands methods which seek diversion purpose and significance of this institution crucial to the theory and practice of the European Union.

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FACTORS THAT IMPACT ON CITIZEN SATISFACTION AT THE LOCAL LEVEL – CASE STUDY ON IASI MUNICIPALITY

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***Abstract:** Degree of citizens satisfaction can be considered as a measure of the performance of the administration, representing at the same time a method of stimulating public sector reform. The major goal of local public administration is to achieve better outcomes for citizens, improve decision-making processes of public authorities and strengthen the responsibility towards beneficiaries. In the present research paper we have tried to highlight and analyze citizen satisfaction with the work of organizing an entertainment event by local authorities using a case study. The study aimed to identify issues related to the degree of participation in the organization of cultural, humanitarian, commercial, sports and entertainment events, the degree of satisfaction with the organization, and the costs supported by the local budget and also the citizens' perception on the reasons for organizing this event by the local authorities and not the least inconvenience to citizens in terms of its organization by the local authorities.*

***Keywords:** citizen satisfaction, local budget, citizen participation, local public administration*

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INTRODUCTION

Public administration has a major importance in the sphere of human activity and involves a set of activities of public authorities aim to achieve the objectives of social development. Public administration wants to satisfy the common interests but also the interest of individual citizen. At the same time, citizen must participate to the public life and to want to communicate with public authorities. So that, the experience of citizen participation in its various forms to local public administration differs from country to country. However there are a number of general factors (CDLR, 2000, pp. 12-13) that influence all member states of the European Union: the impact of new information and communication technologies, the impact of the global age on the local political system, the impact of changing patterns of employment and economic growth. These factors

suggest that all countries should keep the quality of local citizen participation in their country under review and develop appropriate programmes to meet challenges as they become pressing.

For Romania the transformation of public administration acquires new dimensions as a result of the decentralization process and the implementation of local autonomy. Thus, it requires the public administration to respond to new changes in the world economy, but equally to the new requirements of integration into EU structures. Public administration reform involves important changes in its major components, both at the local government and public services in general. On the other hand, the development of democracy requires the establishment of a new relationship between citizens and the administration, growth, strengthening the role and reconsidering partnership with civil society and local officials.

At the base of public administration reform process in Romania is the major objective of ensuring public services to households and motivate local authorities by giving decision-making powers aimed at promoting the interests of national social orientation as a means of achieving public sector performance. In Romania, the law on local public administration (Law no. 215/2001) provides for publication of any decisions taken. In Romania, more than that, over time, laws were adopted to support the involvement of citizens in public administration, as law on free access to information of public interest (Law no. 544/2001), law on decisional transparency in public administration (Law no. 52 /2003).

The operation of modern public administration, flexible and effective is a important condition for the structural transformation of Romanian society, to achieve a profound reform in all areas of social and economic life, to increase the role of citizens in decision-making process. This reform process is, however, one of an increased complexity, since implies major changes, on the background, in society life, in people's minds, being difficult to implement in terms of resistance to change still growing. Administrative reform in the public service plan primarily involves responsibility of local authorities in terms of improving public services according to economic achievement, effectiveness and efficiency. Principle public service efficiency involves achieving the optimal cost and the quantity and quality of services in terms of satisfying public needs. Also a complementary principle of the efficiency principle is the principle of quantifying which supports the promotion of public service reform by developing a culture of public service oriented to customer / client. The principle of public service effectiveness is the degree to which institution objectives are achieved regarding quality public services provided, and involves, on the one hand, the definition of a prior objective, and on the other hand, the measure (or at least estimate) outcome.

Local governments in the following period have as a priority the improvement of the quality of local service delivery, increase local incomes, supporting the development of the potential of local capacity and the implementation of measures to attract strategic investors in the area of jurisdiction, and for that purpose local governments are considered as the primary unit of local policy and decision making.

First we will stop on the relationship between citizens and public administration and public institutions in the city of Iasi. It is quite common discontent and distrust of the

population to the services provided by local public authorities. This is one of the main issues that make it difficult, being a weak point in any institution or government, both central and local. Therefore, in this study we try to highlight and analyze "The citizens' satisfaction with the work of organizing an event for entertainment by local authorities."

CASE STUDY

Iasi Municipality organized every year by more than 100 cultural, humanitarian, commercial, sports and entertainment event which complete religious extensive program prepared by the Metropolitan of Moldavia and Bukovina. The total budget allocated by the municipality of events that marked the celebration of Saint Paraskeva was 1,000,000 RON in 2012.

THE PURPOSE OF THE STUDY

The purpose of this study is to provide empirical support to the theoretical information presented above. Specifically we sought to determine how citizens perceive Iasi and not only organizing the event "Iasi Holidays" as the anniversary moment of Iasi Municipality, and the religious celebration Saint Paraskeva, through the attitude manifested by them in relation to the costs incurred by the local budget . To achieve this objective, the study aims to identify issues:

- Degree of participation in the organization of cultural, humanitarian, commercial, sports and entertainment event;
- Citizen satisfaction on the organization of the event;
- Degree of citizen satisfaction according to the final report of expenses incurred by the local budget;
- Perception of citizens regarding the reasons of this event;
- How this event could creates discomfort citizens.

DATA AND METHOD

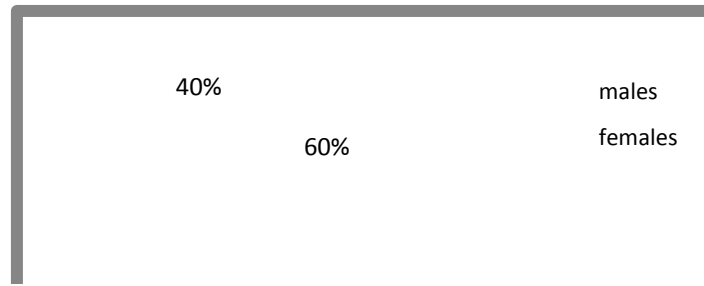
The method used in this study was the questionnaire method (see Annexes). The seven questions included in the questionnaire were closed, allowing a single or multiple choices. Some of the questions aimed at the classification of preferences.

The questionnaire focused on citizen satisfaction and impact on local budgets, with questions for each of them. At the beginning of the questionnaire we asked for personal data, sex, age, necessary for the processing and interpretation of relevant information.

SAMPLE DESCRIPTION

For this study were interviewed 60 people aged over 18 years, being applied both females and the males. Data were collected in October 2012.

Figure no.1 The percentage of persons included in the sample by gender



Source: computed by authors

According to the figures, it can be seen that there is a greater openness to communication from males, with a share of 60%, compared to females who answered the questionnaire only 40%.

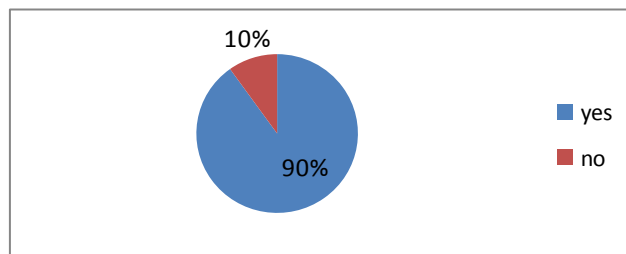
Table no.1 Number and percentage of people on age groups

Age groups	Number	Percentage
18-30	27	45%
30-50	15	25%
over 50	18	30%
Total	60	100%

Source: computed by authors

Regarding the age of the persons, age group with a higher availability was observed in the age group 18-30 years (45%), followed by age group over 50 years. The lowest percentage recorded in the age group 30-50 years (25%). Higher prevalence in the age group 18-30 years can be explained by major youth category at the local level, as Iasi Municipality as a university center.

Figure no.2 The degree of participation to the event



Source: computed by authors

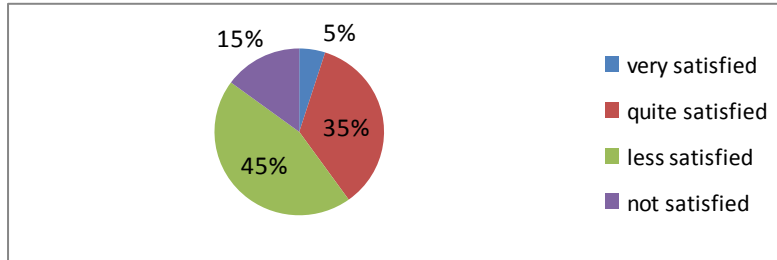
According to the figure we can find that the population of the city is open to events such as artistic, cultural, historical, religious, registering a high participation rate of 90%.

RESULTS AND DISCUSSIONS

Impact on citizen satisfaction and implications for the local budget are based on the organization of the event and the expenditures from local budget approved by the municipality of Iasi for it. So the questionnaire respondents' attitudes focused on capturing them.

Question: Are you satisfied with the organization of the event?

Figure no.3 The share of people who are satisfied with the organization of the event

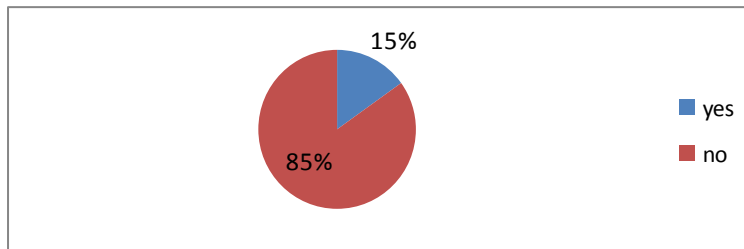


Source: computed by authors

Asked if they are satisfied with the organization only 5% were said to be very satisfied, 45% (27 of the 60 respondents) that are less satisfied, and 15% of them are not satisfied and do not consider to be useless such action by the public authorities, the remaining 35% being quite satisfied.

Question: According to the final report of expenses incurred by the local budget for the organization of the XXI edition of the Days of the Iasi Municipality approved amount of 1 million RON, it seems a reasonable amount?

Figure no.4 The share of persons for which the approved amount seems reasonable

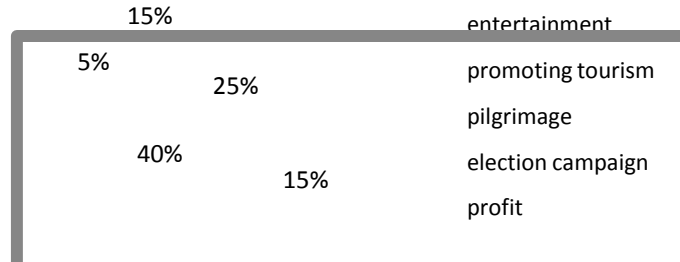


Source: computed by authors

According to budget execution on the organization of the XXI edition of the Days of Iasi Municipality approved 1 million RON, of which 976 299 RON were spent and the revenues amount were 1194360 RON. Although it appears that even the revenues are about 23% higher, much of this money being recovered from fees charged to merchants from all over the country to sell their products and also from applying sanctions for various illegal in places that carry cultural - artistic, religious and commercial, 85% (51

of the 60 respondents) answered that no, that amount is unreasonably high and not reasonable.

Figure no.5 The share of people, depending on the reasons importance of the event



Source: computed by authors

After processing and statistical interpretation of the answers given by respondents, we note that the majority of people surveyed (40%) consider that according to the importance of this event the reasons the underlying pilgrimage, followed by entertainment by 25%. However 15% of respondents consider to be the profit and 5% an electoral campaign (see fig. 5).

Figure no.6 The share of people according discomfort caused for citizens



Source: computed by authors

Regarding respondents' perceived discomfort caused to citizens, 30% consider that the main discomfort is the closed streets and traffic congestion, followed at a rate 25% of existing noise. A share of 20% of the respondents perceives the existence of chaos discomfort factor found in the mess created in the streets and possible crimes (eg. Theft pockets) caused by congestion enhanced. Also, this kind of events favors begging as a factor of discomfort (see Figure 6).

RESEARCH LIMITATIONS

From our point of view, the respondents were sincere 95% and showed interest in these questions. The size and structure of the sample meet the representativeness requirement necessary to the correct interpretation of the data. However, some results are closely related to the number of people surveyed, so that some conclusions cannot be

generalized to the whole population. The problems were closely related to the good will of the citizens and their availability. The problems were limited to the refusal of citizens, explained by the lack of time, questionnaires uselessness and lack of confidence about the fact that they are able to generate a change in local government.

Another limitation of the research can be given by the lower degree of accuracy shown by some people in providing answers to questions requiring a classification of the reasons, in order of preference.

CONCLUSIONS

Romanian society is in a process of change in which all the economic, social, political, civic elements have experienced a new dynamic in trying to adapt to present conditions. One of the most important dimensions of this transformation - open government and permanent - was enacted by Law 544/2001 on free access to public information and Law 52/2003 on transparency in public administration.

It can be appreciated citizen satisfaction as a measure of government performance, at the same time representing a method of stimulating public sector reform. We find that the results depend very much on one hand by the socio-economic development, but also cultural and religious diversity of the administrative unit. Thus, Iasi where cultural and religious diversity is obvious and striking perception of citizens is a good one.

Although the budget analysis found that revenues exceed expenditure on this event, thus respecting the principle of economy, efficiency and effectiveness in the use of public funds, however 85% of respondents refused the amounts involved. The attitudes of citizens to local government work is contradictory, found in citizen satisfaction is not at maximum. Avoiding such an attitude can be achieved bidirectional by a better communication of local authorities with citizens, while more open of citizens for information provided by the local authorities.

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QUESTIONNAIRE

1. Have you taken part in the celebrations of Iasi?

Yes
No

2. Gender:

Female
Male

3. To which age group you belong?

18-30
30-50
>50

4. Are you satisfied with the organization of the event?

Very satisfied
Quite satisfied
Less satisfied
Not satisfied

5. According to the final report of expenses incurred by the local budget for the organization of the XXI edition of the Days of the Iasi Municipality approved amount of 1 million RON, it seems a reasonable amount?

Yes
No

6. On a scale of 1-5 ranked reasons importance of this event: (1- very important, 5-not important)

Aspects:	Marks
entertainment	
promoting tourism	
pilgrimage	
election campaign	
profit	

7. On a scale of 1-5 ordered by importance, discomfort caused for citizens:

Aspects:	Marks
noise	

closed streets, traffic jams	
high prices	
chaos, disorder and crime	
begging	